BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

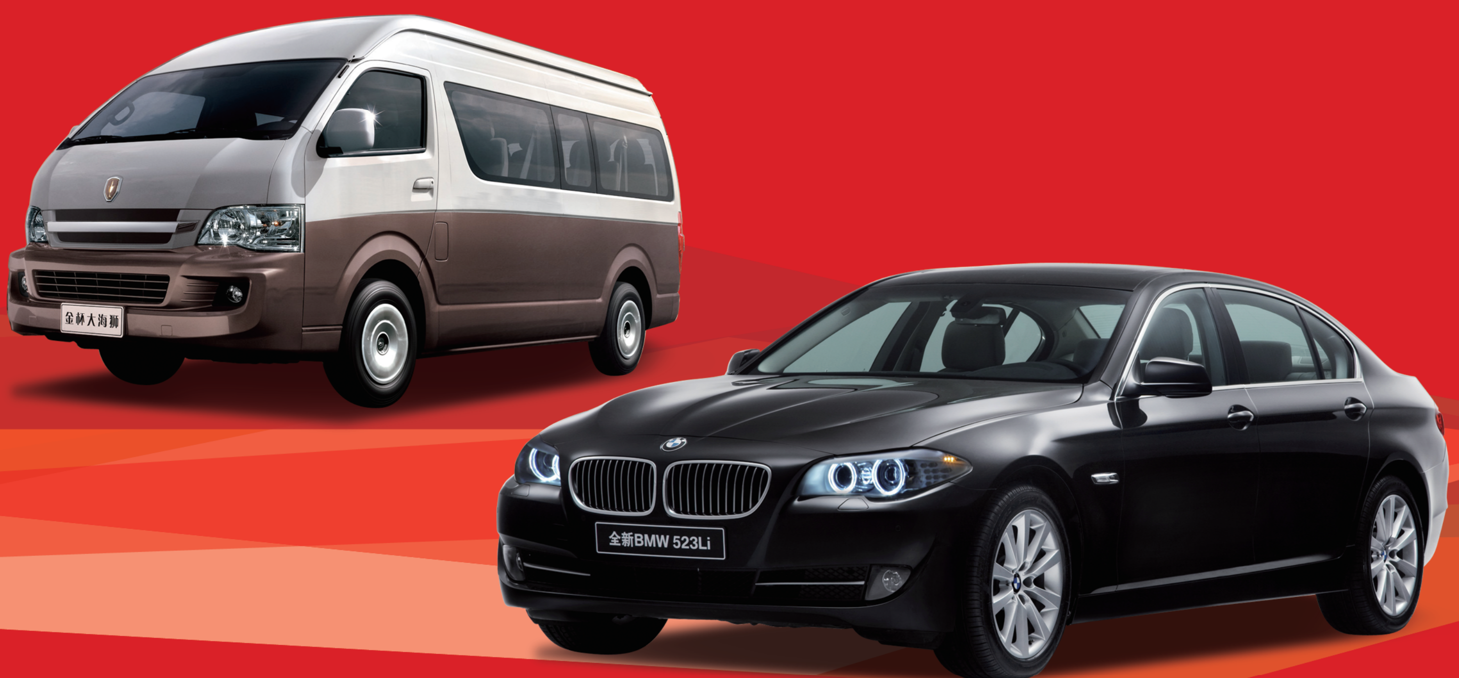
(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

Stock Code : 1114

Brilliance Auto
华 晨 汽 车

Annual Report 2011



*for identification purposes only

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Corporate Information

BOARD OF DIRECTORS

Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(Chairman)*
Mr. Qi Yumin *(Chief Executive Officer)*
Mr. Wang Shiping
Mr. Tan Chengxu
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 Jingdu Tianhua
20th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited,
Hong Kong Branch

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

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 BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED (THE "COMPANY") AND ITS SUBSIDIARIES (ALTOGETHER THE "GROUP")

(Amounts in thousands except earnings/loss per share)

	Year Ended and as at 31st December,				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note)	*(Note)*	*(Note)*
Income Statement Data:					
Revenue	**6,442,858**	8,948,740	12,389,585	11,189,162	14,149,149
Profit (Loss) before Income Tax Expense	**1,949,412**	1,464,903	(2,703,203)	(259,044)	211,567
Income Tax (Expense) Credit	**(58,010)**	53,907	(40,989)	(55,267)	(45,208)
Profit (Loss) for the Year	**1,891,402**	1,518,810	(2,744,192)	(314,311)	166,359
Less: Non-controlling Interests	**(79,116)**	(247,884)	1,104,357	395,240	(69,273)
Profit (Loss) Attributable to Equity Holders of the Company	**1,812,286**	1,270,926	(1,639,835)	80,929	97,086
Basic Earnings (Loss) per Share	**RMB0.36263**	RMB0.25452	RMB(0.36603)	RMB0.02205	RMB0.02646
Diluted Earnings per Share	**RMB0.35931**	RMB0.25219	N/A	RMB0.02203	RMB0.02639
Statement of Financial Position Data:					
Non-current Assets	**6,779,030**	6,121,936	4,894,177	8,083,978	7,264,454
Current Assets	**6,031,623**	7,098,192	6,570,873	9,231,062	9,605,473
Current Liabilities	**(6,571,866)**	(7,961,617)	(7,311,781)	(11,049,167)	(8,642,968)
Non-current Liabilities	**(1,600)**	(2,000)	(424,688)	(398,618)	(1,967,560)
Non-controlling Interests	**752,115**	1,068,815	1,293,432	186,467	(209,736)
Shareholders' Equity	**6,989,302**	6,325,326	5,022,013	6,053,722	6,049,663

Note:

The figures for the years 2007 to 2009 included the continuing operations and discontinued operations of the Group.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual results of Brilliance China Automotive Holdings Limited for the year ended 31st December, 2011.

Trailing on the impressive growth of 2010, the year 2011 had started on a positive note with the Chinese auto market forecasted to grow another 10% to 15% for the year by the China Association of Automobile Manufacturers (CAAM). However, as the governmental stimulus measures came to an end and the nation's economic expansion showed signs of slowing down during 2011, the year had closed with an overall growth of only 2.5%. Total auto sales in China reached 18.5 million units in 2011, with passenger vehicles accounting for 14.4 million or an increase of 5.2% compared to the previous year.

Despite the slowdown in market growth, 2011 had been a successful year for the Group. Contributions from the BMW joint venture had risen by 92% driven by a 53.5% increase in sales volume and cost savings achieved through scale and continuous localization effort. As for the minibus business, the sales volume of our minibus products had dropped by 13.3% compared to the previous year as a result of severe tightening of credit and purchase restrictions in Beijing which had deterred purchases. The increased profits of the BMW joint venture were more than sufficient to offset the effect of reduced contribution from the minibus business, thus resulting in an overall 42.6% increase in net profits attributable to our shareholders.

Looking into 2012, CAAM had forecasted at the beginning of the year that auto sales and production in China will grow at a moderate pace of 8%. However, Premier Wen Jiabao this month had forecasted that China's GDP will expand 7.5% this year, the lowest since 2004. Therefore, there are downside risks and uncertainties from an overall industry development standpoint.

This year our BMW joint venture will enter a new era. Our new second production plant in Tiexi, Shenyang has commenced production earlier this year and will increase production capacity by an additional 200,000 units by the end of 2013. Production capacity at our original plant in Dadong will also be expanded from the current 100,000 units to reach 160,000 units in 2013. Along with the new capacity addition, the joint venture has recently expanded its product portfolio by introducing a third BMW product, the locally-made X1 SUV, before the launch of the brand new 3-series long wheelbase sedan in the second half of this year to meet Chinese market demand. In addition, we have also commenced this month the assembly of BMW engines in China, which will go into all models produced by the joint venture, to allow for further localization of key components. Moreover, the joint venture is also developing a local

Chairman's Statement

Chinese brand of new energy vehicles to comply with the Chinese government's requirements and to capture growth of a new segment for the joint venture's future development. This will necessitate the establishment of certain R&D competences within the joint venture for the development of China-specific new energy vehicles under the new local brand, as well as to facilitate further localization of components in China.

We continue to extend our sales network coverage and aftersales service support into new cities in order to expand our reach and provide the best services to our customers. We have also developed various campaigns for marketing and brand building to increase market share. We are continuously reviewing our long range plan in terms of market trends, new product roadmap and the associated capacity needs in order to satisfy the country's insatiable demand for premium vehicles.

As for the minibus business, we have been working with our strategic partner on the development of a new platform of MPVs to be launched by the end of 2013. Our goal is to enrich our product portfolio and to strengthen our brand name by introducing higher end products so as to increase volume and market share. We are also developing a new minibus model, the H2, to replace the existing Haise mid-price products which will be gradually phased out.

Aside from the BMW joint venture and the minibus operation, we continue to seek both upstream and downstream expansion opportunities along the auto value chain, in an effort to enhance sales of our existing products and establish another income source for the Group. Furthermore, we are also contemplating other strategic moves to capitalize on the growth of our Group companies to better position ourselves as a strong player in the auto industry in China.

Last but not least, I would like to take this opportunity to express my sincere appreciation to our shareholders, business partners, management team and all other employees for their continued support and dedication to the Group.

Xiaoan Wu

Wu Xiao An
(also known as Ng Siu On)
Chairman
28th March, 2012

Management's Discussion & Analysis

BUSINESS REVIEW

The consolidated net sales of the Group (which represent primarily those derived from our major operating subsidiaries such as Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**") and Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**")) for the year ended 31st December, 2011 was RMB6,442.9 million, representing a 28.0% decrease from RMB8,948.7 million for the year ended 31st December, 2010. The decrease in turnover was primarily due to a change in the business model of Shenyang ChenFa Automobile Component Co., Ltd. ("**Shenyang ChenFa**") which provides value added services to auto components for the Zhonghua sedans operated by the Group's major shareholder Huachen Automotive Group Holdings Company Limited ("**Huachen**"). Shenyang ChenFa used to record in its revenue the value of these components together with the revenue from provision of its value added services on these components. However, starting from 2011, Shenyang ChenFa only records the revenue generated from its value added services as these components are considered directly sold to Huachen. As a result, the revenue of Shenyang ChenFa for 2011 decreased by 73.2% to RMB358.0 million from RMB1,334.6 million recorded in last year. In addition to the decrease in revenue of Shenyang ChenFa, the decrease in the Group's turnover in 2011 was also due to a drop in minibus sales volume and unit prices.

Shenyang Automotive sold 82,491 minibuses in 2011, representing a 13.3% decrease from 95,180 minibuses sold in 2010. Of these minibuses sold, 63,745 were mid-priced minibuses, representing a 17.1% decrease from 76,870 units sold in 2010. On the other hand, unit sales of deluxe minibuses increased slightly by 2.4% from 18,310 units in 2010 to 18,746 units in 2011. The decrease in minibus sales volume in 2011 was primarily due to purchase restrictions in Beijing and credit tightening in China which had deterred purchases.

Cost of sales decreased by 27.7% from RMB7,725.1 million in 2010 to RMB5,587.3 million in 2011. The decrease is in line with the corresponding decrease in net sales during the period. The gross profit margin of the Group has dropped slightly from 13.7% in 2010 to 13.3% in 2011 due to lower selling prices to combat intensified competitive pressure.

Other income decreased by 47.9% from RMB92.2 million in 2010 to RMB48.0 million in 2011. The decrease was primarily due to decreases in government grants and scrap sales as a result of lower number of minibuses produced.

Interest income decreased slightly by 3.1% from RMB78.6 million in 2010 to RMB76.1 million in 2011. The decrease was due to a decrease in short-term bank deposits and pledged short-term deposits.

Selling expenses decreased by 16.1% from RMB462.0 million in 2010 to RMB387.7 million in 2011. The decrease was driven by the decrease in the sales volume of minibuses. Selling expenses as a percentage of turnover has increased to 6.0% for 2011 from 5.2% in 2010 which was caused by the effect of the decrease in unit prices of minibuses sold outweighing the effect from reduced selling expenses.

General and administrative expenses have remained relatively stable, having decreased by 0.6% from RMB363.1 million in 2010 to RMB360.9 million in 2011.

Finance costs increased by 13.3% from RMB170.8 million in 2010 to RMB193.5 million in 2011 primarily due to an increase in interest rates on bank borrowings.

The Group's share of operating results of associates and jointly controlled entities increased by 79.3% from RMB1,066.3 million in 2010 to RMB1,911.9 million in 2011. This was attributable to the increased profits contributed by BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), the Group's 50% indirectly owned jointly controlled entity.

Net profits contributed to the Group by BMW Brilliance increased by 92.0% from RMB896.0 million in 2010 to RMB1,720.3 million in 2011. The BMW joint venture achieved sales of 108,189 BMW sedans in 2011, an increase of 53.5% as compared to 70,488 BMW sedans sold in 2010.

The Group recorded profit before taxation of RMB1,949.4 million in 2011, which represent a 33.1% increase compared to RMB1,464.9 million for 2010.

Income tax expense was RMB58.0 million for 2011. An income tax credit was recorded for 2010 due to the recognition of certain deferred tax assets in 2010.

For the year 2011, the net income attributable to equity holders of the Company was RMB1,812.3 million, representing a 42.6% increase from RMB1,270.9 million for 2010. Basic earnings per share in 2011 amounted to RMB0.36263 compared to RMB0.25452 in 2010.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2011, the Group had RMB585.7 million in cash and cash equivalents, RMB99.9 million in short-term bank deposits and RMB1,183.1 million in pledged short-term bank deposits. The Group had notes payable of RMB1,790.4 million and outstanding short-term bank borrowings of RMB1,296.6 million, but had no long-term bank borrowings outstanding as at 31st December, 2011.

CONTINGENT LIABILITIES

On 10th November, 2010, a member of the Group and Shenyang JinBei Automotive Co., Ltd. ("**JinBei**") entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB600 million (2010: RMB600 million) from 1st January, 2011 to 31st December, 2011. As at 31st December, 2011, RMB446.5 million (2010: RMB366.5 million) of these guarantees was drawn by JinBei for its revolving bank loans together with the support of the pledge of the Group's bank deposits of RMB214 million (2010: RMB214 million).

On 10th November, 2010, a member of the Group and Huachen entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB1,500 million (2010: RMB1,500 million) from 1st January, 2011 to 31st December, 2011. As at 31st December, 2011, RMB465 million (2010: RMB1,001 million) of these guarantees was drawn by Huachen for its revolving bank loans.

The Group had provided corporate guarantees for revolving bank loans and bank guaranteed notes to affiliated companies of Shanghai Shenhua Holdings Co., Ltd. ("**Shanghai Shenhua**") and Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("**Xinguang Brilliance**"). As at 31st December, 2011, RMB60 million (2010: RMB60 million) of these corporate guarantees was drawn by Shanghai Shenhua for these banking facilities utilised and none was drawn by Xinguang Brilliance (2010: RMB15 million).

GEARING RATIO

As at 31st December, 2011, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 0.94 (31st December, 2010: 1.26). The decrease in the gearing ratio was primarily due to the decrease in notes payable in 2011 as compared to the last year.

FOREIGN EXCHANGE RISKS

The Group considers that exchange rate fluctuations only have an insignificant effect on the overall financial performance of the Group in the future. The Group 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, 2011.

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 6,200 employees as at 31st December, 2011 (31st December, 2010: approximately 6,300). Employee costs amounted to approximately RMB412.5 million for the year ended 31st December, 2011 (31st December, 2010: approximately RMB427.8 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 for 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), aged 50, has been the Chairman of the board of directors (the "**Board**") of the Company since 18th June, 2002 and our executive director since 11th January, 1994. He is primarily responsible for the overall management and strategic planning of our Group. He was the Vice Chairman and the Chief Financial Officer of the Company from January 1994 to June 2002. He has been a director of Huachen since October 2002, a director of Shenyang Automotive since January 1994, and the chairman of BMW Brilliance since May 2003. From 1988 to 1993, he was the deputy manager of the Bank of China, New York Branch. Mr. Wu obtained a bachelor's degree of arts from Beijing Foreign Languages Institute in 1985 and a master's degree in business administration from Fordham University in 1992.

Mr. Qi Yumin, aged 52, has been an executive director, the President and the Chief Executive Officer of the Company since 6th January, 2006. Mr. Qi has also served as the chairman and president of Huachen since January 2006. Since 2009, he has been appointed chairman and a director of JinBei and Shanghai Shenhua, both of which are companies listed on the Shanghai Stock Exchange, and Shenyang Automotive. Mr. Qi has been a director of BMW Brilliance since November 2006. From 1982 to 2004, Mr. Qi held various positions in Dalian Heavy Industries Co., Ltd., including chairman and general manager. From October 2004 to December 2005, he was the vice mayor of Dalian municipal government. Mr. Qi obtained a bachelor's degree in engineering and economics from Xi'an University of Technology (formerly known as Shanxi Institute of Mechanical Engineering) in August 1982 and a master's degree in business administration from Dalian University of Technology in April 2004. He was qualified by the personal department of Liaoning Province as a senior engineer (professor level) in December 1992.

Mr. Wang Shiping, aged 55, has been an executive director of the Company since 16th September, 2005. Mr. Wang is currently a director of JinBei, Shanghai Shenhua and Shenyang Automotive. He is also the vice president of Huachen. 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's degree in engineering. He also received a master's degree in business economics from the Graduate School of the Chinese Academy of Social Sciences in 1998.

Mr. Tan Chengxu, aged 48, has been an executive director of the Company since 10th November, 2010. Mr. Tan is currently a director and the vice president of Huachen, and a director of JinBei. Mr. Tan is a senior engineer. Mr. Tan was a tutor of Dalian Railway Institute (now known as Dalian Jiaotong University) from August 1985 to December 1986. He was working in Dalian Locomotive and Rolling Stock Co. Ltd. from December 1986 to March 2005. Mr. Tan was a deputy director of the Economic Committee of Liaoning Provincial Government of the PRC from March 2005 to March 2009 and a deputy director of the Liaoning Provincial Economy and Informatization Commission of the PRC from March 2009 to March 2010. Mr. Tan obtained a bachelor's degree in mechanical engineering from Dalian Railway Institute (now known as Dalian Jiaotong University) in 1985. He was awarded a master's degree in business administration and a doctorate degree in management by Dalian University of Technology in 2001 and 2007, respectively.

