BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

Stock Code : 1114

Brilliance Auto
华 晨 汽 车

Annual Report 2008

**for identification purposes only*

Contents

Corporate Information

BOARD OF DIRECTORS

Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(Chairman)*
Mr. Qi Yumin *(Chief Executive Officer)*
Mr. He Guohua
Mr. Wang Shiping
Mr. Lei Xiaoyang#
Mr. Xu Bingjin*
Mr. Song Jian*
Mr. Jiang Bo*

non-executive director
* *independent non-executive director*

AUTHORISED REPRESENTATIVES

Mr. Wu Xiao An
Mr. Lei Xiaoyang

CHIEF FINANCIAL OFFICER

Mr. Qian Zuming

COMPANY SECRETARY

Ms. Lam Yee Wah Eva

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 1602–05
Chater House
8 Connaught Road Central
Hong Kong

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation
Limited, Hong Kong Branch

DEPOSITARY, TRANSFER AGENT AND REGISTRAR FOR AMERICAN DEPOSITARY SHARES

The Bank of New York
101 Barclay Street
New York, N.Y. 10286
United States of America

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–16
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISORS TO THE COMPANY

Appleby
Troutman Sanders
Shearman & Sterling LLP

INVESTOR RELATIONS

Weber Shandwick
10th Floor, Oxford House
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Financial Highlights

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

	Year Ended and as of 31st December,				
	2008	**2007**	**2006**	**2005**	**2004**
	RMB	RMB	RMB	RMB	RMB
	(Amounts in thousands except earnings/loss per share)				
Income Statement Data:					
Turnover	11,189,162	14,149,149	10,484,754	5,468,990	6,541,998
(Loss) Profit before taxation	(259,044)	211,567	(656,764)	(1,156,445)	(458,083)
Taxation	(55,267)	(45,208)	(47,879)	(89,097)	50,324
(Loss) Profit for the year	(314,311)	166,359	(704,643)	(1,245,542)	(407,759)
Less: Minority interests	(395,240)	69,273	(306,221)	(595,934)	(456,328)
Profit (Loss) attributable to equity holders of the Company	80,929	97,086	(398,422)	(649,608)	48,569
Basic Earnings (Loss) per Share	RMB0.02205	RMB0.02646	RMB(0.1086)	RMB(0.1771)	RMB0.0132
Diluted Earnings (Loss) per Share	RMB0.02203	RMB0.02639	RMB(0.1086)	RMB(0.1771)	RMB0.0132
Balance Sheet Data:					
Non-current Assets	8,083,978	7,264,454	7,100,894	7,705,700	8,350,237
Current Assets	9,231,062	9,605,473	7,762,297	7,101,246	9,419,352
Current Liabilities	(11,049,167)	(8,642,968)	(7,101,773)	(8,009,894)	(8,187,658)
Non-current Liabilities	(398,618)	(1,967,560)	(1,736,278)	(79,602)	(1,519,490)
Minority Interests	186,467	(209,736)	(140,147)	(446,368)	(1,066,350)
Shareholders' Equity	6,053,722	6,049,663	5,884,993	6,271,082	6,996,091

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual report of Brilliance China Automotive Holdings Limited for the year ended 31st December, 2008.

The year 2008 had been a turbulent and unprecedented one. The disorder in the global financial markets which originated from the U.S. sub-prime crisis has had tremendous rippling effects that were far reaching and adversely affecting all major industries worldwide. The negative sentiment and liquidity crunch have led to a substantial slowdown in car sales globally. Although the Chinese economy has shown impressive resilience relative to other parts of the world, the Chinese auto sector still experienced slackening sales with growth of only 6.7% in 2008 compared to an annual increase of 21.8% for 2007. According to reports from the China Association of Automobile Manufacturers, 2008 was also the first year the Chinese auto sector experienced non-double digit growth in a decade since 1999.

During the year, our Zhonghua sedan segment experienced a drop in sales volume, while our minibus and premium BMW products continued to exhibit growth. The Group sold 91,356 Zhonghua sedans in 2008, representing a 14.4% decrease from the previous year. The new Junjie FRV, the first model from the brand new A-class line of our Zhonghua products, was introduced to the market in mid-2008. Although the Junjie FRV has been well received since its launch, the short period since introduction resulted in a relatively low volume to support the new A-class platform, and the Junjie FRV model was not profitable in 2008. This was the main reason for the reduced gross margin for 2008.

With respect to our minibus business, despite a difficult operating environment the Group continued to maintain its market leading position in 2008. A total of 73,863 minibuses were sold in 2008, representing a slight increase of 0.6% from the 73,415 units sold in 2007. With its long history, established track record and strong brand recognition, our minibus business continues to be a relatively stable profit contributor to the Group.

The BMW Brilliance joint venture registered sale of 35,068 units in 2008, an increase of 9.2% over that of 2007. The tremendous efforts contributed in the past years by both Brilliance and BMW in the acceleration of component localization and cost cutting are beginning to show results, as demonstrated by the 79.8% increase in profit contribution from the BMW Brilliance joint venture in 2008 compared to the previous year.

Chairman's Statement

Looking forward to 2009, conditions of the auto industry in China will likely continue to be difficult. China has already surpassed the United States in terms of monthly sales, and has become the largest auto market globally. The increasing wealth of the Chinese consumers will continue to drive consumer sector growth in the long run, however uncertainty of possible repercussion from further financial fallout remains in the near term. To combat the current slowdown, the Chinese government has recently announced a series of stimulus packages and favorable policies to entice auto purchases. These policies have already shown positive impacts on the volume sales of our Zhonghua FRV and some of our Hiace minibus products in the first quarter of 2009. In order to boost sales and improve our performance, the Group has implemented various marketing and cost control strategies. The Group will continue to introduce new and next generation models such as the Junjie wagon, Zunchi facelift and A2 of the Junjie FRV line in an effort to enrich our product portfolio and gear up volume. At the same time, the Group is also exploring possible avenues of maximizing the value of our Zhonghua business. In addition, we are working on deepening our cooperation with Toyota on our minibus business. As for our joint venture with BMW, we continue to work closely with our partner to strive for volume growth and cost reduction through further content localization and improved economies of scale. At the same time, we are at an advanced stage of discussion with BMW regarding the joint venture's phase II expansion plan, as well as the formation of new cooperation in other auto-related businesses in China.

Last but not least, I would like to take this opportunity to express my sincere appreciation to our shareholders and staff for their continued support and dedication to the Group.

Xiaoan Wu

Wu Xiao An
(also known as Ng Siu On)
Chairman
3rd April, 2009

Management's Discussion & Analysis

BUSINESS REVIEW

Consolidated net sales of the Company and its subsidiaries (the "Group"), including Shenyang Brilliance JinBei Automobile Co., Ltd. ("Shenyang Automotive"), Shenyang XingYuanDong Automobile Component Co., Ltd. ("Xing Yuan Dong"), Ningbo Yuming Machinery Industrial Co., Ltd. ("Ningbo Yuming"), Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("Ningbo Ruixing"), Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("Mianyang Ruian"), Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("Dongxing Automotive"), Shenyang ChenFa Automobile Component Co., Ltd. ("Shenyang ChenFa"), Shenyang Jindong Development Co., Ltd. ("Shenyang Jindong"), Shanghai Hidea Auto Design Co., Ltd. ("Shanghai Hidea") and Shenyang Brilliance Power Train Machinery Co., Ltd. ("Shenyang Brilliance Power") for the year ended 31st December, 2008 were RMB11.2 billion, representing a 20.6% decrease from RMB14.1 billion for the year ended 31st December, 2007. The decrease in sales was primarily due to a decrease in unit sales of Shenyang Automotive's Zhonghua sedans in 2008.

Shenyang Automotive sold 73,863 minibuses in 2008, representing a 0.6% increase from 73,415 minibuses sold in 2007. Of these minibuses sold, 61,001 were mid-priced minibuses, representing a 2.5% increase from 59,517 units sold in 2007. Unit sales of deluxe minibuses decreased by 7.5% from 13,898 units in 2007 to 12,862 units in 2008. Shenyang Automotive sold 91,356 Zhonghua sedans in 2008, representing a 14.4% decrease from 106,770 sedans sold in 2007. 17,413 units of the Zhonghua Zunchi model were sold in 2008, representing a 48.3% decrease from 33,689 units for 2007. The Junjie model recorded a sale of 51,830 units during the year, a 28.5% decrease compared to the 72,502 units sold in 2007. The Kubao model, which was launched in September 2007, registered sales of 1,349 units in 2008, compared to 579 units sold in the last quarter of 2007. The new Junjie FRV model, a new introduction under the brand new A-class platform, was launched in June 2008 and recorded a sale of 20,764 units for the year.

Cost of sales decreased by 14.6% from RMB13.0 billion in 2007 to RMB11.1 billion in 2008. The decrease was primarily due to the decrease in unit sales of the Zhonghua sedans. The new Junjie FRV was introduced to the market in mid-2008. The short period since introduction resulted in a relatively low volume to support the new A-class platform, and the Junjie FRV model was not profitable in 2008. As a result, the overall gross profit margin of the Group dropped from 8.0% in 2007 to 0.9% in 2008.

Other revenue increased by 28.6% from RMB369.2 million in 2007 to RMB474.9 million in 2008. The increase was primarily due to the 136.3% increase in incentives provided by the government from RMB140.1 million in 2007 to RMB331.0 million in 2008. This increase was partially offset by a decrease in the sale of raw and scrap materials in 2008.

Selling expenses decreased by 18.3% from RMB606.9 million in 2007 to RMB495.6 million in 2008. The decrease was primarily due to the implementation of tighter cost control to maintain selling expenses in proportion to sales volume. Selling expenses as a percentage of turnover has remained relatively stable at 4.4% in 2008 versus 4.3% in 2007.

General and administrative expenses decreased by 4.7% from RMB515.6 million in 2007 to RMB491.2 million in 2008, mainly as a result of tighter cost control implemented during the year.

Staff share option costs which represent expenses recognised for share options issued during the year decreased by 71.4% from RMB32.2 million in 2007 to RMB9.2 million in 2008 primarily due to different values of the valuation parameters used compared to 2007 and different number of share options granted.

Other operating expenses decreased by 29.6% from RMB149.2 million in 2007 to RMB105.1 million in 2008, resulting mainly from a decrease in the volume of raw and scrap materials sold.

Non-recurring impairment losses of RMB184.3 million were recorded in 2008 in relation to certain intangible assets derived from the sedan and engine development.

Interest income decreased by 29.9% from RMB125.5 million in 2007 to RMB88.0 million in 2008 due to a non-recurring other interest income of RMB53 million which was realized in 2007. Excluding this interest income, the interest income for 2008 actually increased due to the increase in bank interest rates and cash and cash equivalents, short-term and pledged deposits.

Net finance costs increased by 59.4% from RMB123.3 million in 2007 to RMB196.6 million in 2008 due to increased short-term borrowings during the year.

The Group's share of operating results of associates and jointly controlled entities increased by 48.4% from RMB192.3 million in 2007 to RMB285.3 million in 2008. This was mainly attributable to the increased profits contributed by BMW Brilliance Automotive Ltd. ("BMW Brilliance"), the Group's 49.5% indirectly owned jointly controlled entity.

Net profits contributed to the Group by BMW Brilliance increased by 79.8% from RMB142.2 million in 2007 to RMB255.7 million in 2008. The BMW joint venture achieved sales of 35,068 BMW sedans in 2008, an increase of 9.2% as compared to 32,100 BMW sedans in 2007.

Non-recurring impairment losses of RMB18.9 million was recorded in 2008 in certain marketable securities which are classified as available for sale.

In 2008, the Group recognised a gain of RMB289.7 million on the fair value gain on embedded derivative components of the convertible bonds in accordance with Hong Kong Financial Reporting Standards. This compares to a loss of RMB181.9 million recorded in 2007. The gain realized in 2008 was primarily due to the drop in the Company's share price between 31st December, 2007 and 31st December, 2008.

The Group recorded a loss before taxation amounting to RMB259.0 million in 2008 as compared to a profit before taxation of RMB211.6 million in 2007. Taxation increased by 22.3% from RMB45.2 million in 2007 to RMB55.3 million in 2008, resulting mainly from an increase in applicable tax rate to the standard tax rate of 25% effective from 1st January, 2008 in the PRC for some of the Company's subsidiaries.

Profit attributable to equity holders of the Company was RMB80.9 million for 2008, a 16.7% decrease from the RMB97.1 million recorded for 2007. Basic earnings per share in 2008 amounted to RMB0.02205 compared to RMB0.02646 in 2007. Diluted earnings per share in 2008 amounted to RMB0.02203 compared to RMB0.02639 in 2007.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2008, the Group had RMB1,243.9 million in cash and cash equivalents, RMB692.0 million in short-term bank deposits and RMB2,456.1 million in pledged short-term bank deposits. The Group had notes payable of RMB4,847.2 million and outstanding short-term bank borrowings of RMB499.8 million, but had no long-term bank borrowings outstanding as at 31st December, 2008.

On 7th June, 2006, the Company, through its wholly owned subsidiary, Brilliance China Finance Limited ("Brilliance Finance"), issued the zero coupon guaranteed convertible bonds due 2011 (the "Convertible Bonds") with a principal amount of US$182,678,000. The Convertible Bonds are guaranteed by the Company and are convertible by the holders into fully paid ordinary shares with a par value of US$0.01 each of the Company (the "Shares") at an initial conversion price of HK$1.93 per share (subsequently adjusted to HK$1.53 with effect from 10th March, 2008 (the "Adjustment")) at any time from 6th July, 2006 up to the close of business on 8th May, 2011, unless the Convertible Bonds have previously been redeemed or matured. Details of the Adjustment were set out in the announcement made by the Company on 7th March, 2008 and the circular dated 20th March, 2008. The Convertible Bonds are listed on The Singapore Exchange Securities Trading Limited.

Up to 31st December, 2008, US$10 million in principal amount of the Convertible Bonds had been repurchased. Another US$21 million in principal amount of the Convertible Bonds had been subsequently repurchased in February 2009. None of the Convertible Bonds have been converted into ordinary shares of the Company.

Holders of the Convertible Bonds will have the option to tender their Convertible Bonds for redemption on 7th June, 2009. It is currently expected that the outstanding principal amount of US$151,678,000 will be fully redeemed. At a redemption value of 122.926%, the maximum redemption amount will be US$186.5 million or approximately RMB1,274.7 million.

CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in Note 40 to the financial statements.

GEARING RATIO

As at 31st December, 2008, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 1.89 (31st December, 2007: 1.75). The increase of the ratio was primarily due to the increase in notes payable as at 31st December, 2008 to fund our operation in 2008.

FOREIGN EXCHANGE RISKS

The Group considers that exchange rate fluctuations may have a material effect on the overall financial performance of the Group in the future, and may consider entering into hedging transactions through exchange contracts in order to minimise foreign exchange risks, if and when necessary. There were no outstanding hedging transactions as at 31st December, 2008.

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 12,250 employees as at 31st December, 2008 (31st December, 2007: approximately 11,670). Employee costs amounted to approximately RMB533.0 million for the year ended 31st December, 2008 (2007: approximately RMB531.5 million). The Group will endeavour to ensure that the salary levels of its employees are in line with industry practices and prevailing market conditions and that employees' remuneration is based on performance. In addition, employees are eligible for share options under the share option scheme adopted by the Company. More details in respect of the Company's emolument policy and the basis of determining the emolument payable to the Company's directors are set out in Note 11(b) to the financial statements.

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On), age 47, has been the Chairman of the board of directors (the "Board") of the Company since June 2002, and an executive director since 1994. He is responsible for the overall management and strategy of the Company. He was the Vice Chairman and the Chief Financial Officer of the Company from 1994 to June 2002. Currently, Mr. Wu is a director of Huachen Automotive Group Holdings Company Limited ("Huachen") and Shenyang Automotive. Mr. Wu holds a Bachelor of Arts Degree from Beijing Foreign Languages Institute and a Master of Business Administration Degree from Fordham University in New York. He was the Deputy Manager of the Bank of China, New York Branch from 1988 to 1993.

Mr. Qi Yumin, age 49, has been an executive director, the President and the Chief Executive Officer of the Company since January 2006. He is a senior engineer. Since December 2005, Mr. Qi has been the Chairman and President of Huachen. Prior to joining Huachen, Mr. Qi has held offices as the Chairman and the general manager of Dalian Heavy Industries Co., Ltd. and as the Chairman and the President of DHI • DCW Group Co., Ltd. Mr. Qi was the Vice Mayor of Dalian Municipal Government from October 2004 to December 2005. Mr. Qi is currently a member of the Dalian Committee of the National People's Congress of the People's Republic of China (the "PRC") and a member of the Liaoning Provincial Committee of the Chinese People's Political Consultative Conference. Mr. Qi holds a Bachelor's Degree in Engineering Science from Xi'an University of Technology and a Master's Degree in Business Administration from Dalian University of Technology.

Mr. He Guohua, age 58, has been an executive director of the Company since September 2005. Mr. He is currently a director and the Vice President of Huachen and the Vice Chairman and a director of Shenyang Automotive. He is also a director and the Chairman of Shenyang JinBei Automotive Co., Ltd ("JinBei", an A-share listed company in the PRC). Mr. He previously worked as an engineer of Shenyang First Machine Tools Factory and was a Director of Shenyang Planning & Economic Commission, a Director of Shenyang Economic & Trade Commission, a Deputy Director of Shenyang Automotive Development Office and the Chairman and General Manager of Shenyang Automotive Assets Operation Corporation. Mr. He is a Senior Engineer in electrical engineering. He graduated from Hefei University of Technology, majoring in Micro Computer Science in 1984.

Mr. Wang Shiping, age 52, has been an executive director of the Company since September 2005. Mr. Wang is currently the Vice President of Huachen and a director of Shenyang Automotive. He is a director and the Chairman of Shanghai Shenhua Holdings Co., Ltd ("Shanghai Shenhua"). Mr. Wang was previously the Deputy Head Engineer of Radiator Branch Company of China First Automobile Group Corporation, the General Manager of FAW-ZEXEL Air-Condition Branch Company, the Deputy General Manager and Director of Strategic Planning of Fawer Automobile Part Co., Ltd. Mr. Wang is a Senior Engineer (Researcher) in corporate management. He graduated from Anshan Iron & Steel University in 1982 with a Bachelor of Engineering Degree. He also received a Master of Business Economics Degree from the Graduate School of the Chinese Academy of Social Sciences in 1998.

