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 2016

**for identification purposes only*

Contents

Corporate Information

BOARD OF DIRECTORS

Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(chairman)*
Mr. Qi Yumin *(chief executive officer)*
Mr. Qian Zuming
Mr. Zhang Wei
Mr. Xu Bingjin*
Mr. Song Jian*
Mr. Jiang Bo*

* *independent non-executive director*

AUTHORISED REPRESENTATIVE

Mr. Wu Xiao An

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

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Chater House
8 Connaught Road Central
Hong Kong

AUDITOR

Grant Thornton Hong Kong Limited
Level 12, 28 Hennessy Road
Wanchai
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
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Hong Kong

STOCK CODE

The main board of The Stock Exchange of Hong Kong Limited: 1114

Five Year Financial Summary

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED AND ITS SUBSIDIARIES

(Amounts in thousands except for earnings per share)

	Year Ended and as at 31st December,				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income Statement Data:					
Revenue	**5,125,118**	4,862,855	5,514,804	6,103,487	5,915,991
Profit before Income Tax Expense	**3,424,537**	3,324,798	5,342,882	3,324,729	2,294,607
Income Tax (Expense)	**(35,933)**	(44,529)	(42,913)	(8,370)	(57,564)
Profit for the Year	**3,388,604**	3,280,269	5,299,969	3,316,359	2,237,043
Attributable to:					
Equity Holders of the Company	**3,682,074**	3,494,733	5,403,434	3,374,200	2,301,022
Non-controlling Interests	**(293,470)**	(214,464)	(103,465)	(57,841)	(63,979)
	3,388,604	3,280,269	5,299,969	3,316,359	2,237,043
Basic Earnings per Share	**RMB0.73103**	RMB0.69536	RMB1.07515	RMB0.67138	RMB0.45804
Diluted Earnings per Share	**RMB0.72987**	RMB0.69258	RMB1.07082	RMB0.66870	RMB0.45605
Statement of Financial Position Data:					
Non-current Assets	**24,033,672**	19,897,290	16,862,136	12,466,261	9,640,197
Current Assets	**7,009,340**	7,174,984	6,344,793	6,524,002	6,417,359
Current Liabilities	**(8,322,660)**	(7,871,885)	(7,133,993)	(6,792,518)	(6,857,184)
Non-current Liabilities	**(121,829)**	(136,708)	(119,003)	(56,400)	(1,900)
Non-controlling Interests	**1,125,334**	831,864	977,400	873,935	816,094
Shareholders' Equity	**23,723,857**	19,895,545	16,931,333	13,015,280	10,014,566

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual results of Brilliance China Automotive Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31st December, 2016.

During the year 2016, China's economy continued to grow at a moderate pace, with an increase in GDP of 6.7% which was the slowest in 26 years. In spite of the slow economic growth, driven by government purchase tax incentives for small engine cars, China's total vehicle sales jumped 13.7% during the year, the fastest pace in three years and reaching 28.0 million units, according to the China Association of Automobile Manufacturers. Passenger vehicle sales also hit a new record in 2016, achieving 24.4 million units or an increase of 14.9% during the period. Although premium vehicle sales had not been able to benefit from the purchase tax concession owing to bigger engine products in general, the premium passenger vehicle segment still delivered solid growth in line with the overall passenger vehicle market, mainly driven by new product launches during the year.

The year 2016 marked the beginning of next phase development and a multiple new product launch cycle for our BMW Brilliance joint venture ("**BBA**" or the "**JV**"). The capacity expansion project at the Tiexi plant was completed at the beginning of the year with the addition of an all-new front-wheel-drive production platform. Together with the Dadong plant, the JV has reached total annual production capacity of over 400,000 units providing for products of different architectures. In addition, the new engine plant in Tiexi had also commenced operation at the beginning of the year, enabling the JV to produce the brand new 3 and 4-cylinder BMW engines locally. These new facilities have provided support to the JV's new product launches starting with the brand new 2-series Active Tourer and the next generation X1 long-wheelbase which were introduced to the market in March and May of 2016, respectively.

The addition of the 2-series Active Tourer as the fourth locally produced BMW product, and the first to be produced using the new front-wheel-drive platform, had contributed newly added volume in 2016. Sales of the new and improved next generation X1 equipped for the first time with a long-wheelbase to cater to Chinese customer demands have also ramped up quickly since its May 2016 market launch. Alongside these new launches, our 3-series and 5-series continued to deliver steady sales amid a very challenging market. As a result, BBA achieved sales of 310,026 BMW vehicles in 2016, representing an increase of 8.0% when compared to the previous year.

BBA has continued to expand its dealership network which had reached 463 full service 4S shops nationwide as at 31st December, 2016. The JV continues to work closely with its sales organization on all fronts in an effort to sustain the profitability of both the JV and its dealers. Our JV's sales activities will continue to be supported by the BMW auto finance company, resulting in increased sales volume and profits to the JV.

We continue to be confident about the long-term growth prospects of the Chinese premium auto industry. We believe the new products to be introduced by BBA over the next few years will have strong customer appeal, and will broaden and also better tailor our product portfolio to Chinese consumers’ preferences. Cost reduction, operational efficiency, sales volume enhancement, component localization, new energy product development, and further integration of our JV into the BMW network via exports of vehicles and components from China will all remain key focus areas for the JV.

As for the minibus business, the traditional Haise and Granse products had achieved stable sales volume in 2016. Sales of the Huasong MPV model, however, has been disappointing, as further efforts are still required in promoting brand recognition and re-evaluating market opportunities. The Group is also considering various routes of potential strategic moves, including, but not limited to, an attempt to explore the possibility of cooperation with a new business partner, to turnaround its minibus operation over time. However, it is likely that the minibus and MPV operation will continue to have a negative impact on the Group’s overall financial performance in 2017.

Brilliance-BEA Auto Finance Co., Ltd (“**BBAFC**”), the Company’s auto finance subsidiary in China, had once again achieved profitability in 2016. In addition to supporting the Group’s sales of its minibus and MPVs and our major shareholder Huachen’s sedan products for both wholesale and retail, in December 2016 BBAFC has also successfully initiated a strategic partnership with Jaguar Land Rover to finance their customers and dealers in China. BBAFC will continue to seek expansion to provide finance and insurance support to multi-brand businesses over time.

The year 2017 continues to be a very challenging year for the Group. Maintaining the prominent position of BMW Brilliance in the premium auto market remains the Group’s business priority. Apart from that, the Group will continue to identify new business opportunities as well as ways to further streamline its existing operation and corporate structure as its business continues to grow.

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

Xiaoan Wu

Wu Xiao An
(also known as Ng Siu On)
Chairman
24th March, 2017

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, 2016.

PRINCIPAL ACTIVITIES

The Company is a holding company. The Group is principally engaged in the manufacture and sale of minibuses and automotive components in the People's Republic of China (the "**PRC**") through its subsidiaries. Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**") is the Company's major operating subsidiary in the PRC, whose equity interests are currently beneficially owned as to 60.9% by the Company. BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), the Company's 50% owned major joint venture, engages in the manufacture and sale of BMW vehicles in the PRC. The principal activities of the Company's subsidiaries are set out in note 37 to the financial statements.

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 light-duty gasoline and diesel engines for use in passenger vehicles and light commercial vehicles. In October 1998, June 2000 and July 2000, the Company established Shenyang XingYuanDong Automobile Component Co., Ltd. ("**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 Shenyang Xinguang Brilliance Automobile Engine Co., Ltd., 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 Automotive Group Holdings Company Limited ("**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%. The locally produced BMW sedans were formally launched in the PRC in the fourth quarter of 2003. BMW Brilliance commenced production and sale of BMW SUVs in the PRC in early 2012.

In June 2003, the Company established Shenyang ChenFa Automobile Component Co., Ltd. ("**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. Currently, Shenyang ChenFa is directly held as to 25% by the Company.

On 29th December, 2003, the Company entered into agreements in relation to the proposed acquisition of an indirect 40.1% interest in Shenyang JinBei Automotive Co., Ltd. ("**JinBei**") , the joint venture partner of Shenyang Automotive and a supplier of automotive components for the Group's minibuses. 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. ("**Shanghai Hidea**") was established for the design of automobiles. 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 operating business of the Group is the manufacture and sale of minibuses and automotive components through its subsidiaries, and the manufacture and sale of BMW vehicles through its major joint venture, BMW Brilliance, in the PRC.

On 15th April, 2011, Shenyang XinJinBei Investment and Development Co., Ltd., ("**SXID**") an indirectly wholly-owned subsidiary of the Company, entered into a share transfer agreement with an independent third party to acquire 9.9% equity interest in Shenyang Automotive. Upon completion of the acquisition in July 2011, the Company's effective interests in Shenyang Automotive was increased from 51% to 60.90%. In June 2014, SXID merged with SJAI. Subsequent to the merger, the 9.9% equity interest in Shenyang Automotive is held by the Group through SJAI.

Mianyang Xinchen was formerly a sino-foreign equity joint venture established in the PRC owned as to 50% by each of Southern State Investment Limited, a wholly owned subsidiary of the Company, and Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited. Subsequent to the completion of group restructuring in August 2011 and pre-IPO investment in October 2011 and immediately before the global offering which took place in March 2013, Mianyang Xinchen was indirectly held as to 100% by Xinchen China Power Holdings Limited ("**Power Xinchen**") which was in turn indirectly held as to 42.54% by the Company. On 13th March, 2013, the shares of Power Xinchen were listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with 313,400,000 new shares subscribed by the public at an offer price of HK$2.23 per share. Following the listing of Power Xinchen in March 2013 and the partial exercise of an over-allotment option to issue an addition 33,808,000 shares of Power Xinchen in April 2013, the indirect shareholding of the Company in Power Xinchen decreased from 42.54% to 31.07%. Currently, the Company, through its wholly-owned subsidiary, indirectly holds 31.20% equity interest in Power Xinchen.

On 7th April, 2015, BBAFC, the Company's new auto finance joint venture in China together with Bank of East Asia and CaixaBank, S.A., received final approval to commence business in the PRC. BBAFC is a multi-brand service provider, and owned as to 55% by the Company, 22.5% by Bank of East Asia and 22.5% by CaixaBank, S.A. BBAFC initially focuses on supporting the Group's sales of its minibus and MPVs and our major shareholder Huachen's sedan products.

REVENUE AND CONTRIBUTION

The Group's revenue and contribution to profit from operations for the year ended 31st December, 2016, analysed by product category, are as follows:

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's statement of profit or loss RMB'000	Total RMB'000
Segment sales to external customers	**5,125,118**	**95,504,278**	**(95,504,278)**	**5,125,118**
Segment results	**(730,185)**	**10,729,874**	**(10,729,874)**	**(730,185)**
Unallocated costs net of unallocated income	–	–	–	**(11,278)**
Interest income	–	–	–	**53,176**
Finance costs	–	–	–	**(133,135)**
Share of results of:				
Joint ventures	**(5,023)**	**3,998,419**	–	**3,993,396**
Associates	**252,563**	–	–	**252,563**
Profit before income tax expense				**3,424,537**

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2016 are set out in the financial statements of the Group on pages 69 and 70.

BUSINESS REVIEW

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 PRC. Shenyang Automotive is the Company's major operating subsidiary in the PRC, which contributed about 80% of the revenue of the Group in 2016.

Business discussion and analysis

The consolidated revenue of the Group (which represent primarily those derived from the minibus business and major operating subsidiaries such as Shenyang Automotive and Xing Yuan Dong) for the year ended 31st December, 2016 was RMB5,125.1 million, representing a 5.4% increase from RMB4,862.9 million for the year ended 31st December, 2015. The consolidated revenue also included interest income derived by BBAFC in the amount of RMB43.9 million in 2016, which was 997.5% higher than the RMB4.0 million reported for the previous year. The increase in consolidated revenue was mainly attributable to the increase in the volume of minibuses sold during the year.

Shenyang Automotive sold 62,673 minibuses and MPVs in 2016, which was 8.0% higher than the 58,023 vehicles sold in 2015. Of the minibuses sold, 46,270 units were Haise minibuses, representing a 3.1% increase from the 44,896 units sold in 2015. The unit sales of Granse minibuses increased by 90.9% from 6,229 units in 2015 to 11,889 units in 2016. The increase in Granse sales volume in 2016 was primarily driven by sales campaigns and promotions undertaken for certain models during the year. As for the Huasong 7 MPV, sales of 4,514 units was recorded during the year, representing a 34.6% decrease from 6,898 units sold in 2015. The drop in Huasong volume sold was caused by challenges faced by a new brand in trying to penetrate an existing market with intense competition from manufacturers in the same segment.

Cost of sales increased by 6.4% from RMB4,654.9 million in 2015 to RMB4,953.6 million in 2016. The percentage increase in cost of sales was slightly higher than that of revenue mainly due to the increase in the amortisation of intangible assets for new or revamped models. As a result, the gross profit margin of the Group has dropped from 4.3% in 2015 to 3.3% in 2016.

Other income has remained stable, increasing by 0.7% from RMB81.4 million in 2015 to RMB82.0 million in 2016.

Interest income decreased by 34.0% from RMB80.6 million in 2015 to RMB53.2 million in 2016 due to the decrease in the average bank deposit balances in 2016.

Selling expenses increased by 11.9% from RMB546.8 million in 2015 to RMB611.9 million in 2016. The increase in selling expenses was due to the increase in advertising, staffing, and transportation related costs. Selling expenses as a percentage of revenue has increased marginally from 11.2% in 2015 to 11.9% for 2016.

General and administrative expenses decreased slightly by 2.8% from RMB394.2 million in 2015 to RMB383.2 million in 2016 primarily due to continuous tightening and control of general expenses. General and administrative expenses as a percentage of revenue has decreased from 8.1% in 2015 to 7.5% for 2016.

Finance costs decreased by 9.4% from RMB146.9 million in 2015 to RMB133.1 million in 2016 due to a decrease in average bank borrowings during the year.

The Group's share of results of joint ventures increased by 4.5% from RMB3,822.9 million in 2015 to RMB3,993.4 million in 2016. This was primarily attributable to the increased profits contributed by BMW Brilliance, the Group's 50% indirectly owned joint venture.

Net profits contributed to the Group by BMW Brilliance increased by 4.5% from RMB3,827.1 million in 2015 to RMB3,998.4 million in 2016. The BMW joint venture achieved sales of 310,026 BMW vehicles in 2016, an increase of 8.0% as compared to 287,073 BMW vehicles sold in 2015. The 2016 sales volumes of the locally produced 3-series, 5-series, and X1 were 97,112 units, 143,594 units, and 54,914 units, respectively, translating into growth rates of –1.5%, –2.4% and 33.1%, respectively, compared to 2015. In addition, the new 2-series Active Tourer launched in March 2016 recorded sales of 14,406 units during the year.

The Group's share of results of associates increased by 14.9% from RMB219.9 million in 2015 to RMB252.6 million in 2016. This was primarily due to the increase in the contribution from Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. as a result of strong customer demand for some of its engine products.

The Group's profit before income tax expense increased by 3.0% from RMB3,324.8 million in 2015 to RMB3,424.5 million in 2016. Income tax expense decreased by 19.3% from RMB44.5 million for 2015 to RMB35.9 million for 2016, primarily due to higher taxes recorded by one of the subsidiaries of the Group in 2015.

As a result of the above, the Group recorded net profit attributable to equity holders of the Company of RMB3,682.1 million for the year 2016, representing an increase of 5.4% from the RMB3,494.7 million realized in 2015. Basic earnings per share in 2016 amounted to RMB0.73103, compared to RMB0.69536 in 2015. In addition, return on capital employed (as defined by the EBITDA ÷ average capital employed) for 2016 was 18.4%, compared to 20.9% for 2015.

Financial highlights

Certain financial key performance indicators are provided in the sub-section headed "Business discussion and analysis" above and the section headed "Management's Discussion & Analysis".

Principal risks and uncertainties facing the Group

During 2016, we identified the following main risks and uncertainties which the Group was exposed to:

1. *Demand for capital expenditure*

   Automotive manufacturing is a capital-intensive business requiring relatively frequent product upgrade and replacement. To cope with market demand, Shenyang Automotive needs to undertake new research and development projects to expand and upgrade its product portfolio, which may lead to increased future capital expenditure and a greater requirement on capital. Currently, with its healthy finance and credit record, Shenyang Automotive maintains a good relationship with a number of commercial banks. In light of the rapid development of the automobile industry, growing investment in product research and development in the future and intensified marketing campaigns, Shenyang Automotive's ability to meet its capital requirement in the coming years is subject to risks that cannot be controlled by the Group including changes in bank interest rates and adjustment of relevant policies.

2. *Relatively high corporate gearing ratio*

   Shenyang Automotive has a relatively high gearing ratio, which affects the financing ability of the company in banking markets to a certain extent. The company intends to reduce its gearing ratio and improve its financing ability by lowering product costs and raising sales and profitability of products.

3. *Market risks arising from the slowdown in domestic economic growth*

   2016 witnessed a further slowdown in domestic economic growth, with the GDP growing by 6.7%. The downward trend swept across investment, consumption and foreign trade, and challenging the foundation for economic stability. This slow down in GDP growth can have a restraining effect on the development of the automobile market, when combined with factors such as the pressure from environmental policies, urban congestion, and limits on automobile purchase and city traffic. Automobile consumption is also adversely affected by the weakening of the overall spending power.

4. *Regulation risks*

   China is imposing stricter policies and regulations on its automobile industry, such as regulations on oil consumption, emission and license plate issuances. Accordingly, automobile manufacturers may see the need to increase their investments and costs to meet such regulations, while reducing energy subsidies also heightens the pressure on technical upgrade and cost reduction measures.

In addition to those mentioned above, there may be other risks and uncertainties which are unknown to the Group or which may not be material at present but may become material in the future.

Likely future development of the Group's business

In response to a changing market environment for automobiles and intensifying competition, the Group will be customer-focused and market-oriented, and strive to develop products that meet customer demand and are competitive in the automobile market.

1. *A relatively large overall volume and good prospect, despite the growth slowdown*

   In 2016, sales in the PRC automobile market reached 28.0 million vehicles (2015: 24.6 million), an increase of 13.7% as compared to last year. The PRC automobile market grew by an extra 9.2% points as compared with the growth in 2015, maintaining its global leadership in sales volume for the 8th consecutive year and recorded another historic high. China Association of Automobile Manufacturers forecasts that annual sales volume of automobiles in the PRC will reach 29.7 million in 2017 (2016: 28.0 million), representing an overall growth rate of approximately 6%.

   On average, every 1,000 people now own 110 vehicles in the PRC, compared to 500 to 900 vehicles owned by every 1,000 people in developed countries. This indicates that there is still room for market expansion.

2. *Developing brand prototypes*

   Currently, 200,000 minibuses and 300,000 large MPVs are sold each year to a small group of buyers in the markets where Shenyang Automotive operates. In addition, recent regulation has caused a big slide in the minibus market. In light of the adverse market conditions, Shenyang Automotive plans to leverage on the JinBei brand to develop JinBei New Express (金杯新快運) and small MPV (F50) into star products, in an attempt to retain their existing customers and gain more buyers. The brand will also continue to maintain its competitive edge in the commercial and business segment, commit its efforts to solidify the urban logistics customer base, expand the reach of small and medium-sized MPVs which are suitable for both households and businesses, and develop G13/Grand Haise (大海獅) into a key product.

3. *Future growth led by the third-tier automobile markets*

   Markets in first-tier and second-tier cities have generally entered the later stage of automobile popularization, exhibiting slower growth. Automobile purchase limits and traffic congestion also hinder the development of potential multiple-car owners. Smaller third-tier markets will become a major source of growth for the PRC automobile market. In that market, every 1,000 people own 41.2 vehicles which is far below the national average. Rising resident income levels and release of spending power will drive the growth of entry-level vehicles. As for the JinBei brand, the Group will capture the opportunities of a growing third-tier market by developing a small MPV (F50) (a product fit for both households and businesses) at the appropriate time, so as to meet customer demand and bring growth opportunities for Shenyang Automotive.

4. *Continuous urbanization spurring market growth of vehicles for logistics and specialized purposes*

   The PRC has experienced an accelerated process of urbanization, bringing more and more of its population to cities. Such concentration has (i) stimulated the development of e-commerce and logistics, paving the way for steady growth of future short-distance logistics in the PRC cities and their peripheral areas; and (ii) improved public service and living standard, which will stimulate the fast growth of specialized vehicles for the people's enhanced well-being. Under the JinBei brand, the Group will be proactive in developing JinBei New Express, Grand Haise Logistics (大海獅物流) and New Haise Logistics (新海獅物流) to meet the market demand for vehicles suitable for logistics business. Shenyang Automotive will cater to the special demands of different sectors by developing vehicles for medical, police and other special purposes, based on the models of Granse (閣瑞斯) and Grand Haise.

Important events affecting the Group that have occurred since the end of the financial year

Save as disclosed, to the knowledge of the directors of the Company, no important events affecting the Group have occurred since the end of the financial year.

Pursuant to the requirements under paragraph 28 of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the discussion on "Environmental policies and performance", "Compliance with laws and regulations" and "Relationship with stakeholders and its importance" of the Company is set out below.

Environmental policies and performance

Under the increasingly severe trend of global warming, the society requires enterprises to conserve energy and reduce emission, and the public have gradually deepened their knowledge and understanding towards energy saving and environmental protection. The Company is concerned about the impacts caused by the manufacturing industry to the environment. Shenyang Automotive has consistently complied with various national and local laws, regulations, standards and relevant requirements, such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), to establish the environmental protection management system. In the working principles of "environmental protection, pollution prevention, law compliance and continuous improvement" (保護環境、防治污染、遵紀守法、持續改進), Shenyang Automotive has reinforced its responsibility system in respect of environmental protection under the principle of "The person in charge bears the responsibility" (誰主管、誰負責). The company established and implemented Environmental Management System Certification (環境管理體系認證) according to GB/T24001-2004 "Environmental Management System Requirements and User's Guide" (《環境管理體系要求及使用指南》). Every year, Shenyang Automotive appoints qualified monitoring institutions to monitor its sewage, exhaust and boundary noise.

All the business activities of Shenyang Automotive comply with the Three Simultaneous Systems of Environmental Protection, under which the "design, construction, inspection and acceptance for pollution prevention facilities must take place simultaneously with that for main construction works" (「防治污染的設施必須與主體工程同時設計、同時施工和同時驗收」的環境三同時制度). In 2016, Shenyang Automotive worked on energy conservation and reduction of energy consumption and cost, in line with the energy-saving plans of municipal and district governments. By implementing energy savings performance contracts (合同能源管理項目), Shenyang Automotive replaced the lamps used in its factory buildings with LED lights. To further improve air quality, the environment at large and public health, Shenyang Automotive also carried out the "Blue Sky Campaign" (「藍天工程」), in accordance with Liao Zheng Fa Document [2012] No. 36 "Suggestions on Carrying Out the Blue Sky Campaign by Liaoning Provincial People's Government" (遼政發【2012】36號文件《遼寧省人民政府關於藍天工程的實施意見》). In 2016, Shenyang Automotive completed the replacements of 100-tonne coal-burning boilers with 60-tonne gas-burning boilers.

In 2016, Shenyang Automotive was not engaged in any environmental breaches and did not receive any complaints from the public or involve disputes concerning environmental pollution.

Compliance with the relevant laws and regulations that have a significant impact on the Group

The Company is an exempted company incorporated in Bermuda with limited liability, and registered as a non-Hong Kong company under the Hong Kong Companies Ordinance. The shares of the Company are traded on the main board of the Stock Exchange. The Company continues to review its current systems and procedures, emphasizes and strives to comply with the Companies Law of Bermuda, the Listing Rules, the Securities and Futures Ordinance (the "**SFO**"), applicable Hong Kong Companies Ordinance, and other relevant laws and regulations which have a material effect on the Company. The Company endeavors to safeguard its shareholders' interests, enhance corporate governance and strengthen the functions of the board of directors of the Company (the "**Board**").

Laws and regulations that have a significant impact on the operating subsidiaries of the Group include but are not limited to the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Regulations of the People's Republic of China on Company Registration (《中華人民共和國登記管理條例》), the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), Contract Law of the People's Republic of China (《中華人民共和國合同法》), Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Regulation on the Administration on Recall of Defective Auto Products (《缺陷汽車產品召回管理條例》), the Provisions on the Liability for the Repair, Replacement and Return of Household Automotive Products (《家用汽車產品修理、更換、退貨責任規定》), Trademark Law of the People's Republic of China (《中華人民共和國商標法》), Patent Law of the People's Republic of China (《中華人民共和國專利法》), and Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》). In particular, the Regulation on the Administration on Recall of Defective Auto Products and the Provisions on the Liability for the Repair, Replacement and Return of Household Automotive Products have increased the responsibility of automobile manufacturers in respect of product and after-sales service quality, as well as the cost and investment of after-sales service.

The operation of Shenyang Automotive has always complied with national and local laws and regulations. It upholds honesty and integrity, and performs its social responsibility. In 2016, there was no major litigation or dispute against Shenyang Automotive.