NON-EXECUTIVE DIRECTOR

Mr. Lei Xiaoyang, aged 55, has been a non-executive director of the Company since 1st 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 JinBei, Shanghai Shenhua and Shenyang Automotive. He is also the senior vice president-finance and chief financial officer of BMW Brilliance. He is currently the vice president of Huachen and the legal counsel to Huachen. 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 international finance department. Mr. Lei holds a bachelor's degree in engineering from Shenyang Polytechnic University and a master's degree in finance from Liaoning University as well as a master's degree in business administration from Roosevelt University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bingjin, aged 72, has been an independent non-executive director of the Company since 27th 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's degree in engineering economics from Jilin University of Technology in 1964 and holds the title of senior engineer. Currently, Mr. Xu is an independent non-executive director of Qingling Motors Co. Ltd., a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Mr. Song Jian, aged 55, has been an independent non-executive director of the Company since 17th 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 expert consultant to the Beijing Government. 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. In 2008, Mr. Song was awarded "The Outstanding People of the China Automotive Industry: Commemorating the 30th Anniversary of China's Reform and Opening-up". In 2009, Mr. Song won "China Academic Award for Creative Talents of Automotive Industry - First Prize" from the State Ministry of Education. Mr. Song holds a bachelor's degree and a doctorate, both in engineering science, from Tsinghua University. He is currently a professor of the automotive engineering department at Tsinghua University. Currently, Mr. Song is an independent non-executive director of Hybrid Kinetic Group Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Jiang Bo, aged 52, has been an independent non-executive director of the Company since 27th September, 2004. Mr. Jiang is a certified public accountant and a certified public valuer in the PRC. Currently, Mr. Jiang is the chairman and chief accountant of Reanda Certified Public Accountants in the PRC. He 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 Central Finance and Economics University. Currently, Mr. Jiang is an independent non-executive director of China HealthCare Holdings Limited, a company listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Qian Zuming, aged 49, has been the Chief Financial Officer of the Company since 1st July, 2008. Mr. Qian is currently an assistant to the president of Huachen and a director of Shenyang Automotive. Mr. Qian is a fellow member of the Institute of Financial Accountants of the United Kingdom. He holds a master's degree in finance from the Graduate School, The Chinese Academy of Social Sciences and a master's degree in business administration from The Wisconsin International University (USA), Ukraine.

COMPANY SECRETARY

Ms. Lam Yee Wah Eva has been the Company Secretary of the Company since 20th 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 by The City University of Hong Kong. Prior to joining the Group, Ms. Lam has five years' experience in the company secretarial department in an international accounting and auditing firm in Hong Kong and has worked in the company secretarial departments of two listed companies 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, 2011.

PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of its subsidiaries are set out in note 17 to the financial statements. With the completion of the disposal of its Zhonghua sedan business to Huachen in December 2009, the operating businesses of the Group are divided primarily into the manufacture and sale of minibuses and automotive components. The Group also has a 50% equity interest in BMW Brilliance, a joint venture with BMW Group, which is engaged in the manufacture and sale of BMW automotives in the PRC.

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 has 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 automotive components suppliers in the PRC: a 51% equity interest in Ningbo Yuming Machinery Industrial Co., Ltd. ("**Ningbo Yuming**"), which 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**"), which primarily engaged in the development, manufacturing and sale of diesel engines and light-duty gasoline engines for use in passenger vehicles and light commercial vehicles. In October 1998, June 2000 and July 2000, the Company established Xing Yuan Dong, Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("**Ningbo Ruixing**") and Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**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. Subsequently in 2004, the Company acquired the remaining 49% equity interest in Ningbo Yuming which became a wholly owned subsidiary of the Company on 25th November, 2004.

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

On 18th April, 2002, Shenyang Jindong Development Co., Ltd. ("**Shenyang Jindong**") was established for the purpose of trading automotive components in the PRC. Currently, it is indirectly beneficially owned as to 80.45% by the Company.

In May 2002, Shenyang Automotive obtained the approval from the Chinese Government to produce and sell Zhonghua sedans in the PRC. The Zhonghua sedans were launched in August 2002. The Zhonghua sedan business was disposed of to Huachen in December 2009.

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, BMW Brilliance, is Euro 150 million and Euro 450 million, respectively. At that time, the Company's effective interests in SJAI and BMW Brilliance were 81% and 40.50%, respectively. On 28th April, 2003, the Company increased its effective interests in SJAI from 81% to 89.10% and thereby increased its effective interests in BMW Brilliance from 40.50% to 44.55%. On 16th December, 2003, the Company further increased its effective interests in SJAI from 89.10% to 99% and thereby increased its effective interests in BMW Brilliance from 44.55% to 49.50%. Subsequently on 26th January, 2010, the Company entered into an agreement to increase its effective interests in SJAI from 99% to 100%. As a result, the Company's effective interests in BMW Brilliance was increased to 50%.

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. In December 2011, the Company completed the disposal of 75% equity interests in Shenyang ChenFa to an independent third party.

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. 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 was reduced to 33.35%.

On 16th April, 2004, Shanghai Hidea Auto Design Co., Ltd. was established for the design of automobiles ("**Shanghai Hidea**"). Currently, Shanghai Hidea is indirectly beneficially owned as to 70.68% by the Company.

On 13th December, 2004, the Company, together with Shenyang Automotive, established Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**") which principally engages in the manufacture and sale of power trains in China. In October 2009, Shenyang Automotive agreed to transfer its entire interests in Shenyang Brilliance Power to Huachen. As a result, the Company's beneficially interests in Shenyang Brilliance Power decreased from 75.01% to 49%.

On 28th October, 2009, Shenyang Automotive entered into a business transfer agreement with Huachen pursuant to which Huachen agreed to acquire from Shenyang Automotive certain assets, liabilities, employees and business contracts in relation to the businesses of manufacture and sale of Zhonghua sedans operated by Shenyang Automotive. Completion of the disposal of the Zhonghua sedan business took place on 31st December, 2009. Subsequent to the completion of the disposal, the Group no longer has any interests in the Zhonghua sedan business. Starting from January 2010, the core operating business of the Group is the manufacture and sale of minibuses and automotive components.

Mianyang Xinchen was formally a Sino-foreign equity joint venture in the PRC owned as to 50% by each of Southern State Investment Limited ("**Southern State**", a wholly owned subsidiary of the Company) and Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ("**Xinhua Combustion Engine**"). Subsequent to the completion of group restructuring in August 2011, Mianyang Xinchen became a wholly foreign-owned enterprise in the PRC owned as to 100% by Southern State, while Southern State became a wholly-owned subsidiary of Xinchen China Power Holdings Limited ("**Xinchen China**", a company incorporated in the Cayman Islands). As at the date of this annual report, Xinchen China was owned as to 42.544% by each of Brilliance Investment Holdings Limited, a wholly-owned subsidiary of the Company, and Xinhua Investment Holdings Limited, a wholly-owned subsidiary of Xinhua Combustion Engine. The remaining 14.912% equity interest of Xinchen China was held by two other strategic investors. The major rights and responsibilities, such as management, operation and profit entitlements, of our Company and Xinhua Combustion Engine in relation to Xinchen China and its subsidiaries, including Mianyang Xinchen, remain the same.

TURNOVER AND CONTRIBUTION

The Group's turnover and contribution to profit from operations for the year ended 31st December, 2011, analysed by product category, are as follows:

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's income statement RMB'000	Total RMB'000
Segment sales to external customers	**6,442,858**	**37,531,814**	**(37,531,814)**	**6,442,858**
Segment results	**195,261**	**3,434,836**	**(3,434,836)**	**195,261**
Impairment losses on assets	**(51,309)**	**(156,484)**	**156,484**	**(51,309)**
Unallocated costs net of unallocated income				**10,972**
Interest income				**76,148**
Finance costs				**(193,543)**
Share of results of:				
Associates	**69,418**	**–**	**–**	**69,418**
Jointly controlled entities	**122,202**	**1,720,263**	**–**	**1,842,465**
Profit before income tax expense				**1,949,412**

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2011 are set out in the financial statements of the Group on pages 39 and 40.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31st December, 2011 is set out and analysed in the consolidated statement of cash flows on page 45 and in note 34 to the financial statements.

DIVIDEND

The directors did not recommend the payment of any dividend in respect of the year ended 31st December, 2011 (2010: nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held on Friday, 18th May, 2012 at 9:00 a.m. A special general meeting will also be held on Friday, 18th May, 2012 at 9:30 a.m. (or immediately after the closing of the abovementioned annual general meeting) for the purpose of considering and, if thought fit, approving the proposed amendments to the bye-laws and adoption of the new bye-laws of the Company.

The Hong Kong branch register of members of the Company will be closed from Wednesday, 16th May, 2012 to Friday, 18th May, 2012, 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, 18th May, 2012 or their proxies or duly authorised corporate representatives are entitled to attend the annual general meeting and the special general meeting to be held on Friday, 18th May, 2012. In order to qualify for attending the annual general meeting and the special 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, 15th May, 2012.

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, 2011 are set out in note 32 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2011 are set out in note 14 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the subsidiaries, associates and jointly controlled entities are set out in notes 17, 18 and 19, respectively to the financial statements.

SHARE CAPITAL

Details of the Company's share capital as of 31st December, 2011 are set out in note 31(a) to the financial statements.

SHARE OPTIONS

The Company adopted a share option scheme on 18th September, 1999 (the "**1999 Share Option Scheme**"). The scheme was terminated on 28th June, 2002. 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.

All the share options previously granted under the 1999 Share Option Scheme have been exercised, cancelled or lapsed as at 24th May, 2011. Details of which are set out in our interim report for the six months ended 30th June, 2011.

At a special general meeting held on 11th November, 2008, shareholders of the Company adopted a new share option scheme (the "**New Share Option Scheme**"). 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 ordinary shares with a par value of US$0.01 each (the "**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 entity in which the Group holds any equity interest (the "**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 7.31% 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.

A summary of movements of the share options of the Company under the New Share Option Scheme during the year ended 31st December, 2011 is set out below:

		Number of share options							
Category and name of participant	Date of grant	Outstanding as at 1st January, 2011	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31st December, 2011	Option period	Subscription price per Share (HK$)
Directors									
Wu Xiao An	22nd December, 2008 *(Note 2)*	5,000,000	–	–	–	–	5,000,000	22nd December, 2008 – 21st December, 2018	0.438
Qi Yumin	22nd December, 2008 *(Note 2)*	9,000,000	–	4,500,000	–	–	4,500,000	22nd December, 2008 – 21st December, 2018	0.438
He Guohua *(Note 1)*	22nd December, 2008 *(Note 2)*	3,000,000	–	3,000,000	–	–	–	22nd December, 2008 – 21st December, 2018	0.438
Wang Shiping	22nd December, 2008 *(Note 2)*	3,000,000	–	–	–	–	3,000,000	22nd December, 2008 – 21st December, 2018	0.438
Lei Xiaoyang	22nd December, 2008 *(Note 2)*	3,000,000	–	1,500,000	–	–	1,500,000	22nd December, 2008 – 21st December, 2018	0.438
Employees (in aggregate)	22nd December, 2008 *(Note 2)*	24,000,000	–	3,500,000	–	–	20,500,000	22nd December, 2008 – 21st December, 2018	0.438
Others (in aggregate)	22nd December, 2008 *(Note 2)*	3,000,000	–	1,500,000	–	–	1,500,000	22nd December, 2008 – 21st December, 2018	0.438
Total		50,000,000	–	14,000,000 *(Note 3)*	–	–	36,000,000		

Notes:

1. Mr. He Guohua resigned as a director of the Company on 28th June, 2011.

2. 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 share options were granted is HK$0.445 per Share.

3. The weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK$8.17 per Share.

As no share options have been granted by the Company under the New Share Option Scheme for the year ended 31st December, 2011, no expenses were recognised by the Group for 2011 (2010: nil).

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2011 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 (resigned on 28th June, 2011)
Mr. Wang Shiping
Mr. Tan Chengxu

Non-executive director:

Mr. Lei Xiaoyang

Independent non-executive directors:

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

Pursuant to bye-law 99 and the code provision A.4.2 of Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), Mr. Wu Xiao An and Mr. Qi Yumin will retire by rotation at the annual general meeting of the Company to be held on 18th May, 2012.

Pursuant to code provision A.4.3 of Appendix 14 to the Listing Rules which comes into effect on 1st April, 2012, if an independent non-executive director serves more than 9 years, his/her further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Xu Bingjin was appointed as our independent non-executive director on 27th June, 2003. Accordingly, a separate resolution will be submitted to the annual general meeting to be held on 18th May, 2012 to seek shareholders' approval to retain Mr. Xu as our independent non-executive director. The reasons why the Board considers Mr. Xu independent and why he should be re-elected are included in the circular sent to the shareholders of the Company together with this annual report.

Each of Mr. Wu Xiao An, Mr. Qi Yumin and Mr. Xu Bingjin, 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 abovementioned circular.

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

As at 31st December, 2011, 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 *(Note 1)*					
Name of Shareholders	**Long Position**	**%**	**Short Position**	**%**	**Lending Pool**	**%**
Huachen *(Note 2)*	2,260,074,988	45.10	–	–	–	–
Templeton Asset Management Ltd. *(Note 3)*	800,995,632	15.99	–	–	–	–
Cheah Cheng Hye *(Note 4)*	447,478,000	8.93	–	–	–	–
To Hau Yin *(Note 4)*	447,478,000	8.93	–	–	–	–
Hang Seng Bank Trustee International Limited *(Note 4)*	447,478,000	8.93	–	–	–	–
Cheah Company Limited *(Note 4)*	447,478,000	8.93	–	–	–	–
Cheah Capital Management Limited *(Note 4)*	447,478,000	8.93	–	–	–	–
Value Partners Group Limited *(Note 4)*	447,478,000	8.93	–	–	–	–
Value Partners Limited *(Note 4)*	447,478,000	8.93	–	–	–	–

Notes:

1. The percentage of shareholding is calculated on the basis of 5,010,769,388 Shares in issue as at 31st December, 2011.

2. The 2,260,074,988 Shares in long position were held in the capacity as beneficial owner.

3. The 800,995,632 Shares in long position were held in the capacity as investment manager.

4. The 447,478,000 Shares in long position were held by Value Partners Limited in the capacity as investment manager. These Shares were interests of a discretionary trust of which Mr. Cheah Cheng Hye is the founder. The trustee of the trust was Hang Seng Bank Trustee International Limited, which held the interests in the Company through its indirect control over Value Partners Limited. Value Partners Limited is 100% controlled by Value Partners Hong Kong Limited, which in turn is 100% controlled by Value Partners Group Limited. Value Partners Group Limited is 28.47% controlled by Cheah Capital Management Limited. Cheah Capital Management Limited is 100% controlled by Cheah Company Limited, which in turn is 100% controlled by Hang Seng Bank Trustee International Limited. Accordingly, Mr. Cheah Cheng Hye, Ms. To Hau Yin (spouse of Mr. Cheah Cheng Hye), Hang Seng Bank Trustee International Limited, Cheah Company Limited, Cheah Capital Management Limited and Value Partners Group Limited were deemed to have interests in the 447,478,000 Shares in the Company.

Save as disclosed herein, as at 31st December, 2011, 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, 2011, 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 Long Position	Number of shares held Short Position	Approximate shareholding percentage *(Note 1)*	Number of share options granted (Percentage of the Company's issued share capital) *(Note 2)*
Wu Xiao An	Personal	5,000,000	–	0.10%	5,000,000 (0.10%) *(Note 3)*
Qi Yumin	Personal	4,500,000	–	0.09%	4,500,000 (0.09%) *(Note 3)*
Wang Shiping	Personal	–	–	–	3,000,000 (0.06%) *(Note 3)*
Lei Xiaoyang	Personal	1,500,000	–	0.03%	1,500,000 (0.03%) *(Note 3)*

Notes:

1. The percentage of shareholding is calculated on the basis of 5,010,769,388 Shares in issue as at 31st December, 2011.

2. The percentage represents the number of Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to the share options granted by the Company based on the 5,010,769,388 Shares in issue as at 31st December, 2011.

3. These share 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, 2011, 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, 2011 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, 2012 for a term of three years commencing from 1st January, 2012.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities in 2011.

ANALYSIS OF INTEREST CAPITALISED

Details of interest capitalised are set out in note 7 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

In 2011, the aggregate sales attributable to the Group's five largest customers, excluding the Group's associates and jointly controlled entities, represented approximately 54.3% of the Group's total turnover while the sales attributable to the Group's largest customer was approximately 40.5% of the Group's total 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 22.8% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 11.4% 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 above 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 AND CONTINUING CONNECTED TRANSACTIONS

In 2011, the Group entered into certain related party transactions which also constitute connected transactions and continuing connected transactions under Chapter 14A of the Listing Rules. All the connected transactions and continuing connected transactions during the year are listed below and some of these transactions are also set out in note 33(b) to the financial statements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Announcements have been made on these connected transactions and continuing connected transactions and relevant shareholders' approvals have been obtained, if necessary.

Connected Transactions for 2011

– *The 2011 First Cross Guarantee*

On 10th November, 2010, Xing Yuan Dong, a wholly-owned subsidiary of the Company, and JinBei entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB600 million for a term of one year commencing from 1st January, 2011 to 31st December, 2011 (the "**2011 First Cross Guarantee**"). By the time of entering into of the agreement, JinBei was interested in 39.1% of equity interests in Shenyang Automotive. Shenyang Automotive was then owned as to 51% by the Company. Accordingly, JinBei is a connected person of the Company under the Listing Rules. The 2011 First Cross Guarantee constitutes a connected transaction for the Company under the Listing Rules. It is subject to the reporting and announcement requirements and is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the 2011 First Cross Guarantee are set out in the announcement of the Company dated 10th November, 2010. The 2011 First Cross Guarantee is not a notifiable transaction under Chapter 14 of the Listing Rules.

In 2011, Xing Yuan Dong provided a guarantee in respect of JinBei's banking facilities in the amount of approximately RMB446.5 million.

– *The 2011 Second Cross Guarantee*

On 10th November, 2010, Xing Yuan Dong and Huachen entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB1,500 million for a term of one year commencing from 1st January, 2011 to 31st December, 2011 (the "**2011 Second Cross Guarantee**"). Huachen is a controlling shareholder of the Company and is regarded as a connected person of the Company under the Listing Rules. The 2011 Second Cross Guarantee constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. It also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

At a special general meeting held on 17th December, 2010, shareholders of the Company approved the provision of the 2011 Second Cross Guarantee, details of which are set out in the circular of the Company dated 1st December, 2010.

In 2011, Xing Yuan Dong provided a guarantee in respect of Huachen's banking facilities in the amount of approximately RMB465 million.