NON-EXECUTIVE DIRECTOR

Mr. Lei Xiaoyang, age 52, has been a non-executive director of the Company since July 2008. Mr. Lei was a non-executive director of the Company from June 2003 to June 2005, an executive director of the Company from June 2005 to June 2008 and the Chief Financial Officer of the Company from October 2006 to June 2008. Mr. Lei is currently a director of Shenyang Automotive. Mr. Lei has been a director of Shanghai Shenhua since June 2006 and the Deputy Chief Economist as well as the General Manager of the Department of Asset Operations in Huachen since January 2003. Mr. Lei was the Assistant President of Liaoning International Trust and Investment Corporation from June 1996 to September 2002, and was in charge of the Financing Department, the Accounting Department, the Strategic Planning Department and the Securities Department. Mr. Lei holds a Bachelor of Engineering Degree from the Shenyang Polytechnic University and a Master of Finance Degree from Liaoning University as well as a Master of Business Administration Degree from Roosevelt University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bingjin, age 69, has been an independent non-executive director of the Company since June 2003. Mr. Xu is currently the President of The Association of Sino-European Economic and Technical Cooperation. He was formerly an Assistant Minister of The Ministry of Foreign Economic and Trade Cooperation, the Deputy Director of the Office of National Mechanic and Electronic Products Importation and Exportation and the Vice President of the World Trade Organization Research Association. Mr. Xu received a Bachelor of Science Degree in Engineering Economics from Jilin University of Technology in 1964 and holds the title of Senior Engineer. Currently, Mr. Xu is also an independent non-executive director of Qingling Motors Co. Ltd., a company listed on the Stock Exchange.

Mr. Song Jian, age 52, has been an independent non-executive director of the Company since September 2004. Mr. Song is currently the Executive Vice President of the Tsinghua Automotive Engineering Institute, the Vice Director of the National Laboratory in Automotive Safety and Energy and an advisor to the Beijing Government in Science and Technology. Mr. Song was formerly the Deputy Dean of the Automotive Engineering Department at Tsinghua University. In 1998, Mr. Song received the Award for Outstanding Science and Technology Persons in the China Automotive Industry. In 2005, he was ranked first in the Class One China Automotive Industry and Technology Advancement Award. In 2006, Mr. Song was named jointly by The China Association of Automotive Industry, The China Society of Automotive Engineering and The China Automotive News as the best chief designer of the automobile industry in the PRC. Mr. Song holds a Bachelor's Degree and a Doctorate, both in Engineering Science, from Tsinghua University. He is currently a professor of Automotive Dynamics and Control Engineering at Tsinghua University.

Mr. Jiang Bo, age 49, has been an independent non-executive director of the Company since September 2004. Mr. Jiang is a certified public accountant and a certified public valuer in the PRC. He has been the general manager of Liaoning Reanda Certified Public Accountants in the PRC since 1999 and was a director of Dandong Zhongpeng Accounting Firm from 1993 to 1999. Mr. Jiang has over 10 years of experience in auditing financial statements of companies listed on the PRC stock exchanges. Mr. Jiang has been a certified public valuer since 1998 and has been involved in asset appraisals of companies in preparation for listing in the PRC. He has participated in various listing projects of state-owned enterprises in the PRC and overseas and has gained experience in reviewing and analyzing the audited financial statements of companies listed in the PRC. Mr. Jiang has worked with one of the "Big-4" international accounting firms in the auditing of a state-owned enterprise. Mr. Jiang holds a Bachelor of Science Degree in Mathematics from Liaoning University and a diploma in Accounting from the Central Finance and Economics University. Currently, Mr. Jiang is also an independent non-executive director of China HealthCare Holdings Limited, a company listed on the Stock Exchange.

Directors, Senior Management and Company Secretary (Cont'd)

SENIOR MANAGEMENT

Mr. Qian Zuming, age 46, has been the Chief Financial Officer of the Company since July 2008. Mr. Qian is currently a Vice President and the Chief Financial Officer of Shenyang Automotive. Mr. Qian is an associate member of the Institute of Financial Accountants of the United Kingdom. He holds a Master of Finance Degree from the Graduate School, The Chinese Academy of Social Sciences and a Master of Business Administration Degree from The Wisconsin International University (USA), Ukraine.

COMPANY SECRETARY

Ms. Lam Yee Wah Eva has been the Company Secretary of the Company since June 2005. Ms. Lam is an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Institute of Chartered Secretaries and Administrators. Ms. Lam graduated from The City University of Hong Kong with a Bachelor of Arts (Honours) Degree in Public and Social Administration. She was also awarded a Postgraduate Diploma in Corporate Administration in The City University of Hong Kong. Prior to joining the Group, Ms. Lam has five years' experience in an international accounting and auditing firm in Hong Kong and has worked for two companies listed in Hong Kong.

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, 2008.

PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of its subsidiaries are set out in Note 18 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 financial performance has been diversified from that of Shenyang Automotive.

In May 1998, the Company acquired indirect interests in two components suppliers: a 51% equity interest in Ningbo Yuming, a wholly foreign-owned PRC enterprise primarily engaged in the production of automobile window molding, stripping and other auto components; and a 50% equity interest in Mianyang Xinchen Engine Co. Ltd. ("Mianyang Xinchen"), 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 eligibility for 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.

On 18th April, 2002, Shenyang Jindong was established for the purpose of trading automotive components in the PRC. It is beneficially owned as to 75.5% indirectly by the Company.

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 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%.

In June 2003, the Company established Shenyang ChenFa, a wholly foreign-owned enterprise in the PRC, for the development, manufacture and sale of engine components in China.

On 29th December, 2003, the Company entered into agreements in relation to the proposed acquisition of an indirect 40.1% interest 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 share reform, which took place in August 2006, all issued shares of JinBei were converted into tradable shares on the Shanghai Stock Exchange. The Company's prospective 40.1% interest in JinBei consequently was 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 16th April, 2004, Shanghai Hidea was established for the design of automobiles. It is beneficially owned as to 63.25% indirectly by the Company.

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 13th December, 2004, the Company, together with Shenyang Automotive, established Shenyang Brilliance Power in the PRC. The joint venture is beneficially owned as to 75.01% by the Company and principally engages in the manufacture and sale of power trains in China.

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 a 3.5% equity interest in Mianyang Xinchen 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 Xinchen will decrease from 50.0% to 46.5%.

TURNOVER AND CONTRIBUTION

The Group's turnover and contribution to loss from operations for the year ended 31st December, 2008, 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	5,807,016	5,716,424	—	11,523,440
Intersegment sales	(334,278)	—	—	(334,278)
Segment sales to external customers	5,472,738	5,716,424	—	11,189,162
Segment results	265,246	(729,452)	—	(464,206)
Impairment losses on intangible assets	—	(184,288)	—	(184,288)
Unallocated costs net of unallocated income				(58,140)
Operating loss				(706,634)
Interest income				88,004
Finance costs, net				(196,564)
Share of results of:				
Associates	(504)	20,766	—	20,262
Jointly controlled entities	9,375	—	255,681	265,056
Impairment losses on available-for-sale financial assets				(18,868)
Fair value gain on embedded derivative components of convertible bonds				289,700
Loss before taxation				(259,044)
Taxation				(55,267)
Loss for the year				(314,311)

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2008 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, 2008 is set out and analysed in the consolidated cash flow statement on page 48 and in Note 38 to the financial statements.

DIVIDEND

The directors did not recommend the payment of any dividend in respect of the year ended 31st December, 2008 (2007: nil).

CLOSURE OF REGISTER OF MEMBERS

The Hong Kong branch register of members of the Company will be closed from Wednesday, 3rd June, 2009 to Friday, 5th June, 2009, both days inclusive, during which period no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Friday, 5th June, 2009 or their proxies or duly authorised corporate representatives are entitled to attend the forthcoming annual general meeting of the Company to be held on 5th June, 2009. In order to qualify for attending the said annual general meeting, 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 Tuesday, 2nd June, 2009.

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, 2008 are set out in Note 36 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2008 are set out in Note 15 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the subsidiaries, associates and jointly controlled entities are set out in Notes 18, 19 and 20, respectively to the financial statements.

SHARE CAPITAL

Details of the Company's share capital as of 31st December, 2008 are set out in Note 35(a) to the financial statements.

On 1st December, 2008, the Company and Huachen entered into a subscription agreement in relation to the subscription of 1,313,953,488 new Shares of the Company by Huachen at the price of HK$0.43 per Share. The subscription was approved by the Company's independent shareholders on 13th January, 2009. Subject to fulfillment of certain conditions, completion of the subscription shall take place no later than 27th May, 2009. Following the completion of the subscription, the issued share capital of the Company will be increased to US$49,837,193.88 divided into 4,983,719,388 Shares with a par value of US$0.01 each. Huachen will hold approximately 55.38% of the enlarged issued share capital of the Company upon completion.

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, the Company, with the approval of the shareholders at a general meeting, adopted a share option scheme on 18th September, 1999 (the "1999 Share Option Scheme"). The 1999 Share Option Scheme came into effect on 20th October, 1999.

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 Shares with a par value of US$0.01 each in the share capital of the Company.

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 if, together with such option exercised in full, 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; and (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.

Details of the share options outstanding as at 31st December, 2008 under the 1999 Share Option Scheme are set out below:

Category and name of participant	Date of grant	Number of share options: Outstanding as at 1st January, 2008	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31st December, 2008	Option period	Subscription price per Share (HK$)
Director									
Wu Xiao An	2 June 2001 *(Note 1)*	2,800,000	—	—	—	—	2,800,000	2 June 2001– 1 June 2011	1.896
Total		2,800,000	—	— *(Note 2)*	—	—	2,800,000		

Notes:

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

2. As none of the share options had been exercised during the year ended 31st December, 2008, the weighted average closing price of the Shares immediately before the dates on which the share options were exercised is not disclosed herein.

2002 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 "2002 Share Option Scheme") and terminate the 1999 Share Option Scheme. The 2002 Share Option Scheme came into effect on 15th July, 2002.

On 15th October, 2008, the Company received written requests from the optionholders requesting the Company to cancel the outstanding options to subscribe for 92,125,000 Shares of the Company which have been granted under the 2002 Share Option Scheme but not exercised. The cancellation of the outstanding options was adopted by the shareholders of the Company at a general meeting held on 11th November, 2008.

To avoid having to administer two share option schemes at the same time in the long run, to provide flexibility in giving incentives and rewards to appropriate persons who have contributed or would contribute to the growth of the Group or any entity in which the Group holds any equity interest (the "Invested Entity"), and to clarify the circumstances under which options granted to non-employees of the Group or Invested Entities would lapse, the board of directors of the Company proposed to adopt a new share option scheme (the "New Share Option Scheme") and to terminate the 2002 Share Option Scheme. The adoption of the New Share Option Scheme and termination of the 2002 Share Option Scheme were adopted by the shareholders of the Company at a general meeting held on 11th November, 2008.

No share options previously granted under the 2002 Share Option Scheme remain outstanding subsequent to the cancellation of the outstanding options and the termination of the 2002 Share Option Scheme.

New Share Option Scheme

The Company adopted the New Share Option Scheme on 11th November, 2008. The New Share Option Scheme came into effect on 14th November, 2008.

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; (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; and (g) any other group or classes of participants from time to time determined by the directors of the Company as having contributed or may contribute to the development and growth of the Group and any Invested Entity.

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. 366,976,590 Shares, representing 10% 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 and 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 sheets for the five trading days immediately preceding the date of grant; and (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 14th November, 2008. 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.

Details of the share options outstanding as at 31st December, 2008 under the New Share Option Scheme are set out below:

Category and name of participants	Date of grant	Number of share options: Outstanding as at 1st January, 2008	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31st December, 2008	Option period	Subscription price per Share (HK$)
Directors									
Wu Xiao An	22 December 2008 *(Note 1)*	—	10,000,000	—	—	—	10,000,000	22 December 2008– 21 December 2018	0.438
Qi Yumin	22 December 2008 *(Note 1)*	—	9,000,000	—	—	—	9,000,000	22 December 2008– 21 December 2018	0.438
He Guohua	22 December 2008 *(Note 1)*	—	3,000,000	—	—	—	3,000,000	22 December 2008– 21 December 2018	0.438
Wang Shiping	22 December 2008 *(Note 1)*	—	3,000,000	—	—	—	3,000,000	22 December 2008– 21 December 2018	0.438
Lei Xiaoyang	22 December 2008 *(Note 1)*	—	3,000,000	—	—	—	3,000,000	22 December 2008– 21 December 2018	0.438
Employees (in aggregate)	22 December 2008 *(Note 1)*	—	32,100,000	—	—	—	32,100,000	22 December 2008– 21 December 2018	0.438
Others (in aggregate)	22 December 2008 *(Note 1)*	—	4,000,000	—	—	—	4,000,000	22 December 2008– 21 December 2018	0.438
Total		—	64,100,000	— *(Note 2)*	—	—	64,100,000		

Notes:

1. The share options were granted on 22nd December, 2008 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$0.445 per Share.

2. As none of the share options had been exercised during the year ended 31st December, 2008, the weighted average closing price of the Shares immediately before the dates on which the share options were exercised is not disclosed herein.

The fair value of the share options granted under the New Share Option Scheme during the year ended 31st December, 2008 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	22nd December, 2008
Closing share price at the date of grant	HK$0.41
Subscription price	HK$0.438
Risk-free interest rate	1.211%–1.317%
Expected life of option	5 to 10 years
Expected volatility	50.91% and 50.96% for a five-year tenor and a ten-year tenor, respectively
Expected dividend yield	0%

The value of an option varies if there are changes to the variables 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 RMB10,065,000 for the year ended 31st December, 2008 (2007: RMB32,243,000) 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, 2008 and up to the date of this annual report are:

Executive directors:

Mr. Wu Xiao An *(Chairman)*
Mr. Qi Yumin *(Chief Executive Officer)*
Mr. He Guohua
Mr. Wang Shiping

Non-executive director:

Mr. Lei Xiaoyang (redesignated from executive director to non-executive director on 1st July, 2008)

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. Wu Xiao An and Mr. Qi Yumin will retire by rotation at the forthcoming annual general meeting of the Company to be held on 5th June, 2009.

Each of Mr. Wu Xiao An and Mr. Qi Yumin, 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 the circular sent to the shareholders together with this annual report.

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

As at 31st December, 2008, 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"):

	Number of Shares held/Approximate shareholding percentage			
Name of shareholders	**Long position**	**%**	**Short position**	**%**
Huachen *(Note 1)*	2,760,074,988	75.21	—	—
Templeton Asset Management Ltd. *(Note 2)*	517,937,632	14.11	—	—
Deutsche Bank Aktiengesellschaft *(Note 3)*	346,953,355	9.45	166,139,725	4.53
Brandes Investment Partners, L.P. *(Note 4)*	221,526,000	6.04	—	—
Merrill Lynch & Co Inc *(Note 5)*	219,927,353	5.99	1,603,500	0.04

Notes:

1. The 2,760,074,988 Shares in long position are held in the capacity as beneficial owner. Out of these Shares, 1,313,953,488 Shares are Shares to be subscribed by Huachen pursuant to the subscription agreement dated 1st December, 2008 entered into between Huachen and the Company. The subscription is not yet completed as at the date of this annual report.

2. The 517,937,632 Shares in long position are held in the capacity as investment manager.

3. The 346,953,355 Shares in long position are held as to 14,928,225 Shares in the capacity as beneficial owner, as to 150,000 Shares in the capacity as investment manager and as to 331,875,130 Shares as security interest. The 166,139,725 Shares in short position are held as to 13,572,937 Shares in the capacity as beneficial owner and as to 152,566,788 Shares as security interest. 311,254,869 Shares in long position and 131,721,439 Shares in short position represent underlying interests in physically settled derivatives listed or traded on a stock exchange or traded on a futures exchange. 13,572,937 Shares in long position and 30,937 Shares in short position represent underlying interests in cash settled unlisted derivatives.

4. The 221,526,000 Shares in long position are held in the capacity as investment manager.

5. The 219,927,353 Shares in long position and 1,603,500 Shares in short position are held as corporation interest.

Save as disclosed herein, as at 31st December, 2008, 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2008, 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	—	—	—	10,000,000 *(Note 2)*
Qi Yumin	Personal	—	—	—	9,000,000 *(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. These options are exercisable at any time during the 10-year period from 2nd June, 2001 at the subscription price of HK$1.896 per Share.

2. These options are exercisable at any time during the 10-year period from 22nd December, 2008 at the subscription price of HK$0.438 per Share.

Save as disclosed above, as at 31st December, 2008, none of the directors, chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31st December, 2008 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

Each of Mr. Wu Xiao An and Mr. Qi Yumin, both of whom are executive directors of the Company, has entered into a service agreement with the Company dated 1st January, 2009 for a term of three years commencing from 1st January, 2009.

Saved as disclosed herein, no director of the Company proposed for re-election at the forthcoming annual general meeting of the Company 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

In November 2008, Brilliance Finance repurchased a certain portion of the Convertible Bonds in the principal amount of US$10,000,000 via a private arrangement. The consideration for the repurchase amounted to US$8,520,000. The repurchase has been financed by the Company through its internal resources. All of the repurchased Convertible Bonds have been cancelled. As at 31st December, 2008, Convertible Bonds in the principal amount of US$172,678,000 remained outstanding.

Saved as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities in 2008.

ANALYSIS OF INTEREST CAPITALISED

Details of interest capitalised are set out in Note 8 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.

MAJOR CUSTOMERS AND SUPPLIERS

During 2008, the aggregate sales attributable to the Group's five largest customers, excluding the Group's associates and jointly controlled entities, represented approximately 37.91% of the Group's turnover while the sales attributable to the Group's largest customer was approximately 13.78% 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 22.99% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 6.88% 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 maintains the prescribed percentage of public float under the Listing Rules.

CONNECTED TRANSACTIONS

Continuing Connected Transactions for 2008

The Group is engaged in the manufacture and sale of minibuses, 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 the framework agreements, Shenyang Automotive was owned as to 51% by the Company and as to 49% by JinBei *(Note)*. Each of JinBei, its subsidiaries and associates (other than Shenyang Automotive) and Shenyang Automotive was regarded as a connected person of the Company under the then Listing Rules. At a special general meeting held on 10th February, 2006 (the "2006 SGM"), shareholders of the Company approved, among other things, the entering into of the said continuing connected transactions pursuant to Chapter 14A of the then Listing Rules and the annual caps of the continuing connected transactions for the three financial years ending 31st December, 2008.

Subsequently, at the special general meetings held on 12th February, 2007 and 16th November, 2007 (collectively, the "2007 SGMs"), the Company obtained approval from the shareholders to (a) revise the maximum annual monetary value of a number of continuing connected transactions for the financial years ending 31st December, 2007 and/or 31st December, 2008; and (b) enter into certain new continuing connected transactions for the two financial years ending 31st December, 2008. Details of the revised caps of the relevant continuing connected transactions and the new continuing connected transactions were set out in the Company's circulars dated 19th January, 2007 and 24th October, 2007.

Note: JinBei's interest in Shenyang Automotive was reduced from 49% to 39.1% with effect from 21st November, 2006.