Shenyang Automotive has always been committed to governance via system (以制度管權) for continuous improvement and strengthening of the probity and integrity of the employees and management of the company. In 2016, in accordance with the general requirements under "further standardization of the system" (「進一步規範制度建設」) promulgated by the Communist Party Committee of the Group, four comprehensive systems were established, including "Learning System of Probity of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司廉政建設學習制度》), "Three Importance and One Greatness Policy-making System of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司「三重一大」制度》), "Interim Measures of Telecommunication Monitoring" (《信訪監督工作暫行辦法》) and "Terms of Reference of Liaison among Leaders, Cadres and General Staff" (《領導幹部基層聯繫點工作制度》), to further facilitate the compliance, operation and implementation of the system. Shenyang Automotive continues to enforce the policies such as "The State-owned Enterprise Implementing Three Importance and One Greatness Policy-making System" (《國有企業貫徹落實「三重一大」決策制度》) and the "Requirements of Incorruptible Employment for State-owned Enterprises Leaderships" (《國有企業領導人員廉潔從業若干規定》). The company's commission for disciplinary inspection (公司紀委) implemented and executed "Discipline Inspection and Management System of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司紀檢監察管理制度》), the "System of Accountability for Improving Party Conduct and Upholding Integrity of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司黨風廉政建設責任制度》) and the "Implementation Rules of Integrity and Risk Prevention of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司廉潔從業風險防範工作實施細則》).

The Company and its staff have exercised their best endeavours to strictly follow the applicable rules, regulations, law and industry standard. The directors are not aware of any breach of laws or regulations which have a significant impact on the Group, nor are they aware of any litigation or cases of corruption, bribery, extortion, fraud and money laundering involving the Group in 2016.

Relationship with stakeholders and its importance

Stakeholder involvement is an integral part of the Company's development. The Company strives to maintain communications with its stakeholders, including investors, customers, employees and suppliers. The Company also engages its stakeholders to develop mutually beneficial relationships, seeks their suggestions on the Company's business and views on its work plans, and promotes sustainable development of the market, workplace, community and environment.

Key stakeholders	Importance
Investors	One of the Company's objectives is to create value for the investors. The Company is committed to enhancing its operational efficiency and providing reasonable, sustainable and stable returns on their investments.
Customers	The Company strives to satisfy the market demand in terms of product design and quality, and pursues technological innovation, in a bid to maintain a stable supply of high-quality products to customers. The major client of Shenyang Automotive is a subsidiary of Shanghai Shenhua Holdings Co., Ltd. (上海申華控股股份有限公司) (“**Shanghai Shenhua**”) and a related party of the Company. Being an experienced auto brand agent, it has been purchasing and selling JinBei brand products since 2013, and has maintained a business relationship with Shenyang Automotive. Shenyang Automotive provides the same credit conditions for its major clients as for other clients. Following the end of the financial year, the payments receivable from major clients are successively collected, with no provision being made. Shenyang Automotive relies on major clients to sell its products. To reduce the demand changes brought by the changing distribution capacity of downstream clients, the company reviews its product mix from time to time to ensure its products meet customer demand. The Company also undertakes product promotion, intensive management of 4S stores, and monitors downstream distribution channels.
Employees	Employees are an important cornerstone for corporate development. The Group places high priority on occupational health and safety, and strives to create an attractive working environment to motivate and retain talents, so as to enhance the sustainability of the Group.
Suppliers	Suppliers are fundamental to the production processes of the Group. In the principles of mutual benefit, risk sharing and co-development, the Group seeks to foster a win-win partnership with its suppliers. In identifying suitable suppliers, the Group focuses on partners with strong technology development ability, fast response, stability and consistency in design and production quality, high level of project management, cost competitiveness, and intention to cooperate. In 2016, the Group established good cooperative relations with suppliers in the win-win principle, with no major disagreement with them.

In 2016, the Company was engaged in positive and candid communication with its shareholders and investors through various channels, including general meetings, results press conferences, product launch events, and analyst and investor meetings. Such communication enabled the investors and customers to further understand the operation and development of the Company, and provided the investors with a platform to express their views to the management of the Company.

Shenyang Automotive holds annual conventions, board meetings, and economic and management meetings on a regular basis, to discuss how to respond to the views and demands of the stakeholders. In addition, Shenyang Automotive holds regular meetings and forums with its suppliers, to timely address their concerns and establish a harmonious and dynamic relationship with them.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31st December, 2016 is set out and analysed in the consolidated statement of cash flows on page 75 and in note 34 to the financial statements.

DIVIDENDS

During the year under review, the directors have declared a dividend of HK$0.11 per ordinary share of the Company to shareholders whose names appeared on the register of members of the Company as at 13th October, 2016 (2015: HK$0.11 per ordinary share). The dividend was paid on 28th October, 2016.

The directors did not recommend any dividend payment at the Board meeting held on 24th March, 2017 in respect of the Group's 2016 annual results (2015: nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held on Friday, 16th June, 2017 at 9:00 a.m. (the "**2017 AGM**"). Notice of the 2017 AGM, which constitutes part of the circular to shareholders, is sent together with this annual report. The notice of the 2017 AGM and the proxy form are also available on the website of the Company.

The Hong Kong branch register of members of the Company will be closed from Tuesday, 13th June, 2017 to Friday, 16th June, 2017, both days inclusive, during which period no transfer of shares will be registered. The record date for the 2017 AGM is Tuesday, 13th June, 2017. Only shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 13th June, 2017 or their proxies or duly authorised corporate representatives are entitled to attend and vote at the 2017 AGM. In order to qualify for attending and voting at the 2017 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar and transfer office 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., Hong Kong time, on Monday, 12th June, 2017.

PROXY LODGMENT DEADLINE DATE AND TIME

Whether or not a shareholder is able to attend the 2017 AGM, he/she is requested to complete the proxy form in accordance with the instructions printed thereon and return it to the office of the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong before 9:00 a.m., Hong Kong time, on Wednesday, 14th June, 2017, or not less than 48 hours before the time appointed for the holding of any adjourned meeting of the 2017 AGM.

Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the 2017 AGM or any adjourned meeting thereof if they so wish and in such event, the form of proxy will be deemed to be revoked.

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, 2016 are set out in notes 32 and 36, respectively to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2016 are set out in note 13 to the financial statements.

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Particulars of the subsidiaries, joint ventures and associates are set out in notes 37, 15 and 16, respectively to the financial statements.

SHARE CAPITAL

Details of the Company's share capital as of 31st December, 2016 are set out in note 31(a) to the financial statements.

SHARE OPTIONS

At a special general meeting held on 11th November, 2008, shareholders of the Company adopted a share option scheme (the "**Share Option Scheme**"). The Share Option Scheme came into effect on 14th November, 2008.

Pursuant to the 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 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 Share Option Scheme and any other share option scheme of the Company) to be granted under the 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 Share Option Scheme (i.e. 366,976,590 Shares, representing 7.28% 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 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 close associates abstaining from voting.

The subscription price per Share in respect of any option granted under the 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 of options, 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 of options; and (c) the nominal value of a Share of the Company.

The 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 Share Option Scheme during the year ended 31st December, 2016 is set out below:

Category and name of participants *(Note 1)*	Date of grant	Number of share options: Outstanding as at 1st January, 2016	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31st December, 2016	Option period	Subscription price per Share (HK$)
Directors									
Mr. Qi Yumin	22nd December, 2008 *(Note 2)*	4,500,000	–	2,700,000	–	–	1,800,000	22nd December, 2008 – 21st December, 2018	0.438
Mr. Wang Shiping (Resigned as director on 12th September, 2016)	22nd December, 2008 *(Note 2)*	1,500,000	–	1,500,000	–	–	–	22nd December, 2008 – 21st December, 2018	0.438
Mr. Lei Xiaoyang (Resigned as director on 12th September, 2016)	22nd December, 2008 *(Note 2)*	1,500,000	–	1,500,000	–	–	–	22nd December, 2008 – 21st December, 2018	0.438
Employees (in aggregate)	22nd December, 2008 *(Note 2)*	10,500,000 *(Note 3)*	–	6,900,000 *(Note 3)*	–	–	3,600,000 *(Note 3)*	22nd December, 2008 – 21st December, 2018	0.438
Others (in aggregate)	22nd December, 2008 *(Note 2)*	1,500,000	–	1,500,000	–	–	–	22nd December, 2008 – 21st December, 2018	0.438
Total		19,500,000	–	14,100,000 *(Note 4)*	–	–	5,400,000		

Notes:

(1) During the year ended 31st December, 2016:

(a) no share options under the Share Option Scheme have been granted to any directors, chief executive or substantial shareholders of the Company or their respective associates;

(b) there is no participant with options granted in excess of the individual limit; and

(c) no share options under the Share Option Scheme have been granted to any supplier of goods or services to any member of the Group or any Invested Entity.

(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) This figure includes the number of share options held by Mr. Qian Zuming who was appointed as a director of the Company on 12th September, 2016.

(4) The weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK$8.725 per Share.

As no share options have been granted by the Company under the Share Option Scheme for the year ended 31st December, 2016, no expenses were recognised by the Group for 2016 (2015: nil).

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2016 and up to the date of this annual report are:

Executive directors:

Mr. Wu Xiao An *(chairman of the Board)*
Mr. Qi Yumin *(chief executive officer)*
Mr. Qian Zuming *(chief financial officer)* (appointed on 12th September, 2016)
Mr. Zhang Wei (appointed on 12th September, 2016)
Mr. Wang Shiping (resigned on 12th September, 2016)

Non-executive director:

Mr. Lei Xiaoyang (resigned on 12th September, 2016)

Independent non-executive directors:

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

Pursuant to bye-law 102(B) of the bye-laws of the Company (the "**Bye-Laws**"), each of Mr. Qian Zuming and Mr. Zhang Wei, who was appointed by the Board to fill a casual vacancy of the Board after the annual general meeting held on 3rd June, 2016 (the "**2016 AGM**"), will hold office until the next following general meeting of the Company, i.e. the 2017 AGM.

Pursuant to bye-law 99 and the code provision A.4.2 of Appendix 14 to the Listing Rules, Mr. Song Jian and Mr. Jiang Bo will retire by rotation at the 2017 AGM.

Each of Mr. Qian Zuming, Mr. Zhang Wei, Mr. Song Jian and Mr. Jiang Bo, being eligible, will offer himself for re-election and the Board has recommended them for election at the 2017 AGM.

Biographical details of the directors standing for re-election at the 2017 AGM are set out in the circular sent to the shareholders of the Company together with this annual report.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the directors of the Company since the date of the 2016 interim report is set out below:

(1) Mr. Wu Xiao An resigned as a director of the following subsidiaries of the Company due to his other business engagement:

Name of companies	Effective date of resignation
Beston Asia Investment Limited	12th September, 2016
Brilliance China Finance Limited	12th September, 2016
China Brilliance Automotive Components Group Limited	12th September, 2016
Key Choices Group Limited	12th September, 2016
Pure Shine Limited	12th September, 2016
Shenyang Automotive	22nd August, 2016

(2) Mr. Qi Yumin resigned as a director of the following subsidiaries of the Company due to his other business engagement:

Name of companies	Effective date of resignation
BBAFC	21st March, 2017
Brilliance China Finance Limited	12th September, 2016
Shenyang Automotive	22nd August, 2016
Xing Yuan Dong	19th October, 2016

(3) Mr. Qian Zuming was appointed as a director of the Company and BBAFC, a subsidiary of the Company, with effect from 12th September, 2016 and 21st March, 2017, respectively.

(4) Mr. Zhang Wei was appointed as a director of the Company with effect from 12th September, 2016, and resigned as a director of the following subsidiaries of the Company due to his other business engagement:

Name of companies	Effective date of resignation
Beston Asia Investment Limited	12th September, 2016
China Brilliance Automotive Components Group Limited	12th September, 2016

(5) Mr. Wang Shiping resigned as a director of the Company and the following subsidiaries of the Company due to his other business engagement:

Name of companies	Effective date of resignation
The Company	12th September, 2016
Beston Asia Investment Limited	12th September, 2016
China Brilliance Automotive Components Group Limited	12th September, 2016
Dongxing Automotive	10th August, 2016
Key Choices Group Limited	12th September, 2016
Mianyang Ruian	30th December, 2016
Ningbo Ruixing	12th August, 2016
Ningbo Yuming	12th August, 2016
Pure Shine Limited	12th September, 2016
Shenyang Automotive	22nd August, 2016
SJAI	7th September, 2016
Xing Yuan Dong	19th October, 2016

(6) Mr. Lei Xiaoyang resigned as a director of the Company and the following subsidiaries of the Company due to his other business engagement:

Name of companies	Effective date of resignation
The Company	12th September, 2016
Beston Asia Investment Limited	12th September, 2016
Brilliance China Finance Limited	12th September, 2016
Brilliance Investment Holdings Limited	12th September, 2016
China Brilliance Automotive Components Group Limited	12th September, 2016
Key Choices Group Limited	12th September, 2016
Mianyang Ruian	30th December, 2016
Ningbo Ruixing	12th August, 2016
Ningbo Yuming	12th August, 2016
Pure Shine Limited	12th September, 2016
Shenyang Automotive	22nd August, 2016
Shenyang Jianhua Motors Engine Co., Ltd.	30th August, 2016
Xing Yuan Dong	19th October, 2016

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

As at 31st December, 2016, 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 SFO:

	Number and class of Shares held/ Approximate shareholding percentage *(Note 1)*					
Name of shareholders	**Long position**	**%**	**Short position**	**%**	**Lending pool**	**%**
Huachen *(Note 2)*	2,135,074,988 ordinary	42.36	–	–	–	–
J.P. Morgan Chase & Co. *(Note 3)*	585,703,440 ordinary	11.62	18,337,786	0.36	437,077,587	8.67
Templeton Asset Management Ltd. *(Note 4)*	553,801,676 ordinary	10.99	–	–	–	–
UBS Group AG *(Note 5)*	259,719,163 ordinary	5.15	13,475,177	0.27	–	–

Notes:

1. The percentage of shareholding is calculated on the basis of 5,039,869,388 Shares in issue as at 31st December, 2016.

2. The 2,135,074,988 Shares in long position were held in the capacity as beneficial owner.

3. The 585,703,440 Shares in long position were held as to 42,166,253 Shares in the capacity as beneficial owner, as to 106,411,850 Shares as security interest, as to 47,750 Shares in the capacity as trustee and as to 437,077,587 Shares in the capacity as custodian corporation/approved lending agent. The 18,337,786 Shares in short position were held in the capacity as beneficial owner.

4. The 553,801,676 Shares in long position were held in the capacity as investment manager.

5. The 259,719,163 Shares in long position were held as to 36,468,490 Shares as security interest and as to 223,250,673 Shares as corporation interest. The 13,475,177 Shares in short position were held as corporation interest.

Save as disclosed herein, as at 31st December, 2016, 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2016, the interests and short positions of each director, chief executive and their respective close 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 Issuers to be notified to the Company and the Stock Exchange, are set out below:

The Company

		Number and class of shares held/ Approximate shareholding percentage *(Note 1)*				**Number of share options granted (Percentage of the Company's issued share capital)** *(Note 2)*
Name of directors/ chief executives	**Type of interests**	**Long position**	**%**	**Short position**	**%**	
Mr. Wu Xiao An	Personal	6,750,000 ordinary	0.13%	–	–	–
Mr. Qi Yumin	Personal	2,700,000 ordinary	0.05%	–	–	1,800,000 (0.04%) *(Note 3)*
Mr. Qian Zuming	Personal	–	–	–	–	600,000 (0.01%) *(Note 3)*

Notes:

1. The percentage of shareholding is calculated on the basis of 5,039,869,388 Shares in issue as at 31st December, 2016.

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 5,039,869,388 Shares in issue as at 31st December, 2016.

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.

Associated Corporation of the Company

Name of director/ chief executive	Name of associated corporation	Type of interests	Number and class of shares held/ Approximate shareholding percentage *(Note 1)* Long position	%	Short position	%
Mr. Wu Xiao An	Power Xinchen	Trustee and interest in a controlled corporation *(Note 2)*	33,993,385 ordinary	2.65%	–	–
		Beneficial interest (in shares) *(Note 3)*	8,320,041 ordinary	0.65%	–	–

Notes:

1. The percentage of shareholding is calculated on the basis of 1,282,211,794 shares in issue of Power Xinchen as at 31st December, 2016.

2. As at 31st December, 2016, Power Xinchen was indirectly held as to 31.20% by the Company. The 33,993,385 shares in long position are interests of a discretionary trust under an incentive scheme of Power Xinchen. The said trust held 33,993,385 shares of Power Xinchen. Mr. Wu Xiao An is one of the trustees of the aforementioned trust. Mr. Wu also held 50% interests in Lead In Management Limited which is also a trustee of the said trust. Accordingly, Mr. Wu was deemed or taken to be interested in the 33,993,385 shares of Power Xinchen, representing approximately 2.65% of its issued share capital as at 31st December, 2016.

3. Mr. Wu Xiao An held 8,320,041 shares of Power Xinchen in the capacity of beneficial owner, representing approximately 0.65% of its issued share capital as at 31st December, 2016.

Save as disclosed above, as at 31st December, 2016, none of the directors, chief executives of the Company or their respective close 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 Issuers 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, 2016 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 TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed herein, no transactions, arrangements or contracts of significance to which the Company was a party and in which a director of the Company or an entity connected with such director is or was materially interested, whether directly or indirectly, subsisted during or at the end of the financial year.

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company who are 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the financial year ended 31st December, 2016, none of the directors of the Company was considered to have interests in business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PERMITTED INDEMNITY PROVISIONS

During the financial year and up to the date of this annual report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the directors and officers of the Company and its subsidiaries. The permitted indemnity provisions are provided for in the Company's bye-laws and in the directors & officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against such persons.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities in 2016.

ANALYSIS OF INTEREST CAPITALISED

Details of interest capitalised are set out in note 6 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 2016, the aggregate sales attributable to the Group's five largest customers, excluding the Group's associates and joint ventures, represented approximately 72.21% of the Group's total revenue from sales of goods or rendering of services while the sales attributable to the Group's largest customer represented approximately 51.73% of the Group's total revenue. The aggregate purchases attributable to the Group's five largest suppliers, excluding the Group's associates and joint ventures, during the year represented approximately 20.73% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 9.28% of the Group's total purchases.

None of the directors, their close associates or any shareholders that, to the knowledge of the directors is interested in more than 5% of the number of issued shares of the Company, has any interests in 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 2016, the Group entered into certain related party transactions which also constitute connected transaction and continuing connected transactions under Chapter 14A of the Listing Rules. The connected transaction and continuing connected transactions during the year that are not exempt from the annual reporting requirement in Chapter 14A of the Listing Rules are listed below and these transactions are, among others, also set out in note 33(a) 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 transaction and continuing connected transactions and the relevant shareholders' approvals have been obtained, if necessary.

Connected Transaction for 2016

– *The 2016 Cross Guarantee*

On 10th November, 2015, 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 financial year commencing from 1st January, 2016 to 31st December, 2016 (the "**2016 Cross Guarantee**"). At the time of entering into the agreement, JinBei was interested in 39.1% of equity interests in Shenyang Automotive. Shenyang Automotive was then owned as to 60.9% by the Company. As a substantial shareholder of a subsidiary of the Company, JinBei is considered as a connected person of the Company under the Listing Rules. The 2016 Cross Guarantee constituted a connected transaction for the Company under the Listing Rules. It is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the 2016 Cross Guarantee are set out in the announcement of the Company dated 10th November, 2015. The 2016 Cross Guarantee is not a notifiable transaction under Chapter 14 of the Listing Rules.

As at 31st December, 2016, Xing Yuan Dong provided a guarantee in respect of JinBei's banking facilities in the amount of approximately RMB470 million.

Continuing Connected Transactions for 2016

– *Continuing Connected Transactions*

Currently, the Group is engaged in the manufacture and sale of minibuses and automotive components in the PRC through its major operating subsidiaries, and the manufacture and sale of BMW vehicles in the PRC through its major joint venture, BMW Brilliance.

On 12th November, 2014,

(a) the Company and JinBei entered into a framework agreement in relation to the purchases of materials and automotive components by members of the Group from JinBei and its subsidiaries and its 30%-controlled companies, but excluding Shenyang Automotive (collectively, the "**JinBei Group**") for a period of three financial years commencing from 1st January, 2015 to 31st December, 2017;

(b) the Company and Huachen entered into a framework agreement in relation to the sale of automobiles, materials and/or automotive components by members of the Group to Huachen and its subsidiaries and its 30%-controlled companies (collectively, the "**Huachen Group**") for a period of three financial years commencing from 1st January, 2015 to 31st December, 2017;

(c) the Company and Huachen entered into a framework agreement in relation to the purchases of materials and automotive components by members of the Group from members of the Huachen Group for a period of three financial years commencing from 1st January, 2015 to 31st December, 2017; and

(d) the Company and Huachen entered into a comprehensive service agreement in relation to the provision/purchase of services by members of the Group to/from members of the Huachen Group for a period of three financial years commencing from 1st January, 2015 to 31st December, 2017.

The framework agreements and the comprehensive service agreement only set out the overriding and major terms of the transactions to be carried out by relevant parties. Details of the terms and conditions (including payment mode and payment terms) for the transactions contemplated under the framework agreements will be dealt with in the purchase orders to be placed by the relevant purchaser, which will be in line with the company policies adopted by the relevant vendor from time to time and may be varied in accordance with the prevailing market situation. The scope and fees for services to be provided or purchased by members of the Group pursuant to the comprehensive service agreement will be agreed by the relevant parties with reference to the pricing policies of the relevant service provider and the prevailing market condition. All the payments under the framework agreements and the comprehensive service agreement shall be settled in cash or note payable with credit terms ranging from 30 to 90 days, which is the usual credit term policy adopted by the Group.

At the time of entering into of the aforesaid agreements, JinBei owned 39.1% of the equity interests of Shenyang Automotive, which was in turn owned as to 60.9% by the Company. Being a substantial shareholder of a subsidiary of the Company, JinBei is considered as a connected person of the Company under the Listing Rules. Transactions between members of the Group (including Shenyang Automotive) and members of the JinBei Group (other than Shenyang Automotive) constitute connected transactions under Rule 14A.23 of the Listing Rules.

At the time of entering into of the aforesaid agreements, Huachen was interested in approximately 42.48% of the entire issued share capital of the Company. Being a substantial shareholder of the Company, Huachen is considered as a connected person of the Company under the Listing Rules. Transactions between members of the Group and members of the Huachen Group constitute connected transactions under Rule 14A.23 of the Listing Rules.

Among the abovementioned transactions, the purchases of materials and automotive components from the Huachen Group; and the sale of automobiles, materials and automotive components to the Huachen Group are subject to the reporting, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. At a special general meeting held on 29th December, 2014, the independent shareholders of the Company approved these transactions and the relevant annual caps for a period of three financial years ending 31st December, 2017.

The provisions of services to/by the Huachen Group are de minimus transactions exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Rule 14A.76(2) of the Listing Rules. Since JinBei is a connected person of the Company at the subsidiary level, the purchases of materials and automotive components from the JinBei Group are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Rule 14A.101 of the Listing Rules.

Details of the above transactions are set out in an announcement of the Company dated 12th November, 2014 or the circular of the Company dated 10th December, 2014.

The actual monetary value of the above continuing connected transactions for the financial year ended 31st December, 2016 (the "**Continuing Connected Transactions**") is set out below (the transactions are numbered in the same order as they appear in the announcement dated 12th November, 2014).