Continuing Connected Transactions for 2011

– *Continuing Connected Transactions*

Currently, the Group is engaged in the manufacture and sale of minibuses and automotive components. Prior to completion of the disposal of the Zhonghua sedan business on 31st December 2009, the Group was also engaged in the manufacture and sale of Zhonghua sedans.

On 19th November, 2008, members of the Group entered into certain framework agreements with JinBei and/or Liaoning Zheng Guo Investment Development Company Limited ("**Liaoning Zheng Guo**") for the purchases and/or sale of automobiles, materials and/or automotive components for a period of three financial years ended 31st December, 2011. Liaoning Zheng Guo is held as to 75% by Huachen, a controlling shareholder of the Company. Each of JinBei, its subsidiaries and associated companies (other than Shenyang Automotive) and Liaoning Zheng Guo is a connected person of the Company within the meaning of the Listing Rules.

At a special general meeting held on 30th December, 2008 (the "**2008 SGM**"), shareholders of the Company approved, among other things, the entering into of the said continuing connected transactions (the "**Continuing Connected Transactions**") pursuant to Chapter 14A of the Listing Rules and the annual caps of the Continuing Connected Transactions for the three financial years ended 31st December, 2011.

Details of the Continuing Connected Transactions are set out in the circular of the Company dated 10th December, 2008. The actual monetary value of the Continuing Connected Transactions for the financial year ended 31st December, 2011 is set out below:

Continuing Connected Transactions			**Major type of products**	**Actual monetary value for the financial year ended 31st December, 2011 RMB'000**
A.	**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) (altogether "JinBei Group")**			
	1.	Purchases of materials and automotive components by Shenyang Automotive from the JinBei Group	Seats, steering systems, fuel pumps and driving shafts	498,091
	2.	Purchases of materials and automotive components by Xing Yuan Dong from the JinBei Group	Torsion bars, gear box assemblies, seats and rubber products	39,624
	3.	Purchases of materials and automotive components by Dongxing Automotive from the JinBei Group	Sealing sticks, main decelerators, seat assemblies and interior display board	12,755
	4.	Purchases of materials and automotive components by Ningbo Yuming from the JinBei Group	Side windows and luggage racks	–
B.	**Sale of materials and automotive components by members of the Group to the JinBei Group**			
	1.	Sale of materials and automotive components by Shenyang Automotive to the JinBei Group	Steels, steel panels and moulding	5,388
	2.	Sale of materials and automotive components by Shenyang Jindong to the JinBei Group	Matching components, including reinforcement panel of right hand side front wheel mudguard wings	239
C.	**Others**			
	–	Sale of automobiles by Shenyang Automotive to Liaoning Zheng Guo who acts as a regional agent for Shenyang Automotive in certain regions	A whole range of automobiles manufactured by Shenyang Automotive in certain regions	–

– *Huachen Continuing Connected Transactions*

On 29th October, 2009, the Company announced its intention to dispose of its Zhonghua sedan business to Huachen. It was contemplated that upon completion of the disposal of the Zhonghua sedan business, members of the Group would enter into certain transactions with Huachen, its subsidiaries and its associates (altogether "**Huachen Group**") so as to enable Huachen to continue to carry on the Zhonghua sedan business. Huachen Group is regarded as a connected person of the Company within the meaning of the Listing Rules.

At a special general meeting held on 17th December, 2009 (the "**2009 SGM**"), shareholders of the Company approved, among other things, the entering into of the said continuing connected transactions pursuant to Chapter 14A of the Listing Rules and the annual caps for a period from the date of completion of the disposal of the Zhonghua sedan business up to 31st December, 2011. The said disposal was completed on 31st December, 2009. Subsequently, at a special general meeting held on 28th May, 2010 (the "**2010 SGM**"), the Company obtained approval from the shareholders to revise the maximum annual monetary value of some of the said continuing connected transactions for the financial years ended 31st December, 2011.

Details of all the continuing connected transactions entered into between members of the Group and the Huachen Group (the "**Huachen Continuing Connected Transactions**") are set out in the Company's circulars dated 1st December, 2009 and 28th April, 2010. The actual monetary value of the Huachen Continuing Connected Transactions for the financial year ended 31st December, 2011 is set out below:

Huachen Continuing Connected Transactions	**Major type of products**	**Actual monetary value for the financial year ended 31st December, 2011** **RMB'000**
A. Sale of materials and automotive components by members of the Group to members of the Huachen Group		
1. Sale of materials and automotive components by Xing Yuan Dong to the Huachen Group	Electric fuel injection, matching components, carpets and root pads	65,956
2. Sale of materials and automotive components by Dongxing Automotive to the Huachen Group	Press parts and welding parts	120,483
3. Sale of materials and automotive components by Shenyang ChenFa to the Huachen Group	Power trains	396,538
4. Sale of materials and automotive components by Shenyang Jindong to the Huachen Group	Matching components	9,392
5. Sale of materials and automotive components by Mianyang Ruian to the Huachen Group	Camshafts	1,712
6. Sale of materials and automotive components by Ningbo Yuming to the Huachen Group	Sealing bars, decorating bars and wide window assemblies	35,176
7. Sale of materials and automotive components by Ningbo Ruixing to the Huachen Group	Under-bearing arm assemblies, under-guiding arm assemblies, upper cross arm assemblies and under cross arm assemblies	146
8. Sale of materials and automotive components by Shenyang Automotive to the Huachen Group	Engines, engine components, air grille, air pipes, guard boards for gear boxes, imported molding and energy supply	113,856

Huachen Continuing Connected Transactions	Major type of products	Actual monetary value for the financial year ended 31st December, 2011 RMB'000
B. Purchase of materials and automotive components by members of the Group from members of the Huachen Group		
1. Purchase of materials by Dongxing Automotive from the Huachen Group	Steel	74,005
2. Purchase of automotive components by Shenyang ChenFa from the Huachen Group	Gear boxes	20,797
3. Purchase of automotive components by Shenyang Automotive from the Huachen Group	Power trains and press parts	632,970
C. Comprehensive service agreement		
1. Provision of services by members of the Group to members of the Huachen Group		44,858
2. Purchase of services by members of the Group from members of the Huachen Group		–

The independent non-executive directors of the Company have reviewed and confirmed that the Continuing Connected Transactions and the Huachen 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 the Huachen Continuing Connected Transactions and confirmed to the directors that the Continuing Connected Transactions and the Huachen 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 2011 annual caps as disclosed in the previous announcements made by the Company and as approved by the shareholders at the 2008 SGM, 2009 SGM and 2010 SGM.

Subsequent events

– *The Continuing Connected Transactions for 2012-2014*

On 11th November, 2011, the Group entered into agreements relating to the purchases/sale of materials and automotive components from/to the JinBei Group and the Huachen Group, the leasing of premises from Huachen and the provision of services to/by the Huachen Group for a period of three financial years commencing from 1st January, 2012 to 31st December, 2014. Each of JinBei and Huachen is a connected person of the Company within the meaning of the Listing Rules. Accordingly, such transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules.

The purchases of materials and automotive components from the JinBei Group, the sale of materials and automotive components to the Huachen Group, and the purchases of materials and automotive components from the Huachen Group are subject to reporting, announcement and independent shareholders' approval requirements as set out in Rule 14A.35 of the Listing Rules. At a special general meeting held on 20th December, 2011 (the "**2011 SGM**"), shareholders of the Company approved these transactions and the relevant proposed caps for 2012-2014.

The provision of services to/by the Huachen Group is subject to the reporting and announcement requirements and is exempt from independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules.

The sale of materials and automotive components to the JinBei Group and the leasing of premises from Huachen are de minimus transactions and are exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

Details of the above transactions are set out in the circular of the Company dated 2nd December, 2011.

– *The 2012 First Cross Guarantee*

On 11th November, 2011, an agreement was entered into between Xing Yuan Dong and JinBei, pursuant to which both parties agreed to cross guarantee each other's banking facilities in the maximum amount of RMB600 million incurred or to be incurred during their respective usual course of business for a period of one year commencing from 1st January, 2012 to 31st December, 2012 (the "**2012 First Cross Guarantee**"). The 2012 First Cross Guarantee is a connected transaction under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements but is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules. It is not a notifiable transaction under Chapter 14 of the Listing Rules. Details of the 2012 First Cross Guarantee are set out in the circular of the Company dated 2nd December, 2011.

– *The 2012 Second Cross Guarantee*

On 11th November, 2011, Xing Yuan Dong and Huachen entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB1,500 million incurred or to be incurred during their respective usual course of business for a period of one year commencing from 1st January, 2012 to 31st December, 2012 (the "**2012 Second Cross Guarantee**"). The 2012 Second Cross Guarantee is a connected transaction under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. It also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Details of the 2012 Second Cross Guarantee are set out in the circular of the Company dated 2nd December, 2011. At the 2011 SGM, shareholders of the Company approved the 2012 Second Cross Guarantee.

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are disclosed in note 33 to the financial statements of this annual report.

Save as disclosed above, in the opinion of the directors, the transactions disclosed as related party transactions in note 33 to the financial statements do not constitute connected transactions or continuing connected transactions as defined under the Listing Rules in force at the timing of the entering into of the relevant transactions.

AUDITORS

Grant Thornton Hong Kong ("**GTHK**", now known as "JBPB & Co.") was appointed as auditors of the Company on 24th September, 2007. On 2nd November, 2010, Grant Thornton International announced the appointment of Jingdu Tianhua Hong Kong as its new member firm in Hong Kong. On 19th November, 2010, it was announced that GTHK has concluded a merger agreement and would practise in the name of another certified public accountants practice. On 2nd December, 2010, the Company received a resignation letter from GTHK resigning as auditors of the Company effective 2nd December, 2010. As the Board would like to continue to use the services provided by a member of Grant Thornton International in Hong Kong, after consideration by the Audit Committee of the Board, Jingdu Tianhua Hong Kong was appointed as auditors of the Company effective 2nd December, 2010. Jingdu Tianhua Hong Kong changed its English name to Grant Thornton Jingdu Tianhua on 8th December, 2010.

Grant Thornton Jingdu Tianhua will retire at the conclusion of the forthcoming annual general meeting and be eligible to offer themselves for re-appointment. Grant Thornton Jingdu Tianhua has incorporated its practice and will practise in the name of Grant Thornton Hong Kong Limited. A resolution will be submitted to the annual general meeting to be held on 18th May, 2012 to seek shareholders' approval on the appointment of Messrs. Grant Thornton Hong Kong Limited as our auditors until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

By order of the Board

Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong,
28th March, 2012

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 "Corporate Governance Code" (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The Group has considered the CG Code and the revisions to the CG Code, coming into effect on 1st January, 2012 or 1st April, 2012 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, 2011, 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 which were in effect in the accounting year ended 31st December, 2011, and with effect on 28th March, 2012, the Group has also complied with code provision A.4.1.

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 has a fiduciary duty and statutory responsibility towards the Group and is directly accountable to the shareholders.

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 shareholders' notification or approval under the Listing Rules.

Daily management and administration functions are delegated to the management. The responsibilities and matters reserved to the Board are set out in paragraph D 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 present. 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 2011 is as follows:

Number of meetings			**4**
	Attendance by director	**Attendance by alternate**	**Attendance Rate**
Executive directors:			
Mr. Wu Xiao An *(Chairman)*	4/4	–	100%
Mr. Qi Yumin	2/4	1/4	50%
Mr. He Guohua *(Note)*	2/2	–	100%
Mr. Wang Shiping	4/4	–	100%
Mr. Tan Chengxu	4/4	–	100%
Non-executive director:			
Mr. Lei Xiaoyang	4/4	–	100%
Independent non-executive directors:			
Mr. Xu Bingjin	4/4	–	100%
Mr. Song Jian	3/4	1/4	75%
Mr. Jiang Bo	4/4	–	100%
Average attendance rate			91.67%

Note: Mr. He Guohua tendered his resignation with effect on 28th June, 2011. Prior to his resignation, the Company has held two board meetings in 2011.

During 2011, apart from the four 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 cover for its directors in respect of legal actions taken against directors and officers. The Company 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, which guidelines were revised with effect on 28th March, 2012 to bring them in line with the amendments to the CG Code which came into effect on 1st April, 2012.

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 Member of the Nomination Committee
Mr. Qi Yumin *(Chief Executive Officer)*	Member of the Remuneration Committee Member of the Nomination Committee
Mr. Wang Shiping	–
Mr. Tan Chengxu	–
Non-executive director:	
Mr. Lei Xiaoyang	–
Independent non-executive directors:	
Mr. Xu Bingjin	Chairman of the Audit Committee Chairman of the Remuneration Committee Chairman of the Nomination Committee
Mr. Song Jian	Member of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee
Mr. Jiang Bo	Member of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee

With effect from 31st December, 2012, every listed issuer is required by the Listing Rules to have such number of independent non-executive directors representing at least one-third of the Board, and 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 8 and 9 of this annual report.

The list of directors has been published on the website of the Company and that of the Stock Exchange, and 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. Pursuant to bye-law 102 of the Company, a director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting while a director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

Non-executive directors (including independent non-executive directors) of the Company did not have a specific term of appointment but whose appointment was subject to the retirement by rotation provisions in the bye-laws of the Company. On 28th March, 2012, the Company signed a formal letter of appointment with each director (except for Mr. Wu Xiao An and Mr. Qi Yumin who have already entered into service agreements with the Company for a term of three years commencing from 1st January, 2012) with specific term of appointment. 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 bye-law 99 of the Company. All directors of the Company are subject to the retirement by rotation provision in the bye-laws of the Company and are subject to the retirement by rotation at least once every three years pursuant to code provision A.4.2.

To comply with code provision A.4.2 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 18th May, 2012 and have offered themselves for re-election at that annual general meeting.

Pursuant to the new code provision A.4.3 effective on 1st April, 2012, serving more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than 9 years, his further appointment will be subject to a separate resolution to be approved by shareholders.

Mr. Xu Bingjin, our independent non-executive director, was first appointed on 27th June, 2003 and has been continuously served as an independent non-executive director of the Company for near 9 years. The Board proposes to seek the shareholders' approval for further appointment of Mr. Xu Bingjin as an independent non-executive director at the forthcoming annual general meeting. The Board has reviewed and assessed the independence of Mr. Xu pursuant to code provision A.5.2(c) and it was satisfied that further appointment of Mr. Xu as an independent non-executive director is justified due to the reasons set out in the circular accompanying this annual report.

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.

In compliance with code provision A.6.5, the Company will arrange for, and provide fund for, all the directors of the Company to participate in continuous professional development organized in the form of in-house training, seminars or other appropriate courses to keep them refresh of their knowledge, skill and understanding of the Group and its business or to update their skills and knowledge on the latest development or changes in the relevant statutes, the Listing Rules and corporate governance practices. The Company will also update the directors of any material changes in the Listing Rules and corporate governance practices from time to time. Directors are provided with reading materials summarizing the duties and responsibilities in acting as directors from time to time to keep the directors abreast of such duties and responsibilities.

The functions of non-executive directors include the functions as specified in code provision A.6.2(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.

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 Model Code during the year ended 31st December, 2011.

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 Group or the securities of the Company. The guidelines were revised in 2009 to incorporate amendments to the Model Code which came into effect on 1st April, 2009. Slight amendments have also been made to the guidelines on 28th March, 2012 to keep the guidelines in line with the current practices of the Company.

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. BOARD COMMITTEES

B.1 Nomination Committee

Prior to 28th March, 2012, the Board has not established a Nomination Committee.

The Board used to follow a formal, considered and transparent procedure for the appointment of new directors to the Board. The appointment of a new director has been 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.

A Nomination Committee was established with specific written terms of reference on 28th March, 2012 for reviewing the Board composition, developing the relevant procedures for nomination and appointment of directors and assessing the independence of the independent non-executive directors to ensure that the Board has a balance of expertise, skills and experience and formulating succession plans for executive directors and senior executives. The existing members of the Nomination 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 Nomination Committee. Mr. Xu Bingjin is the chairman of the Nomination Committee.

The Terms of Reference of the Nomination Committee are available on the website of the Company and the website of the Stock Exchange.

B.2 Remuneration Committee

The Remuneration Committee was established on 17th June, 2005 with specific written terms of reference (as amended with effect from 28th March, 2012 for incorporation of the amendments to the CG Code in 2011). 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.1.2(a) to (h) of the CG Code.

During 2011, the Remuneration Committee met once and discharged its responsibilities. Attendance of individual members at Remuneration Committee meetings in 2011 is as follows:

Number of meeting	**1**
Mr. Xu Bingjin *(chairman)*	1/1 (100%)
Mr. Song Jian	1/1 (100%)
Mr. Jiang Bo	1/1 (100%)
Mr. Wu Xiao An	1/1 (100%)
Mr. Qi Yumin	0
Average attendance rate	80%

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 and approving the remuneration package of the individual executive directors. 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, and the Company will provide sufficient resources to the Remuneration Committee for performance of its duties.

The work performed by the Remuneration Committee during 2011 included:

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

– reviewing the remuneration package of the individual directors and the senior management of the Company.

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 and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

The Terms of Reference of the Remuneration Committee are available on the website of the Company and the website of the Stock Exchange.

B.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, 17th June, 2005 and 28th March, 2012 respectively. A revised Terms of Reference of the Audit Committee was adopted on 28th March, 2012 for incorporation of the amendments to the CG Code came into effect on 1st April, 2012. 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. The Company has adopted policy for hiring of employees and former employees of its external auditors on 28th March, 2012 to ensure judgment or independence for the audit of the Group will not be impaired.

During 2011, the Audit Committee met on two (2) occasions and discharged its responsibilities. Attendance of individual members at Audit Committee meetings in 2011 is as follows:

Number of meetings	**2**
Mr. Xu Bingjin *(chairman)*	2/2 (100%)
Mr. Song Jian	2/2 (100%)
Mr. Jiang Bo	2/2 (100%)
Average attendance rate	100%

The principal duties of the Audit Committee included reviewing the Company's financial controls, internal control and risk management system, annual report, accounts and half-yearly report. The Audit Committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the Audit Committee for performance of its duties.

The following is a summary of the work performed by the Audit Committee during 2011:

- 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 the change in significant accounting policies;
- reviewing the audited financial statements and final results announcement for the year ended 31st December, 2010;
- reviewing the interim report and the interim results announcement for the six months ended 30th June, 2011;
- meeting with the auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2010 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 2011 unaudited interim results; and
- reviewing the continuing connected transactions and financial assistance for 2010.

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 2011, 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 and all decisions of the Audit Committee are reported to the Board subject to applicable restriction.