Details of all the continuing connected transactions as approved by the shareholders at the 2006 SGM and the 2007 SGMs (altogether the "Continuing Connected Transactions") and the actual monetary value of the Continuing Connected Transactions for the financial year ended 31st December, 2008 are set out below:

Continuing Connected Transactions	Major type of products	Actual monetary value for the financial year ended 31st December, 2008 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	760,648
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	92,836
3. Purchases of materials and automotive components by Dongxing Automotive from JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Rubber products	16,724
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	—
5. Purchases of materials and automotive components by Shenyang ChenFa from JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Driving shafts	—

Continuing Connected Transactions		Major type of products	Actual monetary value for the financial year ended 31st December, 2008 RMB'000
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	34,667
2.	Purchases of materials and automotive components by Dongxing Automotive from Shenyang Automotive	Component parts for rear axles and steel panels	31,264
3.	Purchases of materials and automotive components by Shenyang Brilliance Power from Shenyang Automotive	Engine assembly and gear boxes	86,068
4.	Purchases of materials and automotive components by Xing Yuan Dong from Shenyang Automotive	Engine assembly	118,426
5.	Purchases of materials and automotive components by Shenyang Jindong from Shenyang Automotive	Automotive fitting, including center control locks, gear oil and core of front heaters	1,135
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	116,531
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	—
3.	Sale of materials and automotive components by Ningbo Yuming to Shenyang Automotive	Side windows, floor depression bars and moulding	94,949

Continuing Connected Transactions		Major type of products	Actual monetary value for the financial year ended 31st December, 2008 RMB'000
4.	Sale of materials and automotive components by Dongxing Automotive to Shenyang Automotive	Rear axles, press parts, welding parts, paints and special vehicle modification	359,405
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	2,314,265
6.	Sale of materials and automotive components by Shenyang ChenFa to Shenyang Automotive	Power trains	1,199,631
7.	Sale of materials and automotive components by Shenyang Brilliance Power to Shenyang Automotive	Power trains	95,886
8.	Sale of materials and automotive components by Shenyang Jindong to JinBei and its subsidiaries and associates (other than Shenyang Automotive)	Matching components, including reinforcement panel of right hand side front wheel mudguard wing	537
9.	Sale of materials and automotive components by Ningbo Ruixing to Shenyang Automotive	Front axles, view mirrors, suspension, carpets and root pads	84,703
10.	Sale of materials and automotive components by Shanghai Hidea to Shenyang Automotive	Product design	19,338
11.	Sale of materials and automotive components by Mianyang Ruian to Shenyang Automotive	Cylinder heads of engines and camshafts	41

Continuing Connected Transactions		Major type of products	Actual monetary value for the financial year ended 31st December, 2008 RMB'000
12.	Sale of materials and automotive components by Shenyang Jindong to Shenyang Automotive	Matching components, including anti-impact beam sub-assembly of slide door, back-plate of anti-impact beam of slide door, mounting plate of antenna, anti-impact beam assembly of left hand side front door	49,791
D.	**Others**		
—	Sale of automobiles by Shenyang Automotive to Liaoning Zheng Guo Investment Development Company Limited who acts as a regional agent for Shenyang Automotive in certain regions	A whole range of automobiles manufactured by Shenyang Automotive	1,379,829

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;

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.

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 2008 annual caps as approved by the shareholders at the 2006 SGM or the 2007 SGMs.

Financial assistance for 2008

On 3rd October, 2007,

— Xing Yuan Dong and Shenyang Automotive entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the amount of RMB2.0 billion for a term of one year commencing from 1st January, 2008 to 31st December, 2008; and

— Xing Yuan Dong and JinBei entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the amount of RMB500 million for a term of one year commencing from 1st January, 2008 to 31st December, 2008.

At the time of entering into 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 39.1% by JinBei. Each of Shenyang Automotive and JinBei was regarded as a connected person of the Company under the then Listing Rules. On 16th November, 2007, shareholders of the Company approved the provision of the above cross guarantees for a period of one year from 1st January, 2008 to 31st December, 2008.

In 2008, 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 RMB1.505 billion. Xing Yuan Dong also provided a guarantee in respect of JinBei's banking facilities in the amount of RMB200 million.

Subsequent events

Continuing connected transactions for the three financial years ending 31st December, 2011

On 30th December, 2008, shareholders of the Company approved, among other things, the entering into of a number of continuing connected transactions pursuant to Chapter 14A of the Listing Rules by certain subsidiaries of the Company for the three financial years ending 31st December, 2011:

- Purchases of materials and automotive components by members of the Group (including Shenyang Automotive) from JinBei and its subsidiaries and associated companies (other than Shenyang Automotive);

- Sale of automobiles, materials and automotive components by members of the Group to JinBei and its subsidiaries and associated companies (other than Shenyang Automotive); and

- Sale of automobiles by Shenyang Automotive to Liaoning Zheng Guo Investment Development Company Limited who acts as a regional agent for Shenyang Automotive in certain regions.

Particulars of the automobiles, materials and automotive components to be purchased from/sold to the connected parties and the maximum annual monetary value of these transactions for the three financial years ending 31st December, 2011 were set out in the circular of the Company dated 10th December, 2008.

Financial assistance for 2009

On 30th December, 2008, shareholders of the Company approved the provision of cross guarantees by each of Xing Yuan Dong and JinBei (and its subsidiaries) for each other's banking facilities up to RMB500 million for a term of one year commencing from 1st January, 2009 to 31st December, 2009.

Save as disclosed above, in the opinion of the directors, the transactions disclosed as related party transactions in Note 37 to the financial statements do not constitute connected transactions as defined under the Listing Rules in force at the timing of the entering into of the relevant transactions.

AUDITORS

Moores Rowland Mazars were first appointed as auditors of the Company on 20th December, 2004. On 1st June, 2007, Moores Rowland Mazars changed its name to Moores Rowland. On the same day, Moores Rowland combined its business with Grant Thornton. In this connection, the Board has appointed Grant Thornton as auditors of the Company since 24th September, 2007.

Grant Thornton 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,
3rd April, 2009

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and consistent with the "Code on Corporate Governance Practices" (the "CG Code") set out in Appendix 14 to the Listing Rules. The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions. The corporate governance principles of the Company emphasize a quality board, sound internal controls, and transparency and accountability to all shareholders.

Throughout the accounting year ended 31st December, 2008, except for deviations from code provision A.4.1 which is explained in paragraph A.4 below, the Group has complied with all code provisions.

A. DIRECTORS

A.1 The Board

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports, other price-sensitive announcements, other financial disclosures as required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals that require shareholder notification or approval under the Listing Rules.

The Board has a fiduciary duty and statutory responsibility towards the Group and is directly accountable to the shareholders. Other responsibilities and matters reserved to the Board are set out in paragraph D.1 below.

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three-month intervals and additional meetings would be arranged if and when necessary. The dates of regular Board meetings for each year are normally made available to all directors at the beginning of the year to provide sufficient notice to give all directors an opportunity to attend. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a conflict of interest or material interests would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive directors who have no material interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his interest therein in accordance with the bye-laws of the Company, shall abstain from voting on the resolution and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

Notices are given to all the directors for attending regular Board meetings approximately fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given.

Board meetings involve the active participation, either in person or through other electronic means of communication, by all of the directors. The company secretary assists the Chairman in preparing the meeting agenda, and each director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular meetings of the Board.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the meeting to all directors for their review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the company secretary and are available for inspection by the directors during normal office hours.

Participation of individual directors at Board meetings in 2008 is as follows:

Number of meetings	5
Executive directors:	
Mr. Wu Xiao An	5/5 (100%)
Mr. Qi Yumin	5/5 (100%)
Mr. He Guohua	5/5 (100%)
Mr. Wang Shiping	5/5 (100%)
Non-executive director:	
Mr. Lei Xiaoyang *(Note)*	5/5 (100%)
Independent non-executive directors:	
Mr. Xu Bingjin	5/5 (100%)
Mr. Song Jian	5/5 (100%)
Mr. Jiang Bo	5/5 (100%)
Average attendance rate	100%

Note: Mr. Lei Xioayang was redesignated as a non-executive director with effect from 1st July, 2008.

During 2008, apart from the five meetings of the Board, consent/approval from the Board had also been obtained via circulation of written resolutions on a number of issues.

The Company believes it has taken out appropriate insurance coverage for its directors in respect of legal actions taken against directors and officers. The Board reviews the extent of the insurance coverage every year.

A.2 Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has segregated the roles of Chairman of the Board and Chief Executive Officer. Mr. Wu Xiao An is the Chairman of the Board and Mr. Qi Yumin is the Chief Executive Officer. On 20th June, 2005, the Board adopted a set of clear guidelines regarding the power and duties of each of the Chairman and the Chief Executive Officer. No change has been made to the guidelines during the year ended 31st December, 2008.

A.3 Board composition

Currently, the Board comprises eight directors: four executive directors, one non-executive director and three independent non-executive directors. The current composition of the Board is as follows:

	Membership of Board Committee(s)
Executive directors:	
Mr. Wu Xiao An *(Chairman)*	Member of the Remuneration Committee
Mr. Qi Yumin *(Chief Executive Officer)*	Member of the Remuneration Committee
Mr. He Guohua	—
Mr. Wang Shiping	—
Non-executive director:	
Mr. Lei Xiaoyang	—
Independent non-executive directors:	
Mr. Xu Bingjin	Chairman of the Audit Committee Chairman of the Remuneration Committee
Mr. Song Jian	Member of the Audit Committee Member of the Remuneration Committee
Mr. Jiang Bo	Member of the Audit Committee Member of the Remuneration Committee

The Listing Rules require every listed issuer to have at least three independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. Jiang Bo is a certified public accountant and a certified public valuer in the PRC. Mr. Jiang has over ten years of experience in auditing financial statements of companies listed on the stock exchanges of the PRC, has participated in various listing projects of state-owned enterprises in the PRC and overseas and has experience in reviewing and analyzing the audited financial statements of companies listed in the PRC.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the independent non-executive directors and is satisfied of their independence.

The Board members do not have any family, financial or business relations with each other.

The biographies of our directors are set out on pages 9 and 10 of this annual report.

The list of directors is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

A.4 Appointment, re-election and removal of directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Non-executive directors (including independent non-executive directors) of the Company do not have a specific term of appointment. As the appointment of non-executive directors are subject to the retirement by rotation provisions in the bye-laws of the Company, the Board considers that it is not necessary to appoint the non-executive directors for a specific term. At every annual general meeting, one-third of the directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to the bye-laws of the Company. All directors, including those appointed for a fixed term, are subject to the retirement by rotation provision in the bye-laws of the Company.

A director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting. A director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

The Board has not established a Nomination Committee for reviewing new appointments of directors and senior executives and management succession plans for executive directors and senior executives. The Board follows a formal, considered and transparent procedure for the appointment of new directors to the Board. The appointment of a new director is a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director must also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

To comply with the code provision A.4.2 which states that every director of the Company should be subject to the rotation requirement at least once every three years and in accordance with bye-law 99, Mr. Wu Xiao An and Mr. Qi Yumin will retire by rotation at the forthcoming annual general meeting of the Company to be held on 5th June, 2009 and have offered themselves for re-election at that annual general meeting.

A.5 Responsibilities of directors

Each newly appointed director is provided with a package of orientation materials setting out the required duties and responsibilities of directors under the Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a director's duties and obligations under the Listing Rules and relevant legislations will be arranged for all newly appointed directors. Our directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our directors will also be updated from time to time on the business development and operation plans of the Company. All our directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, Listing Rules and corporate governance practices.

The functions of non-executive directors include the functions as specified in code provision A.5.2(a) to (d) of the CG Code.

Every director is aware that he should give sufficient time and attention to the affairs of the Company.

The Company has adopted the standard set out in Appendix 10 — Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules, in relation to the dealings in securities of the Company by the directors. With the coming into of the amendments to the Model Code set out in Appendix 10 to the Listing Rules on 1st April, 2009, the Company has revised the guidelines to incorporate the amendments.

Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standards set out in the then Model Code during the year ended 31st December, 2008.

The Company has also established on 17th June, 2005 written guidelines on no less exacting terms than the Model Code (the "Code for Securities Transactions by Employees") for securities transactions by employees of the Company, its subsidiaries and its holding company (including directors of the Company's holding company and its subsidiaries), who because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities. In line with the amendments to the Model Code set out in Appendix 10 to the Listing Rules which came into effect on 1st April, 2009, the Company has made corresponding changes to the Code for Securities Transactions by Employees.

No incident of non-compliance of the Code for Securities Transactions by Employees by the employees during the year was noted by the Company.

A.6 Supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner as permitted under the circumstances. Notices are given to all the directors for attending regular Board meetings fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each director have separate and independent access to the Group's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level of remuneration and disclosure

The Remuneration Committee was established on 17th June, 2005 in accordance with the CG Code. During 2008, the Remuneration Committee has met once which was attended by all its members. The existing members of the Remuneration Committee include Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Wu Xiao An and Mr. Qi Yumin, both of whom are executive directors, are also members of the Remuneration Committee. Mr. Xu Bingjin is the chairman of the Remuneration Committee. The Terms of Reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in code provision B.1.3(a) to (f) of the CG Code.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of directors and senior management. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive directors and other persons to attend its meetings. The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary.

The work performed by the Remuneration Committee during 2008 included:

— conducting a review on the "Policy and Guidelines of The Remuneration Committee";

— reviewing the directors' service agreements previously entered into between the Company and two executive directors and approving renewal of the same by the Company;

— reviewing and approving the remuneration package of the directors (including the three independent non-executive directors) and the senior management of the Company; and

— considering and approving the grant of share options under the New Share Option Scheme for recommendation to the Board for its formal approval.

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

Full minutes of the Remuneration Committee meeting are kept by the company secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval.

The Remuneration Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval.

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31st December, 2008, the directors have:

— approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

— selected and applied consistently appropriate accounting policies;

— made judgments and estimates that are prudent and reasonable; and

— prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

Financial results of the Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rule 13.49(1) and (6) of the Listing Rules.

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31st December, 2008.

Currently, the Group's external auditors are Grant Thornton (the "Auditors").

For the year ended 31st December, 2008, the remuneration of the Auditors paid or payable in respect of audit and non-audit services provided by the Auditors to the Group amounted to approximately HK$3,900,000 and HK$870,000, respectively. The non-audit services mainly included conducting agreed-upon procedures on the 2008 interim consolidated financial statements and conducting agreed-upon procedures on the continuing connected transactions.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 42 and 43 of this annual report.

C.2 Internal controls

The Board is entrusted with an overall responsibility of devising the Company's system of internal controls and conducting an annual review of its effectiveness. This ensures that the Board oversees and monitors the Group's overall financial position so that the interests of the shareholders are well protected and covered. The system of internal controls covers the areas of financial, operational, compliance and risk management of the Group's business.

The Company has established an internal audit department and adopted an Internal Audit Charter for the internal audit department. The Group has conducted a general review of and has monitored the Group's internal management and operation during the year.

In addition, the Board and the Audit Committee have reviewed the effectiveness of the internal control systems on all major operations of the Group and noted that recommendations on some areas of improvement identified in previous years have been followed up and implemented. The Board and the Audit Committee will continue to review and assess the effectiveness of the internal control systems of the Group and to monitor the systems and the progress of improvement. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented and the Group has fully complied with the CG Code provisions regarding internal control system generally.

C.3 Audit Committee

The Audit Committee was established on 20th December, 1999 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. The Terms of Reference of the Audit Committee was revised on 27th September, 2004 and 17th June, 2005, respectively. With the coming into effect of certain amendments to Listing Rules, including amendments to the CG Code set out in Appendix 14 to the Listing Rules on 1st January, 2009, the Company has adopted a revised Terms of Reference of the Audit Committee. The Terms of Reference of the Audit Committee have included the duties set out in code provision C.3.3(a) to (n) of the CG Code. The existing members of the Audit Committee comprise Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Xu Bingjin is the chairman of the Audit Committee. The Audit Committee does not have as a member a former partner of the Group's existing audit firm.

During 2008, the Audit Committee met on three (3) occasions and discharged its responsibilities. Attendance of individual members at Audit Committee meetings in 2008 is as follows:

Number of meetings	**3**
Mr. Xu Bingjin	3/3 (100%)
Mr. Song Jian	3/3 (100%)
Mr. Jiang Bo	3/3 (100%)
Average attendance rate	100%

During 2008, apart from the three meetings of the Audit Committee, consent/approval from the members of the Audit Committee had also been obtained via circulation of written resolutions on a number of issues.

The principal duties of the Audit Committee included reviewing the Company's financial controls, internal control and risk management system, annual report and accounts and half-yearly report.

The following is a summary of the work performed by the Audit Committee during 2008:

— reviewing the Auditor's management letter and management's response;

— reviewing and considering the recently issued accounting standards, the adoption of new accounting standards and change in significant accounting policies;

— reviewing the audited financial statements and final results announcement for the year ended 31st December, 2007;

— reviewing the interim report and the interim results announcement for the six months ended 30th June, 2008;

— meeting with the Auditors to go through any significant audit issues or key findings noted during the audit of the Group's final results;

— meeting with the Auditors to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's unaudited interim results;

— approving the provision of services in respect of the agreed-upon procedures for the 2008 interim results and the audit of the Group's 2008 final results by Grant Thornton, and the relevant fee proposals;

— approving the provision of certain non-audit services by Grant Thornton;

— reviewing the continuing connected transactions and financial assistance for 2007; and

— approving the planning document for internal control and going through report on internal control.

All issues raised by the Audit Committee have been addressed by the management. The work and findings of the Audit Committee have been reported to the Board. During 2008, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

Full minutes of the Audit Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval.

The Audit Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

This annual report has been reviewed by the Audit Committee.

D. DELEGATION BY THE BOARD

D.1 Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The reserved power of the Board was set out in the annual report of the Company for the year ended 31st December, 2005 and there has been no change to the power of the Board during the year 2008.

D.2 Board committees

Apart from the Audit Committee (as described under paragraph C.3) and the Remuneration Committee (as described under paragraph B.1), the Board has not established any other committee of the Board.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

The Company attaches great importance to communications with shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each issue to be considered at the annual general meetings and special general meetings, including the re-election of directors, a separate resolution will be proposed by the Chairman.

In accordance with the code provision E.1.2 set out in the CG Code, Mr. Wu Xiao An, the Chairman of the Board, and Mr. Xu Bingjin, the chairman of both the Audit Committee and Remuneration Committee, have attended the 2008 annual general meeting. Mr. Xu Bingjin, a member of an independent board committee, represented other members of the independent board committee to attend the special general meeting held on 30th December, 2008, at which approval was sought from the shareholders in respect of certain continuing connected transactions, and to answer questions raised by the shareholders.

The Chairman of the Board, the chairman of the Audit Committee and the chairman of the Remuneration Committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the forthcoming annual general meeting to answer questions of shareholders.

E.2 Voting by poll

The procedures for demanding a poll by the shareholders were incorporated in all circulars sent to shareholders and will be explained during the proceedings of meetings. Subsequent to the amendments to the Listing Rules effective from 1st January, 2009, detailed procedures for conducting a poll will be explained in every general meeting. Poll results will be posted on the website of the Stock Exchange (as well as on the website of the Company) on the day of the shareholders' meetings.

At the annual general meeting and special general meetings held in 2008, the Chairman had provided an explanation of the procedures for demanding poll by shareholders at the commencement of each of the meetings.