Continuing Connected Transactions		Major type of products	Actual monetary value for the financial year ended 31st December, 2016 RMB'000
A.	**Purchases of materials and automotive components by members of the Group (including Shenyang Automotive) from members of the JinBei Group**		
A1.	Purchases of materials and automotive components by Shenyang Automotive	Bracket right assemblies, seats, strut beam rear panels and driving shaft assemblies	362,120
A2.	Purchases of materials and automotive components by Xing Yuan Dong	Back axle brake assemblies, power steering gear assemblies and rubber parts	16,329
B.	**Sale of automobiles, materials and/or automotive components by members of the Group to members of the Huachen Group**		
B1.	Sale of materials and automotive components by Xing Yuan Dong	Interior trim parts and anti-freezing fluid	65,972
B2.	Sale of materials and automotive components by Dongxing Automotive	Press parts, welding parts and complete outsourced parts	277,663
B3.	Sale of materials and automotive components by Shenyang Jindong	A0 assemblies and matching components	56,265
B4.	Sale of materials and automotive components by Mianyang Ruian	Camshafts	84
B5.	Sale of materials and automotive components by Ningbo Yuming	Side triangle window assemblies, sun roof assemblies, triangular windows and sealing bars	11,786
B6.	Sale of materials and automotive components by Ningbo Ruixing	Rear view mirrors	–
B7.	Sale of automobiles, materials and automotive components by Shenyang Automotive	Automobiles, chassis, engines and transmissions	668,125
B8.	Sale of materials and automotive components by Shanghai Hidea	Matching components	–

Continuing Connected Transactions		Major type of products	Actual monetary value for the financial year ended 31st December, 2016 RMB'000
C.	**Purchases of materials and automotive components by members of the Group from members of the Huachen Group**		
C1.	Purchase of materials and automotive components by Dongxing Automotive	Steels	103,168
C2.	Purchase of materials and automotive components by Shenyang Automotive	Press parts and power trains	417,224
C3.	Purchase of materials and automotive components by Shanghai Hidea	Matching components	–
C4.	Purchase of materials and automotive components by Shenyang Jindong	Scrap materials and window materials	99,723
D.	**Comprehensive service agreement**		
D1.	Provision of services by members of the Group to members of the Huachen Group		42,263
D2.	Purchase of services by members of the Group from members of the Huachen Group		24,440

The independent non-executive directors of the Company have reviewed and confirmed that the internal control procedures put in place by the Company are adequate and effective and the Continuing Connected Transactions have been entered into:

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

2. either on normal commercial terms or better; 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 Company's auditor was engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Subsequent events

– *The 2017 Cross Guarantee*

On 4th November, 2016, an agreement was entered into between Xing Yuan Dong and JinBei, pursuant to which Xing Yuan Dong and JinBei (and its subsidiaries) agreed to provide cross guarantees to 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 financial year commencing from 1st January, 2017 to 31st December, 2017 (the "**2017 Cross Guarantee**"). The 2017 Cross Guarantee constitutes a connected transaction for the Company subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the 2017 Cross Guarantee are set out in the announcement of the Company dated 4th November, 2016. The 2017 Cross Guarantee is not a notifiable transaction under Chapter 14 of the Listing Rules.

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 time of the entering into of the relevant transactions) that are required to be reported pursuant to Chapter 14A of the Listing Rules.

AUDITOR

Grant Thornton Hong Kong Limited will retire at the conclusion of the 2017 AGM and be eligible to offer itself for re-appointment. A resolution will be submitted to the 2017 AGM to seek shareholders' approval on the appointment of Grant Thornton Hong Kong Limited as our auditor until the conclusion of the next annual general meeting and to authorise the Board to fix its remuneration.

By order of the Board

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

Hong Kong,
24th March, 2017

Management's Discussion & Analysis

BUSINESS DISCUSSION AND ANALYSIS

A review of the business of the Group during the financial year ended 31st December, 2016 and the outlook of the Group's business are discussed throughout this annual report including the sections headed "Chairman's Statement" and "Business Review" on pages 4 to 5 and pages 8 to 14 of this annual report.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2016, the Group had RMB940.9 million in cash and cash equivalents (As at 31st December, 2015: RMB1,070.9 million), RMB193.1 million in short-term bank deposits (As at 31st December, 2015: RMB676 million) and RMB1,339 million in pledged short-term bank deposits (As at 31st December, 2015: RMB1,325.5 million). As at 31st December, 2016, the Group had notes payable in the amount of RMB2,330.1 million (As at 31st December, 2015: RMB2,157 million).

As at 31st December, 2016, the Group had outstanding short-term bank borrowings of RMB1,325 million (As at 31st December, 2015: RMB1,585 million) and did not have any long-term bank borrowings outstanding (As at 31st December, 2015: nil).

All short-term bank borrowings as at 31st December, 2016 were due within one year, being repayable from 10th January, 2017 to 12th December, 2017 (As at 31st December, 2015: repayable from 13th January, 2016 to 10th November, 2016). As at 31st December, 2016, these borrowings were at fixed interest rates and were denominated in Renminbi (As at 31st December, 2015: same).

The Group also aims at improving liquidity of the Group by ways such as monitoring the accounts receivable turnover and inventory turnover. For the year ended 31st December, 2016, the accounts receivable turnover rate and inventory turnover rate were 3.38 and 4.28, respectively (Year ended 31st December, 2015: 3.69 and 4.64, respectively).

CAPITAL STRUCTURE AND FUNDING POLICIES

As at 31st December, 2016, the Group's total assets was RMB31,043.0 million (As at 31st December, 2015: RMB27,072.3 million), which was funded by the following: (a) share capital of RMB396.8 million (As at 31st December, 2015: RMB395.9 million), (b) reserves of RMB23,327 million (As at 31st December, 2015: RMB19,499.7 million), (c) total liabilities of RMB8,444.5 million (As at 31st December, 2015: RMB8,008.6 million) and (d) negative contribution from non-controlling interests of RMB1,125.3 million (As at 31st December, 2015: RMB831.9 million).

As at 31st December, 2016, 78.5% (As at 31st December, 2015: 90.3%) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and demand deposits within 3 months of maturity when acquired) were denominated in Renminbi, whereas 14.6% (As at 31st December, 2015: 7.3%) were denominated in U.S. Dollar. The remaining balance of 6.9% (As at 31st December, 2015: 2.4%) were denominated in other currencies.

Apart from the borrowings, banking facilities have been put in place for contingency purposes. As at 31st December, 2016, the Group's total available banking facilities for its daily operations amounted to RMB545 million (As at 31st December, 2015: RMB268.4 million) without any committed banking facilities.

The Group funds its short-term working capital requirement mainly through its own operational cash flow, short-term bank borrowings, issue of bank guaranteed notes and payment credit from its suppliers. 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 management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

For long-term capital expenditures, the Group's strategy is to fund these long-term capital commitments by a combination of operational cash flow, bank borrowings, dividends from joint ventures and associates, if any, and fund raising exercises in the capital market, if and when necessary.

CAPITAL EXPENDITURE AND COMMITMENTS

In 2016, the Group incurred capital expenditure of RMB398 million (2015: RMB781.9 million) mainly for acquisition of land use rights, tools and moulds, machinery and equipment, and development costs for minibus.

As at 31st December, 2016, the Group's capital commitments, including those authorised but not yet contracted for, amounted to RMB474.7 million (As at 31st December, 2015: RMB321.6 million). Among such, contracted capital commitments amounted to RMB367.2 million (As at 31st December, 2015: RMB261.8 million), which was primarily related to the capital expenditure in respect of construction projects and acquisition of plant and machinery.

NEW BUSINESS AND NEW PRODUCTS

To meet the changing customer demands and to strengthen our market position in the PRC, Shenyang Automotive will continue to evaluate, on an ongoing basis, the development of new MPV models, upgrading of existing products, expansion of its product portfolio, and potential strategic partnerships.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There were no significant investments held, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31st December, 2016.

EMPLOYEES, REMUNERATION POLICY AND TRAINING PROGRAMMES

The Group employed approximately 7,280 employees as at 31st December, 2016 (As at 31st December, 2015: approximately 7,410). Employee costs amounted to approximately RMB750.2 million for the year ended 31st December, 2016 (For the year ended 31st December, 2015: approximately RMB722.8 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.

To enhance the overall quality and professional expertise standard of all employees, the Group provides training to its employees from time to time. Shenyang Automotive has developed and implemented "Methods for Training Management" (《培訓管理辦法》), and developed a training system and workflow incorporating induction training for new employees, training for personnel of special positions, management training, professional expertise training and quality training. The programmes cover a broad spectrum of topics such as professional skills, quality and ability, working efficiency, team cooperation, ethics and professional conduct. Employees are encouraged to attend training sessions to acquire the latest industry information and knowledge, new trends in vocational area and new information via different learning media including internet, in-house classes and external seminars, so as to enhance their ability and work quality.

CHARGE ON ASSETS

As at 31st December, 2016, bank borrowings of RMB130 million (As at 31st December, 2015: RMB110 million) were secured by the Group's buildings, tools, moulds, machinery and equipment with total net book values of approximately RMB193.2 million (As at 31st December, 2015: RMB110.2 million).

In addition, as at 31st December, 2016, the Group pledged short-term bank deposits of RMB1,128.4 million (As at 31st December, 2015: RMB1,115 million) for issue of bank guaranteed notes to trade creditors, and RMB210.5 million (As at 31st December, 2015: RMB210.5 million) to secure bank loans granted to a related party of the Group.

As at 31st December, 2016, the Group had also pledged bank guaranteed notes receivable from third parties and affiliated companies of approximately RMB116.5 million (As at 31st December, 2015: approximately RMB66.5 million) for issue of bank guaranteed notes.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR ADDITIONS OF CAPITAL ASSETS

Apart from those disclosed herein, there was no plan authorised by the Board for other material investments or additions of capital assets as at the date of this annual report.

GEARING RATIO

As at 31st December, 2016, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 0.36 (As at 31st December, 2015: 0.40). The decrease in the gearing ratio was primarily due to continuing profit attributable to equity holders generated during 2016.

FOREIGN EXCHANGE RISKS

Despite a decrease in the overseas sales of the Group, the Group considers that exchange rate fluctuations may have some effect on the overall financial performance of the Group but it is still at a manageable level. The Group will continue to monitor the situation and may consider entering into hedging arrangements in order to minimise foreign exchange risks, if and when necessary. There were no outstanding hedging transactions as at 31st December, 2016 (As at 31st December, 2015: nil).

CONTINGENT LIABILITIES

On 10th November, 2015, a subsidiary 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 (2015: RMB600 million) for the period from 1st January, 2016 to 31st December, 2016. As at 31st December, 2016, under this agreement, JinBei and its subsidiaries had outstanding bank loans and other banking facilities totalling RMB470 million (As at 31st December, 2015: RMB530 million) of which RMB200 million (As at 31st December, 2015: RMB200 million) and RMB270 million (As at 31st December, 2015: RMB330 million) were supported by the Group's bank deposits pledged to and corporate guarantee provided to the banks, respectively. On 4th November, 2016, an agreement was entered into by both parties to provide cross guarantees for the same amount to each other for the period from 1st January, 2017 to 31st December, 2017.

In addition, the Group had provided a corporate guarantee in the maximum amount of RMB60 million (As at 31st December, 2015: RMB60 million) from 1st January, 2016 to 31st December, 2016 for revolving bank loans and bank guaranteed notes to Shanghai Shenhua. As at 31st December, 2016, RMB60 million (As at 31st December, 2015: RMB60 million) of this corporate guarantee was utilised by Shanghai Shenhua.

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On), aged 55, has been the chairman of the Board since 18th June, 2002 and our executive director since 11th January, 1994. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Wu has over 22 years of experience in the automotive industry and is primarily responsible for the overall strategic planning and business development of the 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, the chairman of BMW Brilliance since May 2003, and the chairman of BBAFC since April 2015. He was a director of Shenyang Automotive from January 1994 to August 2016. 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 (now known as Beijing Foreign Studies University) in 1985 and a master of business administration degree from Fordham University in New York in 1992. Currently, Mr. Wu is the chairman of the board of directors of Power Xinchen, a company listed on the main board of the Stock Exchange (stock code: 1148). In March 2011, Mr. Wu was appointed as a director and in April 2012 designated as an executive director of Power Xinchen.

Mr. Qi Yumin, aged 58, has been an executive director, the president and the chief executive officer of the Company since 6th January, 2006. He is also a member of the remuneration committee and nomination committee of the Company. Mr. Qi was the chairman and president of Huachen during the period from December 2005 to January 2016 and has served as the chairman of Huachen since January 2016. Since November 2006, Mr. Qi has been a director of BMW Brilliance. He was the chairman and a director of Shenyang Automotive from January 2006 to August 2016. From 1982 to 2004, Mr. Qi held various positions in 大連重工集團有限公司 (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 graduated from Xi'an University of Technology (formerly known as Shanxi Institute of Mechanical Engineering) Department of engineering and economics, with a major in machinery manufacturing management and engineering, in July 1982 and a master's degree in business administration from Dalian University of Technology in April 2004. He was qualified as a senior engineer (professor level) by the Personnel Department of Liaoning Province in December 1992. Since April 2009, Mr. Qi has been appointed as the chairman and a director of Shanghai Shenhua (stock code: 600653), a company listed on The Shanghai Stock Exchange. Mr. Qi was a director of Power Xinchen (stock code: 1148) from November 2011 to September 2016, and the chairman of the board and a director of JinBei (stock code: 600609), a company listed on The Shanghai Stock Exchange, from May 2009 to August 2016.

Mr. Qian Zuming, aged 54, has been an executive director of the Company since 12th September, 2016. Mr. Qian has been the chief financial officer of the Company since 1st July, 2008. He has around 34 years of experience in finance and accounting practice. Mr. Qian has been appointed as an assistant to the president of Huachen since December 2009. Mr. Qian has been a director of Shenyang Automotive since January 2010 and a director of BBAFC since March 2017. From 1982 to 1996, Mr. Qian was the deputy section head (副科長) of the finance section of 上海海運局 (Shanghai Maritime Bureau) of Ministry of Transport. From 1996 to 1998 and from 1998 to 2000, he was the finance manager of 上海泰利船務有限公司 (Shanghai Tai Li Shipping Co., Ltd.) and 上海小松包裝機械有限公司 (Shanghai Xiao Song Packaging Machinery Co., Ltd.), respectively. From January 2006 to March 2007, Mr. Qian was the chief financial officer of 上海華盛集團有限公司 (Shanghai Hua Sheng Group Co., Ltd.). Mr. Qian is a fellow of the Institute of Financial Accountants of the United Kingdom since October 2010. He is also an academic member of the Association of International Accountants since April 2013. Mr. Qian obtained a master's degree in finance from the Graduate School, The Chinese Academy of Social Sciences in 1998 and a master's degree in business administration from The Wisconsin International University (USA), Ukraine in 2001. Since August 2016, Mr. Qian has been appointed as a director of Shanghai Shenhua (stock code: 600653), a company listed on The Shanghai Stock Exchange.

Mr. Zhang Wei, aged 43, has been an executive director of the Company since 12th September, 2016. Mr. Zhang has been a director of SJAI, a subsidiary of the Company, since June 2014. Mr. Zhang joined Huachen in 2003 and has since held various positions in Huachen, including but not limited to senior project manager of assets operation department, secretary of president, division leader of human resources department, deputy manager of administrative office and assistant to president. Mr. Zhang has been the secretary of the board of directors of Huachen since March 2016. From July 1996 to February 1997, and from February 1997 to January 2003, Mr. Zhang was a specialist of import and export department and a project manager, respectively, of 中國冶金進出口遼寧公司 (Liaoning Branch of China Metallurgical Import and Export Company*). Mr. Zhang obtained a bachelor's degree in engineering from Shenyang University of Technology in 1996. Mr. Zhang also received a master's degree of science, with a major in business and information technology, from University of Salford in 2001. Since August 2016, Mr. Zhang has been appointed as a director of Shanghai Shenhua (stock code: 600653), a company listed on The Shanghai Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bingjin, aged 77, has been an independent non-executive director of the Company since 27th June, 2003 and his further appointment as an independent non-executive director of the Company was approved by our shareholders at the annual general meetings held on 18th May, 2012 and 2nd June, 2015. Mr. Xu is also the chairman of the audit committee, remuneration committee and nomination committee of the Company. 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. Mr. Xu was an independent non-executive director of Qingling Motors Co. Ltd. (stock code: 1122), a company listed on the main board of the Stock Exchange, from September 2004 to May 2015.

Mr. Song Jian, aged 60, has been an independent non-executive director of the Company since 17th September, 2004 and his further appointment as an independent non-executive director of the Company was approved by our shareholders at the annual general meeting held on 30th May, 2014. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Song is currently 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 dean of the Automotive Technology Institute at Tsinghua University and 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. Since May 2010, Mr. Song has been appointed as an independent non-executive director of Hybrid Kinetic Group Limited (stock code: 1188), a company listed on the main board of the Stock Exchange.

Mr. Jiang Bo, aged 57, has been an independent non-executive director of the Company since 27th September, 2004 and his further appointment as an independent non-executive director of the Company was approved by our shareholders at the annual general meeting held on 30th May, 2014. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Jiang is a certified public accountant and a certified public valuer in the PRC. Currently, Mr. Jiang is a managing partner of 瑞華會計師事務所 (RuiHua Certified Public Accountants) in the PRC. He was a director of Dandong Zhongpeng Accounting Firm from 1993 to 1999. Mr. Jiang has approximately 23 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. Mr. Jiang was an independent non-executive director of China HealthCare Holdings Limited (stock code: 673), a company listed on the main board of the Stock Exchange, from July 2007 to June 2016.

SENIOR MANAGEMENT

Mr. Qian Zuming, aged 54, has been the chief financial officer of the Company since 1st July, 2008. His biographical details are set out in the section headed " Executive Directors" above.

Ms. Lisa Ng is the executive vice president of the Company, with primary responsibilities in investor relations, capital market transactions, and financial reporting review. She is also the company secretary to the board of directors and audit and compliance committee of BMW Brilliance. In addition, Ms. Ng is a director of BBAFC. Ms. Ng is a qualified Chartered Professional Accountant with the Canadian Institute of Chartered Accountants. Ms. Ng graduated from the University of Waterloo with a bachelor of arts (honours) degree in chartered accountancy. She is also a graduate from the Schulich School of Business of York University with a master of business administration degree majoring in corporate finance. Ms. Ng has extensive experience spanning from public accounting to corporate finance and private equity. Prior to joining the Group in October 2006, she had spent seven years with AIG Global Investment Corp. (Asia) Ltd. and was responsible for the sourcing and execution of private equity investments. She was also a member of the Listing Division of The Hong Kong Exchanges and Clearing Limited, as well as an auditor with Ernst & Young in Canada.

Ms. Huang Yu is currently the vice president and chief accountant of the Company. Ms. Huang has worked for Shenyang Automotive as a financial analyst and internal auditor from July 1999 to June 2000, and worked as a manager of the financial center of the Group from June 2002 to April 2007. She was appointed as the qualified accountant of the Company from May 2007 to January 2009 pursuant to the requirements set out in the Listing Rules. She has been the chief accountant of the Company since May 2007. Ms. Huang graduated with a bachelor's degree and a master's degree, both in economics, from South Western University of Finance and Economics. She is a certified public accountant of the PRC and also a member of the Association of Chartered Certified Accountants. Ms. Huang also holds the qualifications to be a lawyer in the PRC.

Mr. Liu Tongfu, aged 53, is currently the chairman of the board of director of Shenyang Automotive. He has been serving as director, executive vice president, member of the standing committee of the Communist Party of China and vice general manager of auto business unit of Huachen since March 2016. From February 2016 to March 2016, he was the director, executive vice president and member of the standing committee of the Communist Party of China of Huachen. From December 2015 to February 2016, he was the vice president and member of the standing committee of the Communist Party of China of Huachen. From June 2011 to December 2015, he served as the vice president and member of the leading party group of Huachen. From February 2008 to June 2011, he acted as president assistant of Huachen. From December 2006 to February 2008, Mr. Liu acted as the vice general manager of 大化集團有限責任公司 (Dahua Group Co., Ltd.). From August 1990 to December 2006, he held various positions in 大連重工集團有限公司 (Dalian Heavy Industries Co., Ltd.), including assistant to general manager, senior manager of development and planning department, and director of party office. Mr. Liu graduated from department of materials engineering in Jilin Colleage of Engineering with a major in metallic material in July 1986 and obtained a master's degree in metal material and heat treatment from department of materials in Dalian University of Technology in August 1990. In July 1998, he was qualified as a senior engineer by the Personnel Department of Liaoning Province.

Mr. Yang Huiqun, aged 55, has been general manager of Shenyang Automotive since March 2016. He had worked as assistant to general manager of 金杯通用汽車有限公司 (Jinbei GM Automotive Co., Ltd.), general manager and party secretary of 金杯汽車物資總公司 (Brilliance Jinbei Materials Corporation), general manager and party secretary on Chinese side of 金亞汽車傳動軸有限公司 (Jinya Auto Transmission Shaft Co., Ltd.), and vice general manager of 華晨汽車國際國貿公司 (Brilliance Jinbei International Trade Corporation). Mr. Yang Huiqun obtained a master's degree in mechanical engineering from Shenyang Aerospace University. He holds the title of senior engineer.

COMPANY SECRETARY

Ms. Lam Yee Wah Eva has been the company secretary of the Company since 20th June, 2005. Ms. Lam is a fellow of The Hong Kong Institute of Chartered Secretaries and a fellow 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 Company in March 2004, Ms. Lam worked in the company secretarial department of Hang Seng Bank Limited (stock code: 11) and Tom.com Limited (now known as TOM Group Limited (stock Code: 2383)), both of which are listed on the Stock Exchange. Ms. Lam also has five years' working experience in the company secretarial department of Ernst & Young, a certified public accountants firm in Hong Kong.

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 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 financial year ended 31st December, 2016, the Group has complied with all code provisions which were in effect in the financial year ended 31st December, 2016.

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 and 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 specifically reserved to the Board are set out in paragraph D below.

The Board meets regularly, normally four times each year 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 early notice to all directors so that they could grasp every opportunity to attend. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a material conflict of interest 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. Directors having a conflict of interest or material interests in a transaction will, before the meeting of the Board, declare his interest(s) therein in accordance with the bye-laws of the Company, and shall abstain from voting on the resolution(s) 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 fourteen (14) days before such 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 attending. The company secretary assists the chairman in preparing the meeting agenda and, during which, the directors are consulted for matters to be included in the agenda for all regular meetings of the Board. Each director may also request the inclusion of items in the meeting agenda.

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 directors attending the relevant meetings. All the minutes of the Board 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 2016 were as follows:

Number of meetings		**6**
	Attendance by director	**Attendance rate**
Executive directors:		
Mr. Wu Xiao An *(chairman of the Board)*	6/6	100%
Mr. Qi Yumin	5/6	83%
Mr. Wang Shiping *(Note 1)*	4/4	100%
Mr. Qian Zuming *(Note 2)*	2/2	100%
Mr. Zhang Wei *(Note 2)*	2/2	100%
Non-executive director:		
Mr. Lei Xiaoyang *(Note 1)*	4/4	100%
Independent non-executive directors:		
Mr. Xu Bingjin	6/6	100%
Mr. Song Jian	6/6	100%
Mr. Jiang Bo	6/6	100%
Average attendance rate		95.3%

Notes:

(1) Mr. Wang Shiping and Mr. Lei Xiaoyang tendered their resignation as directors of the Company with effect from 12th September, 2016. Prior to their resignation, the Company has held four Board meetings in 2016.

(2) Mr. Qian Zuming and Mr. Zhang Wei were appointed as directors of the Company with effect from 12th September, 2016. During the year, the Company has held two Board meetings since their appointment.

During 2016, apart from the six (6) meetings of the Board, consent/approval from the Board had also been obtained via circulation of written resolutions on a number of issues.

Participation of individual directors at the general meeting in 2016 were as follows:

Number of meeting		**1**
	Attendance by director	**Attendance rate**
Executive directors:		
Mr. Wu Xiao An *(chairman of the Board)*	1/1	100%
Mr. Qi Yumin	1/1	100%
Mr. Wang Shiping *(Note 1)*	1/1	100%
Mr. Qian Zuming *(Note 2)*	N/A	N/A
Mr. Zhang Wei *(Note 2)*	N/A	N/A
Non-executive director:		
Mr. Lei Xiaoyang *(Note 1)*	1/1	100%
Independent non-executive directors:		
Mr. Xu Bingjin	1/1	100%
Mr. Song Jian	1/1	100%
Mr. Jiang Bo	1/1	100%
Average attendance rate		100%

Notes:

(1) Mr. Wang Shiping and Mr. Lei Xiaoyang tendered their resignation as directors of the Company with effect from 12th September, 2016. Prior to their resignation, the Company has held one general meeting in 2016.

(2) Mr. Qian Zuming and Mr. Zhang Wei were appointed as directors of the Company with effect from 12th September, 2016. During the year, the Company has not held any general meeting since their appointment.

The Company considers that it has taken out appropriate insurance cover for its directors and officers in respect of legal actions that may be taken against directors and officers. The Company reviews the extent of the insurance coverage every year and is satisfied with the insurance coverage for year 2016.

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 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 first adopted a set of clear guidelines regarding the powers and duties of each of the chairman and the chief executive officer, which were revised on 28th March, 2012 and were further revised with effect from 27th March, 2013 after a regular review by the Board.

One (1) meeting was held by the chairman of the Board with the non-executive directors (including the independent non-executive directors) without the executive directors present in 2016 in compliance with code provision A.2.7 of the CG Code. This provides an additional platform for direct communication of the non-executive directors (including the independent non-executive directors) with the chairman of the Board without the presence of the executive directors.

A.3 Board composition

Currently, the Board comprises seven directors: four executive directors 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 of the Board)*	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. Qian Zuming *(chief financial officer)*	–
Mr. Zhang Wei	–
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

Under the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. And, 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. Throughout the year 2016, the number of independent non-executive directors has fulfilled the minimum requirement of the Listing Rules. Mr. Jiang Bo is a certified public accountant and a certified public valuer in the PRC. Mr. Jiang has approximately 23 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 nomination committee has assessed the independence of all the independent non-executive directors and the Board is satisfied with their independence.

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

The biographies of our directors are set out on pages 32 and 33 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 also 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(B) 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.