The Terms of Reference of the Audit Committee are available on the website of the Company and the website of the Stock Exchange.

This annual report has been reviewed by the Audit Committee.

B.4 Corporate Governance Function

The Company has adopted the Terms of Reference for the corporate governance on 28th March, 2012 in compliance with the code provision D.3, effective from 1st April, 2012. Pursuant to the Terms of Reference of the corporate governance function, the Board shall be responsible for developing, reviewing and/or monitoring the policies and practices on corporate governance of the Company; training and continuous professional development of directors and senior management; and compliance with legal and regulatory requirements of the Company. This corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

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, 2011, 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, 2011.

Currently, the Company's external auditors are Grant Thornton Jingdu Tianhua (the "**Auditors**").

For the year ended 31st December, 2011, the audit and non-audit service fees paid or payable by the Company amounted to approximately HK$1,700,000 and HK$360,000, respectively, The non-audit services mainly included conducting agreed-upon procedures on the 2011 interim consolidated financial statements.

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 37 and 38 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, accounting, operational, compliance and risk management of the Group's business.

The Company has 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 certain areas of improvement identified in previous years have been properly followed up and implemented. The Board and the Audit Committee will continue to improve the effectiveness of the internal control systems of the Group and to monitor the systems and the progress of improvements. 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.

D. DELEGATION BY THE BOARD

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 Board is entrusted with the following reserved powers:

1. Business strategy

   - approval of strategic objectives, annual plans and performance targets for the Group;
   - approval of proposals for expansion or closures other than those which have been specifically approved in the strategic objectives and/or annual plans of the Group;
   - approval of budgets;
   - approval of performance indicators.

2. Appointment

   - appointment of any person as director to fill a casual vacancy or as an additional director;
   - appointment of the chairman and chief executive officer;
   - appointment of senior executives;
   - fixing of auditor's remuneration;
   - selection, appointment and dismissal of company secretary;
   - formation of board committees and approval of the membership and terms of reference of the board committees.

3. Board and senior management

   - delegation of authority to the chairman, chief executive officer, management and board committee(s);
   - approval of remuneration and incentive policies;
   - approval of Group benefit policies;
   - approval of remuneration of directors and senior management;
   - assessment of the performance of the Company and the Board.

4. Relations with the shareholders

    - arrangements for the annual general meeting and any other shareholders' meetings;
    - matters relating to disclosure as required by the applicable law and regulations;
    - formation of shareholders' communication policy.

5. Financial matters

    - approval of annual accounts and directors' reports;
    - approval of accounting policies;
    - approval of any substantial change in the policies of the Company for balance sheet management including but without limitation capital adequacy, credit, liquidity, debt maturity profile, interest rate and exchange rate risks and asset concentration both geographically and by sector;
    - approval of internal audit plan;
    - approval of internal control policy and procedures;
    - acceptance of auditor's reports including management letters;
    - declaration of interim dividends and making recommendations on final dividends.

6. Capital expenditures

    - approval of the capital expenditure budget;
    - approval of capital commitment, whether or not the same has been provided for in the capital expenditure budget and/or annual budget;
    - approval of priorities.

7. Any transaction that constitutes notifiable transaction or connected transaction for the Company under the Listing Rules (as amended from time to time).

8. To assess the likely impact of unexpected and significant events and other events which can affect price and market activity of the shares of the Company and to decide whether the relevant information would be price-sensitive and need to be disclosed.

9. Risk management

    - risk assessment and insurance;
    - risk management policies.

10. Internal controls and reporting system

    - approval and establishment of any effective procedures for monitoring and control of operations including internal procedures for audit and compliance.

11. Use of the company seal(s).

12. Donations and sponsorships (if any) above approved limits.

E. COMPANY SECRETARY

Ms. Lam Yee Wah Eva, the company secretary appointed by the Board and an employee of the Company, in the opinion of the Board, possesses the necessary qualification and experience, capable of performance of the functions of the company secretary and the Company will provide fund for Ms. Lam to take not less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

F. COMMUNICATION WITH SHAREHOLDERS

F.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 2011 annual general meeting. Mr. Song Jian, a member of an independent board committee, represented other members of the independent board committee to attend the special general meeting held on 20th December, 2011 at which approval was sought from the shareholders in relation to certain continuing connected transactions and the provision of financial assistance which constitute a connected transaction for the Company, and to answer questions raised by the shareholders at the meeting.

The Chairman of the Board, the chairmen of the Audit Committee, Remuneration Committee and Nomination 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.

Pursuant to the code provision E.1.2 set out in the CG Code, the Company will invite representatives of the Auditors to attend the forthcoming annual general meeting to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The Company has adopted a shareholders' communication policy with effect on 28th March, 2012 and the policy is available on the website of the Company.

F.2 Voting by poll

At the annual general meeting and special general meetings held in 2011, the Chairman had provided an explanation of the procedures for conducting a poll at the commencement of each of the meetings. Poll results were posted on the website of the Stock Exchange (as well as on the website of the Company) on the day of the holding of each of the shareholders' meetings.

Independent Auditors' Report

Grant Thornton
京都天华

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 39 to 114, which comprise the consolidated and company statements of financial position as at 31st December, 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

Independent Auditors' Report (Cont'd)

Grant Thornton
京都天华

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2011, and of the Group's profit 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 Jingdu Tianhua
Certified Public Accountants
20th Floor, Sunning Plaza,
10 Hysan Avenue,
Causeway Bay,
Hong Kong

28th March, 2012

Consolidated Income Statement

For the year ended 31st December, 2011

(Expressed in thousands of RMB except for per share amounts)

	Note	2011 RMB'000	2010 RMB'000
Revenue	6	**6,442,858**	8,948,740
Cost of sales		**(5,587,321)**	(7,725,111)
Gross profit		**855,537**	1,223,629
Other income	6	**48,037**	92,216
Interest income	6	**76,148**	78,614
Selling expenses		**(387,744)**	(462,030)
General and administrative expenses		**(360,906)**	(363,053)
Finance costs	7	**(193,543)**	(170,771)
Share of results of:			
Associates		**69,418**	92,438
Jointly controlled entities		**1,842,465**	973,860
Profit before income tax expense	8	**1,949,412**	1,464,903
Income tax (expense) credit	9	**(58,010)**	53,907
Profit for the year		**1,891,402**	1,518,810
Attributable to:			
Equity holders of the Company	10	**1,812,286**	1,270,926
Non-controlling interests		**79,116**	247,884
		1,891,402	1,518,810
Earnings per share	12		
– Basic		**RMB0.36263**	RMB0.25452
– Diluted		**RMB0.35931**	RMB0.25219

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2011

	2011 RMB'000	2010 RMB'000
Profit for the year	**1,891,402**	1,518,810
Other comprehensive (loss) income, net of tax		
Change in fair value of available-for-sale financial assets	**(13,444)**	(8,922)
Share of other comprehensive (loss) income of a jointly controlled entity	**(606,713)**	37,805
	(620,157)	28,883
Total comprehensive income for the year	**1,271,245**	1,547,693
Attributable to:		
Equity holders of the Company	**1,192,129**	1,299,809
Non-controlling interests	**79,116**	247,884
	1,271,245	1,547,693

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2011

The Group	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Difference arising from acquisition of non-controlling interests RMB'000	Dedicated capital RMB'000	Share options reserve RMB'000	Capital reserve RMB'000	Retained earnings RMB'000	Total equity attributable to the equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1st January, 2010	393,283	27,427	2,445,542	22,067	39,179	–	213,338	9,475	120,000	1,751,702	5,022,013	(1,293,432)	3,728,581
Cancellation of share options	–	–	–	–	–	–	–	(307)	–	307	–	–	–
Increase in interests in a subsidiary	–	277	–	–	–	–	–	–	–	–	277	(23,267)	(22,990)
Issue of new shares by exercise of share options	574	–	3,978	–	–	–	–	(1,325)	–	–	3,227	–	3,227
Transactions with equity holders of the Company	574	277	3,978	–	–	–	–	(1,632)	–	307	3,504	(23,267)	(19,763)
Transfer to dedicated capital	–	–	–	–	–	–	8,951	–	–	(8,951)	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	1,270,926	1,270,926	247,884	1,518,810
Other comprehensive income (loss)													
Share of other comprehensive income of a jointly controlled entity	–	37,805	–	–	–	–	–	–	–	–	37,805	–	37,805
Change in fair value of available-for-sale financial assets	–	–	–	(8,922)	–	–	–	–	–	–	(8,922)	–	(8,922)
Total other comprehensive income	–	37,805	–	(8,922)	–	–	–	–	–	–	28,883	–	28,883
As at 31st December, 2010	393,857	65,509	2,449,520	13,145	39,179	–	222,289	7,843	120,000	3,013,984	6,325,326	(1,068,815)	5,256,511

Consolidated Statement of Changes in Equity (Cont'd)

For the year ended 31st December, 2011

The Group	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Difference arising from acquisition of non-controlling interests RMB'000	Dedicated capital RMB'000	Share options reserve RMB'000	Capital reserve RMB'000	Retained earnings RMB'000	Total equity attributable to the equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1st January, 2011	393,857	65,509	2,449,520	13,145	39,179	–	222,289	7,843	120,000	3,013,984	6,325,326	(1,068,815)	5,256,511
Disposal of a subsidiary	–	–	–	–	–	–	(10,100)	–	–	10,100	–	–	–
Acquisition of additional interests in a subsidiary without change in control	–	–	–	–	–	(537,584)	–	–	–	–	(537,584)	237,584	(300,000)
Issue of new shares by exercise of share options	1,074	–	10,501	–	–	–	–	(2,144)	–	–	9,431	–	9,431
Transactions with equity holders of the Company	1,074	–	10,501	–	–	(537,584)	(10,100)	(2,144)	–	10,100	(528,153)	237,584	(290,569)
Transfer to dedicated capital	–	–	–	–	–	–	2,200	–	–	(2,200)	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	1,812,286	1,812,286	79,116	1,891,402
Other comprehensive loss													
Share of other comprehensive income of a jointly controlled entity	–	(606,713)	–	–	–	–	–	–	–	–	(606,713)	–	(606,713)
Change in fair value of available-for-sale financial assets	–	–	–	(13,444)	–	–	–	–	–	–	(13,444)	–	(13,444)
Total other comprehensive income	–	(606,713)	–	(13,444)	–	–	–	–	–	–	(620,157)	–	(620,157)
As at 31st December, 2011	394,931	(541,204)	2,460,021	(299)	39,179	(537,584)	214,389	5,699	120,000	4,834,170	6,989,302	(752,115)	6,237,187

Statements of Financial Position

As at 31st December, 2011

	Note	The Group 2011 RMB'000	The Group 2010 RMB'000	The Company 2011 RMB'000	The Company 2010 RMB'000
Non-current assets					
Intangible assets	13	**197,524**	185,279	**–**	–
Property, plant and equipment	14	**1,393,389**	1,376,759	**1,482**	1,339
Construction-in-progress	15	**276,347**	208,059	**–**	–
Land lease prepayments	16	**63,969**	66,506	**–**	–
Interests in subsidiaries	17	**–**	–	**4,110,286**	4,829,679
Interests in associates	18	**592,441**	544,044	**141,183**	121,310
Interests in jointly controlled entities	19	**3,578,079**	2,562,407	**–**	–
Prepayments for a long-term investment	20	**600,000**	600,000	**–**	–
Available-for-sale financial assets	21	**15,334**	28,778	**11,196**	24,640
Receivable for disposal of discontinued operations	33(h)	**–**	440,094	**–**	–
Deferred tax assets	29	**50,000**	99,000	**–**	–
Other non-current assets		**11,947**	11,010	**–**	–
Total non-current assets		**6,779,030**	6,121,936	**4,264,147**	4,976,968
Current assets					
Cash and cash equivalents		**585,696**	427,789	**38,652**	3,069
Short-term bank deposits		**99,928**	120,946	**–**	–
Pledged short-term bank deposits	22	**1,183,064**	2,075,801	**–**	–
Inventories	23	**737,338**	790,838	**–**	–
Accounts receivable	24	**101,064**	120,400	**–**	–
Accounts receivable from affiliated companies	33(d)	**344,887**	1,352,273	**–**	–
Notes receivable	25	**430,398**	430,043	**–**	–
Notes receivable from affiliated companies	33(e)	**541,411**	542,302	**–**	–
Other receivables	26	**462,916**	573,084	**62,182**	2,024
Dividends receivable from affiliated companies	33(f)	**76,173**	128,673	**–**	–
Prepayments and other current assets		**166,048**	251,597	**1,182**	1,244
Income tax recoverable		**293**	178	**–**	–
Other taxes recoverable		**17,491**	37,964	**–**	–
Receivable for disposal of discontinued operations	33(h)	**466,500**	–		
Amounts due from affiliated companies	33(g)	**818,416**	246,304	**512,187**	26,365
Total current assets		**6,031,623**	7,098,192	**614,203**	32,702

Statements of Financial Position (Cont'd)

As at 31st December, 2011

	Note	The Group 2011 RMB'000	The Group 2010 RMB'000	The Company 2011 RMB'000	The Company 2010 RMB'000
Current liabilities					
Accounts payable	27	**1,276,682**	1,585,882	**–**	–
Accounts payable to affiliated companies	33(i)	**1,188,856**	1,201,965	**–**	–
Notes payable		**1,764,354**	3,272,484	**–**	–
Notes payable to affiliated companies	33(j)	**26,090**	155,135	**–**	–
Customer advances		**109,530**	270,955	**–**	–
Other payables		**547,940**	770,654	**–**	–
Accrued expenses and other current liabilities		**66,884**	95,667	**6,044**	5,282
Short-term bank borrowings	28	**1,296,630**	165,000	**–**	–
Income tax payable		**31,716**	34,158	**–**	–
Other taxes payable		**78,905**	126,274	**–**	–
Amounts due to affiliated companies	33(k)	**184,279**	283,443	**5,314**	5,545
Total current liabilities		**6,571,866**	7,961,617	**11,358**	10,827
Net current liabilities		**(540,243)**	(863,425)	**602,845**	21,875
Total assets less current liabilities		**6,238,787**	5,258,511	**4,866,992**	4,998,843
Non-current liabilities					
Deferred government grants		**1,600**	2,000	**–**	–
NET ASSETS		**6,237,187**	5,256,511	**4,866,992**	4,998,843
Capital and reserves					
Share capital	31(a)	**394,931**	393,857	**394,931**	393,857
Reserves	32	**6,594,371**	5,931,469	**4,472,061**	4,604,986
Total equity attributable to equity holders of the Company		**6,989,302**	6,325,326	**4,866,992**	4,998,843
Non-controlling interests		**(752,115)**	(1,068,815)	**–**	–
TOTAL EQUITY		**6,237,187**	5,256,511	**4,866,992**	4,998,843

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

Qi Yumin
Director

Consolidated Statement of Cash Flows

for the year ended 31st December, 2011

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Cash (used in) generated from operations	34(a)	**(659,775)**	1,170,720
Interest received		**43,749**	58,230
Enterprise income tax paid		**(11,567)**	(48,910)
Net cash (used in) generated from operating activities		**(627,593)**	1,180,040
Investing activities			
Payments for acquisition of property, plant and equipment, construction-in-progress and intangible assets		**(306,349)**	(430,748)
Decrease (Increase) in short-term and pledged bank deposits		**913,755**	(927,335)
Dividend received from an associate		**94,500**	18,795
Dividend received from a jointly controlled entity		**200,000**	–
Proceeds from disposal of property, plant and equipment		**2,030**	45,804
Acquisition of additional interest in a subsidiary without a change in control		**(300,000)**	–
Disposal of a subsidiary	34(c)	**(2,756)**	–
Increase in other long-term assets		**(952)**	(595)
Increase in amounts due from affiliated companies		**(536,712)**	(167,271)
Net cash generated from (used in) investing activities		**63,516**	(1,461,350)
Financing activities			
Increase (Decrease) in amounts due to affiliated companies		**203,720**	(1,006,738)
Issue of notes payable		**683,758**	1,127,452
Repayments of notes payable		**(1,127,452)**	(260,000)
Proceeds from short-term bank loans		**1,296,630**	215,000
Payments of short-term bank loans		**(165,000)**	(773,000)
Issue of share capital		**9,431**	3,227
Interest paid		**(179,103)**	(205,753)
Net cash generated from (used in) financing activities		**721,984**	(899,812)
Increase (Decrease) in cash and cash equivalents		**157,907**	(1,181,122)
Cash and cash equivalents, as at 1st January,		**427,789**	1,608,911
Cash and cash equivalents, as at 31st December,		**585,696**	427,789

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 is an investment holding company. The principal activities of the Company's subsidiaries are the manufacture and sale of minibuses and automotive components in the People's Republic of China (the "**PRC**"). In addition, the Group also has the principal activities of the manufacture and sale of BMW sedans in the PRC through its major jointly controlled entity, BMW Brilliance Automotive Ltd. ("**BMW Brilliance**").

The directors of the Company consider Huachen Automotive Group Holdings Company Limited ("**Huachen**") as the ultimate holding company of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), collective terms of which 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 the basis consistent with the accounting policies adopted in the 2010 financial statements, except for the adoption for the first time the following new HKFRSs, amendments to HKFRSs and interpretations:

HKFRSs (Amendments)	Improvements to HKFRS issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKAS 1 and HKAS 27
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HK(IFRIC)–Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)–Int 19	Extinguishing Financial Liabilities with Equity Instruments

Other than as described below, the adoption of these new and revised HKFRSs, amendments to HKFRSs and interpretations had no material effect on results and financial position of the Group for the current or prior years.

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition and concluded that the revised definition does not have any material impact on the Group's related party disclosures in current and prior years.

HKAS 24 (Revised) also introduces exemption to simplify disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency, or similar body. The Group is considered a government-related entity but the directors of the Company have decided not to take the exemption.

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 which are measured at fair value as explained in note 2(i)(i) below.

(c) Preparation of financial statements

At 31st December, 2011, the Group had net current liabilities of approximately RMB540.2 million. Notwithstanding the Group's current liabilities exceeding its current assets at 31st December, 2011, 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.

At the reporting date, the Group had short-term bank borrowings of RMB1,296.6 million which are renewable on a yearly basis. Management is confident that these borrowings can be renewed on their expiry.