Independent Auditors' Report

Grant Thornton
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Member of Grant Thornton International Ltd

TO THE SHAREHOLDERS OF
BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Brilliance China Automotive Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 126 which comprise the consolidated and company balance sheets as at 31st December, 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Grant Thornton
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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31st December, 2008, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

3rd April, 2009

Consolidated Income Statement

For the year ended 31st December, 2008

	Notes	**2008** **RMB'000**	2007 RMB'000
Turnover	6	**11,189,162**	14,149,149
Cost of sales		**(11,085,394)**	(13,015,230)
Gross profit		**103,768**	1,133,919
Other revenue	6	**474,919**	369,192
Selling expenses		**(495,571)**	(606,928)
General and administrative expenses		**(491,178)**	(515,610)
Staff share option costs		**(9,205)**	(32,243)
Other operating expenses		**(105,079)**	(149,238)
Impairment losses on intangible assets		**(184,288)**	—
Operating (loss) profit	7	**(706,634)**	199,092
Interest income	6	**88,004**	125,470
Finance costs, net	8	**(196,564)**	(123,323)
Share of results of:			
Associates		**20,262**	37,617
Jointly controlled entities		**265,056**	154,644
Impairment losses on available-for-sale financial assets		**(18,868)**	—
Fair value gain (loss) on embedded derivative components of convertible bonds	31	**289,700**	(181,933)
(Loss) Profit before taxation		**(259,044)**	211,567
Taxation	9	**(55,267)**	(45,208)
(Loss) Profit for the year		**(314,311)**	166,359
Attributable to:			
Equity holders of the Company	10	**80,929**	97,086
Minority interests		**(395,240)**	69,273
		(314,311)	166,359
Dividends		**—**	—
Earnings per share			
— basic	12	**RMB0.02205**	RMB0.02646
— diluted	12	**RMB0.02203**	RMB0.02639

Balance Sheets

As at 31st December, 2008

		Consolidated		Company	
		2008	2007	**2008**	2007
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Non-current assets					
Intangible assets	13	**1,075,393**	1,054,652	**159,700**	167,669
Goodwill	14	**295,529**	295,529	**—**	—
Property, plant and equipment	15	**3,881,856**	3,309,616	**310**	688
Construction-in-progress	16	**264,482**	257,017	**—**	—
Land lease prepayments	17	**115,104**	118,720	**—**	—
Interests in subsidiaries	18	**—**	—	**6,442,691**	7,121,588
Interests in associates	19	**393,052**	383,429	**—**	—
Interests in jointly controlled entities	20	**1,381,024**	1,210,019	**—**	—
Prepayments for a long-term investment	22	**600,000**	600,000	**—**	—
Available-for-sale financial assets	23	**15,633**	26,129	**11,495**	21,991
Advances to an affiliated company	37(f)	**51,470**	—	**—**	—
Other non-current assets		**10,435**	9,343	**—**	—
Total non-current assets		**8,083,978**	7,264,454	**6,614,196**	7,311,936
Current assets					
Cash and cash equivalents		**1,243,861**	1,373,416	**5,930**	7,937
Short-term bank deposits		**692,000**	518,000	**—**	—
Pledged short-term bank deposits	24	**2,456,095**	1,971,665	**—**	—
Inventories	25	**1,869,202**	2,469,033	**—**	—
Accounts receivable	26	**671,680**	805,187	**—**	—
Accounts receivable from affiliated companies	37(c)	**259,208**	684,221	**—**	—
Notes receivable	27	**707,363**	416,495	**—**	—
Notes receivable from affiliated companies	37(d)	**205,199**	260,155	**—**	—
Other receivables	28	**465,397**	491,237	**12,242**	2,277
Dividend receivable from affiliated companies	37(e)	**86,673**	97,173	**—**	—
Prepayments and other current assets		**373,944**	273,828	**607**	652
Income tax recoverable		**—**	18,482	**—**	—
Other taxes recoverable		**27,693**	125,179	**—**	—
Advances to affiliated companies	37(f)	**172,747**	101,402	**26,365**	26,365
Total current assets		**9,231,062**	9,605,473	**45,144**	37,231

Balance Sheets (Cont'd)

As at 31st December, 2008

	Notes	Consolidated 2008 RMB'000	Consolidated 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
Current liabilities					
Accounts payable	29	**2,323,702**	3,421,891	**—**	—
Accounts payable to affiliated companies	37(g)	**603,416**	952,847	**—**	—
Notes payable		**4,803,364**	2,828,373	**—**	—
Notes payable to affiliated companies	37(h)	**43,863**	207,774	**—**	—
Customer advances		**354,768**	150,354	**—**	—
Other payables		**773,232**	419,710	**—**	—
Dividends payable		**2,882**	3,085	**2,882**	3,085
Accrued expenses and other current liabilities		**57,381**	152,150	**8,408**	4,380
Short-term bank borrowings	30	**499,781**	370,000	**—**	—
Income tax payable		**25,867**	9,555	**—**	—
Other taxes payable		**84,540**	71,095	**—**	—
Advances from affiliated companies	37(i)	**73,123**	56,134	**6,111**	6,665
Advances from a subsidiary	32	**—**	—	**1,163,718**	—
Convertible bonds	31	**1,403,248**	—	**—**	—
Total current liabilities		**11,049,167**	8,642,968	**1,181,119**	14,130
Net current (liabilities) assets		**(1,818,105)**	962,505	**(1,135,975)**	23,101
Total assets less current liabilities		**6,265,873**	8,226,959	**5,478,221**	7,335,037
Non-current liabilities					
Convertible bonds	31	**—**	1,752,233	**—**	—
Deferred government grants		**79,460**	81,555	**—**	—
Advances from a subsidiary	32	**—**	—	**—**	1,307,720
Advances from affiliated companies	37(i)	**319,158**	133,772	**—**	—
Total non-current liabilities		**398,618**	1,967,560	**—**	1,307,720
NET ASSETS		**5,867,255**	6,259,399	**5,478,221**	6,027,317
Capital and reserves					
Share capital	35(a)	**303,488**	303,488	**303,488**	303,488
Share premium	36	**2,040,430**	2,040,430	**2,040,430**	2,040,430
Reserves	36	**3,709,804**	3,705,745	**3,134,303**	3,683,399
Total equity attributable to equity holders of the Company		**6,053,722**	6,049,663	**5,478,221**	6,027,317
Minority interests		**(186,467)**	209,736	**—**	—
TOTAL EQUITY		**5,867,255**	6,259,399	**5,478,221**	6,027,317

Wu Xiao An
(Also known as Ng Siu On)
Director

Qi Yumin
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	2008 RMB'000	2007 RMB'000
Total equity as at 1st January,	**6,259,399**	6,025,140
Items directly recognised in equity		
Changes in fair value of available-for-sale financial assets	**(10,496)**	2,393
Share of a jointly controlled entity's (loss) gain recognised directly in equity	**(96,270)**	31,591
	(106,766)	33,984
Transfers from equity		
Transfer to profit or loss on impairment losses on available-for-sale financial assets	**18,868**	—
(Loss) Profit for the year	**(314,311)**	166,359
Total recognised (losses) profits for the year	**(402,209)**	200,343
Movements in equity arising from capital transactions		
Issue of shares under share option scheme	**—**	2,107
Exercise of share option scheme	**—**	(434)
Share option costs	**10,065**	32,243
	10,065	33,916
Total equity as at 31st December,	**5,867,255**	6,259,399
Total recognised (losses) profits for the year		
Attributable to:		
Equity holders of the Company	**(6,006)**	130,754
Minority interests	**(396,203)**	69,589
	(402,209)	200,343

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	Note	**2008 RMB'000**	2007 RMB'000
Operating activities			
Cash (used in) generated from operations	38(a)	**(842,318)**	1,755,776
Interest received		**83,982**	138,088
Enterprise income tax paid		**(20,473)**	(65,858)
Enterprise income tax refunded		**—**	1,127
Net cash (used in) generated from operating activities		**(778,809)**	1,829,133
Investing activities			
Payments for acquisition of property, plant and equipment and construction-in-progress		**(483,573)**	(294,489)
Payments for acquisition of intangible assets		**(335,876)**	(390,481)
(Increase) Decrease in short-term bank deposits		**(174,000)**	98,787
Increase in pledged short-term bank deposits		**(484,430)**	(346,516)
Dividend received from an associate		**21,000**	21,000
Payments for land lease prepayments		**—**	(7,279)
Proceeds from disposal of land lease prepayments		**—**	6,618
Proceeds from disposal of property, plant and equipment		**5,407**	6,921
Increase in other long-term assets		**(1,092)**	(1,893)
Increase in advances to affiliated companies		**(54,893)**	(43,317)
Net cash used in investing activities		**(1,507,457)**	(950,649)
Net cash (outflow) inflow before financing activities		**(2,286,266)**	878,484
Financing activities			
Increase in advances from affiliated companies		**9,217**	29,974
Issue of notes payable		**2,750,800**	2,420,000
Repayments of notes payable		**(820,000)**	(3,300,000)
Payment for redemption of convertible bonds		**(57,736)**	—
Proceeds from short-term bank loans		**599,781**	430,000
Repayment of short-term bank loans		**(470,000)**	(560,000)
Issue of share capital from exercise of share option		**—**	1,673
Interest paid		**(184,284)**	(106,924)
Receipts of government grants		**328,933**	112,134
Net cash generated from (used in) financing activities		**2,156,711**	(973,143)
Decrease in cash and cash equivalents		**(129,555)**	(94,659)
Cash and cash equivalents, as at 1st January,		**1,373,416**	1,468,075
Cash and cash equivalents, as at 31st December,		**1,243,861**	1,373,416

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 9th June, 1992 with limited liability. The Company's shares are traded on The Stock Exchange of Hong Kong Limited (the "SEHK").

The Company's American depositary shares ("ADSs") were delisted from The New York Stock Exchange Inc. on 26th July, 2007 and are currently traded on the over-the-counter markets in the United States of America ("US"). On 2nd March 2009, the Company filed with the United States Securities and Exchange Commission (the "SEC") the Form 15F to de-register the ordinary shares underlying its ADSs under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company's reporting obligations under the Exchange Act were suspended immediately upon such filing. The de-registration is expected to become effective 90 days after the filing of the Form 15F unless earlier withdrawn by the Company or denied by the SEC.

The decision to de-register has been reached in view of the low trading volume of the Company's ADSs and the increase in administrative costs and human resources required to comply with the US reporting and registration obligations. The Company's ordinary shares will continue to be listed and traded on the main board of the SEHK after the de-registration.

The Company is an investment holding company. The principal activities of the Company's subsidiaries 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 applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules").

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2007 financial statements, except for the adoption for the first time the following amendments and interpretations:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these amendments and interpretations had no material effect on the results and financial position of the Group for the current or prior years.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Basis of measurement

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

(c) Preparation of financial statements

At 31st December, 2008, the Company had net current liabilities of approximately RMB1,136 million, and the Group had net current liabilities of approximately RMB1,818 million which include convertible bonds of approximately RMB1,403 million redeemable at the option of the bondholders on 7th June, 2009. Notwithstanding the net loss of RMB314 million incurred for the year ended 31st December, 2008 and the Group's current liabilities exceeding its current assets at 31st December, 2008, in preparing these financial statements, the directors have given careful consideration to current and future liquidity of the Group and its ability to provide working capital for its operations and to meet its funding needs if the bondholders exercise their option to redeem the convertible bonds on 7th June, 2009.

Subsequent to the balance sheet date, the Company has already secured adequate funds to satisfy its requirement for the possible redemption of the convertible bonds. These funds include the proceeds from the proposed subscription of 1,313,953,488 new shares of the Company by Huachen Automotive Group Holdings Company Limited ("Huachen"), the major shareholder of the Company, for a total consideration of approximately HK$565 million (approximately to RMB500 million), and other loans from external parties.

At the balance sheet date, the Group had short-term bank borrowings of RMB499 million which are renewable on a yearly basis. Management is confident that these borrowings can be renewed on their expiry and to date have secured the renewal of approximately RMB50 million of these borrowings.

In addition, Huachen has also agreed to provide adequate funds to the Group, if necessary, to meet its liabilities as they fall due. The directors consider that the Group will have sufficient cash resources to satisfy its future working capital needs and other financing requirements. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

(d) Changes in accounting estimates

The Company re-evaluated as at 1st January, 2008 the periods over which its buildings, plant and machinery, specific tools and moulds are available to use and extended the estimated useful lives of these assets based on historical usage experience and current industry practices. The estimated useful lives of these assets before and after the re-evaluation are as follows:

	Estimated useful lives	
Property, plant and equipment	**Before change**	**After change**
Buildings	20 years	20–30 years
Plant and machinery	10 years	10–20 years
Special tools and moulds	20,000–300,000 times	20,000–420,000 times

The effect of the change in these accounting estimates is a decrease in depreciation of RMB160,777,000 for the year.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) 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, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separate from equity attributable to equity holders of the Company.

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

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

(ii) *Subsidiaries*

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Basis of consolidation (Cont'd)

(iii) *Associates and jointly controlled entities*

An associate is an entity, not being a subsidiary or a joint venture, in which an equity interest is held for long-term and the Group or Company 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 activities of the entity and none of the participating parties has unilateral control over the economic activities.

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

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

(iv) *Translation of foreign currencies*

Items included in the financial statements of each of the Group entities, including the Company, subsidiaries, associates and jointly controlled entities, are all measured using Renminbi ("RMB") which is 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Intangibles

(i) *Goodwill*

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

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

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

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

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

(ii) *Research and development costs*

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

(iii) *Acquired intangible assets*

Acquired intangible assets with finite useful lives 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 20 years.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Property, plant and equipment

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

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

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

Buildings	20–30 years
Machinery and equipment (excluding special tools and moulds)	10–20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years
Special tools and moulds	20,000–420,000 times of usage

(h) Construction-in-progress

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

(i) Land lease prepayments

Land 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 income statement from the date of initial recognition on a straight-line basis over the respective periods of the rights.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Financial instruments

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

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

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

(ii) *Accounts and other receivables*

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost using effective interest method less allowance for impairment of doubtful debts, except where the receivables are interest-free advances made to related parties without any fixed repayment terms or the effect of the discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(iii) *Impairment of financial assets*

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Financial instruments (Cont'd)

(iii) *Impairment of financial assets* (Cont'd)

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments considered indicators that the trade receivable is impaired.

(iv) *Derivative financial instruments*

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

(v) *Convertible bonds*

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

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

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

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The finance cost recognised in the income statement is calculated using the effective interest method. The equity component is recognised as a separate component of equity until the bond either is converted or the bond is redeemed.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Financial instruments (Cont'd)

(vi) *Other financial liabilities*

The Group's other financial liabilities include accounts and notes payables, other payables, bank loans and other borrowings. These financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, except for interest-free payable and advances to related parties or the effect of discounting being insignificant. In such cases, they are stated at cost.

(vii) *Financial guarantee contracts*

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

(k) Impairment of other assets

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

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

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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) 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 standard costing 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.

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

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

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

(n) Provisions

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

The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. Minibuses are sold with 24-month or 50,000 kilometres (2007: Same) first-to-occur limited warranty. Zhonghua sedans, Junjie sedans and Kubao are sold with 36-month or 60,000 kilometres (2007: Same) first-to-occur limited warranty. Zunchi sedans are sold with 10-year or 200,000 kilometres (2007: Same) first-to-occur limited warranty. During the warranty period, the Group pays service stations for parts and labour costs covered by the warranty.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Provisions (Cont'd)

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

	2008 RMB'000	2007 RMB'000
As at 1st January,	**28,490**	27,348
Accrual for warranties during the year	**31,615**	73,832
Settlements during the year	**(49,197)**	(72,690)
As at 31st December,	**10,908**	28,490

(o) Government grants

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

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

(p) 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.

(q) Employee benefits

(i) *Employee leave entitlements*

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Employee benefits (Cont'd)

(ii) *Bonus plans*

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

(iii) *Pension obligations*

The Group's contributions to defined contribution retirement plans administered by the government of the PRC are recognised as an expense in the income statement. The assets of the schemes are held separately from those of the Group in independently administered funds. Further information is set out in Note 34.

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

(iv) *Share-based payments*

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(r) Income and other taxes

Income tax

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and 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. Such assets and liabilities are not recognised if the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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% (2007: 17%).

Sale of minibuses and sedans is also subject to consumption tax at standard rates of 3% to 12% in 2008 (2007: 5% to 12%).

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Contingent liabilities and contingent assets

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

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

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

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

(t) Revenue recognition

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

(i) *Sale of goods*

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

(ii) *Interest income*

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

(iii) *Dividend income*

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

(iv) *Subsidy income*

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(u) 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 ceased when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

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

(v) Segment reporting

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(w) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

3. FUTURE CHANGES IN HKFRSs

At the date of authorisation of these financial statements, the HKICPA has issued the following standards and interpretations that are not yet effective. The directors anticipate that the adoption of these new HKFRSs in the further periods will have no material impact on the results of the Company.

	Effective for accounting periods beginning on or after
HKFRSs (Amendments) "Improvements to HKFRSs"	1st January, 2009
HKAS 1 (Revised) "Presentation of Financial Statements"	1st January, 2009
HKAS 23 (Revised) "Borrowing Costs"	1st January, 2009
HKAS 27 (Revised) "Consolidated and Separate Financial Statements"	1st July, 2009
HKAS 32 and HKAS 1 (Amendments) "Puttable Financial Instruments and Obligations Arising on Liquidation"	1st January, 2009
HKAS 39 (Amendment) "Financial Instruments: Recognition and Measurement — Eligible Hedge Items"	1st July, 2009
HKAS 39 & HK(IFRIC)-Int 19 (Amendments) "Financial Instruments: Recognition and Measurement, Reassessment of Embedded Derivatives"	1st July, 2009
HKFRS 1 (Revised) " First-time Adoption of Hong Kong Financial Reporting Standard"	1st July, 2009
HKFRS 1 & HKAS27 (Amendments) "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"	1st January, 2009
HKFRS 2 (Amendment) "Share-based Payment — Vesting Conditions and Cancellations"	1st January, 2009
HKFRS 3 (Revised) "Business Combinations"	1st July, 2009
HKFRS 7 (Amendment) "Financial Instruments: Disclosure"	1st January, 2009
HKFRS 8 "Operating Segments"	1st January, 2009
HK(IFRIC)-Int 13 "Customer Loyalty Programmes"	1st July, 2008
HK(IFRIC)-Int 15 " Agreements for the Construction of Real Estate"	1st January, 2009
HK(IFRIC)-Int 16 "Hedges of a Net Investment in a Foreign Operation"	1st October, 2008
HK(IFRIC)-Int 17 "Distributions of Non-cash Assets to Owners"	1st July, 2009
HK(IFRIC)-Int 18 "Transfer of Assets from Customers"	1st July, 2009

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Group's financial statements.

3. FUTURE CHANGES IN HKFRSs (Cont'd)

Amendment to HKAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's financial statements.

In addition, HKFRS 8 "Operating segments" may result in new or amended disclosures. The Directors are in the process of identifying reportable operating segments as defined in the HKFRS8.

The directors of the Company are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material impact on the Group's financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

(i) Depreciation and amortisation

The net book value of the Group's property, plant and equipment and intangible assets as at 31st December, 2008 was approximately RMB3,882 million (2007: RMB3,310 million) and RMB1,075 million (2007: RMB1,055 million) respectively. The Group depreciates its property, plant and equipment on a straight line basis, after taking into account their estimated residual value, over 5 to 30 years (after change in accounting estimates in depreciation as set out in Note 2(d)) for properties, plant and equipment other than special tools and moulds and over 20,000 times to 420,000 times of usage for special tools and moulds (after change in accounting estimates in depreciation).