The Company had signed a formal letter of appointment or service agreement with each director (including independent non-executive directors) and whose appointment was for a specific term of three (3) years subject to the retirement by rotation provisions in the bye-laws of the Company. 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. Song Jian and Mr. Jiang Bo will retire by rotation at the 2017 AGM and have offered themselves for re-election at the 2017 AGM.

Pursuant to bye-law 102(B), each of Mr. Qian Zuming and Mr. Zhang Wei, who was appointed by the Board to fill a casual vacancy of the Board after the annual general meeting held on 3rd June, 2016, will hold office until the 2017 AGM.

Pursuant to code provision A.4.3, serving more than nine (9) years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than nine (9) years, his/her further appointment will be subject to a separate resolution to be approved by shareholders.

Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo were first appointed as the independent non-executive directors of the Company on 27th June, 2003, 17th September, 2004 and 27th September, 2004, respectively. All of them have continuously served as our independent non-executive directors for more than nine (9) years. The latest re-appointment of each of them as our independent non-executive directors has been approved by our shareholders at the general meeting held on 2nd June, 2015, 30th May, 2014 and 30th May, 2014, respectively.

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 has arranged for, and provided 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 abreast 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. As part of the continuous professional development program, the Company has also updated 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.

In addition to directors' attendance at meetings and review of papers and circulars distributed by management during 2016, each director has participated in the continuing professional development arranged and funded by the Company as follows:

Name of directors	Reading regulatory updates	Attending in-house seminars
Mr. Wu Xiao An	√	√
Mr. Qi Yumin	√	√
Mr. Wang Shiping (resigned on 12th September, 2016)	√	√
Mr. Qian Zuming (appointed on 12th September, 2016)	√	√
Mr. Zhang Wei (appointed on 12th September, 2016)	√	√
Mr. Lei Xiaoyang (resigned on 12th September, 2016)	√	√
Mr. Xu Bingjin	√	√
Mr. Song Jian	√	√
Mr. Jiang Bo	√	√

The functions of non-executive directors include the functions as specified in code provision A.6.2(a) to (d) of the CG Code.

All independent non-executive directors and the non-executive director have attended the 2016 AGM in person or by way of telephone conference as required by code provision A.6.7 of the CG Code.

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 standard set out in the Model Code during the year ended 31st December, 2016.

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 or directors or employees of its subsidiaries and its holding company, who because of such office or employment, are likely to be in possession of unpublished inside 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 and 27th March, 2013 to keep the guidelines in line with the current practices of the Company and the statutory requirements.

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 Directors' commitments

The Company has signed a formal letter of appointment or service agreement setting out the key terms and conditions of the directors' appointments. All directors are committed to devote sufficient time and attention to the affairs of the Group. The directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organizations and other significant commitments, with the identity of the public companies or organizations. The directors are reminded to notify the Company in a timely manner and at least bi-annually to confirm to the Company of any changes of such information. With respect to those directors who stand for re-election at the 2017 AGM, all of their directorships held in listed public companies in the past three years are also set out in the document accompanying the notice of the 2017 AGM.

A.7 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

The Board follows a formal and transparent procedure for the appointment of new directors to the Board. The appointment of a new director is a collective decision of the Board, taking into consideration the candidate's qualification, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as directors 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.

The nomination committee was established on 28th March, 2012 with specific written terms of reference (as amended with effect from 27th March, 2013 for incorporation of certain amendments to the CG Code effective from September 2013). Terms of reference of the nomination committee have included the duties set out in code provision A.5.2(a) to (d) of the CG Code. 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.

During 2016, the nomination committee met on three (3) occasions and discharged its responsibilities. Attendance of individual members at nomination committee meetings in 2016 were as follows:

Number of meetings	**3**
Mr. Xu Bingjin *(chairman of the nomination committee)*	3/3 (100%)
Mr. Song Jian	3/3 (100%)
Mr. Jiang Bo	3/3 (100%)
Mr. Wu Xiao An	3/3 (100%)
Mr. Qi Yumin	2/3 (66.7%)
Average attendance rate	93.3%

The nomination committee is responsible for reviewing the Board's composition and diversity, 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, experience and diversity of perspectives appropriate to the requirements of the Company's business and for formulating succession plans for executive directors and senior executives. The nomination committee is also authorised to obtain outside professional advice and to seek information from employees, and the Company will provide sufficient resources to the nomination committee for performance of its duties.

The Company adopted a board diversity policy on 13th August, 2013. The Company recognizes and embraces the benefits of diversity in Board members and a truly diverse Board will include and make good use of differences in the skills, industry experience, background and other qualities of directors. Selection of candidates will be based on a range of diversity perspectives, including but not limited to educational background, professional experience and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee will review annually on the composition of the Board under diversified perspectives, and monitor the implementation of the board diversity policy to ensure the effectiveness of the policy. It will also review the policy and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The work performed by the nomination committee during 2016 included:

– making recommendation on re-election of directors at the 2016 AGM;

– assessing the independence of the independent non-executive directors;

– noting and accepting the resignation of executive directors;

– approving the appointment of executive directors and signing of letters of appointment by the Company with the newly appointed directors;

– reviewing the current Board's structure, size and composition;

– reviewing the current Board's composition in terms of the current requirements of the Listing Rules on the number of independent non-executive directors and requisite qualification and expertise under Rule 3.10(2) of the Listing Rules; and

– reviewing the terms of reference of the nomination committee and the board diversity policy.

Full minutes of the nomination committee meetings are kept by the company secretary. Draft and final versions of the minutes of the nomination committee meetings are sent to all members of the nomination committee for comments and approval and all decisions and recommendations of the nomination committee are reported to the Board.

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 and 27th March, 2013, respectively for incorporation of certain amendments after a regular review by the Board). 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 2016, the remuneration committee met on two (2) occasion and discharged its responsibilities. Attendance of individual members at remuneration committee meeting in 2016 were as follows:

Number of meeting	**2**
Mr. Xu Bingjin *(chairman of the remuneration committee)*	2/2 (100%)
Mr. Song Jian	2/2 (100%)
Mr. Jiang Bo	2/2 (100%)
Mr. Wu Xiao An	2/2 (100%)
Mr. Qi Yumin	2/2 (100%)
Average attendance rate	100%

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 2016 included:

– considering and approving the emoluments of the newly appointed executive directors;

– reviewing the terms of reference of the remuneration committee and 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 meetings 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 and recommendations of the remuneration committee are reported to the Board.

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. On 11th December, 2015, a revised terms of reference of the audit committee was adopted with effect from 1st January, 2016 for incorporation of certain amendments after a regular review by the Board. 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 a former partner of the Group's existing audit firm as its member. The Company has adopted on 28th March, 2012 policy for hiring of employees and former employees of its external auditor to ensure judgment or independence for the audit of the Group will not be impaired.

During 2016, the audit committee met on three (3) occasions and discharged its responsibilities. Attendance of individual members at audit committee meetings in 2016 were as follows:

Number of meetings	**3**
Mr. Xu Bingjin *(chairman of the audit committee)*	3/3 (100%)
Mr. Song Jian	3/3 (100%)
Mr. Jiang Bo	3/3 (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 reports, accounts and semi-annual reports. 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 2016:

– reviewing the auditor's management letter and management's response;

– noting 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, 2015;

– reviewing the interim report and the interim results announcement for the six months ended 30th June, 2016;

– meeting with the auditor to go through any significant audit issues or key findings noted during the audit of the Group's 2015 final results;

– meeting with the auditor 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 2016 unaudited interim results;

– reviewing the continuing connected transactions and connected transactions for 2015;

– making recommendations to the Board for seeking shareholders' approval on the re-appointment of external auditor and the fixing of auditor's remuneration;

- approving the remuneration of external auditor;
- reviewing the terms of reference of the audit committee;
- reviewing the hiring policies for employees and former employees of the external auditor;
- reviewing the pricing policies adopted by the Group; and
- reviewing the effectiveness of the Group's risk management and internal control system.

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 2016, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

In 2016, the audit committee has met with the auditor in the absence of management pursuant to code provision C.3.3 note (1)(iii) of the CG Code.

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 and recommendations of the audit committee are reported to the Board.

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 function of the Board on 28th March, 2012 in compliance with code provision D.3 of the CG Code, 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, 2016, 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;
- noted any changes in accounting policies and practices;
- 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 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.

Directors are provided with monthly updates of the Company pursuant to code provision C.1.2 of the CG Code.

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31st December, 2016.

Currently, the Company's external auditor is Grant Thornton Hong Kong Limited (the "**Auditor**").

For the year ended 31st December, 2016, the audit and non-audit service fees paid or payable to the Auditor by the Company amounted to approximately HK$1,980,000 (approximately RMB1,687,000) and HK$420,000 (approximately RMB358,000), respectively. The non-audit services mainly included conducting agreed-upon procedures on the 2016 interim consolidated financial statements. Further, as stated in note 7 to the financial statements on page 106 of this annual report, the auditor's remuneration paid or payable by the Group for the year ended 31st December, 2016 amounted to RMB2,822,000 in aggregate. The said auditors' remuneration was incurred for the audit works performed for the Company and its subsidiaries.

The statement of the Auditor about its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 67 and 68 of this annual report.

C.2 Risk management and internal controls

The Board is entrusted with the responsibility of evaluating and determining the nature and extent of the risks exposure for the Company, and ensuring that the Company has established and maintained appropriate and effective risk management and internal control systems for the Group's various business and operational functions. The Board is also responsible for overseeing such systems on an ongoing basis and reviewing its effectiveness so that the interests of the shareholders are well protected. Such systems are designed to manage rather than eliminate the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The major operating companies of the Group (such as Shenyang Automotive) have defined the principal functions, authorities and responsibilities of each business and operating department to ensure that each department can effectively discharge its duties and to achieve effective mutual coordination and balance, and procure the proper implementation of business policies and strategies. The management of the Company has assisted the Board to carry out risk and control policies and procedures so as to identify and assess the risks we faced, and were involved in designing, implementing and monitoring appropriate internal control measures to reduce and control such risks. The Board has overseen the management's design, implementation and supervision of risk management and internal control systems and authorized the audit committee to monitor the effectiveness of such risk management and internal control systems.

Risk Management

During the year, Shenyang Automotive has continued to carry out risk management from risk information collection and risk assessment, formulation of risk management strategies, proposal and implementation of risk management solutions to monitor improvements, all of which were processed in an orderly manner.

Shenyang Automotive has determined that the company's overall risk management shall be led by the vice general manager/chief financial officer who is responsible for finance, and the economic management committee (經管會) of the company is the authority to manage the internal audit function including overall risk management, which shall exercise the decision-making power for various aspects of the overall risk management. Shenyang Automotive has set up risk management responsible persons (風險管理負責人) and risk administrators (風險管理員) in various company systems with a number of related department positions including staff administration (人事行政), engineering planning (配套工藝規劃), production (生產), quality (質量), finance (財務) and Party (黨群).

Based on the risk management strategies, each system/department of the company has formulated and adopted prevention and control measures on the major risks arising from daily management and business activities, identified risk management objectives, responsible persons, the management and business processes involved, the prevention measures before risk occurs and the control and corresponding measures after risk occurs. and formed the "major risk information base" (《主要風險信息庫》) of each system which shall be updated on a quarterly basis.

Shenyang Automotive has identified five risk areas namely, strategic risk, financial risk, operational risk, market risk and legal risk. Its risk management system categorised risks in each area into three types: significant risk, important risk and general risk. The three risk categories form a "main risk list" (《主要風險清單》) for each system/department which shall be updated regularly. The legal service office (法律服務處) regularly supervises and evaluates the risk management of each system, and urges the responsible entity to make timely improvement when deficiency and shortcoming have been identified. The actual or potential risks identified by each system in the daily works will be reported to risk administrators and risk management responsible persons in a timely manner, and communicated with the legal service office and reported to economic management committee for discussion. The economic management committee will report the risk management and internal control issues to the Company's audit committee and chief executive officer annually, and report the review results to the Board.

In 2016, Shenyang Automotive has added certain "risk spots" (風險點) and "control measures" (管控措施) in the existing workflows and undergone inspection and direction by the legal department and the board office (董事會辦公室) of the company in the fourth quarter and obtained positive feedback. During the year, Shenyang Automotive has sorted out 115 main risk spots, 4 of which were significant risks, and has formulated and implemented solutions to control such risks. Each system will be evaluated at least once every six months against significant risks and significant risk events.

The company has engaged external legal adviser to conduct risk business training for the risk administrators of each system from time to time, and to further broaden relevant knowledge of overall risk management and improve the risk management awareness of staffs at all levels.

Internal control

In terms of internal control, Shenyang Automotive has established an internal control and audit panel (內控內審小組) led by legal department and comprised the risk administrators and financial personnel of various departments of the company, to conduct regular internal audit. An internal audit plan is developed at the beginning of every year, and the internal control and audit work is carried out in accordance with the plan. In terms of the issues identified in the internal audit work, the responsible departments will be required to make improvements to prevent reoccurrence in the future. In addition, the company has provided financial related personnel with training in taxation and law every year. In 2016, the internal control and audit panel further improved the organization, job responsibilities and workflow in this area. Internal control and audit work is to be performed in accordance with the annual plan, and inspection work is performed weekly with records kept. When problems are identified, the company will designate responsible personnel to rectify the problems within a specified timeframe, and the panel members will be involved in overseeing the implementation according to the rectification plan.

- *Financial Control*

  The major operating subsidiaries of the Company have external audits every year, including annual statement audit, taxation audit, group audit and irregular government audit.

  To ensure the reliability of the financial reports and the truthfulness and completeness of the accounting information, Shenyang Automotive has developed "Company Accounting Audit Guidelines" (《公司會計核算指引》) ("**Guidelines**") in accordance with "Accounting Standards for Business Enterprises-Basic Standards" (《企業會計準則 – 基本準則》) issued by the Order No.33 of the Ministry of Finance of the People's Republic of China, and "Accounting Standards for Business Enterprises-Specific Principles No.1 to No.38" (《企業會計準則 – 第1號至第38號具體準則》) issued by Cai Kuai (財會) [2006] No. 3 of the Ministry of Finance and other relevant national laws and regulations. The Guidelines ensure that Shenyang Automotive has complied with the relevant principles to ascertain the integrity and reliability of its financial information during the account audit.

  In order to strengthen internal control and prevent financial risks, Shenyang Automotive has developed a "Financial Certification Management System"(《財務憑證管理制度》) to ensure consistency between journal voucher amount and original certificate amount, and that the contents and attachments of the original certificate are complete, legal and valid. It also stipulates the control procedures of enterprise financial reports, and the examination systems for approval and control of daily information. Multiple audit systems have been implemented on the financial statements. Shenyang Automotive had designed an SAP internal management control process on four aspects, namely, materials procurement, manufacturing, sales of products and financial management, and utilizes such information technology to ensure the reliability of financial information.

  The Group will engage domestic and international accounting firms to conduct audits or reviews of our subsidiaries on a semi-annual basis. The legality, rationale and efficiency of enterprise economic activities will be audited, monitored and evaluated to ensure the integrity and reliability of the enterprises' financial information. At the beginning of each year, we are also subject to final accounts examination by State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and Department of Finance (財政廳), so as to ensure the information in the company's financial reports are true and reliable.

- *Operational Control*

  Shenyang Automotive has formulated various relevant management systems and business approval processes for protecting its asset safety. It established an Inventory Counting Management System (《存貨盤點管理制度》) to conduct an inventory count every half year, and formulated the Fixed Assets Management System (《固定資產管理制度》), Fixed Assets Changes Approval Form (《固定資產變動審批表》) and Management Measures for Assets Retirement (《資產報廢管理辦法》) etc. to standardise the determination criteria for fixed assets classification, the relevant responsibilities and roles of the user department, management department and finance department to regulate the purchase, acceptance, repair and alteration, and transfer and adjustment of assets, inventory counting and retirement of assets.

  To ensure capital safety, we established Management Measures of Cash Flow Control (《現金流量控制管理辦法》), where the operational standards such as the preparation of the capital revenue and expenditure plans, receivables, payments, reimbursement tracking and warning systems were clearly stipulated.

  Shenyang Automotive has prepared annual operation plans in its bottom-up and top-down planning processes. The plan mainly includes three aspects, namely, product plan, expense plan and investment plan. Before making any project investment, generally, the company will conduct a feasibility study and an operability study on project implementation, make forecasts of project input and output, expected project investment term and finance costs. In addition, we also prepare quarterly or monthly rolling budgets according to the actual situation. Since the auto market can be volatile and unpredictable, we refine and update the assumed sales volume, product structure and profit situation in the remaining months to adjust the business plan established at the beginning of the year in a timely manner, in an effort to facilitate decision for adjustments to production and marketing so as to minimalise costs. After the monthly settlement, we will analyse product profitability and identify the reasons for variances, and then provide timely feedback to the management for making changes to sales strategies, pursue higher sales, expand market share and increase product profitability, in order to ensure the sustainable development of the enterprises.

  The company also regulates the authorization power of the management for various transactions. The classification and amounts of projects determine different levels of management approval authorities.

- *Compliance Control*

  In terms of compliance, the companies of the Group have been strictly following the laws and regulations at both the national and local levels, and have been legally operating in accordance with the requirements of such laws and regulations. None of the directors of the Company was aware of any breach of laws or regulations that may have a significant impact on the Group, nor did they note any litigation or any case of corruption, bribery, extortion, fraud and money laundering involving the Group in 2016.

  The Company places great importance to the procedures for the processing and releasing of inside information. It is the responsibility of the Company to disclose to the public as soon as reasonably practicable any inside information (as defined in the Listing Rules) that has come to its knowledge to avoid a false market in its securities.

  The Company adheres to the guidelines and relevant information on disclosure of inside information issued and updated by the Securities and Futures Commission from time to time. The Board has adopted a set of policies on disclosure control and procedures in order to ensure compliance with the requirements regarding the continuous disclosure obligation under the Listing Rules and the SFO.

  In respect of enquiries made by external parties on the Group's affairs, the Company has designated and authorised directors and certain management personnel as the Company's spokespersons to respond to enquiries with respect to specific categories (subject to the permission of the Listing Rules and any regulatory requirements).

The Company adopted a bottom-up approach to communicate information about its business and corporate developments. Employees from different departments are obliged to notify their department heads of any potential transactions or corporate developments that may require actions by the Company to fulfill its disclosure obligations. The department heads are responsible for providing the Board with adequate, reliable and timely information via the Working Team (as described below) to enable the directors to make an informed decision on whether the transaction or developments are likely to constitute inside information and whether it should be announced immediately.

The chairman of the Board and the chief executive officer, serving as the overall supervisors, shall be responsible for overseeing the implementation and operation of the disclosure control and procedures. A working team (the "**Working Team**") was established to collate the information submitted by the department heads to the Board, review any potential inside information that may need to be disclosed and make recommendations to the Board for its final decision and action. The Working Team also offers help in managing the drafting and review process of announcements, overseeing the trading halt of the shares of the Company (if appropriate), and coordinating the continuous education of the personnel involved in the disclosure process (if appropriate). External legal advisors will be involved in the process of assessing the potential inside information, the preparation of announcements and any other compliance documentation, if and when necessary.

The Company shall keep the written records of any discussion concerning the assessment of potential inside information and the reason for the conclusion. Back-up files supporting information contained in the disclosure documents shall also be kept.

In cases where a decision by the Board is pending or in cases of incomplete negotiations or proposals, the Company shall implement procedures to maintain the confidentiality of such information.

Summary

In 2016, the Company conducted an annual review on the effectiveness of the Group's major risk management and internal control systems. The Board also reviewed resources, staff qualifications and experience in terms of accounting, internal auditing and financial reporting functions, as well as the employee training courses and sufficiency of the relevant budget. The Company is of the view that the risk management and internal control systems are generally efficient and adequate, and no significant matters that could affect shareholders and demand attention were found during the year. To the knowledge of the Board, there are no material control failings or weaknesses in finance, operation and compliance control during the year under review. The Board and the audit committee will continue to improve the effectiveness of the Group's risk management and internal control systems, where necessary 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 risk management and internal control systems are reasonably implemented and the Group has generally complied with the provisions of Corporate Governance Code on risk management and internal control systems.

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. These arrangements will be reviewed periodically to ensure that they remain appropriate to the Company's needs. The Board has adopted a revised memorandum on the respective functions of the Board and management on 27th March, 2013 after a regular review. 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; and
   - 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; and
   - 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; and
   - 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 laws and regulations; and
   - 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 statements of financial position 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; and

- 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; and

   - 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 the price and market activity of the shares of the Company and to decide whether the relevant information would be price-sensitive and needs to be disclosed.

9. *Risk management*

   - risk assessment and insurance; and

   - 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 and is capable of performance of the functions of the company secretary. The Company will provide funds 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. During 2016, Ms. Lam has attended training programs and seminars arranged by The Hong Kong Institute of Chartered Secretaries and the Stock Exchange and has satisfied the 15 hours of professional training requirement 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 of the meeting.

In accordance with code provision E.1.2 of the CG Code, Mr. Wu Xiao An, the chairman of the Board, and Mr. Xu Bingjin, the chairman of the audit committee, remuneration committee and nomination committee, have attended the 2016 AGM. Mr. Song Jian, a member of the three committees, also attended the 2016 AGM. All other directors attended the 2016 AGM by way of telephone conference.

The Company has arranged for notice and related documents to shareholders for the 2016 AGM at least twenty (20) clear business days before the meeting pursuant to code provision E.1.3 of the CG Code. A separate resolution was prepared for each substantive matter presented to shareholders for approval at the 2016 AGM.

The chairman of the Board, the chairman 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 2017 AGM to answer questions of shareholders.

Pursuant to code provision E.1.2 of the CG Code, the Company will invite representatives of the Auditor to attend the 2017 AGM to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

F.2 Voting by poll

At the 2016 AGM, the chairman has provided an explanation of the procedures for conducting a poll at the commencement of the meeting. 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 the shareholders' meeting.

G. SHAREHOLDERS' RIGHT

Shareholders' right to convene special general meeting

Pursuant to bye-law 62 of the Company's bye-laws and section 74 of The Companies Act 1981 of Bermuda (as amended), shareholder(s), holding not less than one-tenth of the issued and paid-up share capital of the Company carrying voting right at general meetings of the Company, have the right to make written requisition (the "**Requisition**") to the Board to convene a special general meeting.

Procedures for shareholders to convene and put forward proposals at special general meeting

The Requisition to convene and put forward proposals at special general meeting must be in writing and signed by all requisitionist(s) (being the shareholder(s) making the Requisition) and must be deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, with a copy sent to the Company' head office address at Suites 1602–05, Chater House, 8 Connaught Road Central, Hong Kong.

Shareholders' enquiries

The Company has adopted a shareholders' communication policy on 28th March, 2012 (as revised with effect on 27th March, 2013 after a regular review by the Board) and the policy is available on the website of the Company.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

The Company has an investor relationship personnel to attend to enquiries from the shareholders. Contact details of the investor relationship personnel are set out in the shareholders' communication policy.

H. INVESTOR RELATIONS

Significant changes in the Company's bye-laws

There was no amendment made to the bye-laws of the Company during the year 2016.

Environmental, Social and Governance Report

OVERALL APPROACH

The Board has overall responsibility for the Group's environmental, social and governance (ESG) strategy and reporting. The Board is responsible for evaluating and identifying the Group's ESG risks and ensuring that the Company has an appropriate and effective ESG risk management system in place.

ESG helps in raising corporate awareness and enhancing corporate responsibility. It also helps an enterprise better understand its supply chain needs, enhance reputation, improve fundraising ability, strengthen risk management ability, attract investors, retain talents, enhance innovation ability, obtain social recognition, reduce cost and improve profitability. ESG enables the Company to identify the relevant problems facing the Company and seek solutions to such problems, for the purposes of improving and enhancing the Company's business and operations. Meanwhile, the Company can conduct regular evaluations by establishing an ESG management system and develop strategic sustainable development plans to materialize its sustainable development goals.

Below is a discussion of our environmental and social related matters. Corporate governance is reported separately in the section headed "Corporate Governance Report" of this annual report. This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 to the Listing Rules. Shenyang Automotive is the Company's major operating subsidiary in the PRC, which contributed about 80% of the revenue of the Group in 2016. Therefore, the following discussion mainly covers Shenyang Automotive.

The Company has complied with the "comply or explain" provisions set out in the "Environmental, Social and Governance Reporting Guide" for the year ended 31st December, 2016.

SUBJECT AREA: (A) ENVIRONMENTAL

A1. Emissions

Shenyang Automotive has complied with applicable national and local laws, regulations, standards and relevant requirements, including Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) to establish its environmental protection management system. With the approach of "environmental protection, pollution prevention, law compliance and continuous improvement" (保護環境、防治污染、遵紀守法、持續改進), Shenyang Automotive has reinforced its responsibility system in respect of environmental protection under the principle of "The person in charge bears the responsibility" (誰主管、誰負責). The company established as well as carried out Environmental Management System Certification (環境管理體系認證) according to GB/T24001-2004 "Environmental Management System Requirements and User's Guide" (《環境管理體系要求及使用指南》).