In addition, Huachen has also agreed to provide adequate funds to the Group, if necessary, to meet its liabilities as they fall due. With the continuing profit generated from operations and the financial support from bankers and Huachen, and the decreasing net current liabilities, 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) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In consolidated financial statements, the results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(i) Subsidiaries (Cont'd)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

(ii) Non-controlling interests

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

The Group treats transactions with non-controlling interest as transactions with equity holders of the company. For purchases from non-controlling interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Difference between consideration and respective net assets disposed of to non-controlling interest are also recorded in equity.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) 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 the 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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. Where unrealised losses on asset sales between the Group and its associates or jointly controlled entities are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate or jointly controlled entity uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate or jointly controlled entity's accounting policies to those of the Group when the associate or jointly controlled entity's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interest in the associate or jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or jointly controlled entity. For this purpose, the Group's interest in the associate or jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or jointly controlled entity.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates or jointly controlled entity. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate or jointly controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate or jointly controlled entity and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate or jointly controlled entity, including cash flows arising from the operations of the associate or jointly controlled entity and the proceeds on ultimate disposal of the investment.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

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

In the Company's statement of financial position, investments in associates and jointly controlled entities are stated at cost less accumulated impairment losses unless they are held for sale or included in a disposal group. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. Results of associates and jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable. All dividends whether received out of the associate's or jointly controlled entity's pre or post-acquisition profits are recognised in the Company's profit or loss.

(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 reporting date are re-translated into functional currencies at rates of exchange ruling at the reporting date. Exchange differences arising in these cases are dealt with in the profit or loss.

Cumulative translation adjustments under shareholders' equity represent exchange differences arising from the Company's change in functional currency in previous years.

(e) Intangibles

(i) Goodwill

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

Goodwill is stated at cost less accumulated impairment loss. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(j)).

(ii) Research and development costs

Research costs are charged to profit or loss 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 five years. Development costs that do not meet the above criteria are charged to profit or loss as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangibles (Cont'd)

(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 5 to 10 years.

(f) Property, plant and equipment

Property, plant and equipment, including land and buildings (if any) but 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 profit or loss 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 profit or loss.

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	10 – 20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years
Tools and moulds	20,000 – 420,000 times of usage

(g) 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.

(h) Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land lease prepayments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on 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.

The Group's financial assets other than investments in subsidiaries, associates and jointly controlled entities are classified into available-for-sale financial assets and loans and receivables.

(i) Available-for-sale financial assets

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially recognised at fair value. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate.

(iii) Impairment of financial assets

At each reporting date, the Group assesses for indicators of impairment on financial assets. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered objective evidence of impairment.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

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

For all other financial assets, objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

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.

Loans and receivable

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Impairment loss is recognised in profit or loss for the period in which the impairment occurs.

For financial assets other than accounts receivable, other receivables and receivables from related parties that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. For accounts receivable, other receivables and receivables from related parties, when the recovery of these financial assets is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of these receivables is remote, the amount considered irrecoverable is written off against these receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss in the period in which the reversal occurs.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is reclassified from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

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

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

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances is recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of an available for sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

(iv) Other financial liabilities

The Group's other financial liabilities include accounts and notes payables and other payables, bank loans and other borrowings. These financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

(v) 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. A 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 reporting date.

(j) Impairment of other assets

At each reporting 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 an 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)

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

For the purpose of assessing impairment of goodwill, goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(k) Inventories

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

(l) 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 a maturity of more than three months and within one year at acquisition are classified as short-term deposits.

Pledged short-term deposits are same as short-term deposits except that these deposits are pledged to bankers for banking facilities granted.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Provisions

Provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditure for which a provision has been recognised is charged against the related provision in the year in which the expenditure is incurred. Provisions are reviewed at each reporting 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 reporting date. Minibuses are sold with 24-month or 50,000 kilometres (2010: 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.

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

	2011 **RMB'000**	2010 RMB'000
As at 1st January,	**11,656**	10,908
Provision for warranties during the year	**34,985**	43,461
Settlements during the year	**(32,319)**	(42,713)
As at 31st December,	**14,322**	11,656

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Government grants

Grants from government are recognised at their fair value. Conditional government grants are recognised in the statement of financial position 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 profit or loss 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 profit or loss on a straight-line basis over the expected lives of the related assets.

Any unconditional grant is recognised in profit or loss as revenue when the grant becomes receivable.

(o) Operating leases

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

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

(p) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

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

(iii) Pension obligations

The Group's contributions to defined contribution retirement plans administered by the government of the PRC are recognised as an expense in profit or loss. The assets of the schemes are held separately from those of the Group in independently administered funds. Further information is set out in note 30.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Employee benefits (Cont'd)

(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 cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

(q) Income and other taxes

(i) Income tax

Income tax in profit or loss 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 reporting date, and any adjustment to tax payable in respect of previous years. All changes to current tax assets or liabilities are recognised as a component of tax expenses in profit or loss.

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 reporting date are used to determine deferred taxation.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

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 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 reporting 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Income and other taxes (Cont'd)

(ii) 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% (2010: 17%).

Sale of minibuses is also subject to consumption tax at standard rates of 3% to 12% in 2011 (2010: 3% to 12%).

(r) Contingent liabilities

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.

(s) 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 (Government grants)

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(t) Borrowing costs

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs ceases 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 profit or loss in the period in which they are incurred.

(u) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the directors and the chief operating decision makers for their decisions about resources allocation to the Group's business components, which are determined by the Group's different brands of vehicles, and review of their performance.

The Group has identified the following reportable segments:

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

(2) the manufacture and sale of BMW sedans

The measurement policies the Group adopts for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that the following items are not included in arriving at the operating results of the operating segments.

– expenses related to share-based payments;

– share of results of associates and jointly controlled entities;

– interest income;

– finance costs;

– impairment losses on construction-in-progress and property, plant and equipment;

– impairment losses on intangible assets;

– impairment losses on available-for-sale financial assets;

– impairment losses on receivables;

– corporate income and expenses which are not directly attributable to the business activities of any operating segment; and

– income tax expense (credit)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(u) Segment reporting (Cont'd)

In addition, the operating results of the operating segments include completed segment results of the manufacture and sale of BMW sedans, which are currently reported on the basis of the Group's share of equity interests in the Group's financial statements prepared under HKFRS.

Segment assets include all assets but interests in associates (note 18), interests in jointly controlled entities (note 19), available-for-sale financial assets (note 21), prepayments for a long-term investment (note 20) and advance to SAIAM (note 26). In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Segment liabilities include all liabilities. In addition, Corporate liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

In addition, segment assets and segment liabilities include completed assets and liabilities of the manufacture and sale of BMW sedans segment, which are currently reported on the basis of the Group's share of equity interests in the Group's financial statements prepared under HKFRS.

(v) 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 are assessing the impact, if any, on the Group's and Company's financial statements of the adoption of these new HKFRSs in the future periods.

HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Liabilities[5]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011) (Revised)	Separate Financial Statements[4]
HKAS 28 (2011) (Revised)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial liabilities[5]
HK (IFRIC) – Int 20	Stripping Costs in Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1st July, 2011.
2 Effective for annual periods beginning on or after 1st January, 2012.
3 Effective for annual periods beginning on or after 1st July, 2012.
4 Effective for annual periods beginning on or after 1st January, 2013.
5 Effective for annual periods beginning on or after 1st January, 2014.
6 Effective for annual periods beginning on or after 1st January, 2015.

Information of the above major new and amended HKFRSs are as follows:

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluation of available-for-sale financial assets) and those that may not (e.g. revaluation of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The amendments will be applied retrospectively.

HKFRS 9 – Financial Instruments

The standard is effective for accounting periods beginning on or after 1st January, 2015 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The Directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

3. FUTURE CHANGES IN HKFRSS (Cont'd)

Amendments to HKFRS 7 (Amendments) – Disclosures – Transfers of Financial Assets

Amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 32 (Amendments) – Classification of Rights Issues

Amendments to HKAS 32 address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

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 reporting 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.

(a) Depreciation and amortisation

The net book values of the Group's property, plant and equipment and intangible assets as at 31st December, 2011 were approximately RMB1,393 million (2010: RMB1,377 million) and RMB198 million (2010: RMB185 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 for property, 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.

The intangible assets are amortised on a straight-line basis over their estimated useful lives of 5 to 10 years.

The depreciation and amortisation rates are based on the estimated useful lives and reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets with reference to the current condition and equipment and the level of technological advancement of these assets compared with the market. When there is a change in technological advancement in the market which reduces the expected useful lives of these assets, the depreciation and amortisation rates are adjusted which would have a negative impact on the Group's results.

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

(b) Impairment test of goodwill

The Group determines whether goodwill is required to be impaired based on an estimation of the value of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2011, full provision of impairment was provided for goodwill in investment in subsidiaries while goodwill in investment in associates and jointly controlled entities were RMB26,654,000 (2010: RMB26,654,000) and RMB63,196,000 (2010: RMB74,271,000), respectively. Based on the assessment, no further impairment loss is considered necessary by the directors. If the actual future cash flows of these associates and jointly controlled entities are less than expected, the maximum potential impact to the financial statements would be the carrying amounts of the goodwill.

(c) Impairment on inventories

The Group's management reviews inventory aging analysis at each reporting 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 reporting date and makes allowance for obsolete items.

However, situation in the PRC automobile market could change from time to time and this can put pressure on the selling prices and the turnover of the Group's inventories. As at 31st December, 2011, the Group had inventories of RMB737,338,000 (2010: RMB790,838,000) (net of provision of impairment of RMB53,381,000 (2010: RMB67,989,000)). Should there be an unexpected change in the market, the provision may not be adequate and further impairment may be required and a material loss may arise.

(d) Impairment on receivable

The policy for impairment on the Group's bad and doubtful debts of receivables is based on the estimation of present value of the future cash flows from receivables with reference to aging analysis of accounts. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. As at 31st December, 2011, the Group had accounts receivable (both from third parties and affiliated companies) totaling RMB445,951,000 (2010: RMB1,472,673,000) (net of accumulated impairment losses of RMB38,352,000 (2010: RMB42,805,000)), other receivable of RMB462,916,000 (2010: RMB573,084,000) (net of accumulated impairment losses of RMB89,133,000 (2010: RMB70,792,000)), amounts due from affiliated companies of RMB818,416,000 (2010: RMB246,304,000) (net of accumulated impairment losses of RMB333,207,000 (2010: RMB305,218,000)) and receivable for disposal of discontinued operations of RMB466,500,000 (2010: RMB440,094,000). Where the actual cash flows are less than expected, a material loss may arise.

(e) Warranty provisions

The Group makes provisions under the warranties it gives on sale of its minibuses 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. Any increase or decrease in the provision would affect profit or loss in future years. Details of provisions are set out in note 2(m).

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group's major financial instruments include accounts and notes receivables, other receivables, prepayment for a long-term investment, accounts and notes payables, other payables 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 any balance determined to be unrecoverable.

The Group has no significant concentration of credit risk at 31st December, 2011 except that about 61% (2010: 90%) of accounts receivable were due from Huachen. At 31st December, 2011, the total receivable (inclusive of accounts receivable and other receivable) from Huachen amounted to RMB784 million. However, the Group also had total payable of RMB372 million at 31st December, 2011 to Huachen. Accordingly, the directors consider the credit risk exposure from Huachen at 31st December, 2011 was RMB412 million which was mainly the receivable for disposal of discontinued operations to be received in 2012 as set out in note 33(h). The Group will closely monitor the balance and ensure it will be recovered.

The credit risk on liquid funds with banks is limited because these banks are authorised banks in the PRC with high credit ratings.

The Group's maximum exposure of credit risk is the carrying amounts of the Group's balances in accounts receivable, notes receivable and other receivable from both third parties and affiliated companies and dividend receivable from affiliated companies, amounts due from affiliated companies and receivable for disposal of discontinued operations totaling RMB3,242 million (2010: RMB3,833 million).

The Company's credit risk is mainly arisen from amounts due from affiliated companies and other receivables. The maximum exposure of credit risk is the carrying amount of amounts due from affiliated companies of RMB512 million and other receivables of RMB62 million. The Company reviews regularly the recoverable amount of each individual receivable and adequate provision is made for any balance determined to be unrecoverable.

(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).

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(b) Liquidity risk (Cont'd)

As at 31st December, 2011 and 31st December, 2010, the remaining contractual maturities of the Group's financial liabilities which were all due within one year, based on undiscounted cash flows, are summarised below:

	2011 RMB'000	2010 RMB'000
Financial liabilities		
Accounts payable	1,276,682	1,585,882
Accounts payable to affiliated companies	1,188,856	1,201,965
Notes payable	1,764,354	3,272,484
Notes payable to affiliated companies	26,090	155,135
Other payables	547,940	770,654
Accrued expenses and other current liabilities	66,884	95,667
Short-term bank borrowings	1,296,630	165,000
Amounts due to affiliated companies	184,279	283,443
	6,351,715	7,530,230

	2011 RMB'000	2010 RMB'000
Financial guarantee contracts		
– Shanghai Shenhua Holdings Co., Ltd. ("**Shanghai Shenhua**")	60,000	60,000
– Shenyang JinBei Automotive Co., Limited ("**JinBei**")	446,500	366,500
– Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("**Xinguang Brilliance**")	–	15,000
– Huachen	465,000	1,001,000
	971,500	1,442,500

The Company did not provided any guarantee to any of the company of the Group during the year and at 31st December, 2011 (2010: Same).

(c) Currency risk

Since all operating subsidiaries, associates and jointly controlled entities of the Group operate in the PRC, receivables, cash and cash equivalents, short-term bank deposits and pledged short-term bank deposits 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.

On the other hand, as the management still 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.

No sensitivity analysis of the exchange risk is presented as the effect is considered not significant due to the reason stated above.

The Company does not have significant exposure in currency rates risk.

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(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.

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, 2011 were outstanding for the whole year, a 50 basis point increase or decrease would increase or decrease the profit after tax and equity of the Group for the year by approximately RMB6 million (2010: approximately RMB5 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 reporting date. The analysis was performed on the same basis for 2010.

The Company does not have significant exposure in interest rates risk.

(e) Summary of financial instruments by category

The carrying amounts of the Group's and Company's financial assets at 31st December, 2010 and 31st December, 2011 and liabilities are categorised as follows:

	The Group			The Company		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets at 31st December, 2011						
Prepayment for a long-term investment	–	600,000	600,000	–	–	–
Available-for-sale financial assets	–	15,334	15,334	–	11,196	11,196
Cash and cash equivalents	585,696	–	585,696	38,652	–	38,652
Short-term bank deposits	99,928	–	99,928	–	–	–
Pledged short-term bank deposits	1,183,064	–	1,183,064	–	–	–
Accounts receivable	101,064	–	101,064	–	–	–
Accounts receivable from affiliated companies	344,887	–	344,887	–	–	–
Notes receivable	430,398	–	430,398	–	–	–
Notes receivable from affiliated companies	541,411	–	541,411	–	–	–
Other receivables	462,916	–	462,916	62,182	–	62,182
Dividends receivable from affiliated companies	76,173	–	76,173	–	–	–
Receivable for disposal of discontinued operations	466,500	–	466,500	–	–	–
Amounts due from affiliated companies	818,416	–	818,416	512,187	–	512,187
	5,110,453	615,334	5,725,787	613,021	11,196	624,217

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

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

	The Group			The Company		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets at 31st December, 2010						
Prepayment for a long-term investment	–	600,000	600,000	–	–	–
Available-for-sale financial assets	–	28,778	28,778	–	24,640	24,640
Cash and cash equivalents	427,789	–	427,789	3,069	–	3,069
Short-term bank deposits	120,946	–	120,946	–	–	–
Pledged short-term bank deposits	2,075,801	–	2,075,801	–	–	–
Accounts receivable	120,400	–	120,400	–	–	–
Accounts receivable from affiliated companies	1,352,273	–	1,352,273	–	–	–
Notes receivable	430,043	–	430,043	–	–	–
Notes receivable from affiliated companies	542,302	–	542,302	–	–	–
Other receivables	573,084	–	573,084	2,024	–	2,024
Dividends receivable from affiliated companies	128,673	–	128,673	–	–	–
Receivable for disposal of discontinued operations	440,094	–	440,094	–	–	–
Amounts due from affiliated companies	246,304	–	246,304	26,365	–	26,365
	6,457,709	628,778	7,086,487	31,458	24,640	56,098

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

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

The carrying amounts of the Group's and Company's financial liabilities at 31st December, 2010 and 31st December, 2011 are categorised as follows:

	The Group Financial liabilities measured at amortizes cost		The Company Financial liabilities measured at amortizes cost	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities at 31st December, 2011				
Accounts payable	**1,276,682**	1,585,882	**–**	–
Accounts payable to affiliated companies	**1,188,856**	1,201,965	**–**	–
Notes payable	**1,764,354**	3,272,484	**–**	–
Notes payable to affiliated companies	**26,090**	155,135	**–**	–
Other payables	**547,940**	770,654	**–**	–
Short-term bank borrowings	**1,296,630**	165,000	**–**	–
Amounts due to affiliated companies	**184,279**	283,443	**5,314**	5,545
	6,284,831	7,434,563	**5,314**	5,545

(f) Fair value measurements recognised in the statement of financial position

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the three-level fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(f) Fair value measurements recognised in the statement of financial position (Cont'd)

The Group's and the Company's financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	2011				2010			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets								
Available-for-sale financial assets								
– Listed	**11,196**	**–**	**–**	**11,196**	24,640	–	–	24,640

There have been no transfers between levels 1, 2 and 3 in the reporting years.

The listed equity securities are denominated in Hong Kong dollars. Fair value has been determined by reference to the quoted bid price at the reporting date and has been translated using the spot foreign currency rate at the end of the reporting year where appropriate.

6. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

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

	2011 RMB'000	2010 RMB'000
Revenue		
Sale of minibuses and automotive components	**6,442,858**	8,948,740
Other income		
Subsidy income from government grants	**400**	22,688
Others	**47,637**	69,528
	48,037	92,216
Interest income *(Note 1)*	**76,148**	78,614
	6,567,043	9,119,570

Note 1: Included in interest income is implicit interest of RMB26,406,000 (2010: RMB24,911,000) on the receivable from Huachen with face value of RMB494,490,000 to be received in 2012 for the disposal of Zhonghua sedan business in 2009, and interest income of RMB3,389,000 (2010: Nil) for advances to Xinhua Investment Holdings Limited ("**Xinhua Investment**") (see note 33(g)). The others are mainly bank interest income.

Note 2: During the year, the Group had one major customer with revenue derived from it amounting to 10% or more of the Group's revenue. Revenue derived from this customer during the year amounted to RMB1,962,173,000 (2010: RMB1,558,242,000).