The intangible assets are amortised on a straight-line basis over their estimated useful lives of 7 to 20 years. The estimated useful lives reflect the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets.

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

(ii) Impairment test of assets

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

Details of the basis and assumptions used in estimating the recoverable amounts of the Group's intangible assets, property, plant and equipment, and goodwill in subsidiaries, associates and jointly controlled entities are set out in Note 13(d), Note 13(e) and Note 21.

(iii) Allowances for inventories

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

The amount being reversed is limited to the extent that it does not result in the carrying amount of the inventory that exceeding what the cost would have been had the provision not been recognised at the date the provision reversed.

(iv) Allowances for bad and doubtful debts

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

(v) Warranty provisions

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

(vi) Fair value of embedded derivative components of convertible bonds and share options

There are a number of assumptions used in estimating the fair value of embedded derivative components of convertible bonds and share options, details of which are set out in Note 31 and Note 35(c) respectively.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Credit risk

The Group's credit risk primarily consists of accounts receivable, notes receivable and other receivables from a variety of customers and debtors including state and local agencies, municipalities and private industries and its affiliated companies, bank balances and deposits and guarantee for loans drawn by its affiliated companies.

In order to minimise credit risk, credit history and background of new customers and debtors are checked and security 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 unrecoverable.

The Group has no significant concentration of credit risk except that about 18% and 11% (2007: 18% and 18%) of total accounts and notes receivables as at 31st December, 2008 were due from Shanghai Shenhua Holdings Co., Ltd. and Hua Yi Xin Automotive Trading Limited respectively.

In 2008, sales to Shanghai Shenhua Holdings Co., Ltd. and Hua Yi Xin Automotive Trading Limited accounted for 9% and 14% (2007: 7% and 23%) of total sales of the Group respectively.

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC.

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

(b) Liquidity risk

In managing liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations, expected expansion and product developments. The Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of borrowings and ensures compliance with loan covenants. In view of excess of current liabilities over current assets of both the Group and Company, the management has taken necessary measures to maintain the Group's and Company's liquidity as set out in Note 2(c).

As at 31st December, 2008 and 31st December, 2007, the remaining contractual maturities of the Group's financial liabilities, based on undiscounted cash flows, are summarised below:

	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
As at 31st December, 2008					
Accounts payable	2,323,702	2,323,702	—	—	—
Accounts payable to affiliated companies	603,416	603,416	—	—	—
Notes payable	4,803,364	4,803,364	—	—	—
Notes payable to affiliated companies	43,863	43,863	—	—	—
Other payables	773,232	773,232	—	—	—
Dividends payable	2,882	2,882	—	—	—
Accrued expenses and other current liabilities	57,381	57,381	—	—	—
Short-term bank borrowings	499,781	499,781	—	—	—
Advances from affiliated companies	392,281	73,123	215,498	67,020	111,698
Convertible bonds	1,403,248	1,664,769	—	—	—
	10,903,150	10,845,513	215,498	67,020	111,698

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

(b) Liquidity risk (Cont'd)

	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
As at 31st December, 2007					
Accounts payable	3,421,891	3,421,891	—	—	—
Accounts payable to affiliated companies	952,847	952,847	—	—	—
Notes payable	2,828,373	2,828,373	—	—	—
Notes payable to affiliated companies	207,774	207,774	—	—	—
Other payables	419,710	419,710	—	—	—
Dividends payable	3,085	3,085	—	—	—
Accrued expenses and other current liabilities	152,150	152,150	—	—	—
Short-term bank borrowings	370,000	370,000	—	—	—
Advances from affiliated companies	189,906	56,134	22,340	67,020	134,038
Convertible bonds	1,752,233	—	—	1,884,738	—
	10,297,969	8,411,964	22,340	1,951,758	134,038

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

(c) Currency risk

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

On the other hand, as the management intends to expand the Group's overseas sales which are denominated in other currencies, mainly U.S. Dollar, the strengthening RMB will have a negative impact to the Group in the future. The management is considering all possible measures to minimise currency risk in relation to overseas sales in the future, including hedging.

As at 31st December, 2008, had Renminbi weakened/strengthened by 5% against the US. Dollar with all other variables held constant, loss after tax for the year would have been RMB70.2 million higher/lower (2007: profit after tax would have been RMB87.6 million lower/higher), mainly as a result of foreign exchange loss/gain on translation of convertible bonds denominated in U.S. Dollar. The management monitors the foreign exchange exposure and will consider hedging should the need arises.

(d) 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.

Assuming the cash and cash equivalents, short-term deposits, pledged short-term bank deposits, short-term bank borrowings and notes payable for financing as outstanding at 31st December, 2008 were outstanding for the whole year, a 50 basis point increase or decrease would increase or decrease the loss after tax of the Group for the year by approximately RMB31 million (2007: decrease or increase the profit after tax by approximately RMB11.2 million). The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

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

(e) Summary of financial instruments by category

The carrying amounts of the Group's financial assets and liabilities are categorised as follows:

	Loans and receivables RMB'000	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Financial assets at 31st December, 2008			
Available-for-sale financial assets	**—**	**15,633**	**15,633**
Cash and cash equivalents	**1,243,861**	**—**	**1,243,861**
Short-term bank deposits	**692,000**	**—**	**692,000**
Pledged short-term bank deposits	**2,456,095**	**—**	**2,456,095**
Accounts receivable	**671,680**	**—**	**671,680**
Accounts receivable from affiliated companies	**259,208**	**—**	**259,208**
Notes receivable	**707,363**	**—**	**707,363**
Notes receivable from affiliated companies	**205,199**	**—**	**205,199**
Other receivables	**465,397**	**—**	**465,397**
Dividend receivable from affiliated companies	**86,673**	**—**	**86,673**
Advances to affiliated companies	**224,217**	**—**	**224,217**
	7,011,693	**15,633**	**7,027,326**

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets at 31st December, 2007			
Available-for-sale financial assets	—	26,129	26,129
Cash and cash equivalents	1,373,416	—	1,373,416
Short-term bank deposits	518,000	—	518,000
Pledged short-term bank deposits	1,971,665	—	1,971,665
Accounts receivable	805,187	—	805,187
Accounts receivable from affiliated companies	684,221	—	684,221
Notes receivable	416,495	—	416,495
Notes receivable from affiliated companies	260,155	—	260,155
Other receivables	491,237	—	491,237
Dividend receivable from affiliated companies	97,173	—	97,173
Advances to affiliated companies	101,402	—	101,402
	6,718,951	26,129	6,745,080

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

(e) Summary of financial instruments by category (Cont'd)

	Liabilities at fair value through profit or loss RMB'000	**Financial liabilities measured at amortised costs RMB'000**	**Total RMB'000**
Financial liabilities at 31st December, 2008			
Accounts payable	**—**	**2,323,702**	**2,323,702**
Accounts payable to affiliated companies	**—**	**603,416**	**603,416**
Notes payable	**—**	**4,803,364**	**4,803,364**
Notes payable to affiliated companies	**—**	**43,863**	**43,863**
Other payables	**—**	**773,232**	**773,232**
Dividends payable	**—**	**2,882**	**2,882**
Short-term bank borrowings	**—**	**499,781**	**499,781**
Advances from affiliated companies	**—**	**392,281**	**392,281**
Convertible bonds	**10,939**	**1,392,309**	**1,403,248**
	10,939	**10,834,830**	**10,845,769**

	Liabilities at fair value through profit or loss RMB'000	Financial liabilities measured at amortised costs RMB'000	Total RMB'000
Financial liabilities at 31st December, 2007			
Accounts payable	—	3,421,891	3,421,891
Accounts payable to affiliated companies	—	952,847	952,847
Notes payable	—	2,828,373	2,828,373
Notes payable to affiliated companies	—	207,774	207,774
Other payables	—	419,710	419,710
Dividends payable	—	3,085	3,085
Short-term bank borrowings	—	370,000	370,000
Advances from affiliated companies	—	189,906	189,906
Convertible bonds	316,576	1,435,657	1,752,233
	316,576	9,829,243	10,145,819

6. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2008 RMB'000	2007 RMB'000
Turnover		
Sale of minibuses and automotive components	**5,472,738**	5,394,302
Sale of sedans	**5,716,424**	8,754,847
	11,189,162	14,149,149
Other revenue		
Subsidy income	**331,028**	140,081
Others	**143,891**	229,111
	474,919	369,192
Interest income from bank deposits	**88,004**	125,470
	11,752,085	14,643,811

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

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

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

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

(3) the manufacture and sale of BMW sedans.

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

Business segments — 2008

	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	5,807,016	5,716,424	—	11,523,440
Intersegment sales	(334,278)	—	—	(334,278)
Segment sales to external customers	5,472,738	5,716,424	—	11,189,162
Segment results	265,246	(729,452)	—	(464,206)
Impairment losses on intangible assets	—	(184,288)	—	(184,288)
Unallocated costs net of unallocated income				(58,140)
Operating loss				(706,634)
Interest income				88,004
Finance costs, net				(196,564)
Share of results of:				
Associates	(504)	20,766	—	20,262
Jointly controlled entities	9,375	—	255,681	265,056
Impairment losses on available-for-sale financial assets				(18,868)
Fair value gain on embedded derivative components of convertible bonds				289,700
Loss before taxation				(259,044)
Taxation				(55,267)
Loss for the year				(314,311)

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

Business segments — 2008 (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	6,217,539	8,290,301	—	14,507,840
Interests in associates	13,337	379,715	—	393,052
Interests in jointly controlled entities	339,626	—	1,041,398	1,381,024
Unallocated assets				1,033,124
Total assets				17,315,040
Segment liabilities	4,414,398	5,612,737	—	10,027,135
Unallocated liabilities				1,420,650
Total liabilities				11,447,785
Other disclosures:				
Capital expenditure	366,233	867,337	—	1,233,570
Depreciation of property, plant and equipment	130,353	144,614	—	274,967
Amortisation of land lease prepayments	2,029	1,587	—	3,616
Amortisation of intangible assets	15,613	150,935	—	166,548
Impairment losses on intangible assets	—	184,288	—	184,288
Write-back of impairment losses on property, plant and equipment	54	—	—	54
Provision of other receivables	30,168	2,857	—	33,025
Provision of inventories	1,539	42,579	—	44,118
Staff share option costs				9,205

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

Business segments — 2007

	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	5,729,289	8,754,847	—	14,484,136
Intersegment sales	(334,987)	—	—	(334,987)
Segment sales to external customers	5,394,302	8,754,847	—	14,149,149
Segment results	265,955	135	—	266,090
Unallocated costs net of unallocated income				(66,998)
Operating profit				199,092
Interest income				125,470
Finance costs, net				(123,323)
Share of results of:				
Associates	(246)	37,863	—	37,617
Jointly controlled entities	12,417	—	142,227	154,644
Fair value loss on embedded derivative components of convertible bonds				(181,933)
Profit before taxation				211,567
Taxation				(45,208)
Profit for the year				166,359

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

Business segments — 2007 (Cont'd)

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of Zhonghua sedans RMB'000	Manufacture and sale of BMW sedans RMB'000	Total RMB'000
Segment assets	5,998,958	8,241,440	—	14,240,398
Interests in associates	13,840	369,589	—	383,429
Interests in jointly controlled entities	328,032	—	881,987	1,210,019
Unallocated assets				1,036,081
Total assets				16,869,927
Segment liabilities	3,506,376	5,337,790	—	8,844,166
Unallocated liabilities				1,766,362
Total liabilities				10,610,528
Other disclosures:				
Capital expenditure	135,290	569,187	—	704,477
Depreciation of property, plant and equipment	207,216	383,943	—	591,159
Amortisation of land lease prepayments	2,254	1,185	—	3,439
Amortisation of intangible assets	14,657	123,984	—	138,641
Impairment losses on property, plant and equipment	—	836	—	836
Provision of other receivables	3,234	2,249	—	5,483
Provision of inventories	15,020	45,441	—	60,461
Staff share option costs				32,243

7. OPERATING (LOSS) PROFIT

Operating (loss) profit is stated after charging and crediting the following:

	Notes	**2008 RMB'000**	2007 RMB'000
Charging:			
Staff costs	11(a)	**532,980**	531,475
Amortisation of intangible assets (a)	13	**166,548**	138,641
Amortisation of land lease prepayments	17	**3,616**	3,439
Impairment losses on property, plant and equipment (b)	15	**—**	836
Depreciation of property, plant and equipment	15	**274,967**	591,159
Cost of inventories		**11,077,144**	13,145,415
Provision for inventories		**44,118**	60,461
Provision for doubtful debts:			
— accounts receivable		**—**	83
— other receivables		**33,025**	5,483
Auditors' remuneration		**4,905**	4,886
Research and development costs (b)		**9,112**	24,060
Training expenses		**1,507**	1,112
Operating lease charges in respect of:			
— land and buildings		**22,318**	16,690
— machinery and equipment		**372**	458
Exchange loss, net (c)		**19,817**	32,213
Loss on disposal of property, plant and equipment, net		**54**	—
Write-off of property, plant and equipment		**1,914**	4,198
Crediting:			
Gain on disposal of property, plant and equipment, net		**—**	2,428
Gain on disposal of land lease prepayments		**—**	1,399
Gross rental income from land and buildings		**14,187**	14,384
Write back of impairment losses on property, plant and equipment	15	**54**	—
Write back of provision for inventories sold		**35,868**	190,646
Write back of provision for doubtful debts:			
— accounts receivable		**670**	18
— accounts receivable from affiliated companies		**240**	—
— other receivables		**3,654**	279

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

(b) included in general and administrative expenses.

(c) Included in other operating expenses.

8. FINANCE COSTS, NET

	2008 RMB'000	2007 RMB'000
Interest expenses on:		
— bank loans wholly repayable within one year	**39,216**	28,750
— discounted bank guaranteed notes	**158,993**	60,777
— amortised redemption premium on convertible bonds	**135,707**	135,482
— imputed interest on advance to an affiliated company	**26,983**	—
— sale and lease back arrangement	**15,376**	16,100
	376,275	241,109
Less: interest expense capitalised in intangible assets and construction-in-progress at a rate of 5.6% (2007: 4.9%) per annum	**(42,950)**	(5,533)
	333,325	235,576
Less: exchange gain derived from convertible bonds	**(111,954)**	(112,253)
gain on redemption of convertible bonds	**(24,807)**	—
	196,564	123,323

9. TAXATION

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

The taxation charged to the consolidated income statement represents:

	2008 RMB'000	2007 RMB'000
Current tax		
PRC enterprise income tax		
Current year	**44,109**	32,535
Under provision in prior year	**11,158**	12,673
Total income tax expense in the consolidated income statement	**55,267**	45,208

9. TAXATION (Cont'd)

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

	2008 RMB'000	2007 RMB'000
(Loss) Profit before taxation	**(259,044)**	211,567
Calculated at a weighted average statutory taxation rate in the PRC of 21.67% (2007: 66.10%)	**(56,124)**	139,850
Effect of tax holiday	**(3,078)**	(56,425)
Non-taxable income net of expenses not deductible for taxation purpose	**(55,534)**	(31,680)
Unrecognised temporary differences	**39,076**	(1,787)
Unrecognised tax loss	**119,769**	—
Utilisation of previously unrecognised tax losses	**—**	(17,423)
Under provision in prior years	**11,158**	12,673
Tax expense for the year	**55,267**	45,208

Income Tax

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

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

The subsidiaries are subject to state and local enterprise 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 enterprise income tax laws applicable.

Shenyang Brilliance JinBei Automobile Co., Ltd. ("Shenyang Automotive") is subject to the enterprise income tax in the PRC at standard rates of 25% in accordance with enterprise income tax laws. Pursuant to the relevant income tax laws in the PRC, the applicable enterprise income tax rates was 18%. As a result, the effective enterprise income tax rate for Shenyang Automotive for the year ended 31st December, 2008 was 18% (2007: 15%).

9. TAXATION (Cont'd)

Income Tax (Cont'd)

Ningbo Yuming Machinery Industrial Co., Ltd. ("Ningbo Yuming") and Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("Ningbo Ruixing") are subject to the enterprise income tax in the PRC at standard rates of 25% in accordance with enterprise income tax laws applicable. Pursuant to the relevant income tax laws in the PRC, the applicable enterprise income tax rates was 18%. As a result, the effective enterprise income tax rate for Ningbo Yuming and Ningbo Ruixing for the year ended 31st December, 2008 was 18% (2007: 16.5%).

Shenyang XingYuanDong Automobile Component Co., Ltd. ("Xing Yuan Dong") and Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("Dongxing Automotive") are subject to the enterprise income tax in the PRC at standard rates of 25% in accordance with enterprise income tax laws applicable (2007: 18%).

Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("Mianyang Ruian") is subject to the enterprise income tax in the PRC at standard rates of 25% respectively in accordance with enterprise income tax laws applicable. In 2001, Mianyang Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. In 2004, Mianyang Ruian was also designated as an "encouraged industries under Catalogue for the Guidance of Foreign Investment Industries" and located in the Western area of the PRC. Pursuant to the relevant income tax laws in the PRC, from 2004 to 2010, the applicable state income tax rate for Mianyang Ruian is 15%. And being due to the earthquake occurred in Sichuan in 2008, the income tax for the current year was exempted according to related policy which was issued by the State Council (2007: 18%).

Shenyang ChenFa Automobile Component Co., Ltd. ("Shenyang ChenFa") is subject to the enterprise income tax in the PRC at standard rates of 25% in accordance with enterprise income tax laws applicable. Pursuant to the relevant income tax laws in the PRC, the applicable enterprise income tax rates was 18%. In 2005, Shenyang ChenFa received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. Pursuant to the relevant income tax laws in the PRC, Shenyang ChenFa is exempted from state enterprise income tax for two years starting from the first profitable year in 2004 followed by 50% reduction of state enterprise income tax for the next three years. As a result, the effective tax rate for Shenyang ChenFa for the year ended 31st December, 2008 was 9% (2007: 7.5%).

Other principal subsidiaries operating in the PRC are subject to the enterprise income tax in the PRC at standard rates of 25%.

With effect since 1st January, 2008, all profit of the PRC subsidiaries arising since that date distributed and remitted as dividend to the overseas parents are subject to 10% withholding tax on the amount remitted. No deferred tax is recognised in respect of this withholding tax on profits of the Group's PRC subsidiaries as it is the intention of the management that the Group would reinvest these profits so far in the respective subsidiaries and therefore the withholding tax would not be applicable to the Group. Unremitted earnings totaled RMB124,301,000 at 31st December, 2008 (2007: Nil).

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to the equity holders of the Company includes a loss of approximately RMB567,533,000 (2007: loss of RMB5,916,000) which has been dealt with in the financial statements of the Company.