Shenyang Automotive appoints qualified monitoring organizations to monitor the wastewater, exhaust gas and boundary noise of the company every year. In 2016, each monitoring indicator satisfied the requirements under the national and local standards on the discharge of pollutants, including Integrated Wastewater Discharge Standard (污水綜合排放標準), Integrated Emission Standard of Air Pollutants (大氣污染物綜合排放標準) and Emission Standard for Industrial Enterprises Noise at Boundary (工業企業廠界環境雜訊排放標準). In 2016, Shenyang Automotive has achieved the target of "zero" environmental pollution incident and reached the pollutant emission standards.

Hazardous wastes as defined in the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) and mentioned in the National Catalogue of Hazardous Wastes (國家危險廢物名錄) are disposed by qualified hazardous waste management institutions in accordance with the applicable requirements.

In 2016, the main pollutant emissions of Shenyang Automotive included COD (chemical oxygen demand) in the amount of 157.12 tons (2015: 174.83 tons) and SO_2 (sulfur dioxide) in the amount of 20.35 tons (2015: 42.17 tons), respectively. The levels of pollutant emissions fall below the permitted levels.

Greenhouse gas is not the main pollutant of Shenyang Automotive. Hence, there is no such monitoring data and statistics.

All hazardous wastes generated by Shenyang Automotive are being treated by qualified hazardous waste management institutions in manners such as landfill, incineration and comprehensive utilisation (綜合利用) in accordance with regulatory requirements. In 2016, hazardous wastes generated by Shenyang Automotive, including phosphate slag, paint slag, wastewater, sludge and other hazardous wastes reached 593.31 tons (2015: 598.22 tons). Hazardous wastes increase in general as the production increases.

All non-hazardous wastes generated by Shenyang Automotive are handed over to the relevant institutions for comprehensive utilisation. By strengthening process control and management, providing training to staff of various departments, improving the utilisation rate of raw materials, and enhancing waste management training, Shenyang Automotive ensures that wastes are placed and disposed of separately so as to reduce the generation of hazardous wastes. In 2016, the non-hazardous wastes generated by Shenyang Automotive, such as general wastes and waste carton boxes amounted to 948.96 tons (2015: 2,110.2 tons). Non-hazardous wastes increase in general as production increases.

To reduce emissions, Shenyang Automotive completed the replacements of coal-burning boilers with gas-burning ones in 2016, which reduced the emission of SO_2 (sulfur dioxide) and smoke as well as dust on the environment. In 2016, Shenyang Automotive generated 20.35 tons of SO_2 (2015: 42.17 tons) and 21.34 tons of smoke and dust (2015: 49.49 tons).

A2. Use of Resources

To improve the efficiency of use of resources (including energy, water and other raw materials), Shenyang Automotive has established energy management setups at different levels, built a two-level energy management network at the office and workshops, and formulated a series of management measures and methods. With reference to the process and characteristics of energy flows in the company, Shenyang Automotive manages different kinds of energy used in each production process and in the factory's main and auxiliary production systems in four steps, namely purchase and storage (購入貯存), processing and conversion (加工轉換), transmission and distribution (輸送分配), and final usage of energy (最終使用).

The governing laws and regulations on resource usage include, but not limited to: The Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》), Notice on the Implementation Plan of the Energy Conservation and Carbon Emission Reduction Actions by Ten-Thousand Enterprises (《關於印發萬家企業節能低碳行動實施方案的通知》), General Principle of Energy Audit on Enterprise (《企業能源審計技術通則》), General Principles for Monitoring and Testing of Energy Conservation (《節能監測技術通則》), General Principles for Calculation of Thermal Efficiency of Equipment (《設備熱效率計算通則》), General Principles for Calculation of Total Production Energy Consumption (《綜合能耗計算通則》), Testing Guide for Energy Consumption of Equipment (《用能設備能量測試導則》), Method of Calculating Energy Saved in Enterprise (《企業節能量計算方法》), Guides for Energy Management in Industrial Enterprise (《工業企業能源管理導則》) and General Principle for Equipping and Managing of the Measuring Instrument of Energy in Energy-consuming Organization (《用能單位能源計量器具配備和管理通則》).

Shenyang Automotive is one of the key energy-consuming enterprises in Shenyang. The types of energy mainly consumed by the company include, among others, electricity, water, natural gas, fuel, steam and coal.

The following table sets out the level of consumption of different energy by Shenyang Automotive in 2016 (Note 1):

Items	Total consumption	Density (Note 2)
Electricity:	38,049,100 kWh	643.09 kWh/unit
Water (Note 3):	872,900 m^3	14.75m^3/unit
Natural gas:	3,616,600 m^3	61.13m^3/unit
Fuel:	786.14 tons	0.013 tons/unit
Steam:	123,500 tons	2.09 tons/unit
Coal:	4,216 tons	0.071 tons/unit

Notes:

1. The energy consumption is calculated according to the standard unit set out by relevant departments of the PRC government (e.g. electricity-kWh, water-m^3, fuel-tons).

2. Density is calculated based on the production volume of 59,166 vehicles of Shenyang Automotive in 2016 (including Haise, Granse, H2 Series and Huasong 7, etc).

3. The volumes of water consumption arising from production, recycled water consumption and waste water discharge of Shenyang Automotive in 2016 are 872,900 m^3, 732,800 m^3 and 654,700 m^3, respectively. The water consumed by Shenyang Automotive is mainly from the municipal water supply, and by now no violation has occurred and it is in compliance with the "Energy Conservation Law of the People's Republic of China" (《中華人民共和國節約能源法》).

There is no packaging material for the finished goods produced by Shenyang Automotive.

In 2016, pursuant to municipal and district government's plan on energy conservation and the economic indicators of the Group, Shenyang Automotive has taken action to conserve energy, reduce consumption and lower costs. In addition, by implementing energy savings performance contracts (合同能源管理項目), Shenyang Automotive replaced the metal halide lamps (金屬鹵化物燈) and fluorescent lamps in its factory buildings with LED lights, with an aim to reduce energy consumption and save production costs.

A3. The Environmental and Natural Resources

In order to reduce the negative impact on the environment and natural resources caused by the company, Shenyang Automotive controls pollutant production from the origin, gives priority to the use of clean energy, and adopts environment-friendly techniques such as new process, new technology, new materials and new equipments so as to eliminate or reduce pollutants and achieve clean production under the direction of various national and local laws, regulations, standards and relevant requirements.

The Group's business activities have certain impact on the environment and natural resources; therefore the Company has taken action to manage it. In order to further improve the air quality and protect the public health, Shenyang Automotive has implemented the "Blue Sky Campaign" (「藍天工程」) under the guidance of the Liao Zheng Fa Document [2012] No.36 "Suggestions on Carrying out the Blue Sky Campaign by Liaoning Provincial People's Government" (遼政發[2012]36號文件《遼寧省人民政府關於藍天工程的實施意見》). In 2016, Shenyang Automotive had replaced 100-tonne coal-burning boilers with 60-tonne gas-burning boilers, resulting in a reduction of pollutant discharge: SO_2 (sulfur dioxide) were reduced by 21.82 tons while smoke and dust by 28.15 tons in 2016 as compared to last year. Thus, the impact of sulfur dioxide and smoke and dust emission on the environment has been reduced.

In 2016, Shenyang Automotive saved 98,385 tons of water as compared to the previous year by implementing measures such as reduction of water volume through lowering the operating parameter of water supply, reducing water supply flow, reinforcement of daily inspection on pipe network, as well as fixing water leakage and dripping in a timely manner. In addition, the company lowered the parameter of steam supply pressure, cut down the number of operating boilers as far as possible, and reduced steam consumption in response to the temperature change.

SUBJECT AREA: (B) SOCIAL

Employment and Labour Practices

B1. Employment

Set out below is a brief description of the Group's employment-related policies:

1. Recruitment: Shenyang Automotive strictly complies with "Labor Law of the People's Republic of China" (《中華人民共和國勞動法》) and "Labor Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》) in recruitment under the principles of complying with the relevant requirements of national labor policies, laws and regulations as well as meeting the needs and strategic operational objectives of the company in different developmental stages. Shenyang Automotive has consistently adhered to the people-oriented concept (以人為本) in recruitment, and formulated and implemented "Recruitment Management Approach"(《招聘管理辦法》), which defined the company's recruitment process and optimized its recruiting activities.

   In 2016, the Group had approximately 7,280 employees in aggregate, of which Shenyang Automotive accounted for approximately 4,185 employees, while other operating subsidiaries such as Xing Yuan Dong, Dongxing Automotive, Shenyang Jindong, Mianyang Ruian and Ningbo Yuming accounted for approximately 610, 900, 430, 520 and 490 employees, respectively.

2. Promotion: Employees are provided with equal promotion opportunities under a fair, open and impartial competition mechanism. Taking into consideration of the actual job requirements, each individual's overall strengths and performance are assessed. Open recruitment is held. Each employee with talent would enjoy equal opportunity for promotion regardless of their educational level or qualifications.

3. Remuneration and benefits: In order to create a working environment that attracts, motivates and retains talents, and to enhance the company's sustainability, Shenyang Automotive provides attractive and competitive remuneration policies to employees. Employee remuneration consists of fixed components (basic wage and various subsidies) and variable components (performance salary, production bonus, rewards or fine and year-end bonus). In addition, it also formulates targeted incentive programs, provides staff with a variety of career paths and encourages employees to develop into high-level technical personnel in their professional area. Remuneration is adjusted according to various factors such as company results, value of employee's position, individual's ability and performance, and social condition.

   Shenyang Automotive contributes pension insurance, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing fund (五險一金) for their employees. It provides employees with commuter car, dining subsidies, accommodation (for field staffs), work uniform, protective clothing and other benefits. Shenyang Automotive organizes physical examination for all of its employees annually and provides occupational health checks to frontline production employees. The labour union of the company provides healthcare service at the healthcare home of the chief labour union at Xingcheng City, Huludao in July every year for the outstanding staff and model workers selected for the year, the duration of which usually lasts for four days. The expenses are jointly borne by the administration department of the company and the labour union. Shenyang Automotive also organizes various sports events and set up reading room to enrich the cultural life of the employees in their spare time.

4. Dismissal: Shenyang Automotive strictly complies with the relevant requirements under "Labor Law" (《勞動法》) and "Labor Contract Law" (《勞動合同法》) of the People's Republic of China when terminating employment relationship with its employees. The company values the importance of talent accumulation and strives to reduce the turnover rate with various means. The turnover rate of Shenyang Automotive was 4.75% in 2016, representing a declining trend year by year.

5. Equal opportunities and anti-discrimination: Shenyang Automotive provides employees with equal opportunities for their development, promotion, benefits, evaluations and training etc. Employees are not be discriminated or do not lose opportunities due to factors such as gender, ethnicity, race, nationality and region, family background, religious beliefs, political ideas and disability etc.

6. Diversification: Multi-culture plays an important role in the growth and development of an enterprise. Shenyang Automotive has been hiring employees of different genders, ages, ethnic groups, races, nationalities and regions, religious beliefs, political ideas and academic background.

7. Working hours and holidays: The working hours and holidays of Shenyang Automotive are in line with the relevant requirements of national labor policies, laws and regulations. It has formulated "Leave Management System for Employees" (《員工請假管理制度》) and "Regulations on Paid Annual Leave for Employees" (《員工帶薪年休假管理辦法》), and strictly abides by working hours and holidays stipulated by law of the region where the company locates. Employees work eight hours a day, five days a week, and rest on Saturdays, Sundays and public holidays. Shenyang Automotive provides leave of absence, sick leave, marriage leave, bereavement leave, maternity leave, family visit leave, work-related injury leave, annual leave etc. to its employees.

In 2016, the total number of employees of the Group by gender is set out below:

Gender	Number of employees	Percentage of total number of employees	Turnover rate (by gender)
Male	6,197	85%	7%
Female	1,081	15%	1%
Total	7,278	100%	8%

In 2016, the total number of employees of the Group by age group is set out below:

Age	Number of employees	Percentage of total number of employees	Turnover rate (by age)
Under or 30 years old	3,147	43%	5%
31 to 40 years old	1,803	25%	2%
41 to 50 years old	1,305	18%	1%
Above or 51 years old	1,023	14%	0%
Total	7,278	100%	8%

In 2016, the total number of employees of the Group by type of employment is set out below:

Type of employment	Number of employees	Percentage of total number of employees	Turnover rate (by type of employment)
Administrative personnel	817	11%	1%
Technical personnel	678	9%	1%
Production workers	5,475	76%	6%
Staff on leave (內退和離崗人員)	308	4%	0%
Total	7,278	100%	8%

B2. Health and Safety

Shenyang Automotive places occupational safety and health as its first priority. Shenyang Automotive has established the health and safety management system based on general manager responsibility system (總經理負責制), has adopted various measures and techniques to promote the standardization on safety production and has constantly improved rules and regulations, post responsibility systems (崗位責任制) and post safety operation procedures (崗位安全操作規程) under the national laws and regulations such as "Law of the People's Republic of China on Work Safety"(《中華人民共和國安全生產法》) and "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases" (《中華人民共和國職業病防治法》) and standard requirements. Shenyang Automotive has developed and implemented occupational health and safety management system certification in accordance with GB/T28001-2011 of "Occupational Health and Safety Management System"(《職業健康安全管理體系》).

In 2016, the number of work-related fatal accident in Shenyang Automotive was zero. According to the "Classification Standard of Corporate Casualty of Staff and Workers" (《企業職工傷亡事故分類標準》), occupational injuries resulting in a loss of below 105 working days for a single person are classified as minor injury. In 2016, there were three work-related minor injuries in Shenyang Automotive, with 3 workers being injured and a total loss of 150 workings days.

Shenyang Automotive arranges annual training for safety management personnel, new employees, employees who changed functions, and special operational employees to enhance their safety awareness and skills and regularize their operational behaviors. Shenyang Automotive supervises and urges the employees to comply with the related laws, regulations and operational procedures, instructs employees how to use protective equipment and labour protective appliance correctly, and carries out supervision and inspection on the same. Shenyang Automotive organizes occupational health checks for the employees before they take up the post, during their employment and after they leave the post. In 2016, Shenyang Automotive completed the occupational health surveillance records for employees exposed to occupational hazards and made the occupational health surveillance records for a total of 1,815 employees. The company also organized the pre-employment physical examination for 34 employees exposed to occupational hazards and post-employment physical examination for 52 employees exposed to occupational hazards.

Shenyang Automotive annually engages a qualified organisation to examine and evaluate occupational hazard factors of its workplaces. The examination results of 2016 complied with the national requirements.

Shenyang Automotive annually invests funds in its production environment improvement, labour protection appliance purchase, safety education, training and propaganda, obsolete production equipment elimination or technical renovation. In 2016, Shenyang Automotive has invested RMB21,287,800 in enhancing workplace safety.

Shenyang Automotive conducted inspections regularly to identify and rectify the potential security hazard timely and effectively. In 2016, Shenyang Automotive identified 22 potential hazards, and rectified all such 22 potential hazards, with a rectification rate of 100%. Shenyang Automotive has developed 10 emergency rescue plans including the "Emergency Response Plan for Severe Safety Production Accidents" (《重大安全生產事故應急處置預案》), "Emergency Rescue Plan for Oil Depot Accidents" (《油庫事故應急救援預案》), "Emergency Response Plan for Boiler and Pressure Vessel Accidents" (《鍋爐、壓力容器事故應急預案》) and "Emergency Rescue Plan for Natural Gas Leakage Accidents" (《天然氣洩漏事故應急救援預案》) to direct and regulate the emergency plan in response to unexpected safety production accidents of the company.

B3. Development and Training

To enhance the overall quality and professional expertise and standards of all employees, the Group provides training to its employees from time to time.

Shenyang Automotive has developed and implemented system standards including "Methods for Training Management" (《培訓管理辦法》) and "Process for Training Course Management" (《培訓班管理流程》) which emphasize three broad categories, being "Basics Protection" (基礎保障類), "Quality and Ability Improvement" (素質能力提升類) and "Innovation and Development" (創新發展類). Training is conducted in three manners: training by internal instructors, training by external instructors, and external training, coupled with the application of interactive learning system of the network video. The programmes cover a broad spectrum of topics such as professional skills, quality and ability, working efficiency, team cooperation, ethics and professional conduct.

Information on the percentage of trained employees of the Group by gender and types of employment in 2016 is set out below:

Type of employment	Trained male	Percentage of training	Trained female	Percentage of training
Administrative personnel	451	95%	316	92%
Technical personnel	538	100%	138	99%
Production workers	4,917	100%	545	99%
Staff on leave (內退和離崗人員)	0	0%	0	0%

Information on the average training hours completed by the employees of the Group by gender and types of employment in 2016 is set out below:

Type of employment	Training hours per male employee	Training hours per female employee
Administrative personnel	26 hours	31 hours
Technical personnel	34 hours	34 hours
Production workers	42 hours	30 hours
Staff on leave (內退和離崗人員)	0 hours	0 hours

B4. Labour Standards

The Group strictly complies with the applicable provisions of national labor policies, laws and regulations, and prohibits recruiting child labor. The process of recruitment requires candidate to show their identity documents to prevent child labor. If the certificate of identity provided by the candidate is not qualified as stipulated in the national labor policies, the process of recruitment will be terminated. All employees work freely and equally in the Group without forced labor.

Operating Practices

B5. Supply Chain Management

Shenyang Automotive has been aware of the influence of supply chain management to environment and society. Generally, Shenyang Automotive requests all suppliers to pass ISO/TS16949 The Quality Management System Certification of International Automotive Industry (《全球汽車產業質量管理系統認證》), and establish sound environment, occupational health and safety management system. Enterprises which have material effect on environment, occupational health and safety must pass ISO14001 Standard of International Environment Management System (《國際環境管理系統標準》) and OHSAS18001 Occupational Safety and Health Management Certification (《職業安全衛生管理認證》).

In addition, Shenyang Automotive has rating guidance for its supplier reviewing form, which considers the building conditions and environment of the suppliers (including light, space and pollution), assess whether suppliers' production lines could satisfy the needs of production flexibility (i.e. the production system could rapidly adapt to the changes of market demand while eliminating redundant and useless loss), and observes whether the suppliers have satisfied the 5S cleaning requirement on site. 5S represents sort (整理), set in order (整頓), shine (清掃), standardize (清潔) and sustain (素養).

In respect of the practice to engage suppliers, Shenyang Automotive has established the Procurement Management Process (《採購管理程式》). In 2016, Shenyang Automotive has 329 suppliers. By region, there are 138 suppliers in Eastern China, 137 in Northeastern China, 37 in Northern China, 10 in Central South, and 7 in Southwestern China.

The major principles to sourcing suppliers is, taking into account the company's existing model platform, to focus on partners with strong technology development ability, fast response, stability and consistency in design and production quality, high level of project management expertise, cost advantage, and intention to cooperate. Furthermore, with an aim to secure quality, reduce supply risk and optimize cost, Shenyang Automotive will try to source alternative supplier if the principal supplier cannot adapt to the company's requests or scores low in assessment.

The formulation, placing, delivery and account management of purchase orders are executed in compliance with the Procurement Controlling Process (《訂購控制程式》). The daily quality control of suppliers is conducted by relevant departments which are responsible for outsourced parts and raw and supplementary materials. These departments monitor the quality control process and product quality of the suppliers on a routine basis, and use different monitoring methods according to the different product types of the suppliers.

A supplier Rating Sheet (《供應商評分表》) is submitted by each functional department every month, and consolidated by the Supplier Management Department of Vehicle Business (整車事業部供應商管理處), which will issue review results to each functional department on a quarterly basis. The Supplier Management Department makes annual comprehensive assessment and rating for qualified suppliers in accordance with the importance of parts and components and planning direction of the suppliers, and evaluates the ability and performance of the suppliers in respect of the following six aspects: quality, cost, supply availability, after-sale spare parts availability, service quality and development capacity. The suppliers are scored on a quarterly basis and graded into four levels in accordance with their scores. Reward or punitive measures are implemented depending on the grade. Suppliers with A-grade are firstly chosen while suppliers with D-grade are not allowed to provide products/services to the company.

B6. Product Responsibility

Shenyang Automotive focuses on the quality and safety of the products and services provided which are accredited by China Compulsory Certification System (3C certification) (中國強制認證制度(3C認證)) and TS16949 Quality Management System (《質量管理體系》). It also carries out remedies through Three-warranty Policy of Automobile (汽車三包政策) (i.e. refund, replace and repair).

Care is taken to ensure that contents of advertisements are true, contain no false or misleading statements to deceive or mislead consumers and do not violate any applicable rules, regulations and laws. Advertisements provide true and accurate information of the products and strictly comply with the Advertisement Law of the PRC.

There was no recall of products due to the defects in 2016.

In 2016, Shenyang Automotive has received a total of 13,327 customer complaints. By going through the complaint handling process, sorting the problems in a logical order with appropriate follow-up actions, the percentage of complaints solved reached 95%.

Ever since its establishment, Shenyang Automotive has always attached great importance to the protection of self-owned intellectual property rights. The company implements motivation mechanism, supports the intellectual property programs, in particular, the high-tech patent programs, and drives the company's technicians' consistent motivation for innovation. The company has continuously adhered to strategies of "brand-building, awareness enforcement, speeding-up and making more application, protection promotion, intensifying innovation and enhancing efficiency" (樹立品牌、增強意識、加強申請、促進保護、加大創新、提高效率) to speed up development of the company's technological innovation system. Since the date of establishment and up to the end of 2016, Shenyang Automotive has been granted 193 and 251 registered trademarks in the PRC and abroad, respectively, and has applied for a total of 13 patents (including 2 patents on inventions, 7 patents on utility models and 4 patents on designs).

In respect of quality inspection and product recall procedures, "Controlling Procedure of Vehicle Product Delivery" (《產品車交付控制程序》) regulates the quality inspection for product vehicles at the storage and retrieval stages. The "Guidance Manual for Dealership" (《經銷商指導手冊》) regulates the quality inspection when a dealership receives the vehicle product. As to recall of products, the company adopts "Recall Procedure for Flaw Product" (《缺陷產品召回程序》) to regulate the recall and handling procedures of defective vehicles.

Shenyang Automotive values the privacy and security of consumers' information by adopting the following measures: (1) special-personnel-supervision (專人專管): by implementing "DMS Client File Management Regulations" (《DMS系統客戶檔案管理規定》), the privacy and security of consumers' information is regulated; (2) level-to-level examination and approval (層層審批): approval on application for review of customers' file is necessary to secure the privacy and security of consumers' information; and (3) client service center monitoring (客戶服務中心監察): consumers' information is monitored by the client service center.

B7. Anti-corruption

The Company and its employees strictly comply with the applicable laws relating to corruption, bribery and money laundering in the relevant jurisdictions in which the Group carries out its operations. To the best of the directors' knowledge, the Group has no corruption, bribery, extortion, fraud or money laundering incidents, nor any filed and closed corruption legal case against the Company and its employees in 2016.

Shenyang Automotive practices and strictly implements "The State-owned Enterprise Implementing Three Importance and One Greatness Policy-making System" (《國有企業貫徹落實「三重一大」決策制度》) and "Requirements of Incorruptible Employment for State-owned Enterprises Leaderships" (《國有企業領導人員廉潔從業若干規定》), etc. The company's commission for disciplinary inspection (公司紀委) formulates and executes the "Accountability Document for Leaderships to Remain Integrity" (《領導幹部廉潔從業責任書》), the "System of Accountability for Improving Party Conduct and Upholding Integrity of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司黨風廉政建設責任制度》) and the "Implementation Rules of Integrity and Risk Prevention of Shenyang Brilliance JinBei Automobile Co., Ltd." (《瀋陽華晨金杯汽車有限公司廉潔從業風險防範工作實施細則》).

By carrying out internal audit and external audit, Shenyang Automotive attempts to control and prevent any unethical or corrupt behaviors. The company's commission for disciplinary inspection raised the senior employees' awareness of anti-corruption and their ability to reject corruption activities by holding 3 anti-corruption educational events. Employees may report any violation by an employee such as dereliction of duties, seeking personal gain through power, accepting bribes, misappropriation of company assets, etc. to the company's commission for disciplinary inspection via various channels such as formal documents, letters, faxes, e-mails, phone calls, and interviews. After being reported by the company's commission for disciplinary inspection to senior authorities, the reported violations will be investigated, verified and concluded.

B8. Community Investment

To the Group, fulfillment of corporate social responsibility means operating its business in a responsible way and taking into consideration the interests of both internal and external concerned parties and the impact on economy, society and environment. With a high degree of political and social responsibility, an enterprise should create a harmonious atmosphere within the corporation and with the society, building a corporate image with internal cohesive forces and external influences.

Shenyang Automotive held "Competing for Becoming No.1 Worker, Competing for Becoming No.1 Team" (爭當金牌工人　爭創金牌班組) and "An Kang Cup" (安康杯) competitions to encourage uplifting of employee' skills.