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

The directors identify the Group's operating segments as detailed in note 2(u).

Operating segments – 2011

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's income statement RMB'000	Total RMB'000
Segment sales to external customers	**6,442,858**	**37,531,814**	**(37,531,814)**	**6,442,858**
Segment results	**195,261**	**3,434,836**	**(3,434,836)**	**195,261**
Impairment losses on assets	**(51,309)**	**(156,484)**	**156,484**	**(51,309)**
Unallocated costs net of unallocated income				**10,972**
Interest income				**76,148**
Finance costs				**(193,543)**
Share of results of:				
Associates	**69,418**	**–**	**–**	**69,418**
Jointly controlled entities	**122,202**	**1,720,263**	**–**	**1,842,465**
Profit before income tax expense				**1,949,412**

Operating segments – 2010

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's income statement RMB'000	Total RMB'000
Segment sales to external customers	8,948,740	21,484,930	(21,484,930)	8,948,740
Segment results	568,535	2,116,892	(2,116,892)	568,535
Impairment losses on assets	(32,546)	(67,970)	67,970	(32,546)
Unallocated costs net of unallocated income				(45,227)
Interest income				78,614
Finance costs				(170,771)
Share of results of:				
Associates	92,438	–	–	92,438
Jointly controlled entities	77,869	895,991	–	973,860
Profit before income tax credit				1,464,903

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

Operating segments – 2011

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's statement of financial position RMB'000	Total RMB'000
Segment assets	7,593,932	24,018,218	(24,018,218)	7,593,932
Interests in associates	592,441	–	–	592,441
Interests in jointly controlled entities	520,126	3,057,953	–	3,578,079
Available-for-sale financial assets				15,334
Prepayments for a long-term investment				600,000
Advance to a shareholder of a related party				300,000
Unallocated assets				130,867
Total assets				12,810,653
Segment liabilities	6,562,108	17,902,312	(17,902,312)	6,562,108
Unallocated liabilities				11,358
Total liabilities				6,573,466
Other disclosures:				
Capital expenditure	241,722	4,888,397	(4,888,397)	241,722
Depreciation of property, plant and equipment	105,387	445,631	(445,631)	105,387
Amortisation of land lease prepayments	2,537	11,094	(11,094)	2,537
Amortisation of intangible assets	29,638	47,675	(47,675)	29,638
Provision of inventories	6,925	123,525	(123,525)	6,925
Write-back of provision for inventories sold	21,533	36,849	(36,849)	21,533
Write-back of provision for doubtful debts	9,306	–	–	9,306

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

Operating segments – 2010

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's statement of financial position RMB'000	Total RMB'000
Segment assets	9,078,824	14,668,488	(14,668,488)	9,078,824
Interests in associates	544,044	–	–	544,044
Interests in jointly controlled entities	418,004	2,144,403	–	2,562,407
Available-for-sale financial assets				28,778
Prepayments for a long-term investment				600,000
Advance to a shareholder of a related party				300,000
Unallocated assets				106,075
Total assets				13,220,128
Segment liabilities	7,952,790	10,379,682	(10,379,682)	7,952,790
Unallocated liabilities				10,827
Total liabilities				7,963,617
Other disclosures:				
Capital expenditure	449,213	1,882,959	(1,882,959)	449,213
Depreciation of property, plant and equipment	106,831	426,718	(426,718)	106,831
Amortisation of land lease prepayments	2,538	905	(905)	2,538
Amortisation of intangible assets	30,088	46,224	(46,224)	30,088
Provision of inventories	16,310	36,118	(36,118)	16,310
Write-back of provision for inventories sold	12,136	13,506	(13,506)	12,136
Write-back of provision for doubtful debts	4,845	–	–	4,845

7. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest expenses on:		
– bank loans wholly repayable within one year	**58,033**	30,455
– discounted bank guaranteed notes	**139,790**	126,055
– interest on an amount due to a jointly controlled entity	**5,877**	16,860
	203,700	173,370
Less: interest expense capitalised in intangible assets and construction-in-progress at a rate of 8.8% (2010: 4.2%)	**(10,157)**	(2,599)
	193,543	170,771

8. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is stated after charging and crediting the following:

	Note	2011 RMB'000	2010 RMB'000
Charging:			
Impairment losses on:			
– Intangible assets (b)	13	–	772
– Property, plant and equipment (b)	14	–	1,496
– Accounts receivable (b)	24	**3,644**	–
– Amounts due from affiliated companies (b)	33(g)	**29,198**	14,000
– Other receivables (b)	26	**18,467**	16,278
		51,309	32,546
Loss on deemed disposal of interest in a jointly controlled entity (b)		**22,951**	–
Staff costs	11(a)	**412,464**	427,836
Amortisation of intangible assets (a)	13	**29,638**	30,088
Amortisation of land lease prepayments	16	**2,537**	2,538
Depreciation of property, plant and equipment	14	**105,387**	106,831
Cost of inventories		**5,608,235**	8,244,681
Provision for inventories	23	**6,925**	16,310
Auditors' remuneration		**2,069**	4,359
Research and development costs (b)		**838**	891
Training expenses		**1,782**	849
Operating lease charges in respect of land and buildings		**16,701**	35,280
Exchange loss, net (c)		**20,769**	5,046
Loss on disposal of property, plant and equipment		–	168
Crediting:			
Gross rental income from land and buildings		**3,421**	2,743
Write-back of provision for inventories sold	23	**21,533**	12,136
Gain on disposal of a subsidiary	34(c)	**382**	–
Gain on disposal of property, plant and equipment		**852**	–
Write-back of impairment losses on property, plant and equipment	14	–	168
Write-back of provision for doubtful debts of:			
– Accounts receivable	24	**1,808**	–
– Accounts receivable from affiliated companies	33(d)	**6,289**	–
– Amounts due from affiliated companies	33(g)	**1,209**	4,845

(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 income.

9. INCOME TAX EXPENSE (CREDIT)

The income tax charged (credited) to the consolidated income statement represents:

	2011 **RMB'000**	2010 RMB'000
Current tax		
PRC enterprise income tax		
– Current year	**7,275**	34,582
– Under provision in prior year	**1,735**	10,511
	9,010	45,093
Deferred tax expense (credit) in respect of tax losses (note 29)	**49,000**	(99,000)
Total income tax expense (credit)	**58,010**	(53,907)

PRC enterprise income tax expense on profits arising 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.

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

	2011 **RMB'000**	2010 RMB'000
Profit before income tax expense	**1,949,412**	1,464,903
Calculated at a weighted average statutory taxation rate in the PRC of 23.24% (2010: 23.96%)	**453,055**	351,057
Effect of tax holiday	**(2,009)**	(15,956)
Non-taxable income net of expenses not deductible for taxation purpose	**(421,954)**	(246,421)
Unrecognised temporary differences	**36,599**	28,814
Recognition of previously unrecognised tax losses	**(11,224)**	(99,000)
Utilisation of previously unrecognised tax losses	**–**	(82,912)
Unrecognised tax losses	**1,808**	–
Under provision in prior years	**1,735**	10,511
Tax expense (credit) for the year	**58,010**	(53,907)

9. INCOME TAX EXPENSE (CREDIT) (Cont'd)

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.

All principal subsidiaries operating in the PRC are subject to the enterprise income tax in the PRC at the standard rate of 25% except the following tax concessions and holidays for the following subsidiaries.

For Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**"), Ningbo Yuming Machinery Industrial Co., Ltd. ("**Ningbo Yuming**"), Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("**Ningbo Ruixing**") and Shenyang ChenFa Automobile Component Co., Ltd. ("**Shenyang ChenFa**" which became an associate of the Company at 31st December, 2011 (see note 17)), a transition period of tax concessions were granted since the standard tax rate of 25% was effective in 2008. The tax concession was to increase the tax rate gradually from 18% in 2008 to eventually 25% from 2012 onward. The tax rate under concession in 2011 was 24% (2010: 22%).

Although Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**") is subject to the enterprise income tax in the PRC at standard rates of 25%, Mianyang Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities in 2001. 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 2011, the applicable state income tax rate for Mianyang Ruian is 15%. However, enterprise income tax for Mianygan Ruian was exempted from 2008 to 2010 due to the earthquake which occurred in Sichuan in 2008 according to related policy which was issued by the State Council.

With effect since 1st January, 2008, all profit of the PRC subsidiaries arising since that date that are 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 in the respective subsidiaries and therefore the withholding tax would not be applicable to the Group. Unremitted earnings totaled RMB522,248,806 at 31st December, 2011 (2010: RMB371,994,000).

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to the equity holders of the Company for the year includes a loss of approximately RMB127,838,000 (2010: RMB67,050,000) 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

	2011 RMB'000	2010 RMB'000
Wages, salaries and performance related bonus	**309,553**	333,252
Pension costs – defined contribution plans	**38,908**	32,896
Staff welfare costs	**64,003**	61,688
	412,464	427,836

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

The amounts of emoluments paid and payable to the directors of the Company during 2011 are as follows:

	Fee RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2011				
Executive directors				
Mr. Wu Xiao An	–	12,029	–	12,029
Mr. Qi Yumin	–	7,667	–	7,667
Mr. He Guohua (resigned on 28th June, 2011)	–	646	–	646
Mr. Wang Shiping	–	1,466	–	1,466
Mr. Tan Chengxu	–	2,308	–	2,308
	–	24,116	–	24,116
Non-executive directors				
Mr. Lei Xiaoyang	–	1,035	–	1,035
Independent non-executive directors				
Mr. Xu Bingjin	124	–	–	124
Mr. Song Jian	124	–	–	124
Mr. Jiang Bo	124	–	–	124
	372	–	–	372
	372	25,151	–	25,523

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

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

The aggregate amounts of emoluments paid and payable to the directors of the Company during 2010 are as follows:

	Fee RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2010				
Executive directors				
Mr. Wu Xiao An	–	10,010	10	10,020
Mr. Qi Yumin	–	6,524	–	6,524
Mr. He Guohua	–	1,526	–	1,526
Mr. Wang Shiping	–	1,356	–	1,356
Mr. Tan Chengxu	–	1,857	–	1,857
	–	21,273	10	21,283
Non-executive directors				
Mr. Lei Xiaoyang	–	1,086	–	1,086
Independent non-executive directors				
Mr. Xu Bingjin	130	–	–	130
Mr. Song Jian	130	–	–	130
Mr. Jiang Bo	130	–	–	130
	390	–	–	390
	390	22,359	10	22,759

In both 2010 and 2011,

– no share option was granted to any of the directors;

– no emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office; and

– no directors waived their emoluments.

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.

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

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

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.

- 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

The five highest paid individuals in the Group during the year included three directors (2010: three directors), details of whose emoluments have been disclosed in note (b) above. The emoluments paid to the remaining two individuals (2010: two individuals) for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	**2,732**	2,177
Performance related bonus	**1,655**	2,206
Contributions to pension schemes	**10**	10
	4,397	4,393

The number of the remaining highest paid individuals whose emoluments fell within the following bands is as follows:

	2011	2010
HK$1,000,000 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$3,000,000	**2**	2

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, if any (note 31(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 (2010: Same).

12. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares as follows:

	Number of shares	
	2011	2010
	'000	'000
Weighted average number of shares of ordinary shares		
Issued ordinary shares at 1st January,	**4,993,969**	4,985,519
Effect of share options exercised	**3,626**	7,825
Weighted average number of ordinary shares for calculating basic earnings per share	**4,997,595**	4,993,344
Weighted average number of ordinary shares deemed issued under the Company's share option scheme	**46,172**	46,247
Weighted average number of ordinary shares for calculating diluted earnings per share	**5,043,767**	5,039,591

13. INTANGIBLE ASSETS

	Minibus development costs RMB'000	Sepcialised software RMB'000	Total RMB'000
Cost			
As at 1st January, 2010	183,098	13,182	196,280
Additions	49,582	2,814	52,396
As at 31st December, 2010	232,680	15,996	248,676
As at 1st January, 2011	**232,680**	**15,996**	**248,676**
Additions	**40,017**	**731**	**40,748**
Transfer from construction-in-progress *(note 15)*	**–**	**1,135**	**1,135**
Write-off	**–**	**(7,134)**	**(7,134)**
As at 31st December, 2011	**272,697**	**10,728**	**283,425**
Accumulated amortisation and impairment losses			
As at 1st January, 2010	21,630	10,907	32,537
Amortisation	29,157	931	30,088
Impairment losses	–	772	772
As at 31st December, 2010	50,787	12,610	63,397
As at 1st January, 2011	**50,787**	**12,610**	**63,397**
Amortisation	**28,334**	**1,304**	**29,638**
Eliminated on write-off	**–**	**(7,134)**	**(7,134)**
As at 31st December, 2011	**79,121**	**6,780**	**85,901**
Net book value			
As at 31st December, 2011	**193,576**	**3,948**	**197,524**
As at 31st December, 2010	181,893	3,386	185,279

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Tools and moulds and machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
As at 1st January, 2010	551,445	1,558,876	258,168	83,222	2,451,711
Additions	10,672	209,908	2,072	14,830	237,482
Transfer from construction-in-progress *(note 15)*	5,859	21,646	2,392	471	30,368
Reclassification	693	(10,543)	(748)	10,598	–
Disposals/write-off	–	(85,620)	(15,338)	(10,357)	(111,315)
As at 31st December, 2010	568,669	1,694,267	246,546	98,764	2,608,246
As at 1st January, 2011	**568,669**	**1,694,267**	**246,546**	**98,764**	**2,608,246**
Additions	**2,048**	**59,910**	**11,013**	**6,244**	**79,215**
Transfer from construction-in-progress *(note 15)*	**1,742**	**45,399**	**1,136**	**4,059**	**52,336**
Reclassification	**–**	**(5,655)**	**5,655**	**–**	**–**
Disposal of a subsidiary	**(328)**	**(19,146)**	**(638)**	**(1,956)**	**(22,068)**
Disposals/write-off	**–**	**(238)**	**(3,987)**	**(8,498)**	**(12,723)**
As at 31st December, 2011	**572,131**	**1,774,537**	**259,725**	**98,613**	**2,705,006**
Accumulated depreciation and impairment losses					
As at 1st January, 2010	208,021	734,780	187,653	58,217	1,188,671
Charge for the year	15,686	71,858	12,175	7,112	106,831
Impairment losses	–	1,496	–	–	1,496
Write-back of impairment losses	–	–	(164)	(4)	(168)
Reclassification	152	(738)	(172)	758	–
Eliminated on disposals/write-off	–	(43,881)	(13,365)	(8,097)	(65,343)
As at 31st December, 2010	223,859	763,515	186,127	57,986	1,231,487
As at 1st January, 2011	**223,859**	**763,515**	**186,127**	**57,986**	**1,231,487**
Charge for the year	**15,357**	**70,248**	**12,335**	**7,447**	**105,387**
Reclassification	**–**	**53**	**(53)**	**–**	**–**
Disposal of a subsidiary	**(100)**	**(11,605)**	**(527)**	**(1,480)**	**(13,712)**
Eliminated on disposals/write-off	**–**	**(208)**	**(3,585)**	**(7,752)**	**(11,545)**
As at 31st December, 2011	**239,116**	**822,003**	**194,297**	**56,201**	**1,311,617**
Net book value					
As at 31st December, 2011	**333,015**	**952,534**	**65,428**	**42,412**	**1,393,389**
As at 31st December, 2010	344,810	930,752	60,419	40,778	1,376,759

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

15. CONSTRUCTION-IN-PROGRESS

	2011 RMB'000	2010 RMB'000
As at 1st January,	**208,059**	79,092
Additions	**121,759**	159,335
Transfer to intangible assets *(note 13)*	**(1,135)**	–
Transfer to property, plant and equipment *(note 14)*	**(52,336)**	(30,368)
As at 31st December,	**276,347**	208,059

16. LAND LEASE PREPAYMENTS

The carrying value of land lease prepayments represents cost less accumulated amortization 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, 2011 amounts to RMB2,537,000 (2010: RMB2,537,000).

	2011 RMB'000	2010 RMB'000
Cost		
As at 1st January, and at 31st December,	**89,919**	89,919
Accumulated amortisation		
As at 1st January,	**23,413**	20,875
Charge for the year	**2,537**	2,538
As at 31st December,	**25,950**	23,413
Net book value		
As at 31st December,	**63,969**	66,506

17. INTERESTS IN SUBSIDIARIES

Company	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	**4,127,744**	4,269,502
Accumulated impairment losses on investment	**(1,768,000)**	(1,768,000)
	2,359,744	2,501,502
Amounts due from subsidiaries:		
– interest bearing *(Note a)*	**6,943**	409,805
– non-interest bearing *(Note b)*	**2,015,599**	2,190,372
	2,022,542	2,600,177
Accumulated impairment losses on doubtful debts	**(272,000)**	(272,000)
	1,750,542	2,328,177
	4,110,286	4,829,679

Notes:

(a) The amounts are interest-bearing at rates ranging from 5% to 7.8125% (2010: 5% to 7.8125%) per annum, unsecured and repayable on demand.

(b) The amounts are unsecured, interest-free and repayable on demand.

Details of the Company's all subsidiaries as at 31st December, 2011 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 *(Note a)*	Shenyang, the PRC	US$444,160,000	Equity joint venture	51%	9.9%	Manufacture, assembly and sale of minibuses and automotive components
Ningbo Yuming	Ningbo, the PRC	US$22,500,000	Wholly foreign owned enterprise	–	100%	Manufacture and sale of automotive components
Shenyang XingYuanDong Automobile Component Co., Ltd. ("**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

17. 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*	
Mianyang Ruian	Mianyang, the PRC	US$222,000,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("**Dongxing Automotive**")	Shenyang, the PRC	RMB220,000,000	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	–	80.45%	Trading of automotive components
Shenyang Jianhua Motors Engine Co., Ltd. ("**Shenyang Jianhua**")	Shenyang, the PRC	RMB155,032,500	Equity joint venture	–	68.72%	Investment holding
China Brilliance Automotive Components Group Limited	Bermuda	US$12,000	Company with limited liabilities	100%	–	Investment holding
Brilliance Investment Holdings Limited ("**Brilliance Investment**") *(Note b)*	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 Finance Limited. ("**Brilliance Finance**")	British Virgin Islands	US$50,000	Company with limited liabilities	100%	–	Investment holding
Shenyang XinJinBei Investment and Development Co., Ltd. ("**SXID**")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	–	100%	Investment holding

17. 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*	
Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("**SJAI**")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	–	100%	Investment holding
Shanghai Hidea Auto Design Co., Ltd. ("**Shanghai Hidea**") *(Note e)*	Shanghai, the PRC	US$2,000,000	Equity joint venture	25%	45.68%	Design of automobiles

Note a: During the year, the Group, without the change in control, acquired a further 9.9% indirect equity interest in Shenyang Automotive for a consideration of RMB300,000,000.