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

(a) Staff costs

	2008 RMB'000	2007 RMB'000
Wages, salaries and performance related bonuses	**377,982**	315,938
Pension costs — defined contribution plans	**53,665**	75,630
Staff welfare costs	**92,128**	107,664
Share-based payments	**9,205**	32,243
	532,980	531,475

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

The amounts of emoluments paid and payable to the directors of the Company during 2008 are as follows:

	Fee RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2008				
Executive directors				
Mr. Wu Xiao An	—	4,701	11	4,712
Mr. Qi Yumin	—	3,652	—	3,652
Mr. He Guohua	—	1,789	—	1,789
Mr. Wang Shiping	—	1,603	—	1,603
Mr. Lei Xiaoyang*	—	935	—	935
	—	12,680	11	12,691
Non-executive directors				
Mr. Xu Bingjin	88	—	—	88
Mr. Song Jian	88	—	—	88
Mr. Jiang Bo	88	—	—	88
Mr. Lei Xiaoyang*	—	—	—	—
	264	—	—	264
	264	12,680	11	12,955

* Mr. Lei Xiaoyang was redesignated as a non-executive director of the Company on 1st July, 2008.

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

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

In addition, during the year, the details of the share options granted by the Company to its executive directors which form part of their emoluments are as follows:

Name of director	Number of share options	Fair value of share options RMB'000
Mr. Wu Xiao An	**10,000,000**	**1,532**
Mr. Qi Yumin	**9,000,000**	**1,379**
Mr. He Guohua	**3,000,000**	**459**
Mr. Wang Shiping	**3,000,000**	**459**
Mr. Lei Xiaoyang	**3,000,000**	**459**
	28,000,000	**4,288**

Details of the share options are set out in Note 35(c) to the financial statements.

The aggregate amounts of emoluments paid and payable to the directors of the Company during 2007 are as follows:

	Fee RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2007				
Executive directors				
Mr. Wu Xiao An	—	4,590	12	4,602
Mr. Qi Yumin	—	2,009	—	2,009
Mr. He Guohua	—	1,071	—	1,071
Mr. Wang Shiping	—	1,074	—	1,074
Mr. Lei Xiaoyang	—	1,074	—	1,074
	—	9,818	12	9,830
Non-executive directors				
Mr. Xu Bingjin	98	—	—	98
Mr. Song Jian	98	—	—	98
Mr. Jiang Bo	98	—	—	98
	294	—	—	294
	294	9,818	12	10,124

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

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

In addition, during the year, the details of the share options granted by the Company to its executive directors which form part of their emoluments are as follows:

Name of director	Number of share options	Fair value of share options RMB'000
Mr. Wu Xiao An	10,000,000	6,045
Mr. Qi Yumin	9,000,000	5,440
Mr. He Guohua	3,000,000	1,814
Mr. Wang Shiping	3,000,000	1,814
Mr. Lei Xiaoyang	3,000,000	1,814
	28,000,000	16,927

The above options granted in 2007 were all cancelled on 11th November, 2008 (see Note 35(c)).

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 (2007: Same).

No directors waived their emoluments during the year (2007: Same).

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

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

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

— Non-executive director is compensated with reference to his qualifications, expertise and experience and the amount of time allocated to the affairs of the Group.

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

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

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

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

(c) Five highest paid individuals

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

	2008	2007
	RMB'000	RMB'000
Salaries and other benefits	**12,419**	8,960
Performance related bonus	**261**	858
Contributions to pension schemes	**11**	12
Share-based payments	**4,288**	16,927
	16,979	26,757

	2008	2007
Number of directors	**5**	5
Number of employees	**—**	—

The emoluments represent the amounts paid to or receivable by the individuals in the respective financial year, which include the benefits derived from the share options granted (Note 35(c)).

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 (2007: same).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB80,929,000 (2007: RMB97,086,000), divided by weighted average of 3,669,766,000 shares (2007: 3,669,022,000 shares) outstanding during the year calculated as follows.

	Number of shares	
	2008	2007
	'000	'000
Issued ordinary shares	**3,669,766**	3,668,391
Effect of share options exercised	**—**	631
Weighted average number of ordinary shares for calculating basic earnings per share	**3,669,766**	3,669,022

Diluted earnings per share is based on the same profit attributable to equity holders of the Company of approximately RMB80,929,000 (2007: RMB97,086,000) as used in calculating basic earnings per share and weighted average number of ordinary shares of 3,672,967,000 (2007: 3,679,573,000) calculated as follows:

	Number of shares	
	2008	2007
	'000	'000
Weighted average number of ordinary shares as used in calculating basic earnings per share	**3,669,766**	3,669,022
Weighted average number of ordinary shares deemed issued under the Company's share option scheme	**3,201**	10,551
Weighted average number of ordinary shares for calculating diluted earnings per share	**3,672,967**	3,679,573

The effect of deemed conversion of convertible bonds is not considered in the calculation of diluted earnings per share as the effect is anti-dilutive (2007: Same).

13. INTANGIBLE ASSETS

The Group

	Minibus Development costs RMB'000	Acquired sedan design & technology rights RMB'000	Sedan development costs RMB'000	Engine development costs RMB'000	Others RMB'000	Total RMB'000
	(a)	*(b)*	*(c)*	*(d)*		
Cost						
As at 1st January, 2007	—	1,501,100	408,773	269,046	38,233	2,217,152
Additions	63,437	—	156,995	162,873	7,176	390,481
As at 31st December, 2007	63,437	1,501,100	565,768	431,919	45,409	2,607,633
As at 1st January, 2008	63,437	1,501,100	565,768	431,919	45,409	2,607,633
Additions	62,410	—	273,510	31,031	4,626	371,577
As at 31st December, 2008	**125,847**	**1,501,100**	**839,278**	**462,950**	**50,035**	**2,979,210**
Accumulated amortisation and impairment losses						
As at 1st January, 2007	—	1,227,621	168,278	6,329	12,112	1,414,340
Amortisation	747	109,165	11,440	13,626	3,663	138,641
As at 31st December, 2007	747	1,336,786	179,718	19,955	15,775	1,552,981
As at 1st January, 2008	747	1,336,786	179,718	19,955	15,775	1,552,981
Amortisation	2,181	115,986	29,787	14,038	4,556	166,548
Impairment losses	—	—	59,340	124,948	—	184,288
As at 31st December, 2008	**2,928**	**1,452,772**	**268,845**	**158,941**	**20,331**	**1,903,817**
Net book value						
As at 31st December, 2008	**122,919**	**48,328**	**570,433**	**304,009**	**29,704**	**1,075,393**
As at 31st December, 2007	62,690	164,314	386,050	411,964	29,634	1,054,652

13. INTANGIBLE ASSETS (Cont'd)

The Group (Cont'd)

Notes:

(a) Minibus development costs represent costs of development of new models of minibuses.

(b) Acquired sedan design and technology rights represent acquired rights, titles and interests in certain design and engineering agreements and technical assistance agreements in relation to Zhonghua sedans with cost of RMB681,100,000 (2007: RMB681,100,000) and carrying value of RMB20,874,000 (2007: RMB70,972,000). Components and parts technology rights represent rights, titles and interests in the interior design of the components and spare parts of Zhonghua sedans with cost of RMB820,000,000 (2007: RMB820,000,000) and carrying value of RMB27,454,000 (2007: RMB93,342,000).

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

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

As set out in detail in Note 41, subsequent to 31st December, 2008, the Group entered into an agreement with the minority shareholder of Shenyang Automotive to grant this party the right to use this intangible asset over a lease term of 10 years for an annual lease payment of RMB48,000,000. The lease is considered as a finance lease arrangement in accordance with HKAS 17 "Leases" with the Group as the lessor.

The management intends to focus its effort on the manufacture and sale of minibuses and sedans and therefore will downsize the operation in engine development and manufacture. Accordingly, the recoverable amount of the engine development cost at the balance sheet date has been assessed not on the basis of value in use but the net present value of the future lease payments from the lease arrangement, resulting in an impairment loss of RMB124,948,000 for the year.

(e) Except for 2007, due to the severe economic situation and the intensely competitive environment in the sedan market in the PRC, the operation of Zhonghua sedans had suffered continuing losses in previous years. The Group has assessed the recoverable amounts of the assets in relation to Zhonghua sedans (mainly include property, plant and equipment and intangible assets) on the basis of value in use calculation.

The value in use calculation is based on cash flow projections covering a 5-year period as approved by management. The cash flow projections are determined on the basis of past performance and management's expectations for market developments. There have been a number of assumptions used in estimating the recoverable amounts of the relevant assets. Key assumptions include an estimated sales volume of approximately 102,000 units in 2009 and thereafter projected by an average annual growth rate of 20%, as well as a discount rate of 9% to reflect the risks involved. Judgement is required to determine the key assumptions adopted in the cash flow projections and changes in the key assumptions can significantly affect these cash flow projections. Accordingly, an impairment loss of RMB59,340,000 results for the year.

The Company

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

14. GOODWILL

	2008	2007
	RMB'000	RMB'000
Cost, net of accumulated amortisation		
As at 1st January, and 31st December,	**345,529**	345,529
Accumulated impairment losses		
As at 1st January, and 31st December,	**(50,000)**	(50,000)
Net book value		
As at 1st January, and 31st December,	**295,529**	295,529

The details of impairment test on goodwill allocated to the respective cash generating units are set out in Note 21.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	**Machinery and equipment**	**Furniture, fixtures and office equipment**	**Motor vehicles**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
As at 1st January, 2007	1,234,039	4,382,481	460,342	116,133	6,192,995
Additions	9,256	119,966	15,048	9,534	153,804
Transfer from construction-in-progress *(Note 16)*	19,581	87,601	20,700	1,118	129,000
Disposals/write-off	(5,392)	(80,206)	(11,763)	(4,430)	(101,791)
Reclassification	—	11,935	(11,935)	—	—
As at 31st December, 2007	1,257,484	4,521,777	472,392	122,355	6,374,008
As at 1st January, 2008	1,257,484	4,521,777	472,392	122,355	6,374,008
Additions	24,933	460,897	3,581	11,939	501,350
Transfer from construction-in-progress *(Note 16)*	81,653	229,552	41,235	738	353,178
Disposals/write off	—	(5,336)	(6,718)	(19,959)	(32,013)
As at 31st December, 2008	**1,364,070**	**5,206,890**	**510,490**	**115,073**	**7,196,523**

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

The Group (Cont'd)

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Accumulated depreciation and impairment losses					
As at 1st January, 2007	306,766	1,950,761	242,989	64,981	2,565,497
Charge for the year	56,940	460,646	57,903	15,670	591,159
Eliminated on disposals/write-off	(1,925)	(77,528)	(10,875)	(2,772)	(93,100)
Reclassifications	—	8,337	(8,262)	(75)	—
Impairment loss	—	836	—	—	836
As at 31st December, 2007	361,781	2,343,052	281,755	77,804	3,064,392
As at 1st January, 2008	361,781	2,343,052	281,755	77,804	3,064,392
Charge for the year	37,149	168,224	57,565	12,029	274,967
Write-back of impairment losses	—	—	(54)	—	(54)
Eliminated on disposals/write-off	—	(3,633)	(6,012)	(14,993)	(24,638)
As at 31st December, 2008	**398,930**	**2,507,643**	**333,254**	**74,840**	**3,314,667**
Net book value					
As at 31st December, 2008	**965,140**	**2,699,247**	**177,236**	**40,233**	**3,881,856**
As at 31st December, 2007	895,703	2,178,725	190,637	44,551	3,309,616

Notes:

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

(b) In December 2003, Shenyang Automotive transferred the legal titles and ownership of certain buildings with an aggregate net book value at 31st December, 2008 of approximately RMB120,964,000 (2007: RMB126,140,000) to BMW Brilliance Automotive Ltd. ("BMW Brilliance") at a consideration of approximately RMB174,373,000 and entered into an agreement with BMW Brilliance to lease-back a substantial portion of the buildings. The agreement includes an option that BMW Brilliance can require Shenyang Automotive to purchase back the buildings at the purchase price less depreciation upon the occurrence of certain events, including the passing of a valid resolution pursuant to the joint venture contract by the board of directors of BMW Brilliance. For financial reporting purposes, the buildings remained as assets of the Group and the full consideration received from BMW Brilliance up to 31st December, 2008 is treated as financing and reduced by the lease rental payable in future years (Note 37(i)).

These respective buildings have been pledged by BMW Brilliance to a bank for long-term bank loans granted to BMW Brilliance.

16. CONSTRUCTION-IN-PROGRESS

	2008 **RMB'000**	2007 RMB'000
As at 1st January,	**257,017**	233,104
Additions	**360,643**	152,913
Transfer to property, plant and equipment *(Note 15)*	**(353,178)**	(129,000)
As at 31st December,	**264,482**	257,017

17. LAND LEASE PREPAYMENTS

The carrying value of land lease prepayments represents unamortised costs paid for land use rights in the PRC under medium term leases of not more than 50 years. The value to be amortised within the next twelve months after 31st December, 2008 amounts to RMB3,616,000 (2007: RMB3,605,000).

	2008 **RMB'000**	2007 RMB'000
Cost		
As at 1st January,	**143,771**	143,015
Additions	**—**	7,279
Disposals	**—**	(6,523)
As at 31st December,	**143,771**	143,771
Accumulated amortisation		
As at 1st January,	**25,051**	22,916
Charge for the year	**3,616**	3,439
Eliminated on disposals	**—**	(1,304)
As at 31st December,	**28,667**	25,051
Net book value		
As at 31st December,	**115,104**	118,720

18. INTERESTS IN SUBSIDIARIES

	2008 **RMB'000**	2007 RMB'000
Unlisted investments, at cost	**4,268,393**	4,193,288
Amounts due from subsidiaries:		
— interest bearing *(Note a)*	**1,508,701**	1,656,769
— non-interest bearing *(Note b)*	**1,965,597**	1,971,531
Accumulated impairment losses	**(1,300,000)**	(700,000)
	6,442,691	7,121,588

Notes:

(a) The amounts are interest-bearing at rates ranging from 5% to 7.8125% (2007: 5% to 7.8125%) per annum, unsecured and repayable on demand.

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

Details of the Company's principal subsidiaries as at 31st December, 2008 were as follows:

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

18. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of effective equity interest/voting right attributable to the Company		Principal activities
				Directly	Indirectly	
Dongxing Automotive	Shenyang, the PRC	RMB12,000,000	Wholly foreign owned enterprise	—	100%	Manufacture and trading of automotive components and remodeling minibuses and sedans
Shenyang Jindong Development Co., Ltd.	Shenyang, the PRC	RMB10,000,000	Equity joint venture	—	75.5%	Trading of automotive components
Shenyang Jianhua Motors Engine Co., Ltd.	Shenyang, the PRC	RMB155,032,500	Equity joint venture	—	60.8%	Investment holding
China Brilliance Automotive Components Group Limited	Bermuda	US$12,000	Company with limited liabilities	100%	—	Investment holding
Southern State Investment Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	—	Investment holding
Beston Asia Investment Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	—	Investment holding
Pure Shine Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	—	Investment holding
Key Choices Group Limited	British Virgin Islands	US$50,000	Company with limited liabilities	100%	—	Investment holding
Brilliance China Automotive Finance Ltd.	British Virgin Islands	US$50,000	Company with limited liabilities	100%	—	Inactive
Brilliance China Finance Limited ("Brilliance Finance")	British Virgin Islands	US$50,000	Company with limited liabilities	100%	—	Financing
Shenyang ChenFa	Shenyang, the PRC	US$19,000,000	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	—	100%	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("SJAI")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	—	99%	Investment holding
Shanghai Hidea Auto Design Co., Ltd.	Shanghai, the PRC	US$2,000,000	Equity joint venture	—	63.25%	Design of automotive
Shenyang Brilliance Power Train Machinery Co., Ltd.	Shenyang, the PRC	US$29,900,000	Equity joint venture	49%	26.01%	Manufacture and sale of power train

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

19. INTERESTS IN ASSOCIATES

	2008 **RMB'000**	2007 RMB'000
Share of net assets other than goodwill	**366,398**	356,775
Goodwill, net of accumulated amortisation	**26,654**	26,654
	393,052	383,429

Details of the Group's associates as at 31st December, 2008 were as follows:

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

Note: The Group has effective equity interest of 12.77% in Shenyang Aerospace through an indirect 21% equity interest jointly held by Xing Yuan Dong and Shenyang Automotive. On 29th September, 2005, the Group entered into an agreement with a shareholder of Shenyang Aerospace to dispose of 2% of the Group's interest in Shenyang Aerospace for a cash consideration of RMB50 million. The disposal is still yet to be completed as at the date of these financial statements upon the approval of respective local government.

Combined financial information of the associates for the year ended 31st December, 2008 is summarised as follows:

	2008 **RMB'000**	2007 RMB'000
Non-current assets	**1,987,822**	1,796,883
Current assets	**638,119**	838,123
Current liabilities	**(355,671)**	(433,145)
Non-current liabilities	**(561,235)**	(540,000)
Net assets	**1,709,035**	1,661,861
Turnover	**1,558,436**	2,225,332
Net profit	**97,173**	180,563
Net profit attributable to the Group	**20,262**	37,617

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2008 RMB'000	2007 RMB'000
Share of net assets other than goodwill	**1,306,753**	1,135,748
Goodwill, net of accumulated amortisation	**326,644**	326,644
Accumulated impairment losses *(Note)*	**(252,373)**	(252,373)
	74,271	74,271
	1,381,024	1,210,019

Note: The amount represents impairment loss on goodwill relating to Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. (Note 21).

Details of the Group's jointly controlled entities as at 31st December, 2008 were as follows:

Name of company	Place of principal operations and establishment	Registered capital/ issued and paid up capital	Legal structure	Percentage of effective equity interest/voting right held indirectly	Principal activities
Mianyang Xinchen Engine Co. Ltd. ("Mianyang Xinchen") *(Note)*	Mianyang, the PRC	US$24,120,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("Xinguang Brilliance")	Shenyang, the PRC	US$7,220,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
BMW Brilliance	Shenyang, the PRC	US$174,000,000	Equity joint venture	49.50%	Manufacture and sale of BMW sedans

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

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

The financial information of BMW Brilliance for the year based on its financial statements audited by certified public accountants other than Grant Thornton is as follows:

	2008 RMB'000	2007 RMB'000
Non-current assets	**1,152,469**	1,145,355
Current assets	**1,976,187**	2,738,330
Current liabilities	**(1,814,895)**	(2,556,706)
Non-current liabilities	**(265,000)**	(435,000)
Net assets	**1,048,761**	891,979
Income	**6,188,220**	6,146,785
Expenses	**(5,932,539)**	(6,004,558)
Net profit attributable to the Group	**255,681**	142,227

Combined financial information of other jointly controlled entities for the year is summarised as follows:

	2008 RMB'000	2007 RMB'000
Non-current assets	**166,926**	167,393
Current assets	**581,560**	512,127
Current liabilities	**(465,830)**	(424,491)
Non-current liabilities	**(17,500)**	(739)
Net assets	**265,156**	254,290
Income	**538,830**	524,993
Expenses	**(529,455)**	(512,576)
Net profit attributable to the Group	**9,375**	12,417

21. IMPAIRMENT OF GOODWILL

(a) Subsidiaries

Goodwill in subsidiaries has been allocated to the "Manufacture and sale of minibuses and automotive components" cash generating unit ("CGU").

The recoverable amount is determined by value in use calculation which is based on cash flow projections covering a 5-year period as approved by management.

The cash flow projections are determined on the basis of past performance and management's expectations for market developments. There have been a number of assumptions used in estimating the recoverable amounts of the relevant assets. Key assumptions include an estimated sales volume of approximately 75,000 units of minibuses in 2009, and thereafter projected by an average annual growth rate of 6.9%, as well as a discount rate of 9% to reflect the risks involved. Judgement is required to determine the key assumptions adopted in the cash flow projections and changes in the key assumptions can significantly affect these cash flow projections.