Shenyang Automotive has also organized staff singing contest, Tai Chi show (太極拳展演), badminton and Ping-Pong competition, and sponsored the "Heart to Heart" performance by the police art group (「心連心」警官藝術團) for team building and community work.

Shenyang Automotive visited and consoled its staff who were in difficult situations, granting RMB130,000 for allowance pensions, RMB1,000,000 for medical subsidies and RMB10,000 for education subsidies. The company had also committed a total of RMB960,000 for staff's birthday meals and benefits.

Shenyang Autotive held "Incumbent Party Member in Community" (在職黨員進社區) volunteering event, joint-construction events and dream-realization events in Shenyang Automotive Community, and offered 50 necessities worth RMB6,000 to party members and civilians in difficult situation in the community.

In addition, the company donated RMB40,000 worth of school bags and stationery etc. to underprivileged students in Caojiawopu Village, Hujia Town, Jinzhou City (錦州市胡家鎮曹家窩鋪村), and provided full scholarship and priority to work at the company to underprivileged students enrolled in Liaoning Toyota JinBei Technician Institute (遼寧豐田金杯技師學院).

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Brilliance China Automotive Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to the "**Group**") set out on pages 69 to 144 which comprise the consolidated statement of financial position as at 31st December, 2016, and the consolidated statement of profit or loss, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the **Code**") and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Interest in a significant joint venture	
The Group's 50% interest in BMW Brilliance Automotive Ltd. ("**BMW Brilliance**") is accounted for under the equity method. The Group's share of the profit after tax from BMW Brilliance for the year ended 31st December, 2016 was RMB3,998,419,000 and the Group's share of BMW Brilliance's net assets was RMB17,640,083,000 as at 31st December, 2016. In the context of our audit of the Group's financial statements, the key audit matters relating to the Group's share of the profits and net assets of BMW Brilliance are summarized below: Recoverability of accounts receivable – BMW Brilliance's accounts receivable are mainly related to automotive components business.	BMW Brilliance is a significant joint venture of the Group and is audited by non-GT auditors (the "**Component Auditors**"). We have met with the Component Auditors and discussed their identified audit risks and audit approach and have reviewed their work papers and discussed with them the results of their works. Together with their reporting package to us in accordance with our instructions we have determined that the audit work performed and evidence obtained were sufficient for our purpose. The audit procedures performed on recoverability of accounts receivable included the followings: • Testing the effectiveness of BMW Brilliance's control over the monitoring of receivables and over the collection process; • Considering whether BMW Brillinace's provision methodology was appropriate; • Comparing cash collections post period ended to BMW Brilliance's expectations at the reporting date; and • Assessing the aging of the accounts receivable and setting an expectation of the level of provision required and comparing the expectation to BMW Brilliance's provision, if any.

Key audit matter	How the matter was addressed in our audit
Impairment of intangible assets	
We identified the impairment of intangible assets as a key audit matter due to the use of judgement about future results of the business in assessing the recoverability of intangible assets. As at 31st December, 2016, intangible assets of RMB1,338,612,000 mainly consist of capitalised development costs related to multiple cash generating units ("**CGUs**"). Management performed impairment assessment of the Group's intangible assets by allocating the intangible assets to CGUs, the recoverable amount of each CGU was determined based on value-in-use calculations using cash flow projections. Management has concluded that there is no impairment in respect of the intangible assets based on the results of the impairment assessments.	Our audit procedures to assess management's impairment assessment of the intangible assets included the followings: • Assessing the valuation methodology adopted by management; • Comparing the current year actual cash flows with the prior year cash flow projections to consider if the projections included assumptions that were overly optimistic; • Assessing the reasonableness of key assumptions, based on our knowledge of the business and industry; and • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2016 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors and audit committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

We communicate with the directors and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors and audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors and audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong
24th March, 2017

Chiu Wing Ning
Practising certificate number: P04920

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2016

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

	Note	2016 RMB'000	2015 RMB'000
Revenue	5	**5,125,118**	4,862,855
Cost of sales		**(4,953,555)**	(4,654,908)
Gross profit		**171,563**	207,947
Other income		**82,034**	81,383
Interest income		**53,176**	80,627
Selling expenses		**(611,858)**	(546,843)
General and administrative expenses		**(383,202)**	(394,248)
Finance costs	6	**(133,135)**	(146,889)
Share of results of:			
Joint ventures		**3,993,396**	3,822,934
Associates		**252,563**	219,887
Profit before income tax expense	7	**3,424,537**	3,324,798
Income tax expense	8	**(35,933)**	(44,529)
Profit for the year		**3,388,604**	3,280,269
Attributable to:			
Equity holders of the Company		**3,682,074**	3,494,733
Non-controlling interests		**(293,470)**	(214,464)
		3,388,604	3,280,269
Earnings per share	9		
– Basic		**RMB0.73103**	RMB0.69536
– Diluted		**RMB0.72987**	RMB0.69258

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2016

	2016	2015
	RMB'000	RMB'000
Profit for the year	**3,388,604**	3,280,269
Other comprehensive (expense) income that will be subsequently reclassified to statement of profit or loss, net of tax		
Change in fair value of available-for-sale financial assets	**(23,881)**	25,361
Share of other comprehensive (expense) income of a joint venture	**639,991**	(103,055)
	616,110	(77,694)
Total comprehensive income for the year	**4,004,714**	3,202,575
Attributable to:		
Equity holders of the Company	**4,298,184**	3,417,039
Non-controlling interests	**(293,470)**	(214,464)
	4,004,714	3,202,575

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2016

	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	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, 2015	395,877	(868,931)	2,466,685	16,355	39,179	(537,584)	3,401	120,000	15,296,351	16,931,333	(977,400)	15,953,933
Transactions with equity holders of the Company												
Dividends *(Note 10)*	–	–	–	–	–	–	–	–	(452,827)	(452,827)	–	(452,827)
Non-controlling interests arising from investment in a subsidiary	–	–	–	–	–	–	–	–	–	–	360,000	360,000
Profit for the year	–	–	–	–	–	–	–	–	3,494,733	3,494,733	(214,464)	3,280,269
Other comprehensive (expense) income												
Share of other comprehensive expense of a joint venture	–	(103,055)	–	–	–	–	–	–	–	(103,055)	–	(103,055)
Change in fair value of available-for-sale financial assets	–	–	–	25,361	–	–	–	–	–	25,361	–	25,361
Total other comprehensive expense	–	(103,055)	–	25,361	–	–	–	–	–	(77,694)	–	(77,694)
Total comprehensive income	–	(103,055)	–	25,361	–	–	–	–	3,494,733	3,417,039	(214,464)	3,202,575
As at 31st December, 2015	395,877	(971,986)	2,466,685	41,716	39,179	(537,584)	3,401	120,000	18,338,257	19,895,545	(831,864)	19,063,681

Consolidated Statement of Changes in Equity (Cont'd)

For the year ended 31st December, 2016

	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	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, 2016	395,877	(971,986)	2,466,685	41,716	39,179	(537,584)	3,401	120,000	18,338,257	19,895,545	(831,864)	19,063,681
Transactions with equity holders of the Company												
Dividends *(Note 10)*	-	-	-	-	-	-	-	-	(475,104)	(475,104)	-	(475,104)
Issue of shares by exercise of share options	932	-	6,759	-	-	-	(2,459)	-	-	5,232	-	5,232
	932	-	6,759	-	-	-	(2,459)	-	(475,104)	(469,872)	-	(469,872)
Profit for the year	-	-	-	-	-	-	-	-	3,682,074	3,682,074	(293,470)	3,388,604
Other comprehensive income (expense)												
Share of other comprehensive expense of a joint venture	-	639,991	-	-	-	-	-	-	-	639,991	-	639,991
Change in fair value of available-for-sale financial assets	-	-	-	(23,881)	-	-	-	-	-	(23,881)	-	(23,881)
Total other comprehensive expense	-	639,991	-	(23,881)	-	-	-	-	-	616,110	-	616,110
Total comprehensive income	-	639,991	-	(23,881)	-	-	-	-	3,682,074	4,298,184	(293,470)	4,004,714
As at 31st December, 2016	396,809	(331,995)	2,473,444	17,835	39,179	(537,584)	942	120,000	21,545,227	23,723,857	(1,125,334)	22,598,523

Consolidated Statement of Financial Position

As at 31st December, 2016

	Note	**2016** RMB'000	2015 RMB'000
Non-current assets			
Intangible assets	12	**1,338,612**	1,423,193
Property, plant and equipment	13	**2,249,789**	2,042,114
Land lease prepayments	14	**84,810**	86,847
Interests in joint ventures	15	**17,644,857**	14,011,488
Interests in associates	16	**1,703,065**	1,577,712
Prepayments for long-term investments	17	**600,000**	600,000
Available-for-sale financial assets	18	**33,468**	57,349
Long-term loan receivables	19	**361,487**	85,417
Other non-current assets		**17,584**	13,170
Total non-current assets		**24,033,672**	19,897,290
Current assets			
Cash and cash equivalents		**940,938**	1,070,876
Short-term bank deposits		**193,146**	676,013
Pledged short-term bank deposits	20	**1,338,956**	1,325,528
Inventories	21	**1,104,070**	1,211,004
Accounts receivable	22	**1,583,968**	1,444,708
Notes receivable	23	**296,308**	312,486
Other current assets	24	**1,551,954**	1,134,369
Total current assets		**7,009,340**	7,174,984
Current liabilities			
Accounts payable	25	**3,324,123**	3,038,018
Notes payable	26	**2,330,052**	2,157,010
Other current liabilities	27	**1,322,736**	1,074,225
Short-term bank borrowings	28	**1,325,000**	1,585,000
Income tax payable		**20,749**	17,632
Total current liabilities		**8,322,660**	7,871,885
Net current liabilities		**(1,313,320)**	(696,901)
Total assets less current liabilities		**22,720,352**	19,200,389
Non-current liabilities			
Deferred government grants		**121,829**	136,708
NET ASSETS		**22,598,523**	19,063,681

Consolidated Statement of Financial Position (Cont'd)

As at 31st December, 2016

	Note	**2016** **RMB'000**	2015 RMB'000
Capital and reserves			
Share capital	31(a)	**396,809**	395,877
Reserves	32	**23,327,048**	19,499,668
Total equity attributable to equity holders of the Company		**23,723,857**	19,895,545
Non-controlling interests		**(1,125,334)**	(831,864)
TOTAL EQUITY		**22,598,523**	19,063,681

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

Qi Yumin
Director

Consolidated Statement of Cash Flows

For the year ended 31st December, 2016

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash used in operations	34	**(984,739)**	(1,035,361)
Interest received		**85,128**	72,901
Enterprise income tax paid		**(32,816)**	(58,351)
Net cash used in operating activities		**(932,427)**	(1,020,811)
Investing activities			
Acquisition of property, plant and equipment and lease prepayments, and additions of intangible assets		**(480,352)**	(606,428)
Decrease (Increase) in short-term and pledged bank deposits		**469,439**	(654,292)
Dividend received from an associate		**129,780**	117,390
Dividend received from a joint venture		**1,000,000**	1,000,000
Proceeds from disposal of property, plant and equipment		**25,460**	46,565
Decrease in prepayments for paid up registered capital of a new subsidiary		**–**	440,000
Increase in other long-term assets		**(4,414)**	(2,648)
(Increase) Decrease in amounts due from affiliated companies		**(25,742)**	19,945
Net cash generated from investing activities		**1,114,171**	360,532
Financing activities			
Increase in amounts due to affiliated companies		**97,564**	76,853
Proceeds from issue of shares		**5,232**	–
Issue of notes payable		**1,386,464**	956,656
Repayments of notes payable		**(956,656)**	(525,208)
Government grants received		**32,644**	55,850
Proceeds from short-term bank borrowings		**1,426,000**	1,903,500
Repayments of short-term bank borrowings		**(1,686,000)**	(1,683,500)
Capital contributions from non-controlling interests		**–**	360,000
Dividends paid		**(475,104)**	(452,827)
Interest paid		**(141,826)**	(138,752)
Net cash (used in) generated from financing activities		**(311,682)**	552,572
Decrease in cash and cash equivalents		**(129,938)**	(107,707)
Cash and cash equivalents, as at 1st January		**1,070,876**	1,178,583
Cash and cash equivalents, as at 31st December		**940,938**	1,070,876

1. CORPORATE INFORMATION

Brilliance China Automotive Holdings Limited (the "**Company**") was incorporated in Bermuda on 9th June, 1992 with limited liability. The Company's shares are traded on the main board of The Stock Exchange of Hong Kong Limited (the "**SEHK**"). The address of the registered office of the Company is disclosed in the sections headed "Corporate Information" of this annual report and the principal places of business of the subsidiaries are in the People's Republic of China (the "**PRC**").

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "**Group**") are the manufacture and sale of BMW vehicles in the PRC through its major joint venture, BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), and the manufacture and sale of minibuses and automotive components through its subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with 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 (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**").

These consolidated financial statements have been prepared on the basis consistent with the accounting policies adopted in the 2015 financial statements, except for the adoption for the first time the following amendments to HKFRSs (collectively "**Amended HKFRSs**") issued by the HKICPA, which are relevant to and effective for the consolidated financial statements for the annual financial year beginning on 1st January, 2016.

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions Interests in Joint Operations
Amendments to HKAS16 and HKAS38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS41	Agriculture: Bearer Plant
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The adoption of these Amended HKFRSs did not result in substantial changes to the accounting policies of the Group and had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

(b) Basis of measurement

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Preparation of consolidated financial statements

As at 31st December, 2016, the Group had net current liabilities of approximately RMB1,313 million. Notwithstanding the Group's current liabilities exceeding its current assets as at 31st December, 2016, in preparing these consolidated 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.

As at 31st December, 2016, the Group had short-term bank borrowings of RMB1,325 million which are renewable on a yearly basis. Management is confident that these borrowings can be renewed upon their expiry.

In addition, Huachen Automotive Group Holdings Company Limited ("**Huachen**"), which is a PRC state-owned enterprise and the major shareholder of the Company, has also agreed to provide adequate funds to the Group, if necessary, to meet its liabilities as they fall due. With the support from Huachen together with the expected cash dividends from BMW Brilliance and the continuing support from bankers, the directors are of the view 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 consolidated financial statements on a going concern basis.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered. 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 profit or loss 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 are 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 gains or losses have 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 Group 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 joint venture.

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 equity holders of the Company. Non-controlling interest in the results of the Group are presented on the face of the consolidated statement of profit or loss and 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 equity holders of the Company.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Company. For purchases of additional equity interests in subsidiaries from non-controlling interests, 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 interests are also recorded in equity.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(iii) Associates and joint ventures

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, but not control or joint control 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 joint venture is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture 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 joint venture's net assets and any impairment losses related to the investment. The consolidated statement of profit or loss includes the Group's share of the post-acquisition, post-tax results of the associates and joint ventures for the year, including any impairment loss on goodwill relating to the investment in associates and joint ventures 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 joint venture. 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 of disposal) 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 joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture. Where unrealised losses on asset sales between the Group and its associates or joint ventures are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate or joint venture 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's or joint venture's accounting policies to those of the Group when the associate or joint venture's financial statements are used by the Group in applying the equity method.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(iii) Associates and joint ventures (Cont'd)

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. For this purpose, the Group's interest in the associate or joint venture 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 joint venture.

After the application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investments in its associates or joint ventures. At each reporting date, the Group determines whether there is any objective evidence that the investment in an associate or a joint venture 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 of disposal) of the associate or joint venture 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 joint venture, including cash flows arising from the operations of the associate or joint venture and the proceeds on ultimate disposal of the investment.

(iv) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities, including the Company, subsidiaries, associates and joint ventures, are all measured using Renminbi ("**RMB**") which is the currency of the primary economic environment in which the entities operate (the "**functional currency**").

Transactions in currencies other than the functional currency are translated into the functional currency at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in other currencies at the reporting date are re-translated into the functional currency at rates of exchange prevailing 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangibles

(i) Goodwill

Capitalised goodwill arising on acquisition of an associate or a joint venture is included in the cost of the investment of the relevant associate or joint venture.

On disposal of a cash generating unit of an associate or a joint venture, 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 losses. 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; costs are identifiable and can be reliably measured and there is an intention and 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 5 to 10 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.

(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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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 corresponding classes of property, plant and equipment or intangible assets at cost less accumulated impairment losses. Construction-in-progress is not depreciated or amortised 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 of 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.

(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 joint ventures are classified into available-for-sale financial assets and loans and receivables.

(i) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

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

For available-for-sale financial assets that do not have quoted market prices in an active market and whose fair values 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 assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the issuer or counterparty;

– default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

– the disappearance of an active market for that financial asset because of financial difficulties; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

The impairment loss of a financial asset carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

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

Loans and receivables

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 costs, 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 considers 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 these 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.

Reversals in respect of investments in equity instruments classified as available-for-sale financial assets and stated at fair values 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 and 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)

Impairment losses recognised in an interim period in respect of available-for-sale financial assets in equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of these available-for-sale financial assets 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.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest-related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(t)).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

(v) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legal enforceable right must not be contingent on the future events and must be legally enforceable in the normal course of business and in the event of default, insolvency or bankrupt of the Group and all of the counterparties.

(vi) 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 other payables 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Impairment of non-financial 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 joint ventures and prepayments have suffered impairment losses, or whether an impairment loss previously recognised no longer exists or may be reduced. If any such indication is found, the recoverable amount of the asset is estimated based on the higher of its fair value less cost of disposal, 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.

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 business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose which should 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 of disposal, 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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 minibuses which are calculated on a 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

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

(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.

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 settle the obligation.

Provision for product warranties granted by the Group for certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Government grants

Grants from government are recognised at their fair values. 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) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating leases charges as the lessee

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.

(iii) Assets leased out under operating leases as the lessor

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Employee benefits

(i) Employee leave entitlements

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

(iv) Share-based payments

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees render 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 during vesting.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) 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 consolidated 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 to 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 joint ventures, 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.

(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 consolidated 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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 titles are passed.

(ii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(iii) Dividend income

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

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that requires a substantial period of time to prepare 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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 resource allocation to the Group's business segments, which are determined by the Group's different brands of vehicles, and their respective performances.

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 vehicles.

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

– expenses related to share-based payments;

– share of results of associates and joint ventures;

– interest income;

– finance costs;

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

– income tax expense.

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

Segment assets include all assets other than interests in joint ventures (note 15), interests in associates (note 16), prepayments for long-term investments (note 17), available-for-sale financial assets (note 18) and advance to Shenyang Automobile Industry Asset Management Company Limited ("**SAIAM**") (note 24(a)). 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 other than corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(v) Related parties

For the purpose of these consolidated financial statements, a related party includes a person or entity as defined below:

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture or a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third entity.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group and the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(w) Future changes in HKFRS

As at the date of authorisation of these consolidated financial statements, the HKICPA has issued the following new standards and amendments and interpretations which are not yet effective.

Amendments to HKAS 7	Disclosure Initiative – Statement of Cash Flows[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1st January, 2017
2 Effective for annual periods beginning on or after 1st January, 2018
3 Effective for annual periods beginning on or after 1st January, 2019

The directors of the Company anticipate that application of the new standards and amendments will have no material impact on the results and financial position of the Group.

3. 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 (other than construction-in-progress) and intangible assets as at 31st December, 2016 were approximately RMB1,826 million (2015: RMB1,743 million) and RMB1,339 million (2015: RMB1,423 million), respectively. The Group depreciates its property, plant and equipment, other than construction-in-progress, 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 determined 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 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.

3. 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, 2016, carrying values of goodwill in investment in listed and unlisted associates were approximately RMB72,799,000 and RMB26,654,000, respectively (2015: approximately RMB72,799,000 and RMB26,654,000, respectively). Based on the assessment, no further impairment loss is considered necessary by the directors. If the actual future cash flows of these associates are less than expected, the maximum potential impact to the consolidated financial statements would be the carrying amounts of the goodwill.

(c) Provision for 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.

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, 2016, the Group had inventories of RMB1,104,070,000 (2015: RMB1,211,004,000) (net of provision of impairment of RMB57,038,000 (2015: RMB74,489,000)). Should there be an unexpected change in market condition, the provision may not be adequate and further impairment may be required, and a material loss may arise.

(d) Impairment on receivables

The policy for impairment on the Group's bad and doubtful debts of receivables is based on an 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, 2016, the Group had accounts receivable (both from third parties and affiliated companies) totalling RMB1,583,968,000 (2015: RMB1,444,708,000) (net of accumulated impairment losses of RMB39,080,000 (2015: RMB43,037,000)), loan receivables of RMB908,283,000 (2015: RMB179,681,000) (net of accumulated impairment losses of RMB9,527,000 (2015: RMB2,739,000)), other receivables of RMB406,870,000 (2015: RMB441,031,000) (net of accumulated impairment losses of RMB88,652,000 (2015: RMB88,565,000)), and amounts due from affiliated companies of RMB538,118,000 (2015: RMB489,208,000) (net of accumulated impairment losses of RMB92,148,000 (2015: RMB92,148,000)). Where the actual cash flows are less than expected, a material loss may arise.

(e) Warranty provisions

The Group makes provisions for product warranties (note 27) granted by the Group in respect of certain products. These provisions are recognised based on sales volume and past experience of the level of repair and returns, discounted to their present values as appropriate.

4. 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 mitigating 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 in a timely and effective manner.

(a) Credit risk

The Group's credit risk primarily consists of accounts receivable, notes receivable, loan receivables and other receivables from a variety of customers and debtors including state and local agencies, municipalities and private industries and their 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 or letters of credit are usually obtained from major customers. Credit limits with credit terms of 30 to 90 days are set for PRC customers, and customers considered to be high risk are traded on cash basis or when bank guaranteed notes or letters of credit are received. For overseas customers, since settlements must generally be made by letters of credit, credit periods of up to one year are granted. Designated staff monitors accounts receivable and follow-up collection with customers.

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 as at 31st December, 2016 except that about 19% (2015: 16%) of accounts receivable were due from Huachen. As at 31st December, 2016, the total receivable due from Huachen amounted to RMB378 million (2015: RMB269 million). However, the Group also had total payable of RMB498 million (2015: RMB296 million) as at 31st December, 2016 due to Huachen. Accordingly, the Group had no net credit risk exposure from Huachen as at 31st December, 2016 (2015: same). The Group will continue to monitor the exposure.

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 in the carrying amounts of the Group's balances in loan receivables, accounts receivable, notes receivable and other receivables from both third parties and affiliated companies totalling RMB3,734 million as at 31st December, 2016 (2015: RMB2,867 million).

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

(b) Liquidity risk

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

As at 31st December, 2015 and 31st December, 2016, 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:

	2016 **RMB'000**	2015 RMB'000
Financial liabilities		
Accounts payable	**3,324,123**	3,038,018
Notes payable	**2,330,052**	2,157,010
Other payables	**753,448**	765,653
Accrued expenses and other current liabilities	**139,886**	70,688
Short-term bank borrowings	**1,348,116**	1,618,024
Amounts due to affiliated companies	**286,151**	118,072
	8,181,776	7,767,465

	2016 **RMB'000**	2015 RMB'000
Financial guarantee contracts (Note)		
– Shanghai Shenhua Holdings Co., Ltd. ("**Shanghai Shenhua**") *(Note 33(b))*	**60,000**	60,000
– Shenyang JinBei Automotive Co., Ltd. ("**JinBei**") *(Note 33(a))*	**470,000**	530,000
	530,000	590,000

Note: The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. In the opinion of the directors, the fair values of the financial guarantee contracts are insignificant at initial recognition. Based on expectations at the end of the reporting period, the directors considered that it was not probable that the borrower of the loan would default the repayment of the loan and therefore no provision for the Group's obligation under the guarantee has been made.

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

(c) Currency risk

The Group's business mainly operates in the PRC with most of its transactions denominated and settled in RMB, except for certain receivables and payables, and cash and cash equivalents which are denominated in U.S. Dollars and therefore exposed to foreign currency translation risk. The Group had not used any financial instrument to hedge against foreign exchange risk.

At 31st December, 2016, if the RMB had strengthened/weakened by 3% against the U.S. Dollar with all other variables held constant, the post-tax profit for the year would have been approximately RMB9 million lower/higher (2015: RMB13 million lower/higher), mainly as a result of foreign exchange losses/gains on translation of the U.S. Dollar denominated trade receivable, cash and cash equivalents and short-term bank deposits.

(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, discounted bank guaranteed notes and bank deposits.

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 outstanding as at 31st December, 2016 were outstanding for the whole year, a 50 basis point increase or decrease would decrease or increase the profit after tax and equity of the Group by approximately RMB0.84 million (2015: increase or decrease the profit after tax and equity of the Group by approximately RMB2.08 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 2015.