Note b: Brilliance Investment was incorporated in 2011 for the purpose to restructure the investment of the Company in Southern State Investment Limited, a directly wholly owned subsidiary of the Company up to 1st July, 2011 as detailed in note 19.

Note c: During the year, the Company also disposed of the 75% equity interest in Shenyang ChenFa, with principal activities of development, manufacture and sale of engine components, to an independent third party for a consideration of RMB60,000,000 as detailed in note 34(c).

Note d: 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.

Note e: The Group has effective equity interest of 70.68% in Shanghai Hidea (which comprises of 25% direct interest and 75% equity interest being held by Shenyang Automotive, a 60.9% owned subsidiary of the Company).

18. INTERESTS IN ASSOCIATES

	The Group		**The Company**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1st January,	**544,044**	504,106	**121,310**	121,310
Fair value of equity interest retained from a subsidiary becoming an associate upon loss of control by the Company	**19,873**	–	**19,873**	–
Share of results of associates	**69,418**	92,438	**–**	–
Dividends	**(42,000)**	(52,500)	**–**	–
Other movements	**1,106**	–	–	–
At 31st December,	**592,441**	544,044	**141,183**	121,310

Included in the Group's interests in associates is goodwill with a carrying amount of RMB26,654,000 (2010: RMB26,654,000), net of accumulated impairment loss of RMB7,014,000 (2010: RMB7,014,000), relating to the investment in Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("**Shenyang Aerospace**").

18. INTERESTS IN ASSOCIATES (Cont'd)

After application of the equity method to account for the Group's investments in the associates, there was no indication of impairment (2010: Same).

Details of the Group's associates as at 31st December, 2011 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 directly	Percentage of effective equity interest/voting right held indirectly	Principal activities
Shenyang Aerospace *(Note)*	Shenyang, the PRC	RMB738,250,000	Equity joint venture	–	14.43%	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
Shenyang ChenFa	Shenyang, the PRC	US$19,000,000	Equity joint venture	25%	–	Development, manufacture and sale of engines and engine components
Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**")	Shenyang, the PRC	US$29,900,000	Equity joint venture	49%	–	Manufacture and sale of power train

Note: The Group has effective equity interest of 14.43% in Shenyang Aerospace through an indirect 21% equity interest held by Shenyang Jianhua (20% and 80% equity interest in Shenyang Jianhua were held by Xing Yuan Dong, a wholly-owned subsidiary of the Company, and Shenyang Automotive, a 60.9% owned subsidiary of the Company, respectively). The Group has significant influence on Shenyang Aerospace through Shenyang Jianhua.

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, 2011 is summarised as follows:

	2011 RMB'000	2010 RMB'000
Non-current assets	**1,580,741**	1,601,934
Current assets	**3,102,801**	2,081,035
Current liabilities	**(2,232,658)**	(1,515,510)
Non-current liabilities	**(82,108)**	(66,936)
Net assets	**2,368,776**	2,100,523
Turnover	**4,800,871**	3,994,987
Net profit	**388,854**	436,477
Net profit attributable to the Group	**69,418**	92,438

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2011 RMB'000	2010 RMB'000
At 1st January,	**2,562,407**	1,751,854
Share of results of jointly controlled entities	**1,842,465**	973,860
Share of other equity movements	**(606,713)**	37,805
Dividends	**(200,000)**	(200,000)
Deemed disposal	**(22,951)**	–
Other movements	**2,871**	(1,112)
At 31st December,	**3,578,079**	2,562,407

Note: Included in interests in jointly controlled entities is goodwill with a carrying amount of RMB63,196,000 (2010: RMB74,271,000) relating to investment in Mianyang Xinchen Engine Co. Ltd. ("**Mianyang Xinchen**"). After application of the equity method to account for the Group's investment in these jointly controlled entities, there was no indication of impairment and no further provision for impairment on the investment is required.

Details of the Group's jointly controlled entities as at 31st December, 2011 were as follows:

Name of company	Place of incorporation/ establishment	Registered capital/ issued and paid up capital	Legal structure	Percentage of effective equity interest/voting right held indirectly	Principal activities
Xinchen China Power Holdings Limited ("**Xinchen China**") *(Note)*	Cayman Islands	HK$9,401,998	Company with limited liability	42.54%	Investment holding
Southern State Investment Limited ("**Southern State**") *(Note)*	British Virgin Islands	US$1	Company with limited liability	42.54%	Investment holding
Mianyang Xinchen *(Note)*	Mianyang, the PRC	US$24,120,000	Equity joint venture	42.54%	Development, manufacture and sale of automotive engines for passenger vehicles and light commercial vehicles
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	50%	Manufacture and sale of BMW sedans

Note: On 1st July, 2011, the Company disposed of its 100% equity interest in Southern State, which at that time held 50% equity interest in Mianyang Xinchen, to Xinchen China, a wholly owned subsidiary of Brilliance Investment which in turn was owned as to 100% directly by the Company. On 29th August, 2011, Xinchen China, through Southern State, acquired the remaining 50% equity interest in Mianyang Xinchen for approximately RMB354,655,000 which was financed by a loan of approximately RMB354,655,000 from Xinhua Investment, a wholly owned subsidiary of the seller of the 50% equity interest of Mianyang Xinchen. The loan was then capitalised into 50% equity interest of Xinchen China on the same day. As such, Xinchen China was owned as to 50% by Brilliance Investment and 50% by Xinhua Investment on 29th August, 2011.

On 31st October, 2011, Xinchen China issued new shares, which represent 14.912% of the enlarged issued share capital immediately after the issue, to two strategic investors for a consideration of approximately RMB124,212,000.

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

The Group's share of BMW Brilliance's assets, liabilities, income and expenses are as follows:

	2011 RMB'000	2010 RMB'000
Non-current assets	**5,058,926**	2,615,313
Current assets	**6,950,183**	4,718,931
Current liabilities	**(8,202,852)**	(4,989,382)
Non-current liabilities	**(748,304)**	(200,459)
Net assets	**3,057,953**	2,144,403
Income	**18,765,907**	10,742,465
Expenses	**(17,045,644)**	(9,846,474)
Net profit attributable to the Group	**1,720,263**	895,991

The Group's share of other jointly controlled entities' assets, liabilities, income and expenses are as follows:

	2011 RMB'000	2010 RMB'000
Non-current assets	**225,764**	186,952
Current assets	**1,310,357**	988,797
Current liabilities	**(1,048,862)**	(799,406)
Non-current liabilities	**(14,699)**	(32,610)
Net assets	**472,560**	343,733
Income	**1,383,684**	1,167,334
Expenses	**(1,261,482)**	(1,089,465)
Net profit attributable to the Group	**122,202**	77,869

20. PREPAYMENTS FOR A LONG-TERM INVESTMENT

On 29th December, 2003, SJAI (currently an indirectly wholly-owned subsidiary of the Company) and SXID (currently 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**"). As at 31st December, 2011, SAIAM owns 24.38% while SXI owns 8.97% of the equity interest in 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 33.35% of the issued share capital of JinBei.

As at 31st December, 2011 and 2010, 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.

The directors are currently evaluating market situation and considering potential options for this investment, in light of the Group's latest strategy and future plans.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Equity investments				
– Unlisted, at cost	**4,138**	4,138	**–**	–
– Listed in Hong Kong, at fair value	**11,196**	24,640	**11,196**	24,640
At 31st December,	**15,334**	28,778	**11,196**	24,640

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 will hold it for a long term purpose.

The Company's available-for-sale financial assets represent the same equity investment listed in Hong Kong with fair value of RMB11,196,000 (2010: RMB24,640,000) as set out above.

22. PLEDGED SHORT-TERM BANK DEPOSITS

Pledged short-term bank deposits as at 31st December, 2011 were pledged for the following purposes:

	2011 RMB'000	2010 RMB'000
Issue of bank guaranteed notes to trade creditors *(Note)*	**969,384**	1,862,121
Bank loans granted to JinBei *(note 33(b)(i))*	**213,680**	213,680
	1,183,064	2,075,801

Note:
In addition to short-term bank deposits, as at 31st December, 2011, the Group also pledged bank guaranteed notes receivable from third parties and affiliated companies of approximately RMB197 million (2010: RMB220 million) for issue of bank guaranteed notes.

23. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	**262,927**	309,275
Work-in-progress	**209,315**	117,320
Finished goods	**318,477**	432,232
	790,719	858,827
Less: provision for inventories	**(53,381)**	(67,989)
	737,338	790,838

As at 31st December, 2011, the carrying amount of inventories that were stated at net realisable value amounted to approximately RMB72 million (2010: RMB78 million).

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

	2011 RMB'000	2010 RMB'000
At 1st January,	**67,989**	93,147
Obsolete inventories written off	**–**	(29,332)
Provision for the year	**6,925**	16,310
Reversal for the year	**(21,533)**	(12,136)
At 31st December,	**53,381**	67,989

The reversal of provision for inventories represents the reversal for provision previously recognised for inventories that were sold during the year (2010: Same).

24. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable is set out below:

	2011	2010
	RMB'000	RMB'000
Less than six months	**90,145**	93,363
Six months to one year	**3,599**	14,680
Above one year but less than two years	**998**	12,651
Two years or above	**23,286**	14,834
	118,028	135,528
Less: provision for doubtful debts	**(16,964)**	(15,128)
	101,064	120,400

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

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

	2011	2010
	RMB'000	RMB'000
At 1st January,	**15,128**	21,377
Impairment loss recognised	**3,644**	–
Uncollectible amounts written off	**–**	(6,249)
Write-back of previously recognised impairment losses	**(1,808)**	–
At 31st December,	**16,964**	15,128

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.

24. 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:

	2011	2010
	RMB'000	RMB'000
Six months to one year	**3,599**	14,680
Above one year but less than two years	**998**	12,357
Two years or above	**6,322**	–
	10,919	27,037

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, 2011 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.

25. 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, 2011, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 31st December, 2011 (2010: Same).

26. OTHER RECEIVABLES

	The Group		**The Company**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance to SAIAM	**300,000**	300,000	**–**	–
Receivable for disposal of a subsidiary *(note 34(c))*	**60,000**	–	**60,000**	–
Others	**192,049**	343,876	**2,182**	2,024
	552,049	643,876	**62,182**	2,024
Less: provision for doubtful debts	**(89,133)**	(70,792)	**–**	–
At 31st December,	**462,916**	573,084	**62,182**	2,024

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 20. 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.

26. OTHER RECEIVABLES (Cont'd)

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 receivables during the year, including both specific and collective loss components, is as follows:

	2011	2010
	RMB'000	RMB'000
At 1st January,	**70,792**	97,183
Impairment loss recognised	**18,467**	16,278
Uncollectible amounts written off	**–**	(42,669)
Disposal of a subsidiary	**(126)**	–
At 31st December,	**89,133**	70,792

As at 31st December, 2011, the Group's other receivables of RMB89,133,000 (2010: RMB70,792,000) was individually determined to be impaired. The individual 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.

27. ACCOUNTS PAYABLE

An aging analysis of accounts payable based on the invoice dates is set out below:

	2011	2010
	RMB'000	RMB'000
Less than six months	**1,151,622**	1,413,364
Six months to one year	**63,011**	113,237
Above one year but less than two years	**20,718**	26,524
Two years or above	**41,331**	32,757
	1,276,682	1,585,882

Accounts payable with balances denominated in currencies other than Renminbi are considered not significant. All these amounts are portable within 1 year.

28. SHORT-TERM BANK BORROWINGS

	2011 RMB'000	2010 RMB'000
Secured bank borrowings	**74,000**	30,000
Unsecured bank borrowings	**1,222,630**	135,000
	1,296,630	165,000

All bank borrowings at 31st December, 2011 are interest-bearing at rates ranging from 6.06% to 9.15% per annum (2010: 5.31% to 6.12% per annum) and repayable from 15th January, 2012 to 30th December, 2012.

Buildings, land lease prepayments and machinery and equipment with net book values of approximately RMB57 million (2010: RMB49 million) and RMB55 million (2010: RMB56 million) and RMB52 million (2010: Nil), respectively, were pledged to secure bank borrowings of RMB74 million (2010: RMB30 million).

29. DEFERRED TAX ASSETS

Deferred tax assets recognised represent the tax effect of RMB50 million (2010: RMB99 million) from tax losses of the Group. The details of movements of recognised deferred tax asset in respect of tax losses are as follows:

	2011 RMB'000	2010 RMB'000
At 1st January,	**(99,000)**	–
Charge (Credit) to profit or loss	**49,000**	(99,000)
At 31st December,	**(50,000)**	(99,000)

During the year, RMB60,224,000 deferred tax asset in respect of tax losses was reversed due to the utilisation of tax losses by the Group. At 31st December, 2011, a further RMB11,224,000 deferred tax asset in respect of previously unrecognised tax losses was recognised based on the Group's profit forecast of the coming three years. As a result, RMB49,000,000 in respect of deferred tax asset is charged in the consolidated income statement.

As at 31st December, 2011, the Group still had unrecognised deferred tax asset in respect of tax losses of RMB3,645 million (2010: RMB3,900 million) which will expire within the following years.

	2011 RMB'000	2010 RMB'000
Expired in:		
2011	**–**	21,978
2012	**4,278**	4,664
2013	**158,321**	398,073
2014	**3,475,509**	3,475,509
2015	**–**	–
2016	**7,232**	–
	3,645,340	3,900,224

In addition, as at 31st December, 2011 the Group also had not recognised deferred tax assets in respect of temporary differences of RMB583 million (2010: RMB428 million) for the reason that it is uncertain as to their recoverability.

30. 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 12% to 22% (2010: 12% to 22%) 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 profit or loss 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, 2011 were approximately RMB38.9 million (2010: RMB32.9 million).

31. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	2011		2010	
	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, and 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,	**4,993,969**	**RMB393,857**	4,985,519	RMB393,283
Issue of new shares by exercising share options	**16,800**	**RMB1,074**	8,450	RMB574
As at 31st December,	**5,010,769**	**RMB394,931**	4,993,969	RMB393,857

On 25th May, 2011, 2,800,000 ordinary shares with a par value of US$0.01 each were issued as a result of an exercise on 24th May, 2011 of 2,800,000 share options granted under the Old Share Option Scheme (see (c) below) at a consideration of approximately RMB4,418,000 (equivalent to approximately HK$5,309,000), of which RMB4,237,000 was credited to the share premium account.

During 4th July, 2011 to 29th December, 2011, an aggregate of 14,000,000 ordinary shares with a par value of US$0.01 each were issued as a result of exercise of 14,000,000 share options granted under the New Share Option Scheme (see (c) below) at an aggregate consideration of approximately RMB5,013,000 (equivalent to HK$6,132,000), of which RMB6,264,000 was credited to the share premium account and RMB2,144,000 was debited to the share option reserve.

31. 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, including adjustments to the amount of dividends paid to shareholders, issue of new shares and return of capital to shareholders, etc.

Management monitors its capital structure on the basis of debt-to-equity ratio. For this purpose, the Group defines debts as the sum of all short-term debts and long-term debts, including bank borrowings, notes payable for financing purpose and amounts due to affiliated companies. As at 31st December, 2011, the Group's debt-to-equity ratio was 34.71% (2010: 29.98%).

The net debt to equity ratio at the reporting date was:

	The Group		The Company	
	As at 31st December, 2011 RMB'000	As at 31st December, 2010 RMB'000	**As at 31st December, 2011 RMB'000**	As at 31st December, 2010 RMB'000
Short-term bank borrowings	**1,296,630**	165,000	**–**	–
Amounts due to affiliated companies	**184,279**	283,443	**5,314**	5,545
Notes payable for financing purpose	**683,758**	1,127,452	**–**	–
Net debt	**2,164,667**	1,575,895	**5,314**	5,545
Total equity	**6,237,187**	5,256,511	**4,866,992**	4,998,843
Net debt to equity ratio	**34.71%**	29.98%	**0.11%**	0.11%

(c) Share options

The Company

On 18th September, 1999, the Company approved a share option scheme ("**Old Share Option 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.

Each of the outstanding share options under the Old Share Option 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.

On 24th May, 2011, all remaining outstanding 2,800,000 share options granted under the Old Share Option Scheme were exercised.

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

(c) Share options (Cont'd)

New Share Option Scheme

On 11th November, 2008, the Company adopted a new share option scheme ("**New Share Option Scheme**").

The terms of the New Share Option Scheme allows for the Company's board of directors to 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.

In addition, the New Share Option 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 Share Option Scheme clarifies the circumstances under which options granted to non-employees of the Group or Invested Entities will lapse.

Details of movements of share options granted under the New Share Option Scheme, all with exercise price at HK$0.438 and exercisable from 22nd December, 2008 to 21st December, 2018, during the year are as follows:

	2011 Options	2010 Options
At 1st January,	**50,000,000**	60,450,000
Exercised during the year	**(14,000,000)**	(8,450,000)
Lapsed/Cancelled during the year	**–**	(2,000,000)
At 31st December,	**36,000,000**	50,000,000

The weighted average share price for share options exercised during the year at the date of exercise was HK$8.11 (2010: HK$2.01).

The weighted average remaining contractual life of the share options granted under the New Share Option Scheme outstanding as at 31st December, 2011 was approximately 6.58 years (2010: 7.58 years).