Although the carrying amounts of goodwill allocated to the above CGUs based on the above assessment are considered at least as high as their recoverable amounts, any adverse change in the assumptions used in the calculation of recoverable amounts may trigger recognition of additional impairment loss of goodwill.

(b) An associate and a jointly controlled entity

Goodwill in the associate and jointly controlled entity is included in the carrying amount of the Group's interests in the associate and the jointly controlled entity, which belong to the "manufacture and sale of Zhonghua sedans" CGU and "manufacture and sale of minibuses and automotive components" CGU, respectively. At 31st December, 2008, after the application of the equity method to account for the Group's investments in the associate and the jointly controlled entity, there was no indication of impairment (2007: Nil).

22. PREPAYMENTS FOR A LONG-TERM INVESTMENT

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

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

As at 31st December, 2008 and 2007, the consideration of RMB600 million paid to the shareholders of SAIAM and SXI was recorded as prepayments for a long-term investment. The directors have assessed the fair value of the underlying shares of JinBei and are satisfied that the recoverability of the prepayments is supported by the underlying shares of JinBei.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008 **RMB'000**	2007 RMB'000
Equity investments		
Unlisted, at cost	**4,138**	4,138
Listed in Hong Kong, at fair value	**11,495**	21,991
	15,633	26,129

The unlisted equity investments are stated at cost less provision for impairment as they do not have a quoted market price in an active market. The directors are of the opinion that the carrying amounts of the unlisted equity investments approximate their fair value. The Group does not intend to dispose of this unlisted equity investment and hold it for a long term purpose.

The Company's available-for-sale financial assets represent the same equity investment listed in Hong Kong of HK$11,495,000 (2007: HK$21,991,000) set out above.

24. PLEDGED SHORT-TERM BANK DEPOSITS

Pledged short-term bank deposits as at 31st December, 2008 were pledged for the following purposes:

	2008	2007
	RMB'000	RMB'000
Issue of bank guaranteed notes to trade creditors *(Note)*	**2,157,821**	1,757,985
Bank loans granted to JinBei *(Note 40(a))*	**228,274**	213,680
Bank loan granted	**70,000**	—
	2,456,095	1,971,665

Note: In addition to short-term bank deposits, as at 31st December, 2008, the Group also pledged bank guaranteed notes receivable from third parties and affiliated companies of approximately RMB140 million (2007: RMB223 million) for issue of bank guaranteed notes.

25. INVENTORIES

	2008	2007
	RMB'000	RMB'000
Raw materials	**1,001,545**	842,503
Work-in-progress	**190,536**	226,944
Finished goods	**754,317**	1,469,677
	1,946,398	2,539,124
Less: provision for inventories	**(77,196)**	(70,091)
	1,869,202	2,469,033

As at 31st December, 2008, the carrying amount of inventories that were stated at net realisable value amounted to approximately RMB896 million (2007: RMB133 million).

26. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable is set out below:

	2008	2007
	RMB'000	RMB'000
Less than six months	**588,350**	619,157
Between six months to one year	**49,132**	84,884
Above one year but less than two years	**29,450**	97,111
Above two years	**66,636**	66,923
	733,568	868,075
Less: provision for doubtful debts	**(61,888)**	(62,888)
	671,680	805,187

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

Impairment losses in respect of accounts receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable directly.

The movement in allowance for doubtful debts for accounts receivable during the year, including both specific and collective loss components, is as follows:

	2008	2007
	RMB'000	RMB'000
At 1st January,	**62,888**	62,823
Impairment loss recognised	**—**	83
Uncollectible amounts written off	**(330)**	—
Write-back of previously recognised impairment loss	**(670)**	(18)
At 31st December,	**61,888**	62,888

The provision for doubtful debts is in respect of accounts receivables that were individually determined to be impaired. The individual impaired accounts receivable relate to customers that were in financial difficulties and management assessed that the impaired amounts will not be recoverable. Consequently, specific allowance for doubtful debts of full amounts of the impaired receivables was recognised.

26. ACCOUNTS RECEIVABLE (Cont'd)

The aging analysis of the Group's accounts receivable that are past due but neither individually nor collectively considered to be impaired are as follows:

	2008 RMB'000	2007 RMB'000
Less than six months	**202,273**	102,674
Between six months to one year	**49,132**	84,884
Above one year but less than two years	**29,450**	87,111
Above two years	**4,748**	14,035
	285,603	288,704

Accounts receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. These balances were either settled subsequent to 31st December, 2008 and up to the date of these financial statements or based on past experience, management believes that no impairment allowance is necessary in respect of the remaining unsettled balances as there has not been a significant change in credit quality and balances are still considered fully recoverable.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

The Group does not hold any collateral over the accounts receivable.

27. NOTES RECEIVABLE

All notes receivable are denominated in Renminbi and are primarily notes received from customers for settlement of accounts receivable balances. As at 31st December, 2008, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 31st December, 2008 (2007: Same).

28. OTHER RECEIVABLES

	2008	2007
	RMB'000	RMB'000
Advance to SAIAM	**300,000**	300,000
Receivable from a jointly controlled entity	**6,123**	16,386
Others	**276,282**	262,488
	582,405	578,874
Less: provision for doubtful debts	**(117,008)**	(87,637)
	465,397	491,237

All other receivables are denominated in Renminbi. SAIAM will become a subsidiary of the Group after the completion of the acquisition of SAIAM as detailed in Note 22. The amount advanced to SAIAM will be settled upon the completion of the acquisition. In view of the substantial assets in JinBei possessed by SAIAM, the management considers the credit risk in recovering this amount is minimal.

The other items in other receivables mainly represent prepayments and deposits paid and advances to employees and other parties. The management considers the credit risks for the balances after the provision of impairment for doubtful debts detailed below to be minimal as these items are considered insignificant in amounts individually, and are recovered very shortly after they are incurred.

The movement in allowance for doubtful debts for other receivable during the year, including both specific and collective loss components, is as follows:

	2008	2007
	RMB'000	RMB'000
At 1st January,	**87,637**	82,725
Impairment loss recognised	**33,025**	5,483
Write-back of previously recognised impairment loss	**(3,654)**	(279)
Uncollectible amounts written off	**—**	(292)
At 31st December,	**117,008**	87,637

As at 31st December, 2008, the Group's other receivables of RMB102,490,000 (2007: RMB74,254,000) was individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that the impaired amounts will not be recoverable. Consequently, specific allowance for doubtful debts of full amounts of the impaired receivables was recognised.

The Group does not hold any collateral over the other receivables.

29. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

	2008	2007
	RMB'000	RMB'000
Less than six months	**2,207,738**	3,372,186
Between six months to one year	**39,378**	18,628
Above one year but less than two years	**46,975**	11,895
Above two years	**29,611**	19,182
	2,323,702	3,421,891

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

30. SHORT-TERM BANK BORROWINGS

All bank borrowings at 31st December, 2008 are unsecured (2007: Same), interest-bearing at rates ranging from 5.54% to 8.217% per annum (2007: 6.73% to 8.02% per annum) and repayable from 2nd January, 2009 to 30th June, 2009.

31. CONVERTIBLE BONDS

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

The convertible bonds are convertible into fully paid ordinary shares of US$0.01 each of the Company at an initial conversion price of HK$1.93 per share which was subsequently revised to HK$1.53 on 10th March, 2008 for the reason set out below.

Conversion price reset

If the average of the closing price (the "Average Market Price") of the shares of the Company for the period of 20 consecutive trading days immediately prior to the reset dates (being 10th March, 2007 and 10th March, 2008) is less than the conversion price on the applicable reset date, the conversion price shall be adjusted on the applicable reset date so that the Average Market Price of the shares of the Company will become the adjusted conversion price with effect from the applicable reset date provided that:

(i) the adjusted conversion price in no event shall be less than 68% (for the 10th March, 2007 reset date) and 75% (for the 10th March, 2008 reset date) of the conversion price prevailing on the applicable reset date; and

(ii) the conversion price shall not be reduced below the then par value of the shares unless under applicable law then in effect the convertible bonds could be converted at such reduced conversion price into legally issued, fully-paid and non-assessable shares.

31. CONVERTIBLE BONDS (Cont'd)

Redemption

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

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

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

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

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

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

31. CONVERTIBLE BONDS (Cont'd)

The convertible bonds contain a liability component and embedded derivative components which are required to be accounted for separately. The movements of the convertible bonds for the year are set out below:

	2008 **RMB'000**	2007 RMB'000
Liability component		
At 1st January,	**1,435,657**	1,395,422
Redemption during the year	**(82,543)**	—
Amortisation	**135,707**	135,483
Gain on foreign currency translation	**(96,512)**	(95,248)
At 31st December,	**1,392,309**	1,435,657
Fair value of embedded derivative components		
At 1st January,	**316,576**	151,648
Redemption during the year	**(495)**	—
Changes in fair value	**(289,700)**	181,933
Gain on foreign currency translation	**(15,442)**	(17,005)
At 31st December,	**10,939**	316,576
Carrying value at 31st December,	**1,403,248**	1,752,233

During the year, convertible bonds with par value and carrying value of US$10,000,000 has been repurchased by the Group at a consideration of US$8,520,000 (equivalent to approximately RMB58,231,000). As a result of the redemption, the Group recorded a gain of approximately RMB25 million during the year (2007: Nil).

The fair value of the liability component at the transaction date was calculated at the present value of the principal payments plus redemption premium, discounted at the market interest rate applicable to similar liabilities that do not have a conversion option. The fair value of the liability component as at 31st December, 2008 was approximately US$211,227,000, equivalent to approximately RMB1,443,653,000 (2007: US$203,777,000, equivalent to approximately RMB1,490,445,000).

The embedded derivative components of the convertible bonds are measured at fair value by independent professional valuers using the Black-Scholes option pricing model. Key assumptions used in estimating the fair value include (1) the conversion price will not be adjusted or reset, and remains at HK$1.53 per share throughout the life of the convertible bonds; and (2) the bondholders will not exercise their rights to require Brilliance Finance to redeem the convertible bonds at 122.926% of the principal amount on the third anniversary of 7th June, 2009.

32. ADVANCES FROM A SUBSIDIARY

Advances from a subsidiary are unsecured, interest-free and repayable on demand. The advances were used to finance certain subsidiaries of the Company.

33. DEFERRED TAXATION

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

As at 31st December, 2008, the Group has unrecognised temporary differences and tax losses of approximately RMB1,959,149,000 (2007: RMB1,755,261,000) and RMB1,510,360,000 (2007: RMB848,318,000), respectively, available to offset against future taxable profits. The unrecognised temporary differences have no expiry date under current legislation but the unrecognised tax losses of RMB238,083,000 (2007: RMB238,083,000), RMB610,235,000 (2007: RMB610,235,000) and RMB662,042,000 (2007: Nil) will expire in 2009, 2011 and 2013, respectively.

34. RETIREMENT PLAN AND EMPLOYEES' BENEFITS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 19% to 22% (2007: 19% to 23%) 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, 2008 were approximately RMB53.7 million (2007: RMB75.6 million).

35. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	2008		2007	
	Number of shares '000	**Amount '000**	Number of shares '000	Amount '000
Authorised:				
Ordinary shares at par value of US$0.01 each				
As at 1st January,	**8,000,000**	**US$80,000**	5,000,000	US$50,000
Increase of new shares	**—**	**—**	3,000,000	US$30,000
As at 31st December,	**8,000,000**	**US$80,000**	8,000,000	US$80,000
Issued and fully paid:				
Ordinary shares at par value of US$0.01 each				
As at 1st January,	**3,669,766**	**RMB303,488**	3,668,391	RMB303,388
Issue of new shares	**—**	**—**	1,375	RMB100
As at 31st December,	**3,669,766**	**RMB303,488**	3,669,766	RMB303,488

Increase of authorised share capital

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.

Issue of new share capital

1,125,000 and 250,000 ordinary shares were issued on 16th July, 2007 and 24th July, 2007 respectively, as a result of an exercise of share options on 16th July, 2007, at an aggregate consideration of RMB1,702,000 (or HK$1,815,000) of which RMB1,602,000 was credited to the share premium account (Note 36).

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

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages securely afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The debt-to-equity ratio of the Group at 31st December is as follows:

	2008 RMB'000	2007 RMB'000
Current liabilities		
Advances from affiliated companies	**73,123**	56,134
Notes payable for financing	**2,750,800**	820,000
Short-term bank borrowings	**499,781**	370,000
Convertible bonds	**1,403,248**	—
	4,726,952	1,246,134
Non-current liabilities:		
Advances from affiliated companies	**319,158**	133,772
Convertible bonds	**—**	1,752,233
	319,158	1,886,005
Overall financing	**5,046,110**	3,132,139
Shareholders' equity	**5,867,255**	6,259,399
Debt to equity ratio	**86%**	50%

The Group's strategy is to maintain capital at a higher proportion of around 2 times to its financing by reference to the debt to equity ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debts. However, due to the unexpected negative impact from the market on the industry, the debt to equity ratio increased to 86% as at 31st December, 2008. The management has taken measures to reduce the Group's debts, such as to repurchase the convertible bonds whenever possible and increase the Company's equity, including issue of new shares as set out in note 41.

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

(c) 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 higher 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 and (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.

2,800,000 share options previously granted under the Original Scheme were outstanding as at 31st December, 2008 (2007: 2,800,000 share options). No share options granted under the Original Scheme were exercised, lapsed or cancelled during the year.

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

Share option scheme approved in 2002

On 28th June, 2002, the Company adopted another option scheme (the "Scheme 2002") in compliance with the amendments to Chapter 17 of the Listing Rules of the SEHK which came into effect on 1st September, 2001. The Scheme 2002 came into effect on 15th July, 2002 and the Original Scheme (as described above) was terminated on the same date. Any new share options granted after 15th July, 2002 will be in accordance with the terms of the Scheme 2002, but the outstanding share options granted under the Original Scheme were not affected. Pursuant to the Scheme 2002, the Company's board of directors might 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 should not be lower than the higher of:

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

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

(iii) the nominal value of the shares.

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

(c) Share options (Cont'd)

Share option scheme approved in 2002 (Cont'd)

Details of movements of share options granted under the Scheme 2002 during the year are as follows:

Exercise price	Exercise period	As at 1st January, 2008	Granted during the year	Lapsed and cancelled during the year	As at 31st December, 2008
HK$1.320	28th December, 2006 to 27th December, 2016	34,375,000	—	(34,375,000)	—
HK$1.746	31st December, 2007 to 30th December, 2017	59,500,000	—	(59,500,000)	—
HK$1.542	21st February, 2008 to 20th February 2018	—	1,500,000	(1,500,000)	—
		93,875,000	1,500,000	(95,375,000)	—

In 2008, a total of 3,250,000 share options granted under the Scheme 2002 lapsed. By special resolutions passed by the shareholders of the Company on 11th November, 2008, Scheme 2002 was terminated and the 92,125,000 outstanding share options previously granted under the Scheme 2002 were all cancelled with the agreement from the grantees. Another new option scheme was approved and adopted on the same day as set out below.

New share option scheme approved in 2008

On 11th November, 2008, the Company adopted a new option scheme (the "New Scheme") and the Scheme 2002 was terminated on the same day by a special resolution passed by the shareholders of the Company. But the 2,800,000 outstanding share options granted under the Original Scheme are not affected. The New Scheme came into effect on 14th November, 2008.

The terms of the New Scheme are basically similar to the Scheme 2002. The New Scheme refines the scope of participants such that directors are provided with flexibility in granting options to persons who have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest (the "Invested Entity"). In addition, the New Scheme clarifies the circumstances under which options granted to non-employees of the Group or Invested Entities will lapse.

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

(c) Share options (Cont'd)

New share option scheme approved in 2008 (Cont'd)

On 22nd December, 2008, the Company granted in aggregate 64,100,000 share options to certain directors and employees at an exercise price of HK$0.438 with exercisable period from 22nd December, 2008 to 21st December, 2018 under the New Scheme. No option granted under the New Scheme were exercised, lapsed or cancelled after the grant and up to 31st December, 2008.

The weighted average remaining contractual life of the share options granted under the New Scheme outstanding as at 31st December, 2008 was approximately 9.58 years (2007: Nil).

The fair value of the share options granted under the New Scheme during the year is approximately RMB10,065,000 (2007: approximately RMB32,243,000) which was calculated using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural consideration. Due to the restriction on the transferability of the share options, the option holders tend to early exercise the options on hand. Therefore, management considers it is appropriate to assume that the option holders will exercise their options earlier as it is the only way for them to realise their option value. Such expected time of exercise constitutes the expected tenors of the options, which are adopted in the fair value calculation of the fair value of the options. The expected tenors for options held by the directors, employees and others are five years to ten years. Expected volatility is based on the historical price volatility over the past 260 days.

The fair value of services received in return for share options granted under the New Scheme is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Black-Scholes option pricing model. The following significant assumptions were used to derive the fair values.

	2008	2007
Fair value at measurement date	**HK$0.410**	HK$0.5549
Weighted average share price on date of grant	**HK$0.435**	HK$1.740
Expected volatility	**50.91%–50.96%**	48.44%
Option life	**5–10 years**	2–3 years
Expected dividends	**Nil**	Nil
Risk-free interest rate	**1.211%–1.317%**	2.58%–2.79%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

36. RESERVES

The Group

	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Dedicated capital *(Note a)* RMB'000	Share options reserve RMB'000	Capital reserve *(Note b)* RMB'000	Hedging reserve RMB'000	Retained earnings *(Note c)* RMB'000	Total equity attributable to the equity holders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1st January, 2007	2,038,423	(10,765)	39,179	184,193	11,281	120,000	—	3,199,294	5,581,605	140,147	5,721,752
Issue of new shares under share option scheme	1,602	—	—	—	—	—	—	—	1,602	—	1,602
Premium arising from exercise of employee share options	405	—	—	—	(434)	—	—	—	(29)	—	(29)
Share option costs	—	—	—	—	32,243	—	—	—	32,243	—	32,243
Profit for the year	—	—	—	—	—	—	—	97,086	97,086	69,273	166,359
Share of a jointly controlled entity's gain recognised directly in equity	—	—	—	—	—	—	31,275	—	31,275	316	31,591
Transfer to dedicated capital	—	—	—	9,163	—	—	—	(9,163)	—	—	—
Change in fair value of available-for-sale financial assets	—	2,393	—	—	—	—	—	—	2,393	—	2,393
As at 31st December, 2007	2,040,430	(8,372)	39,179	193,356	43,090	120,000	31,275	3,287,217	5,746,175	209,736	5,955,911
As at 1st January, 2008	2,040,430	(8,372)	39,179	193,356	43,090	120,000	31,275	3,287,217	5,746,175	209,736	5,955,911
Cancellation of share options	—	—	—	—	(43,090)	—	—	43,090	—	—	—
Share option costs	—	—	—	—	10,065	—	—	—	10,065	—	10,065
Profit (Loss) for the year	—	—	—	—	—	—	—	80,929	80,929	(395,240)	(314,311)
Share of a jointly controlled entity's loss recognised directly in equity	—	—	—	—	—	—	(95,307)	—	(95,307)	(963)	(96,270)
Transfer to dedicated capital	—	—	—	12,106	—	—	—	(12,106)	—	—	—
Change in fair value of available-for-sale financial assets	—	(10,496)	—	—	—	—	—	—	(10,496)	—	(10,496)
Transfer to profit or loss on impairment losses on available-for-sale financial assets	—	18,868	—	—	—	—	—	—	18,868	—	18,868
As at 31st December, 2008	**2,040,430**	**—**	**39,179**	**205,462**	**10,065**	**120,000**	**(64,032)**	**3,399,130**	**5,750,234**	**(186,467)**	**5,563,767**

(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, 2008, appropriations of approximately RMB12.1 million (2007: RMB9.2 million) to the general reserve fund were made by subsidiaries of the Company and no appropriation to the enterprise expansion fund was made by the subsidiaries (2007: Same). Under HKFRSs, the appropriation for the staff welfare and incentive bonus fund is charged to the income statement.