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

(e) Summary of financial instruments by category

The carrying amounts of the Group's financial assets and financial liabilities at 31st December, 2015 and 31st December, 2016 are categorized as follows:

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets at 31st December, 2016:			
Prepayments for long-term investments	**–**	**600,000**	**600,000**
Available-for-sale financial assets	**–**	**33,468**	**33,468**
Cash and cash equivalents	**940,938**	**–**	**940,938**
Short-term bank deposits	**193,146**	**–**	**193,146**
Pledged short-term bank deposits	**1,338,956**	**–**	**1,338,956**
Accounts receivable	**1,583,968**	**–**	**1,583,968**
Notes receivable	**296,308**	**–**	**296,308**
Loan receivables	**908,283**	**–**	**908,283**
Other receivables	**406,870**	**–**	**406,870**
Amounts due from affiliated companies	**538,118**	**–**	**538,118**
	6,206,587	**633,468**	**6,840,055**
Financial assets at 31st December, 2015:			
Prepayments for long-term investments	–	600,000	600,000
Available-for-sale financial assets	–	57,349	57,349
Cash and cash equivalents	1,070,876	–	1,070,876
Short-term bank deposits	676,013	–	676,013
Pledged short-term bank deposits	1,325,528	–	1,325,528
Accounts receivable	1,444,708	–	1,444,708
Notes receivable	312,486	–	312,486
Loan receivables	179,681	–	179,681
Other receivables	441,031	–	441,031
Amounts due from affiliated companies	489,208	–	489,208
	5,939,531	657,349	6,596,880

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

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

	Financial liabilities measured at amortised costs	
	2016	2015
	RMB'000	RMB'000
Financial liabilities at 31st December		
Accounts payable	**3,324,123**	3,038,018
Notes payable	**2,330,052**	2,157,010
Other payables	**753,448**	765,653
Accrued expenses and other current liabilities	**139,886**	70,688
Short-term bank borrowings	**1,325,000**	1,585,000
Amounts due to affiliated companies	**286,151**	118,072
	8,158,660	7,734,441

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

The Group measures available-for-sale financial assets with market quoted prices at fair value at the end of each reporting period. Fair value is the price that will be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

The following table presents financial assets and liabilities measured at fair value in the consolidated 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.

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

	2016				2015			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Assets								
Available-for-sale financial assets								
– Listed	**29,330**	**–**	**–**	**29,330**	53,211	–	–	53,211

There have been no transfers between levels 1, 2 and 3 or issue or settlement of financial instruments of levels 1, 2 and 3 during 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.

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

Revenue earned during the year represents:

	2016 RMB'000	2015 RMB'000
Sale of minibuses and automotive components, net of consumption tax, discounts and return	**5,081,201**	4,858,813
Interest income from provision of financing service	**43,917**	4,042
	5,125,118	4,862,855

During the year, the Group had one (2015: one) major customer with aggregate revenue derived from it amounting to more than 10% of the Group's revenue, and the revenue from this customer amounted to RMB2,651,060,000 (2015: RMB2,332,269,000).

Although the minibuses and automotive components of the Group are primarily sold in the PRC, the Group is exploring opportunities in the overseas markets and the sales by location of customers are as follows:

	2016 RMB'000	2015 RMB'000
PRC	**4,992,743**	4,713,144
Other Asian countries	**22,658**	62,552
Latin America	**52,420**	39,683
Middle East	**1,738**	17,765
Africa	**11,387**	25,547
Others	**255**	122
	5,081,201	4,858,813

The directors identify the Group's operating segments as detailed in note 2(u). All segment assets are located in the PRC.

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

Operating segments – 2016

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's statement of profit or loss RMB'000	Total RMB'000
Segment sales to external customers	**5,125,118**	**95,504,278**	**(95,504,278)**	**5,125,118**
Segment results	**(730,185)**	**10,729,874**	**(10,729,874)**	**(730,185)**
Unallocated costs net of unallocated income	**–**	**–**	**–**	**(11,278)**
Interest income	**–**	**–**	**–**	**53,176**
Finance costs	**–**	**–**	**–**	**(133,135)**
Share of results of:				
Joint ventures	**(5,023)**	**3,998,419**	**–**	**3,993,396**
Associates	**252,563**	**–**	**–**	**252,563**
Profit before income tax expense				**3,424,537**

Operating segments – 2015

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's statement of profit or loss RMB'000	Total RMB'000
Segment sales to external customers	4,862,855	92,179,364	(92,179,364)	4,862,855
Segment results	(626,894)	10,279,384	(10,279,384)	(626,894)
Unallocated costs net of unallocated income	–	–	–	(24,867)
Interest income	–	–	–	80,627
Finance costs	–	–	–	(146,889)
Share of results of:				
Joint ventures	(4,131)	3,827,065	–	3,822,934
Associates	219,887	–	–	219,887
Profit before income tax expense				3,324,798

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

Operating segments – 2016

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's statement of financial position RMB'000	Total RMB'000
Segment assets	10,695,290	75,672,722	(75,672,722)	10,695,290
Interests in joint ventures	4,774	17,640,083	–	17,644,857
Interests in associates	1,703,065	–	–	1,703,065
Available-for-sale financial assets				33,468
Prepayments for long-term investments				600,000
Advance to SAIAM				300,000
Unallocated assets				66,332
Total assets				31,043,012
Segment liabilities	8,434,273	40,392,556	(40,392,556)	8,434,273
Unallocated liabilities				10,216
Total liabilities				8,444,489
Other disclosures:				
Capital expenditure	397,998	7,937,855	(7,937,855)	397,998
Depreciation of property, plant and equipment	131,567	3,048,038	(3,048,038)	131,567
Amortisation of land lease prepayments	2,037	39,415	(39,415)	2,037
Amortisation of intangible assets	136,020	154,551	(154,551)	136,020
Provision of inventories	13,484	113,996	(113,996)	13,484
Write-back of provision for inventories sold	30,935	73,877	(73,877)	30,935
Net impairment losses on assets	3,188	131,994	(131,994)	3,188
Income tax expense	35,933	2,733,257	(2,733,257)	35,933

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

Operating segments – 2015

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW vehicles RMB'000	Reconciliation to the Group's statement of financial position RMB'000	Total RMB'000
Segment assets	10,438,762	66,200,422	(66,200,422)	10,438,762
Interests in joint ventures	9,704	14,001,784	–	14,011,488
Interests in associates	1,577,712	–	–	1,577,712
Available-for-sale financial assets				57,349
Prepayments for long-term investments				600,000
Advance to SAIAM				300,000
Unallocated assets				86,963
Total assets				27,072,274
Segment liabilities	7,999,111	38,196,856	(38,196,856)	7,999,111
Unallocated liabilities				9,482
Total liabilities				8,008,593
Other disclosures:				
Capital expenditure	781,894	9,627,477	(9,627,477)	781,894
Depreciation of property, plant and equipment	136,422	2,312,276	(2,312,276)	136,422
Amortisation of land lease prepayments	1,554	37,693	(37,693)	1,554
Amortisation of intangible assets	43,443	140,616	(140,616)	43,443
Provision of inventories	14,754	311,099	(311,099)	14,754
Write-back of provision for inventories sold	12,631	15,011	(15,011)	12,631
Net impairment losses on assets	3,155	43,118	(43,118)	3,155
Income tax expense	44,529	2,623,111	(2,623,111)	44,529

6. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest expense on:		
– bank loans wholly repayable within one year	**72,000**	89,826
– discounted bank guaranteed notes	**71,837**	66,939
	143,837	156,765
Less: interest expense capitalised in intangible assets and construction-in-progress at a rate of 4.4% (2015: 4.6%)	**(10,702)**	(9,876)
	133,135	146,889

7. PROFIT BEFORE INCOME TAX EXPENSE

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

	Note	**2016** RMB'000	2015 RMB'000
Charging:			
Impairment losses on:			
– Accounts receivable (b)	22(a)	**–**	368
– Loans receivable (b)	19	**7,058**	2,739
– Other receivables (b)	24(a)	**4,587**	48
		11,645	3,155
Staff costs	11(a)	**750,171**	722,794
Amortisation of intangible assets (a)	12	**136,020**	43,443
Amortisation of land lease prepayments	14	**2,037**	1,554
Depreciation of property, plant and equipment	13	**131,567**	136,422
Cost of inventories (c)		**4,971,006**	4,686,137
Provision for inventories	21	**13,484**	14,754
Auditors' remuneration		**2,822**	2,987
Research and development costs (b)		**8,111**	8,126
Warranty provision (b)		**29,583**	25,466
Operating lease charges in respect of land and buildings		**25,261**	26,263
Crediting:			
Exchange gain, net		**47,788**	47,291
Write-back of provision for inventories sold	21	**30,935**	12,631
Gain on disposal of property, plant and equipment		**5,549**	4,459
Write-back of provision for doubtful debts of			
– Accounts receivable	22(a)	**3,957**	–
– Other receivables	24(a)	**4,500**	–

(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 government subsidies of RMB24,147,000 (2015: RMB16,676,000).

8. INCOME TAX EXPENSE

The income tax charged to the consolidated statement of profit or loss represents:

	2016 **RMB'000**	2015 RMB'000
Current tax		
PRC enterprise income tax		
– Current year	**9,646**	5,008
– Under provision in prior year	**760**	15,637
PRC withholding tax on dividend	**25,527**	23,884
Total income tax expense	**35,933**	44,529

(a) Bermuda 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 2035.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2015: Nil).

(c) PRC corporate income tax

The Group's subsidiaries incorporated in the PRC are subject to Corporate Income Tax. Under the PRC Corporate Income Tax Law and the respective regulations, the corporate income tax for the subsidiaries, except Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**"), is calculated at 25% on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

Mianyang Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities and was also designated as an entity under "the encouraged industries under Catalogue for the Guidance of Foreign Investment Industries" and with its location in the Western area of the PRC, the applicable income tax rate for Mianyang Ruian is 15%.

With effect from 1st January, 2008, all profits of the PRC subsidiaries arising since that date that are distributed and remitted as dividend to the overseas parents are subject to 5% or 10% withholding tax on the amount remitted. The dividends received by the Company related solely to the dividends distributed by BMW Brilliance during the same year and therefore dividend withholding tax is paid in the same year. For the profits generated by the manufacture of minibuses and spare parts by the Group's subsidiaries, it is the intention of the management that the Group would reinvest these profits in the respective subsidiaries and therefore withholding tax would not be applicable for those profits. Accordingly, no deferred tax is recognised in respect of this withholding tax on profits of the Group's PRC subsidiaries. Unremitted earnings (determined under PRC GAAP) subject to this withholding tax totaled approximately RMB3,136,160,000 at 31st December, 2016 (2015: RMB2,656,982,000).

8. INCOME TAX EXPENSE (Cont'd)

(c) PRC corporate income tax (Cont'd)

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

	2016 RMB'000	2015 RMB'000
Profit before income tax expense	**3,424,537**	3,324,798
Calculated at a weighted average statutory taxation rate in the PRC of 26.12% (2015: 27.64%)	**894,597**	918,861
Effect of tax holiday	**(578)**	(307)
Non-taxable income net of expenses not deductible for taxation purpose	**(1,084,399)**	(1,066,030)
Unrecognised temporary differences	**3,497**	11,264
Unrecognised tax losses net of utilisation of previously unrecognised tax losses	**222,056**	165,104
Under provision in prior years	**760**	15,637
Tax expense for the year	**35,933**	44,529

9. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company of RMB3,682 million (2015: RMB3,495 million) by the weighted average number of ordinary shares as follows:

	Number of shares 2016 '000	 2015 '000
Weighted average number of ordinary shares for calculating basic earnings per share	**5,036,821**	5,025,769
Weighted average number of ordinary shares deemed issued under the Company's share option scheme	**8,005**	20,222
Weighted average number of ordinary shares for calculating diluted earnings per share	**5,044,826**	5,045,991

10. DIVIDENDS

On 26th August, 2016, a dividend of HK$0.11 per share (2015: HK$0.11 per share) totaling HK$554,122,000 (2015: HK$552,835,000) was declared by the directors and paid during the year.

The directors did not recommend any dividend payment at the board meeting held on 24th March, 2017 in respect of the Group's 2016 annual results (2015: Nil).

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

(a) Staff costs

	2016 RMB'000	2015 RMB'000
Wages, salaries and performance related bonus	**558,690**	544,426
Pension costs – defined contribution plans	**67,295**	61,408
Staff welfare costs	**124,186**	116,960
	750,171	722,794

(b) Directors' and chief executive's emoluments

Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

		Other emoluments			
	Fee RMB'000	Bonus RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
2016					
Executive directors					
Mr. Wu Xiao An	–	4,259	3,883	15	8,157
Mr. Qi Yumin *(Note)*	–	–	1,022	–	1,022
Mr. Wang Shiping (resigned on 12th September, 2016)	–	–	–	–	–
Mr. Qian Zuming (appointed on 12th September, 2016) *(Note)*	–	220	1,740	–	1,960
Mr. Zhang Wei (appointed on 12th September, 2016)	–	–	–	–	–
	–	4,479	6,645	15	11,139
Non-executive director					
Mr. Lei Xiaoyang (resigned on 12th September, 2016)	–	–	–	–	–
Independent non-executive directors					
Mr. Xu Bingjin	128	85	–	–	213
Mr. Song Jian	128	85	–	–	213
Mr. Jiang Bo	128	85	–	–	213
	384	255	–	–	639
	384	4,734	6,645	15	11,778

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

(b) Directors' and chief executive's emoluments (Cont'd)

The aggregate amounts of emoluments paid and payable to the directors of the Company during 2015 are as follows:

		Other emoluments			
	Fee RMB'000	Bonus RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
2015					
Executive directors					
Mr. Wu Xiao An	–	3,986	3,689	14	7,689
Mr. Qi Yumin *(Note)*	–	–	2,285	–	2,285
Mr. Wang Shiping	–	–	–	–	–
Mr. Tan Chengxu (resigned on 30th September, 2015)	–	–	1,256	–	1,256
	–	3,986	7,230	14	11,230
Non-executive director					
Mr. Lei Xiaoyang	–	399	–	–	399
Independent non-executive directors					
Mr. Xu Bingjin	119	80	–	–	199
Mr. Song Jian	119	80	–	–	199
Mr. Jiang Bo	119	80	–	–	199
	357	240	–	–	597
	357	4,625	7,230	14	12,226

Note:

Mr. Qi Yumin and Mr. Qian Zuming are also the chief executives of the Company.

In both 2015 and 2016,

– 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) Directors' and chief executive's 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) Remuneration of senior management

Pursuant to Appendix 14 to the Listing Rules, the remuneration of senior management, excluding directors, is within the following bands:

	2016 **Number**	2015 Number
Under HK$500,000	**1**	–
HK$500,001 to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	1

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

(d) Five highest paid individuals

The five highest paid individuals in the Group during the year included two directors (2015: two directors), details of whose emoluments have been disclosed in note (b) above. The emoluments paid to the remaining three individuals (2015: three individuals) for the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**3,923**	4,528
Performance related bonus	**1,122**	797
Contributions to retirement benefits schemes	**15**	14
	5,060	5,339

The number of the highest paid individuals, other than the directors, whose emoluments fell within the following bands is as follows:

	2016 Number	2015 Number
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$3,000,000	**1**	1

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 (2015: Same).

12. INTANGIBLE ASSETS

	Development costs RMB'000	Specialised software RMB'000	Total RMB'000
Cost			
As at 1st January, 2015	1,193,927	16,559	1,210,486
Additions	443,581	27,275	470,856
As at 31st December, 2015	1,637,508	43,834	1,681,342
As at 1st January, 2016	**1,637,508**	**43,834**	**1,681,342**
Additions	**42,975**	**5,958**	**48,933**
Transfer from construction-in-progress	**2,456**	**50**	**2,506**
As at 31st December, 2016	**1,682,939**	**49,842**	**1,732,781**
Accumulated amortisation and impairment losses			
As at 1st January, 2015	203,556	11,150	214,706
Amortisation	39,279	4,164	43,443
As at 31st December, 2015	242,835	15,314	258,149
As at 1st January, 2016	**242,835**	**15,314**	**258,149**
Amortisation	**131,507**	**4,513**	**136,020**
As at 31st December, 2016	**374,342**	**19,827**	**394,169**
Net book value			
As at 31st December, 2016	**1,308,597**	**30,015**	**1,338,612**
As at 31st December, 2015	1,394,673	28,520	1,423,193

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Tools & moulds, machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost						
As at 1st January, 2015	639,872	2,058,591	274,290	81,466	334,231	3,388,450
Additions	4,249	18,630	22,531	7,570	229,252	282,232
Inter-transfer	11,242	223,232	24,666	2,235	(261,375)	–
Disposals/write-off	–	(80,851)	(42,484)	(6,406)	–	(129,741)
As at 31st December, 2015	655,363	2,219,602	279,003	84,865	302,108	3,540,941
As at 1st January, 2016	**655,363**	**2,219,602**	**279,003**	**84,865**	**302,108**	**3,540,941**
Additions	**8,873**	**103,449**	**16,031**	**3,275**	**217,436**	**349,064**
Transfer to intangible assets	**–**	**–**	**–**	**–**	**(2,506)**	**(2,506)**
Inter-transfer	**18,852**	**68,231**	**2,642**	**158**	**(89,883)**	**–**
Disposals/write-off	**(7,126)**	**(37,773)**	**(7,415)**	**(5,322)**	**(104)**	**(57,740)**
As at 31st December, 2016	**675,962**	**2,353,509**	**290,261**	**82,976**	**427,051**	**3,829,759**
Accumulated depreciation and impairment losses						
As at 1st January, 2015	273,039	906,673	188,057	57,395	3,131	1,428,295
Charge for the year	20,579	84,414	24,284	7,145	–	136,422
Inter-transfer	–	80	–	–	(80)	–
Eliminated on disposals/write-off	–	(28,066)	(32,318)	(5,506)	–	(65,890)
As at 31st December, 2015	293,618	963,101	180,023	59,034	3,051	1,498,827
As at 1st January, 2016	**293,618**	**963,101**	**180,023**	**59,034**	**3,051**	**1,498,827**
Charge for the year	**21,979**	**77,316**	**25,981**	**6,291**	**–**	**131,567**
Eliminated on disposals/write-off	**(7,065)**	**(31,801)**	**(6,676)**	**(4,778)**	**(104)**	**(50,424)**
As at 31st December, 2016	**308,532**	**1,008,616**	**199,328**	**60,547**	**2,947**	**1,579,970**
Net book value						
As at 31st December, 2016	**367,430**	**1,344,893**	**90,933**	**22,429**	**424,104**	**2,249,789**
As at 31st December, 2015	361,745	1,256,501	98,980	25,831	299,057	2,042,114

As at 31st December, 2016, the short-term bank borrowings are secured by the Group's buildings and tools, moulds, machinery and equipment with net book values of approximately RMB193.2 million (2015: RMB110.2 million)

14. LAND LEASE PREPAYMENTS

The carrying value of land lease prepayments represents cost less accumulated amortisation 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, 2016 amounts to RMB2,037,000 (2015: RMB2,037,000).

	2016 RMB'000	2015 RMB'000
Cost		
As at 1st January	**118,725**	89,919
Additions	**–**	28,806
At 31st December	**118,725**	118,725
Accumulated amortisation		
As at 1st January	**31,878**	30,324
Charge for the year	**2,037**	1,554
As at 31st December	**33,915**	31,878
Net book value		
As at 31st December	**84,810**	86,847

15. INTERESTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Share of net assets by equity method		
– Unlisted joint ventures	**17,644,857**	14,011,488

Details of the Group's joint ventures as at 31st December, 2016 and 2015 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
Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("**Xinguang Brilliance**")	Shenyang, the PRC	US$7,220,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
BMW Brilliance	Shenyang, the PRC	US$174,000,000	Equity joint venture	50%	Manufacture and sale of BMW vehicles

15. INTERESTS IN JOINT VENTURES (Cont'd)

BMW Brilliance's assets and liabilities and the respective net assets shared by the Group are as follows:

	2016	2015
	RMB'000	RMB'000
Non-current assets	**43,361,949**	39,051,749
Current assets	**32,310,773**	27,148,673
Current liabilities	**(35,475,969)**	(34,035,515)
Non-current liabilities	**(4,916,587)**	(4,161,341)
Net assets	**35,280,166**	28,003,566
Included in the above assets and liabilities:		
Cash and cash equivalents	**15,451,007**	11,754,275
Current financial liabilities (excluding accounts and other payables and provisions)	**(6,673,577)**	(9,606,811)
Non-current financial liabilities (excluding accounts and other payables and provisions)	**(4,916,587)**	(4,161,341)
Proportion of the Group's ownership interest in BMW Brilliance	**50%**	50%
Carrying amount of the Group's interest in BMW Brilliance	**17,640,083**	14,001,783

BMW Brilliance's income, expenses and dividends are as follows:

	2016	2015
	RMB'000	RMB'000
Revenue	**95,504,278**	92,179,364
Interest income	**232,084**	278,264
Interest expense	**(18,286)**	(102,717)
Net profit	**7,996,617**	7,656,273
Other comprehensive income (expense)	**1,279,982**	(206,110)
Total comprehensive income	**9,276,599**	7,450,163
Dividends received from the joint venture	**1,000,000**	1,000,000

The Group has not incurred any contingent liabilities or other commitments relating to its investments in the joint ventures (2015: Nil).

15. INTERESTS IN JOINT VENTURES (Cont'd)

The net assets of Xinguang Brilliance and the Group's share are as follows:

	2016 **RMB'000**	2015 RMB'000
Net assets	**9,548**	19,410
Proportion of the Group's ownership interest in Xinguang Brilliance	**50%**	50%
Carrying amount of the Group's interest in Xinguang Brilliance	**4,774**	9,705
Net loss and total comprehensive expense	**(9,860)**	(4,131)

16. INTERESTS IN ASSOCIATES

	The Group	
	2016 **RMB'000**	2015 RMB'000
Share of net assets by equity method and goodwill		
– Associates listed in Hong Kong	**935,728**	877,805
– Unlisted associates	**767,337**	699,907
	1,703,065	1,577,712
Fair value of investment in associates listed in Hong Kong	**412,155**	596,079

16. INTERESTS IN ASSOCIATES (Cont'd)

Details of the Group's associates as at 31st December, 2016 and 2015 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
Xinchen China Power Holdings Limited ("**Power Xinchen**")	Cayman Islands	HK$12,822,118	Company with limited liability	–	2016: 31.20% 2015: 31.17%	Investment holding
Southern State Investment Limited	British Virgin Islands	US$1	Company with limited liability	–	2016: 31.20% 2015: 31.17%	Investment holding
Mianyang Xinchen Engine Co., Ltd. ("**Mianyang Xinchen**")	Mianyang, the PRC	US$100,000,000	Wholly foreign owned enterprise	–	2016: 31.20% 2015: 31.17%	Development, manufacture and sale of automotive engines
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("**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 Automobile Component Co., Ltd.	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, the PRC	US$29,900,000	Equity joint venture	49%	–	Manufacture and sale of power trains

Note: The Group has effective equity interest of 14.43% in Shenyang Aerospace through an indirect 21% equity interest held by Shenyang Jianhua Motors Engine Co., Ltd. ("**Shenyang Jianhua**") (20% and 80% equity interest in Shenyang Jianhua were held by Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**"), a wholly-owned subsidiary of the Company, and Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**"), a 60.9% owned subsidiary of the Company, respectively).

16. INTERESTS IN ASSOCIATES (Cont'd)

There is no associate that is individually material to the Group. The Group's share of aggregate financial information of the associates for the year ended 31st December, 2016 is summarised as follows:

	2016 RMB'000	2015 RMB'000
Net profit and other comprehensive income attributable to the Group	**252,563**	219,887
Dividends received from associates	**129,780**	117,390

17. PREPAYMENTS FOR LONG-TERM INVESTMENTS

The Group entered into two agreements in 2003 to acquire effectively in aggregate, for a consideration of RMB600 million, the indirect equity interest of 33.35% in JinBei, a company listed on the Shanghai Stock Exchange.

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 acquisitions are yet subject to the granting of a waiver by the China Securities Regulatory Commission.

As at 31st December, 2016 and 2015, the consideration of RMB600 million paid 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.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
Equity investments		
– Unlisted, at cost	**4,138**	4,138
– Listed in Hong Kong, at fair value	**29,330**	53,211
At 31st December	**33,468**	57,349

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 available-for-sale financial assets and will hold it for a long-term purpose.

19. LOAN RECEIVABLES

	2016 **RMB'000**	2015 RMB'000
Loan receivables from customers	**917,810**	182,420
Less: provision for doubtful debts	**(9,527)**	(2,739)
	908,283	179,681
Less: current portion *(Note 24)*	**(546,796)**	(94,264)
	361,487	85,417
Gross loan receivables recoverable:		
– No later than 1 year	**552,490**	95,700
– Later than 1 year and no later than 5 years	**365,320**	86,720
– Later than 5 years	**–**	–
	917,810	182,420

All loan receivables were derived from the business of provision of auto-financing by Brilliance-BEA Auto Finance Co., Ltd. during the year. The balances are denominated in Renminbi and secured by the motor vehicles.

The Group reviews regularly the recoverable amount of each individual receivable and adequate provision is made for any balance determined to be unrecoverable.