32. RESERVES

The Group

	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustment reserve RMB'000	Difference arising from acquisition of non-controlling interests RMB'000	Dedicated capital RMB'000 *(Note a)*	Share options reserve RMB'000	Capital reserve RMB'000 *(Note b)*	Retained earnings RMB'000 *(Note c)*	Total RMB'000
At 1st January, 2010	27,427	2,445,542	22,067	39,179	–	213,338	9,475	120,000	1,751,702	4,628,730
Cancellation of share options	–	–	–	–	–	–	(307)	–	307	–
Increase in interest in a subsidiary	277	–	–	–	–	–	–	–	–	277
Issue of new shares by exercise of share options	–	3,978	–	–	–	–	(1,325)	–	–	2,653
Transfer to dedicated capital	–	–	–	–	–	8,951	–	–	(8,951)	–
Total comprehensive income	37,805	–	(8,922)	–	–	–	–	–	1,270,926	1,299,809
At 31st December, 2010	65,509	2,449,520	13,145	39,179	–	222,289	7,843	120,000	3,013,984	5,931,469
At 1st January, 2011	**65,509**	**2,449,520**	**13,145**	**39,179**	**–**	**222,289**	**7,843**	**120,000**	**3,013,984**	**5,931,469**
Disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**(10,100)**	**–**	**–**	**10,100**	**–**
Acquisition of additional interests in a subsidiary without a change in control	**–**	**–**	**–**	**–**	**(537,584)**	**–**	**–**	**–**	**–**	**(537,584)**
Issue of new shares by exercise of share options	**–**	**10,501**	**–**	**–**	**–**	**–**	**(2,144)**	**–**	**–**	**8,357**
Transfer to dedicated capital	**–**	**–**	**–**	**–**	**–**	**2,200**	**–**	**–**	**(2,200)**	**–**
Total comprehensive income	**(606,713)**	**–**	**(13,444)**	**–**	**–**	**–**	**–**	**–**	**1,812,286**	**1,192,129**
At 31st December, 2011	**(541,204)**	**2,460,021**	**(299)**	**39,179**	**(537,584)**	**214,389**	**5,699**	**120,000**	**4,834,170**	**6,594,371**

32. RESERVES (Cont'd)

The Group (Cont'd)

(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, 2011, appropriations of approximately RMB2.2 million (2010: RMB9.0 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 (2010: Same). Under HKFRSs, the appropriation for the staff welfare and incentive bonus fund is charged to the profit or loss.

(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, 2011 amounted to approximately RMB4,558.1 million (2010: RMB2,614.7 million). The distributable profits of subsidiaries under generally accepted accounting principles in the PRC are different from the amounts reported under HKFRSs.

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, 2010	2,445,542	22,067	39,179	9,475	2,162,042	4,678,305
Cancellation of share options	–	–	–	(307)	307	–
Issue of new shares by exercise of share options	3,978	–	–	(1,325)	–	2,653
Total comprehensive loss	–	(8,922)	–	–	(67,050)	(75,972)
As at 31st December, 2010	2,449,520	13,145	39,179	7,843	2,095,299	4,604,986

32. RESERVES (Cont'd)

The Company (Cont'd)

	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, 2011	**2,449,520**	**13,145**	**39,179**	**7,843**	**2,095,299**	**4,604,986**
Issue of new shares by exercise of share options	**10,501**	**–**	**–**	**(2,144)**	**–**	**8,357**
Total comprehensive loss	**–**	**(13,444)**	**–**	**–**	**(127,838)**	**(141,282)**
As at 31st December, 2011	**2,460,021**	**(299)**	**39,179**	**5,699**	**1,967,461**	**4,472,061**

The directors consider that the Company had approximately RMB2,006.6 million (2010: RMB2,134.5 million) available for distribution to shareholders.

33. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
JinBei	A shareholder of Shenyang Automotive
Shanghai Shenhua	Common directorship of certain directors of the Company
Brilliance Holdings Limited ("**BHL**")	Common directorship of certain directors of the Company
Huachen	Ultimate holding company 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.

33. RELATED PARTY TRANSACTIONS (Cont'd)

(b) The related party transactions in respect of items listed below also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Particulars of the connected transactions and continuing connected transactions are detailed in the Report of the Directors.

	2011 **RMB'000**	2010 RMB'000
Sales of goods:		
– Affiliated companies of JinBei	**6,066**	5,888
– Huachen and its affiliated companies	**743,259**	2,355,592
Purchases of goods:		
– Affiliated companies of JinBei	**550,470**	649,585
– Huachen and its affiliated company	**728,019**	985,918
Sub-contrating charges to:		
– Huachen and its affiliated company	**44,858**	207,644

(i) On 10th November, 2010, a member of the Group and JinBei entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB600 million (2010: RMB600 million) from 1st January, 2011 to 31st December, 2011. As at 31st December, 2011, RMB446.5 million (2010: RMB366.5 million) of these guarantees was drawn by JinBei for its revolving bank loans together with the support of the pledge of the Group's bank deposits of RMB214 million (2010: RMB214 million). On 11th November, 2011, an agreement was entered into by both parties to provide the same cross guarantee to each other from 1st January, 2012 to 31st December, 2012.

(ii) On 10th November, 2010, a member of the Group and Huachen entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB1,500 million (2010: RMB1,500 million) from 1st January, 2011 to 31st December, 2011. As at 31st December, 2011, RMB465 million (2010: RMB1,001 million) of these guarantees was drawn by Huachen for its revolving bank loans. On 11th November, 2011, an agreement was entered into by both parties to provide the same cross guarantee to each other from 1st January, 2012 to 31st December, 2012.

33. RELATED PARTY TRANSACTIONS (Cont'd)

(c) In addition to the above, the Group also had the following material related party transactions which were not considered as continuing connected transactions/connected transactions under the Main Board Listing Rules. Details of such transactions are set out below:

	2011 RMB'000	2010 RMB'000
Sales of goods:		
– Shanghai Shenhua and its affiliated companies	2,618,434	1,613,307
– Jointly controlled entities	45,437	40,466
– Associates	84,468	93,756
Purchases of goods:		
– An affiliated company of BHL	9,598	153,378
– Jointly controlled entities	656,102	1,003,980
– Associates	235,000	273,562
– An affiliated company of Shanghai Shenhua	3,470	619
– An affiliated company of the joint venture partner of Xinguang Brilliance	4	33
– Shareholders of Shenyang Aerospace and their affiliated companies	–	2,079
Other transactions:		
Interest to a jointly controlled entity	5,877	16,860
Interest from an affiliated company of a shareholder of a jointly controlled entity	3,389	–
Proceeds from disposal of property, plant and equipment to Huachen	–	43,217
Operating lease rental on land and buildings charged by:		
– Huachen	2,000	2,000
– Shanghai Shenhua	597	593
Operating lease rental from:		
– Huachen	2,300	2,300

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.

In addition, the Group had provided corporate guarantees for revolving bank loans and bank guaranteed notes to affiliated companies of Shanghai Shenhua and Xinguang Brilliance. At 31st December, 2011, RMB60 million (2010: RMB60 million) of these corporate guarantees was drawn by Shanghai Shenhua for these banking facilities utilised and none was drawn by Xinguang Brilliance (2010: RMB15 million).

33. RELATED PARTY TRANSACTIONS (Cont'd)

(d) As at 31st December, 2011, the Group's accounts receivable from affiliated companies consisted of the following:

	2011	2010
	RMB'000	RMB'000
Accounts receivable from related parties:		
– Shanghai Shenhua and its affiliated companies	**10,416**	10,416
– Affiliated companies of JinBei	**19,311**	27,836
– Huachen and its affiliated companies	**309,511**	1,321,991
– Associates	**12,217**	19,690
– Jointly controlled entities	**14,820**	17
	366,275	1,379,950
Less: provision for doubtful debts	**(21,388)**	(27,677)
	344,887	1,352,273

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

	2011	2010
	RMB'000	RMB'000
At 1st January,	**27,677**	27,677
Write-back of previously recognised impairment losses	**(6,289)**	–
At 31st December,	**21,388**	27,677

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

	2011	2010
	RMB'000	RMB'000
Less than six months	**177,271**	1,296,105
Six months to one year	**75,697**	51,577
Above one year but less than two years	**88,359**	6,754
Two years or above	**24,948**	25,514
	366,275	1,379,950

33. RELATED PARTY TRANSACTIONS (Cont'd)

(d) (Cont'd)

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

	2011 RMB'000	2010 RMB'000
Six months to one year	**75,697**	51,577
Above one year but less than two years	**88,359**	2,535
Two years or above	**3,561**	2,056
	167,617	56,168

At as 31st December, 2011, the Group's accounts receivable from affiliated companies of RMB21,388,000 (2010: RMB27,677,000) 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 slow 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.

(e) As at 31st December, 2011, the Group's notes receivable from affiliated companies arising from trading activities consisted of the following:

	2011 RMB'000	2010 RMB'000
Notes receivable from related parties:		
– Affiliated companies of JinBei	**1,694**	43,066
– Shanghai Shenhua and its affiliated companies	**496,117**	343,009
– An associate	**–**	137
– A jointly controlled entity	**500**	–
– Huachen	**43,100**	156,090
	541,411	542,302

All notes receivable from affiliated companies are guaranteed by established banks in the PRC and have maturities of six months or less from 31st December, 2011 (2010: Same).

33. RELATED PARTY TRANSACTIONS (Cont'd)

(f) As at 31st December, 2011, the Group's dividends receivable from affiliated companies consisted of:

	2011 **RMB'000**	2010 RMB'000
Dividend receivable from related parties:		
– A jointly controlled entity	**76,173**	76,173
– An associate	**–**	52,500
	76,173	128,673

(g) As at 31st December, 2011, the amounts due from affiliated companies consisted of:

	The Group		**The Company**	
	2011 **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
Amounts due from related parties				
– A jointly controlled entity	**16,288**	26,365	**16,288**	–
– An associate	**302,884**	–	**196,884**	26,365
– Affiliated companies of BHL	**310,605**	282,616	**–**	–
– Shanghai Shenhua and its affiliated company	**14,153**	14,012	**–**	–
– Huachen	**4,123**	99,942	**–**	–
– Xinhua Investment	**299,015**	–	**299,015**	–
– BMW Brilliance	**137,530**	62,097	**–**	–
– JinBei and its affiliated companies	**67,025**	66,490	**–**	–
	1,151,623	551,522	**512,187**	26,365
Less: provision for doubtful debts	**(333,207)**	(305,218)	**–**	–
	818,416	246,304	**512,187**	26,365

Amounts due from affiliated companies are unsecured and repayable on demand and except for the amount due from a joint venture shareholder of Xinchen China, the amounts due are also interest-free.

To facilitate the group restructure as set out in note 19, the Company advanced RMB295,626,000 for transition purpose to Xinhua Investment for the loan of RMB354,655,000 advanced to Xinchen China.

33. RELATED PARTY TRANSACTIONS (Cont'd)

(g) (Cont'd)

The movement in allowance for doubtful debts for the above amounts is as follows:

	2011 **RMB'000**	2010 RMB'000
At 1st January,	**305,218**	296,063
Impairment losses	**29,198**	14,000
Write-back of previously recognised impairment losses	**(1,209)**	(4,845)
At 31st December,	**333,207**	305,218

After the provision for amounts long overdue from affiliated companies, the unprovided balances are either from affiliated companies which had made repayments during the year or up to the 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.

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

	2011 **RMB'000**	2010 RMB'000
Six months to one year	**16,743**	2,350
Above one year but less than two years	**106,217**	–
Two years or above	**197,946**	27,427
	320,906	29,777

(h) In 2009, the Group disposed of its Zhonghua sedan business to Huachen for a consideration of approximately RMB494,490,000 which is wholly payable in 2012. With an imputed interest rate of 6%, this receivable is discounted at the present value of RMB466,500,000 (2010: RMB440,094,000).

33. RELATED PARTY TRANSACTIONS (Cont'd)

(i) As at 31st December, 2011, the Group's accounts payable to affiliated companies arising from trading activities consisted of the following:

	2011 RMB'000	2010 RMB'000
Due to related parties:		
– Associates	**37,749**	107,478
– Jointly controlled entities	**391,240**	479,035
– Huachen	**314,450**	109,158
– An affiliated company of BHL	**34,041**	67,963
– Shanghai Shenhua and its affiliated companies	**164,394**	79,079
– Affiliated companies of JinBei	**246,973**	359,240
– Other affiliated companies	**9**	12
	1,188,856	1,201,965

The accounts payable to affiliated companies are unsecured and non-interest bearing. Accounts payable 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 accounts payable to affiliated companies is as follows:

	2011 RMB'000	2010 RMB'000
Less than six months	**1,130,665**	998,636
Six months to one year	**47,871**	196,294
Above one year but less than two years	**7,545**	4,308
Two years or above	**2,775**	2,727
	1,188,856	1,201,965

(j) As at 31st December, 2011, the Group's notes payable to affiliated companies arising from trading activities consisted of the following:

	2011 RMB'000	2010 RMB'000
Notes payable to related parties:		
– An affiliated company of BHL	**–**	73,839
– Affiliated companies of JinBei	**14,195**	31,296
– An associate	**1,803**	–
– Jointly controlled entities	**10,092**	50,000
	26,090	155,135

33. RELATED PARTY TRANSACTIONS (Cont'd)

(k) As at 31st December, 2011, the amounts due to affiliated companies by the Group consisted of:

	2011 **RMB'000**	2010 RMB'000
Amounts due to related parties:		
– Associates	**112,241**	4,064
– A jointly controlled entity	**16**	5,679
– Huachen	**57,464**	58,263
– Affiliated companies of BHL	**10,734**	10,965
– BMW Brilliance	**–**	200,000
– Affiliated companies of Shanghai Shenhua	**2,902**	3,114
– JinBei and its affiliates	**922**	1,358
	184,279	283,443

As at 31st December, 2011, the amounts due to affiliated companies by the Company represent RMB5,314,000 (2010: RMB5,545,000) due to an affiliated company of BHL.

Except for the amount due to BMW Brilliance, all amounts due to affiliated companies by the Group and the Company are unsecured, non-interest bearing and repayable on demand.

The amount due to BMW Brilliance, which carried interest at 5.4% per annum and was unsecured, was wholly repaid during the year.

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

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

	2011 **RMB'000**	2010 RMB'000
Short-term employee benefits	**33,110**	31,550

34. CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash generated from operations

	2011 RMB'000	2010 RMB'000
Profit before income tax expense	**1,949,412**	1,464,903
Share of results of:		
Jointly controlled entities	**(1,842,465)**	(973,860)
Associates	**(69,418)**	(92,438)
Interest income	**(76,148)**	(78,614)
Interest expenses	**193,543**	170,771
Gain on disposal of a subsidiary	**(382)**	–
Loss on deemed disposal of a jointly controlled entity	**22,951**	–
Write-back of provision for inventories sold	**(21,533)**	(12,136)
Depreciation of property, plant and equipment	**105,387**	106,831
Impairment loss on property, plant and equipment	**–**	1,496
Impairment losses on intangible assets	**–**	772
Amortisation of intangible assets	**29,638**	30,088
Amortisation of land lease prepayments	**2,537**	2,538
(Gain) Loss on disposal of property, plant and equipment	**(852)**	168
Deferred income	**(400)**	(22,688)
Write-back of provision for doubtful debts	**(9,306)**	(4,845)
Write-back of impairment loss on property, plant and equipment	**–**	(168)
Provision for inventories	**6,925**	16,310
Provision for doubtful debts on:		
– Accounts receivable	**3,644**	–
– Other receivables	**18,467**	16,278
– Amounts due from affiliated companies	**29,198**	14,000
Decrease (Increase) in accounts receivable	**17,500**	(25,268)
Increase in notes receivable	**(2,292)**	(124,532)
Decrease (Increase) in notes receivable from affiliated companies	**891**	(513,852)
Decrease (Increase) in accounts receivable from affiliated companies	**383,453**	(519,932)
Decrease in other receivables	**94,136**	28,405
Decrease in prepayments and other current assets	**71,043**	25,050
Decrease in inventories	**11,773**	548,409
(Decrease) Increase in notes and accounts payable	**(1,208,518)**	1,411,488
(Decrease) Increase in notes payable to affiliated companies	**(129,045)**	42,750
Increase in accounts payable to affiliated companies	**133,925**	347,336
Decrease in customer advances	**(161,425)**	(651,125)
Decrease in other payables	**(158,087)**	(66,143)
Decrease in accrued expenses and other current liabilities	**(25,597)**	(36,288)
(Decrease) Increase in other tax payable, net	**(28,730)**	65,016
Cash (used in) generated from operations	**(659,775)**	1,170,720

34. CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

(b) Major non-cash transactions

In 2010, BMW Brilliance and the Group agreed to offset the dividend declared by BMW Brilliance in the year of RMB200 million against the amount due to BMW Brilliance for the same amount.

In 2011, there was no major non-cash transaction.

(c) Disposal of a subsidiary

On 31st December, 2011, the Group disposed of its 75% equity interest in Shenyang ChenFa.

	2011 RMB'000
Net assets disposed of:	
Property, plant and equipment	8,356
Inventories	52,358
Accounts receivable from the Group	134,247
Accounts receivable from an associate of the Group	25,478
Accounts receivable from Huachen	470,497
Accounts and other receivable from third parties	169
Notes receivable	1,937
Prepayments and other current assets	66
Other non-current assets	15
Other taxes recoverable	1,834
Cash and bank balances	2,756
Accounts payable to the Group	(303,680)
Accounts payable to a jointly controlled entity of the Group	(222)
Accounts payable to an associate of the Group	(86,404)
Accounts payable to Huachen and its affiliate	(59,613)
Accounts and other payable to third parties	(168,303)
	79,491
Less: fair value of equity interest retained from a subsidiary becoming an associate upon loss of control by the Company	(19,873)
	59,618
Gain on disposal	382
Total consideration	60,000
Satisfied by:	
Receivable for the consideration	60,000

34. CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

(c) Disposal of a subsidiary (Cont'd)

An analysis of the net outflows of cash and cash equivalents in respect of the disposal of the discontinued operations is as follows:

	2011 RMB'000	2010 RMB'000
Cash consideration	–	–
Cash and bank balances disposed of	–	(2,756)
Net outflow of cash and cash equivalents in respect of disposal of a subsidiary	–	(2,756)

The contributions of Shenyang ChenFa to the Group before its disposal are as follows:

	2011 RMB'000	2010 RMB'000
Revenue	404,748	1,357,300
Loss for the year	(80,578)	(1,687)
Net cash (outflows) inflows from operating activities	(176,000)	18,604
Net cash inflows from investing activities	119,959	2,287
Net cash inflows (outflows) from financing activities	55,626	(40,254)
Net cash outflows	(415)	(19,363)

35. COMMITMENTS

(a) Capital commitments

	2011 RMB'000	2010 RMB'000
Contracted but not provided for:		
– Construction projects	**16,204**	34,067
– Acquisition of plant and machinery	**100,834**	114,284
– Others	**18,551**	32,320
	135,589	180,671
Authorised but not contracted for:		
– Construction projects and acquisition of plant and machinery	**103,495**	509,512

(b) Operating lease commitments

As at 31st December, 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**18,972**	9,031
In the second to fifth years inclusive	**39,085**	7,045
Over five years	**24,749**	–
	82,806	16,076

36. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 39 to 114 were approved and authorised for issue by the board of directors on 28th March, 2012.