(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 in the PRC with accumulated distributable profits are denominated in U.S. Dollar and are translated at the prevailing unified exchange rate in the PRC. Total accumulated distributable profits of these subsidiaries under HKFRSs as at 31st December, 2008 amounted to approximately RMB1,722.2 million (2007: RMB1,488.0 million). The distributable profits of subsidiaries under PRC GAAP are different from the amounts reported under HKFRSs.

36. RESERVES (Cont'd)

The Company

	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1st January, 2007	2,038,423	(10,765)	39,179	11,281	3,615,418	5,693,536
Share option costs	—	—	—	32,243	—	32,243
Issue of new shares under share option scheme	1,602	—	—	—	—	1,602
Premium arising from exercise of employee share options	405	—	—	(434)	—	(29)
Changes in fair value of available-for-sale financial assets	—	2,393	—	—	—	2,393
Loss for the year	—	—	—	—	(5,916)	(5,916)
As at 31st December, 2007	2,040,430	(8,372)	39,179	43,090	3,609,502	5,723,829
As at 1st January, 2008	2,040,430	(8,372)	39,179	43,090	3,609,502	5,723,829
Cancellation of share options	—	—	—	(43,090)	43,090	—
Share option costs	—	—	—	10,065	—	10,065
Changes in fair value of available-for-sale financial assets	—	(10,496)	—	—	—	(10,496)
Loss for the year	—	—	—	—	(567,533)	(567,533)
Transfer to profit or loss on impairment losses on available-for-sale financial assets	—	18,868	—	—	—	18,868
As at 31st December, 2008	**2,040,430**	**—**	**39,179**	**10,065**	**3,085,059**	**5,174,733**

The directors consider that the Company had approximately RMB3,124.2 million (2007: RMB3,640.3 million) available for distribution to shareholders.

37. RELATED PARTY TRANSACTIONS

(a) Name and relationship

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

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

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

(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:

	2008	2007
	RMB'000	RMB'000
Sales of goods:		
— Affiliated companies of JinBei	**117,068**	452,933
— Shanghai Shenhua and its affiliated companies	**1,220,886**	1,394,130
— Jointly controlled entities	**90,984**	96,828
— Associates	**84,427**	91,487
— A subsidiary of the substantial shareholder of the Company	**1,379,829**	1,119,096
Purchases of goods:		
— Affiliated companies of JinBei	**870,207**	1,477,018
— Affiliated companies of Shanghai Shenhua	**—**	102,785
— An affiliated company of BHL	**107,101**	115,223
— Jointly controlled entities	**496,797**	515,137
— Associates	**160,768**	489,166
— An affiliated company of the joint venture partner of Xinguang Brilliance	**56**	147
— Shareholders of Shenyang Aerospace and their affiliated companies	**61,820**	63,227

37. RELATED PARTY TRANSACTIONS (Cont'd)

(b) (Cont'd)

	2008 **RMB'000**	2007 RMB'000
Interest to a jointly controlled entity	**15,376**	16,100
Operating lease rental on land and buildings charged by:		
— A jointly controlled entity	**2,860**	3,430
— Shanghai Shenhua	**296**	592
Mould testing income from a jointly controlled entity	**—**	1,776
Operating lease rental from a jointly controlled entity	**14,180**	14,384
Subcontracting charge to a jointly controlled entity	**208,874**	257,937
Service income from a jointly controlled entity	**—**	18,560
Service income from affiliated companies of Shanghai Shenhua	**567**	—

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

(c) As at 31st December, 2008, accounts receivable from affiliated companies consisted of the following:

	2008 **RMB'000**	2007 RMB'000
Accounts receivable from related parties:		
— Shanghai Shenhua and its affiliated companies	**78,059**	368,499
— Affiliated companies of JinBei	**53,189**	91,347
— An affiliated company of BHL	**—**	94,095
— A subsidiary of the substantial shareholder of the Company	**99,939**	61,455
— An associate	**28**	—
— Jointly controlled entities		
— BMW Brilliance	**57,451**	98,224
— Other jointly controlled entities	**22**	321
	288,688	713,941
Less: provision for doubtful debts	**(29,480)**	(29,720)
	259,208	684,221

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

37. RELATED PARTY TRANSACTIONS (Cont'd)

(c) (Cont'd)

(ii) The movement in allowance for doubtful debts for accounts receivable from affiliated companies is as follows:

	2008 **RMB'000**	2007 RMB'000
At 1st January,	**29,720**	29,720
Write-back of previously recognised impairment loss	**(240)**	—
	29,480	29,720

(iii) 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:

	2008 **RMB'000**	2007 RMB'000
Less than six months	**241,819**	618,956
Between six months to one year	**1,640**	205
Above one year but less than two years	**21,610**	65,330
Over two years	**23,619**	29,450
	288,688	713,941

The aging analysis of the Group's accounts receivable from affiliated companies that are past due but neither individually nor collectively considered to be impaired are as follows:

	2008 **RMB'000**	2007 RMB'000
Between six months to one year	**610**	205
Above one year but less than two years	**2,700**	56,914
Over two years	**—**	—
	3,310	57,119

37. RELATED PARTY TRANSACTIONS (Cont'd)

(c) (Cont'd)

At as 31st December, 2008, the Group's accounts receivable from affiliated companies of RMB23,619,000 (2007: RMB29,450,000) due over two years was individually determined to be impaired. The individually impaired accounts receivable from affiliated companies related to affiliated companies which failed to settle the outstanding balances in full and management assessed that the impaired amounts will not be recoverable. Consequently, specific allowance for doubtful debts of full amounts of the impaired receivables was recognised.

The remaining past due accounts receivable from affiliated companies which are not impaired relate to a number of other affiliated companies which have been repaying the Group but at a slower pace. As they are still settling the outstanding balances, management believes that no impairment allowance is necessary in respect of these balances.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

The Group does not hold any collateral over the accounts receivable from affiliated companies.

(d) As at 31st December, 2008, notes receivable from affiliated companies arising from trading activities consisted of the following:

	2008 **RMB'000**	2007 RMB'000
Notes receivable from related parties:		
— Affiliated companies of JinBei	**15,956**	3,050
— Shanghai Shenhua and its affiliated companies	**183,010**	143,276
— An associate	**133**	—
— A subsidiary of the substantial shareholder of the Company	**6,100**	113,829
	205,199	260,155

All notes receivable from affiliated companies are guaranteed by banks in the PRC and have maturities of six months or less from 31st December, 2008 (2007: Same).

37. RELATED PARTY TRANSACTIONS (Cont'd)

(e) As at 31st December, 2008, the dividend receivable from affiliated companies consisted of:

	2008 **RMB'000**	2007 RMB'000
Dividend receivable from related parties:		
— a jointly controlled entity	**76,173**	76,173
— an associate	**10,500**	21,000
	86,673	97,173

(f) As at 31st December, 2008, the advances to affiliated companies consisted of:

	2008 **RMB'000**	2007 RMB'000
Advances to related parties:		
— A jointly controlled entity	**26,365**	26,364
— Affiliated companies of BHL	**145,185**	51,134
— Shanghai Shenhua and its affiliated companies	**14,046**	14,044
— Affiliated companies of JinBei	**39,987**	12,062
— Other affiliated company	**848**	12
	226,431	103,616
Less: non-current portion for advance to an affiliated company of BHL	**(51,470)**	—
	174,961	103,616
Less: provision for doubtful debts	**(2,214)**	(2,214)
	172,747	101,402

Advances to affiliated companies are unsecured and non-interest bearing. Except for RMB112,896,000 advanced to an affiliated company of BHL which is to be settled within the coming next five years, the advances to other affiliated companies are with no fixed repayment term (2007: All advances were unsecured, non-interest bearing and with no fixed repayment term).

37. RELATED PARTY TRANSACTIONS (Cont'd)

(f) (Cont'd)

Included in RMB145,185,000 advances to affiliated companies of BHL is RMB112,896,000 to an affiliated company of BHL derived from both advances to and trade receivable balance from this affiliated company. The amount due is unsecured, interest-free and this affiliated company agreed to treat all the balances as advances to it and will settle the balances in 5 years. With an imputed annual interest rate of 12% which is with reference to market rate for similar credit risk to the Group under similar circumstance, the exposure of the Group's credit risk and the respective present value based on the imputed interest rate are as follows:

	Exposure of credit risk RMB'000	**Present value of exposure of credit risk** RMB'000
Within one year	36,979	34,443
In more than one year but not more than two years	18,979	15,130
In more than two years but not more than five years	56,938	36,340
	112,896	85,913
Imputed interest	(26,983)	—
	85,913	85,913

After the provision for long overdue advances to affiliated companies, the unprovided balances are either from affiliated companies which had made repayments during the year or up to date of these financial statements, or those that management has assessed to be financially sound and are capable of repaying. Accordingly, the management believes that no impairment allowance is necessary in respect of these balances.

The Group does not hold any collateral over the advances to affiliated companies.

37. RELATED PARTY TRANSACTIONS (Cont'd)

(g) As at 31st December, 2008, accounts payable to affiliated companies consisted of the following:

	2008 **RMB'000**	2007 RMB'000
Due to related parties:		
— Associates	**16,915**	50,444
— Jointly controlled entities	**308,052**	534,527
— Affiliated companies of Shanghai Shenhua	**7,068**	1,870
— Affiliated companies of JinBei	**270,030**	365,275
— Other affiliated companies	**1,351**	731
	603,416	952,847

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:

	2008 **RMB'000**	2007 RMB'000
Less than six months	**438,325**	872,760
Between six months to one year	**108,325**	50,509
Above one year but less than two years	**28,058**	25,723
Over two years	**28,708**	3,855
	603,416	952,847

(h) As at 31st December, 2008, notes payable to affiliated companies arising from trading activities consisted of the following:

	2008 **RMB'000**	2007 RMB'000
Notes payable to related parties:		
— An affiliated company of BHL	**—**	60,686
— Affiliated companies of JinBei	**—**	51,167
— An associate	**—**	1,760
— Jointly controlled entities	**43,863**	94,161
	43,863	207,774

37. RELATED PARTY TRANSACTIONS (Cont'd)

(i) As at 31st December, 2008, the advances from affiliated companies consisted of the following:

	2008 RMB'000	2007 RMB'000
Advances from related parties classified under current liabilities:		
— Associates	**493**	3
— A jointly controlled entity	**9,204**	1,279
— Affiliated companies of BHL	**11,531**	12,086
— Affiliated companies of Shanghai Shenhua	**2,787**	1,430
— Affiliated companies of JinBei	**735**	735
— Current portion of financing received from BMW Brilliance *(Note 1)*	**48,373**	40,601
	73,123	56,134
Advances from related parties classified under non-current liabilities:		
— BMW Brilliance *(Note 1)*	**126,000**	133,772
— Other jointly controlled entities *(Note 2)*	**193,158**	—
	319,158	133,772
Total advances from affiliated companies	**392,281**	189,906

Note 1: The advances from BMW Brilliance are repayable on the following terms:

	2008 RMB'000	2007 RMB'000
Within 1 year	**48,373**	40,601
More than 1 year but less than 2 years	**8,673**	7,772
More than 2 years but less than 5 years	**32,536**	29,154
More than 5 years	**84,791**	96,846
	174,373	174,373
Less: non-current portion	**(126,000)**	(133,772)
Current portion	**48,373**	40,601

Note 2: The advances from these jointly controlled entities are non-interest bearing, unsecured and not repayable within the next twelve months from 31st December, 2008.

Advances from other affiliated companies are unsecured, non-interest bearing and with no fixed repayment term.

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

(k) Compensation benefits to key management personnel are as follows:

	2008 RMB'000	2007 RMB'000
Short-term employee benefits	**22,233**	30,779

38. CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash (used in) generated from operations

	2008 RMB'000	2007 RMB'000
(Loss) Profit before taxation	**(259,044)**	211,567
Share of results of:		
Jointly controlled entities	**(265,056)**	(154,644)
Associates	**(20,262)**	(37,617)
Interest income	**(88,004)**	(125,470)
Interest expenses	**333,325**	235,576
Write back of provision for inventories sold	**(35,868)**	(190,646)
Depreciation of property, plant and equipment	**274,967**	591,159
Impairment losses on intangible assets	**184,288**	—
Amortisation of intangible assets	**166,548**	138,641
Amortisation of land lease prepayments	**3,616**	3,439
Share option costs	**10,065**	32,243
Loss (Gain) on disposals of property, plant and equipment	**54**	(2,428)
Gain on disposal of land lease prepayments	**—**	(1,399)
Write-off of property, plant and equipment	**1,914**	4,198
Deferred income	**(331,028)**	(140,081)
Write back of provision for doubtful debts	**(4,564)**	(297)
Write back of provision for impairment loss on property, plant and equipment	**(54)**	—
Provision for inventories	**44,118**	60,461
Provision for impairment losses on property, plant and equipment	**—**	836
Provision for doubtful debts on accounts receivable	**—**	83
Provision for other receivables	**33,025**	5,483
Gain on redemption of convertible bonds	**(25,302)**	—
Change in fair value of embedded derivative components of convertible bonds	**(289,700)**	181,933
Impairment loss on available-for-sale financial assets	**18,868**	—
Unrealised gain on exchange	**(112,157)**	(112,465)
Decrease (Increase) in accounts receivable	**134,177**	(173,094)
Increase in notes receivable	**(290,868)**	(218,827)
Decrease (Increase) in notes receivable from affiliated companies	**54,956**	(178,678)
Decrease in accounts receivable from affiliated companies	**129,348**	886,193
Decrease (Increase) in other receivables	**491**	(102,142)
Increase in prepayments and other current assets	**(86,467)**	(107,314)
Decrease (Increase) in inventories	**589,501**	(991,935)
(Decrease) Increase in notes and accounts payable	**(1,053,998)**	2,689,050
(Decrease) Increase in notes payable to affiliated companies	**(163,911)**	170,486
Increase (Decrease) in accounts payable to affiliated companies	**44,727**	(622,386)
Increase (Decrease) in customer advances	**204,414**	(275,424)
(Decrease) Increase in other payables	**(60,599)**	4,442
Decrease in accrued expenses and other current liabilities	**(94,769)**	(7,072)
Decrease (Increase) in other tax recoverable	**97,486**	(7,349)
Increase (Decrease) in other taxes payable	**13,445**	(10,746)
Cash (used in) generated from operations	**(842,318)**	1,755,776

38. CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

(b) Major non-cash transactions

During the year ended 31st December, 2008, the Group entered into an agreement with an affiliated company to offset receivable balances due from this affiliated company with the Group's payable balances to this affiliated company of approximately RMB201 million (2007: approximately RMB617 million).

39. COMMITMENTS

(a) Capital commitments

	2008 **RMB'000**	2007 RMB'000
Contracted but not provided for:		
— Construction projects	**39,505**	39,137
— Acquisition of plant and machinery	**259,104**	502,510
— Others	**16,027**	177,086
	314,636	718,733
Authorised but not contracted for:		
— Construction projects and acquisition of plant and machinery	**974,229**	1,009,384

(b) Operating lease commitments

As at 31st December, 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	2008 **RMB'000**	2007 RMB'000
Within one year	**12,788**	16,367
In the second to fifth years inclusive	**33,734**	18,856
Over five years	**48,750**	31,296
	95,272	66,519

39. COMMITMENTS (Cont'd)

(c) Future operating lease arrangements

As at 31st December, 2008, the Group had future aggregate minimum lease receivable under non-cancellable operating leases as follows:

	2008 RMB'000	2007 RMB'000
Within one year	**20,458**	19,883
In the second to fifth years inclusive	**56,697**	56,697
Over five years	**62,603**	76,778
	139,758	153,358

40. CONTINGENCIES

(a) As at 31st December, 2008, the Group had provided the following guarantees:

— Corporate guarantees for revolving bank loans and bank guaranteed notes of approximately RMB60 million (2007: RMB60 million) drawn by affiliated companies of Shanghai Shenhua; and

— Corporate guarantees for bank loans amounting to RMB200 million (2007: RMB200 million) drawn by JinBei. Bank deposits of RMB228 million (2007: RMB214 million) was pledged as a collateral for the corporate guarantee as detailed in Note 24.

(b) On or about 25th October, 2002, the Company was served with a claim lodged by Mr. Yang Rong ("Mr. Yang") in the Labour Tribunal in Hong Kong against the Company for alleged wrongful repudiation and/or breach of his employment contract. The claim was for approximately US$4.3 million (equivalent to approximately RMB29.5 million) with respect to loss of salary. In addition, Mr. Yang claimed unspecified damages in respect of bonuses and share options. The claim was dismissed by the Labour Tribunal in Hong Kong on 28th January, 2003. Mr. Yang subsequently applied for a review of this decision. At the review hearing on 4th July, 2003, the Labour Tribunal ordered the case to be transferred to the High Court in Hong Kong. The claim has therefore been transferred to the High Court and registered as High Court Action No. 2701 of 2003 (the "Action").

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

40. CONTINGENCIES (Cont'd)

(b) (Cont'd)

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

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

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

There has been no material progress in the litigation since then.

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.

41. SUBSEQUENT EVENTS

(a) An ordinary resolution was passed by the Company's independent shareholders on 13th January, 2009 in relation to the subscription of 1,313,953,488 Company's new shares with a par value of US$0.01 each at the price of HK$0.43 each for a total consideration of approximately HK$565,000,000 by Huachen which held 1,446,121,500 shares of the Company in concert with other parties before the subscription, representing approximately 39.41% of the total issued share capital of the Company. After the completion of the subscription, Huachen and parties acting in concert will hold approximately 55.38% of the Company's enlarged issued share capital. The said subscription shares are expected to be issued and alloted on or before 27th May, 2009.

(b) On 18th February, 2009, the Group repurchased convertible bonds in a principal amount of US$21,000,000.

(c) On 30th March, 2009, the Group entered into an agreement with the minority shareholder of Shenyang Automotive to grant this party the right to use the Company's engine-related intangible assets for an annual lease payment of RMB48,000,000 over a term of ten years.

42. COMPARATIVES

Certain comparative figures have been reclassified to conform with the current year's presentation.

43. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 44 to 126 were approved and authorised for issue by the board of directors on 3rd April, 2009.