The movement in allowance for doubtful debts for loan receivables during the year is as follows:

	2016 **RMB'000**	2015 RMB'000
At 1st January	**2,739**	–
Impairment loss recognised	**7,058**	2,739
Uncollectible amounts written off	**(270)**	–
At 31st December	**9,527**	2,739

20. PLEDGED SHORT-TERM BANK DEPOSITS

Pledged short-term bank deposits as at 31st December, 2016 were pledged for the following purposes:

	2016	2015
	RMB'000	RMB'000
Issue of bank guaranteed notes to trade creditors *(Note)*	**1,128,426**	1,114,998
Bank loans granted to JinBei *(Note 33(a))*	**210,530**	210,530
	1,338,956	1,325,528

Note: In addition to short-term bank deposits, as at 31st December, 2016, the Group had also pledged bank guaranteed notes receivable from third parties and affiliated companies of approximately RMB116.5 million (2015: RMB66.5 million) for the issue of bank guaranteed notes.

21. INVENTORIES

	2016	2015
	RMB'000	RMB'000
Raw materials	**432,131**	421,676
Work-in-progress	**264,681**	161,522
Finished goods	**464,296**	702,295
	1,161,108	1,285,493
Less: provision for inventories	**(57,038)**	(74,489)
	1,104,070	1,211,004

As at 31st December, 2016, the carrying amount of inventories that were stated at net realisable value amounted to approximately RMB465 million (2015: RMB203 million).

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

	2016	2015
	RMB'000	RMB'000
At 1st January	**74,489**	72,366
Provision for the year	**13,484**	14,754
Reversal for the year	**(30,935)**	(12,631)
At 31st December	**57,038**	74,489

The reversal of provision for inventories represents the reversal for provision previously recognised for inventories that were sold during the year (2015: Same).

22. ACCOUNTS RECEIVABLE

	Note	2016 RMB'000	2015 RMB'000
Accounts receivable	22(a)	**346,807**	597,983
Accounts receivable from affiliated companies	33(c)	**1,237,161**	846,725
		1,583,968	1,444,708

(a) An aging analysis of accounts receivable based on invoice date is set out below:

	2016 RMB'000	2015 RMB'000
Less than six months	**155,729**	235,945
Six months to one year	**5,274**	11,282
Above one year but less than two years	**12,118**	335,768
Two years or above	**191,378**	36,637
	364,499	619,632
Less: provision for doubtful debts	**(17,692)**	(21,649)
	346,807	597,983

At 31st December, 2016, accounts receivable from third parties of approximately RMB201 million (2015: approximately RMB401 million) are substantially denominated in U.S. Dollar or Euro and the rest are denominated in Renminbi. The Group's credit policy is set out in note 4(a).

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

	2016 RMB'000	2015 RMB'000
At 1st January	**21,649**	21,281
Impairment loss recognised	**–**	368
Write-back of previously recognised impairment loss	**(3,957)**	–
At 31st December	**17,692**	21,649

The provision for doubtful debts is in respect of accounts receivable that were individually determined to be impaired. These 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 for the full amount of each of the impaired receivables was recognised.

22. ACCOUNTS RECEIVABLE (Cont'd)

(a) (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:

	2016 **RMB'000**	2015 RMB'000
Six months to one year	**5,274**	11,282
Above one year but less than two years	**12,118**	335,768
Two years or above	**173,686**	14,988
	191,078	362,038

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, 2016 and up to the date of these consolidated 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 these 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.

23. NOTES RECEIVABLE

	Note	**2016** **RMB'000**	2015 RMB'000
Notes receivable	23(a)	**48,914**	36,350
Notes receivable from affiliated companies	33(d)	**247,394**	276,136
		296,308	312,486

(a) All notes receivable are denominated in Renminbi and are primarily notes received from customers for settlement of accounts receivable balances. As at 31st December, 2016, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 31st December, 2016 (2015: Same).

24. OTHER CURRENT ASSETS

	Note	2016 RMB'000	2015 RMB'000
Other receivables	24(a)	**406,870**	441,031
Prepayments and other current assets		**52,420**	63,718
Other taxes recoverable		**7,750**	46,148
Amounts due from affiliated companies	33(e)	**538,118**	489,208
Short-term loan receivables	19	**546,796**	94,264
		1,551,954	1,134,369

(a)

	2016 RMB'000	2015 RMB'000
Advance to SAIAM	**300,000**	300,000
Others	**195,522**	229,596
	495,522	529,596
Less: provision for doubtful debts	**(88,652)**	(88,565)
At 31st December	**406,870**	441,031

All other receivables are denominated in Renminbi. SAIAM is one of the companies the Group will acquire for the purpose of acquiring equity interests of JinBei as set out in note 17. SAIAM holds 24.38% of JinBei. 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 to be minimal.

The other items in other receivables mainly represent prepayments and deposits paid and advanced to 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.

24. OTHER CURRENT ASSETS (Cont'd)

(a) (Cont'd)

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

	2016 RMB'000	2015 RMB'000
At 1st January	**88,565**	88,517
Impairment loss recognised	**4,587**	48
Write-back of previously recognised impairment losses	**(4,500)**	–
At 31st December	**88,652**	88,565

As at 31st December, 2016, the Group's other receivables of RMB88,652,000 (2015: RMB88,565,000) 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 for the full amounts of the impaired receivables was recognised. The Group does not hold any collateral over the other receivables.

25. ACCOUNTS PAYABLE

	Note	2016 RMB'000	2015 RMB'000
Accounts payable	25(a)	**1,977,242**	1,774,284
Accounts payable to affiliated companies	33(f)	**1,346,881**	1,263,734
		3,324,123	3,038,018

(a) An aging analysis of accounts payable based on the invoice date is set out below:

	2016 RMB'000	2015 RMB'000
Less than six months	**1,557,749**	1,358,896
Six months to one year	**224,606**	222,421
Above one year but less than two years	**69,264**	63,462
Two years or above	**125,623**	129,505
	1,977,242	1,774,284

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

26. NOTES PAYABLE

	Note	2016 RMB'000	2015 RMB'000
Notes payable		**2,219,952**	2,054,510
Notes payable to affiliated companies	33(g)	**110,100**	102,500
		2,330,052	2,157,010

27. OTHER CURRENT LIABILITIES

	Note	2016 RMB'000	2015 RMB'000
Customer advances		**54,460**	39,064
Other payables		**753,448**	765,653
Accrued expenses and other current liabilities		**139,886**	70,688
Other taxes payable		**69,272**	62,011
Provision for warranty		**14,640**	13,858
Deferred government grants		**4,879**	4,879
Amounts due to affiliated companies	33(h)	**286,151**	118,072
		1,322,736	1,074,225

28. SHORT-TERM BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Secured bank borrowings	**130,000**	110,000
Unsecured bank borrowings	**1,195,000**	1,475,000
	1,325,000	1,585,000

All short-term bank borrowings at 31st December, 2016 are interest-bearing at rates ranging from 4.35% to 5.22% per annum (2015: 4.35% to 6.72% per annum) and repayable from 10th January, 2017 to 12th December, 2017 (2015: 13th January, 2016 to 10th November, 2016).

As at 31st December, 2016, these bank borrowings are secured by the Group's buildings and tools, moulds, machinery and equipment with net book values of approximately RMB193.2 million (2015: RMB110.2 million).

29. DEFERRED TAX ASSET

As at 31st December, 2016, the Group had unrecognised deferred tax asset in respect of tax losses of RMB2,302 million (2015: RMB1,414 million) which will expire at various dates up to and including 2021 (2015: 2020).

In addition, as at 31st December, 2016, the Group also had not recognised deferred tax asset in respect of temporary differences of RMB786 million (2015: RMB772 million), which had mainly arisen from bad debt provision, deferred income and depreciation allowances, 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 14% to 20% (2015: 14% to 21%) 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% (2015: 5%) of the employee's salary with the maximum amount of HK$1,500 by each of the Group and the employee 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, 2016 were approximately RMB67.3 million (2015: RMB61.4 million).

31. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	2016		2015	
	Number of shares ’000	**Amount US$’000**	Number of shares ’000	Amount US$’000
Authorised:				
Ordinary shares at par value of US$0.01 each				
As at 1st January and 31st December	**8,000,000**	**80,000**	8,000,000	80,000

	2016		2015	
	Number of shares ’000	**Amount RMB’000**	Number of shares ’000	Amount RMB’000
Issued and fully paid:				
Ordinary shares at par value of US$0.01 each				
As at 1st January,	**5,025,769**	**395,877**	5,025,769	395,877
Issue of new shares by exercising share options	**14,100**	**932**	–	–
As at 31st December	**5,039,869**	**396,809**	5,025,769	395,877

During the year, a total of 14,100,000 ordinary shares with par value of US$0.01 each were issued as a result of exercise of share options at an aggregate consideration of approximately RMB5,232,000 of which RMB6,759,000 was credited to share premium account and RMB2,459,000 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 the Group's capital structure on the basis of the debt-to-equity ratio. For this purpose, the Group defines debt 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, 2016, the Group's debt-to-equity ratio was 13.26% (2015: 13.95%).

The debt-to-equity ratio as at the reporting date was calculated as follows:

	As at 31st December, 2016 RMB'000	As at 31st December, 2015 RMB'000
Short-term bank borrowings	**1,325,000**	1,585,000
Amounts due to affiliated companies	**286,151**	118,072
Notes payable for financing purpose	**1,386,464**	956,656
Total debt	**2,997,615**	2,659,728
Total equity	**22,598,523**	19,063,681
Debt-to-equity ratio	**13.26%**	13.95%

(c) Share options

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

The terms of the Share Option Scheme allow 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.

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

(c) Share options (Cont'd)

In addition, the 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 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 Share Option Scheme during the year are as follows:

Exercise price	Exercise period	As at 1st January, 2016	Exercised during the year	Lapsed/Cancelled during the year	**As at 31st December, 2016**
HK$0.438	22nd December, 2008 to 21st December 2018	19,500,000	(14,100,000)	–	**5,400,000**

The weighted average remaining contractual life of the share options granted under the Share Option Scheme outstanding as at 31st December, 2016 was approximately 1.58 years (2015: 2.58 years).

The exercise in full of the outstanding share option would, under the present capital structure of the Company, result in the issue of 5,400,000 additional ordinary shares of the Company and additional share capital of RMB358,781 (before issue expenses).

32. RESERVES

	Hedging reserve RMB'000 *(Note c)*	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	Share options reserve RMB'000	Capital reserve RMB'000 *(Note b)*	Retained earnings RMB'000 *(Note a)*	Total RMB'000
At 1st January, 2015	(868,931)	2,466,685	16,355	39,179	(537,584)	3,401	120,000	15,296,351	16,535,456
Dividends	–	–	–	–	–	–	–	(452,827)	(452,827)
Total comprehensive (expense) income	(103,055)	–	25,361	–	–	–	–	3,494,733	3,417,039
At 31st December, 2015	(971,986)	2,466,685	41,716	39,179	(537,584)	3,401	120,000	18,338,257	19,499,668
At 1st January, 2016	**(971,986)**	**2,466,685**	**41,716**	**39,179**	**(537,584)**	**3,401**	**120,000**	**18,338,257**	**19,499,668**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(475,104)**	**(475,104)**
Issue of shares by exercise of share options	**–**	**6,759**	**–**	**–**	**–**	**(2,459)**	**–**	**–**	**4,300**
Total comprehensive income (expense)	**639,991**	**–**	**(23,881)**	**–**	**–**	**–**	**–**	**3,682,074**	**4,298,184**
At 31st December, 2016	**(331,995)**	**2,473,444**	**17,835**	**39,179**	**(537,584)**	**942**	**120,000**	**21,545,227**	**23,327,048**

32. RESERVES (Cont'd)

(a) The Group's retained earnings included an amount of approximately RMB1,542,098,000 (2015: RMB1,455,370,000) reserved by the subsidiaries in the PRC in accordance with the relevant PRC regulations. The PRC laws and regulations require companies registered in the PRC to allocate 10% of their profits after tax (determined under PRC GAAP) to their respective statutory reserves. No allocation to the statutory reserves is required after the balance of such reserve reaches 50% of the registered capital of the respective companies. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's production operations, or to increase the capital of the company.

(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) Hedging reserve represents the Group's share of the hedging reserve in the equity of a joint venture. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve.

33. CONNECTED AND RELATED PARTY TRANSACTIONS

Related parties include those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC Government.

In accordance with HKAS24 *Related Party Disclosures*, other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government ("**government-related entities**") are regarded as related parties of the Group.

For the related party transactions disclosure purpose, 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, including joint ventures and associates of the Group. Parties are also considered to be affiliated if they are subject to common control or common significant influence.

In addition to the related party information shown elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary and usual course of business and balances between the Group and its related parties, including other government-related entities.

During the year, the Group had significant transactions and balances with the following related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules.

Name and relationship

Name	Relationship
Huachen	Major shareholder of the Company
JinBei	A shareholder of Shenyang Automotive
Shanghai Shenhua	Common directorship of certain directors of the Company
Brilliance Holdings Limited ("**BHL**")	Common directorship of a director of the Company

Huachen and JinBei are PRC government-related entities, and are connected persons of the Company under the Listing Rules, with which the Group has material transactions.

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(a) 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.

	2016 **RMB'000**	2015 RMB'000
Sales of goods:		
– Huachen and its affiliated companies	**1,079,895**	926,508
Purchases of goods and/or services:		
– Affiliated companies of JinBei	**378,449**	433,785
– Huachen and its affiliated company	**644,555**	693,401
Sub-contracting charges to:		
– Huachen and its affiliated company	**42,263**	27,329

On 10th November, 2015, a subsidiary 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 (2015: RMB600 million) for the period from 1st January, 2016 to 31st December, 2016. As at 31st December, 2016, under this agreement, JinBei and its subsidiaries had outstanding bank loans and other banking facilities totalling RMB470 million (As at 31st December, 2015: RMB530 million) of which RMB200 million (As at 31st December, 2015: RMB200 million) and RMB270 million (As at 31st December, 2015: RMB330 million) were supported by the Group's bank deposits pledged to and corporate guarantee provided to the banks, respectively. On 4th November, 2016, an agreement was entered into by both parties to provide cross guarantees for the same amount to each other for the period from 1st January, 2017 to 31st December, 2017.

In addition to the above, during the year, the Group incurred operating lease rental on land and buildings of RMB3,342,000 (2015: RMB4,425,000) to Huachen and sold goods to affiliated companies of JinBei of RMB677,000 (2015: RMB1,068,000). These transactions constitute continuing connected transactions but are exempt from the requirements of reporting, annual review, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules.

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(b) In addition to the above, the Group also had the following material related party transactions:

	2016 **RMB'000**	2015 RMB'000
Sales of goods:		
– Shanghai Shenhua and its affiliated companies	**3,014,463**	2,650,485
– Joint ventures	**5,771**	7,934
– Affiliated companies of a shareholder of a joint venture	**683**	2,153
– Associates	**135,466**	106,492
Purchases of goods:		
– Joint ventures	**195,453**	313,204
– Associates	**410,594**	625,051
– An affiliated company of Shanghai Shenhua	**6,805**	4,667
Other transactions:		
Interest from Xinhua Investment Holdings Limited ("**Xinhua Investment**")	**8,808**	8,253
Operating lease rental on land and buildings charged by Shanghai Shenhua	**593**	592

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 a corporate guarantee in the maximum amount of RMB60 million (As at 31st December, 2015: RMB60 million) from 1st January, 2016 to 31st December, 2016 for revolving bank loans and bank guaranteed notes to Shanghai Shenhua. As at 31st December, 2016, RMB60 million (As at 31st December, 2015: RMB60 million) of this corporate guarantee was utilised by Shanghai Shenhua.

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(c) As at 31st December, 2016, the Group's accounts receivable from affiliated companies consisted of the following:

	2016 **RMB'000**	2015 RMB'000
Accounts receivable from related parties:		
– Shanghai Shenhua and its affiliated companies	**396,569**	370,975
– Affiliated companies of JinBei	**22,396**	31,329
– Huachen and its affiliated companies	**809,734**	433,739
– Associates	**24,856**	22,178
– Joint ventures	**4,442**	7,939
– An affiliated company of a shareholder of a joint venture	**552**	1,953
	1,258,549	868,113
Less: provision for doubtful debts	**(21,388)**	(21,388)
	1,237,161	846,725

The Group's credit policy is to offer credit to affiliated companies following financial assessment and established payment track record. These affiliated companies are generally required to settle 25% to 33% of the previous month's ending balances. The aging analysis of accounts receivable due from affiliated companies based on invoice date is as follows:

	2016 **RMB'000**	2015 RMB'000
Less than six months	**694,984**	696,954
Six months to one year	**305,765**	21,315
Above one year but less than two years	**155,716**	67,397
Two years or above	**102,084**	82,447
	1,258,549	868,113

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:

	2016 **RMB'000**	2015 RMB'000
Six months to one year	**305,765**	21,315
Above one year but less than two years	**155,716**	67,397
Two years or above	**80,696**	61,059
	542,177	149,771

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(c) (Cont'd)

As at 31st December, 2016, the Group's accounts receivable from affiliated companies of RMB21,388,000 (2015: RMB21,388,000) 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.

(d) As at 31st December, 2016, the Group's notes receivable from affiliated companies arising from trading activities consisted of the following:

	2016 **RMB'000**	2015 RMB'000
Notes receivable from related parties:		
– Affiliated companies of JinBei	–	427
– Shanghai Shenhua and its affiliated companies	**169,613**	108,071
– Associates	**9,977**	69,303
– Huachen and its affiliated company	**67,804**	98,335
	247,394	276,136

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, 2016 (2015: Same).

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(e) As at 31st December, 2016, the amounts due from affiliated companies consisted of:

	2016	2015
	RMB'000	RMB'000
Amounts due from related parties:		
– Joint ventures	**90,743**	88,489
– Associates	**85,489**	85,377
– Shanghai Shenhua	**14,050**	14,050
– Huachen and its affiliated companies	**29,326**	12,662
– Xinhua Investment	**355,120**	323,219
– JinBei and its affiliated companies	**55,538**	57,559
	630,266	581,356
Less: provision for doubtful debts	**(92,148)**	(92,148)
	538,118	489,208

Amounts due from affiliated companies are interest-free, unsecured and repayable on demand except for the amount due from Xinhua Investment, a shareholder of Power Xinchen, which is secured by all assets of Xinhua Investment, and is interest-bearing at 3% per annum and repayable in August 2017.

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 consolidated 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.

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(e) (Cont'd)

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

	2016 RMB'000	2015 RMB'000
Six months to one year	**4,606**	4,120
Above one year but less than two years	**4,457**	4,209
Two years or above	**436,252**	402,599
	445,315	410,928

(f) As at 31st December, 2016, the Group's accounts payable to affiliated companies arising from trading activities consisted of the following:

	2016 RMB'000	2015 RMB'000
Due to related parties:		
– Associates	**500,948**	451,993
– Joint ventures	**141,026**	107,229
– Huachen and its affiliated companies	**371,244**	419,329
– An affiliated company of BHL	**33,825**	33,718
– Shanghai Shenhua and its affiliated companies	**9,189**	40,172
– Affiliated companies of JinBei	**290,646**	211,290
– An affiliated company of a shareholder of a joint venture	**3**	3
	1,346,881	1,263,734

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(f) (Cont'd)

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 based on invoice date is as follows:

	2016 **RMB'000**	2015 RMB'000
Less than six months	**912,867**	1,073,380
Six months to one year	**309,546**	63,497
Above one year but less than two years	**40,882**	56,537
Two years or above	**83,586**	70,320
	1,346,881	1,263,734

(g) As at 31st December, 2016, the Group's notes payable to affiliated companies arising from trading activities consisted of the following:

	2016 **RMB'000**	2015 RMB'000
Notes payable to related parties:		
– Affiliated companies of JinBei	**7,100**	3,050
– A joint venture	**69,000**	44,000
– Associates	**34,000**	55,450
	110,100	102,500

33. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

(h) As at 31st December, 2016, the amounts due to affiliated companies by the Group consisted of:

	2016	2015
	RMB'000	RMB'000
Amounts due to related parties:		
– Associates	**5,149**	5,519
– Huachen and its affiliated companies	**236,724**	68,797
– Affiliated companies of BHL	**28,544**	28,182
– Affiliated companies of Shanghai Shenhua	**4,440**	5,438
– JinBei and its affiliates	**11,274**	10,116
– Other affiliated company	**20**	20
	286,151	118,072

Amounts due to affiliated companies by the Group are unsecured, non-interest bearing and repayable on demand.

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

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

	2016	2015
	RMB'000	RMB'000
Short-term employee benefits and post-employment benefits	**15,641**	16,813

Other than the related party transactions disclosed above, no other transaction, arrangement or contract of significance to which the Company was a party and in which a director of the Company or a connected entity of the 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.

(k) Transactions and balances with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by government-related entities. During the year, the Group had entered into various transactions with government-related entities including, but not limited to, sales of minibuses and automotive components, purchases of raw materials and automotive components, and utilities services.

The directors consider that transactions with other government-related entities are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and other government-related entities are ultimately controlled or owned by the PRC Government. The Group has established pricing policies for its products and services, and such pricing policies do not depend on whether or not the customers are government related entities. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with government-related entities as disclosed above and majority parts of bank balances, short-term and pledged short-term deposits with and bank borrowings from state-owned financial institutions. The directors are of the opinion that such transactions were conducted in the ordinary course of business and in accordance with normal commercial terms.

34. CASH (USED IN) GENERATED FROM OPERATIONS

	2016	2015
	RMB'000	RMB'000
Profit before income tax expense	**3,424,537**	3,324,798
Share of results of:		
– Joint ventures	**(3,993,396)**	(3,822,934)
– Associates	**(252,563)**	(219,887)
Interest income	**(97,093)**	(84,669)
Interest expense	**133,135**	146,889
Write-back of provision for inventories sold	**(30,935)**	(12,631)
Depreciation of property, plant and equipment	**131,567**	136,422
Amortisation of intangible assets	**136,020**	43,443
Amortisation of land lease prepayments	**2,037**	1,554
Loss (Gain) on disposal of property, plant and equipment	**5,549**	(4,459)
Deferred income from government grants	**(47,523)**	(38,145)
Write-back of provision for doubtful debts	**(8,457)**	–
Provision for inventories	**13,484**	14,754
Provision for doubtful debts on:		
– Accounts receivable	**–**	368
– Loans receivable	**7,058**	2,739
– Other receivables	**4,587**	48
Operating loss before working capital change	**(571,993)**	(511,710)
Decrease (Increase) in inventories	**121,833**	(419,271)
Increase in accounts receivable	**(135,303)**	(250,946)
Increase in loans receivable	**(735,660)**	(182,420)
Decrease in notes receivable	**16,178**	457,188
Decrease in other current assets	**71,925**	23,851
Increase in accounts payable	**285,540**	74,665
Decrease in notes payable	**(256,766)**	(132,448)
Increase (Decrease) in other current liabilities	**219,507**	(94,270)
Cash used in operations	**(984,739)**	(1,035,361)

35. COMMITMENTS

(a) Capital commitments

	2016 RMB'000	2015 RMB'000
Contracted but not provided for:		
– Construction projects	**69,037**	73,561
– Acquisition of plant and machinery	**289,511**	173,435
– Others	**8,638**	14,757
	367,186	261,753
Authorised but not contracted for:		
– Construction projects and acquisition of plant and machinery	**107,544**	59,804

(b) Operating lease commitments

As at 31st December, 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**22,459**	23,073
In the second to fifth years inclusive	**30,123**	40,357
Over five years	**8,879**	13,841
	61,461	77,271

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Property, plant and equipment	**714**	325
Interests in subsidiaries	**4,481,865**	4,435,610
Interests in associates	**141,183**	141,183
Available-for-sale financial assets	**29,330**	53,211
Total non-current assets	**4,653,092**	4,630,329
Current assets		
Cash and cash equivalents	**61,939**	24,850
Short-term bank deposits	**–**	58,250
Other current assets	**444,288**	412,134
Total current assets	**506,227**	495,234
Current liabilities		
Other current liabilities	**10,217**	12,959
Net current assets	**496,010**	482,275
NET ASSETS	**5,149,102**	5,112,604
Capital and reserves		
Share capital	**396,809**	395,877
Reserves *(Note)*	**4,752,293**	4,716,727
TOTAL EQUITY	**5,149,102**	5,112,604

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

Qi Yumin
Director

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

Note: The movement of the Company's reserves are as follows:

	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, 2015	2,466,685	16,355	39,179	3,401	2,144,014	4,669,634
Dividends	–	–	–	–	(452,827)	(452,827)
Profit and total comprehensive income for the year	–	25,361	–	–	474,559	499,920
As at 31st December, 2015	2,466,685	41,716	39,179	3,401	2,165,746	4,716,727

	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, 2016	**2,466,685**	**41,716**	**39,179**	**3,401**	**2,165,746**	**4,716,727**
Issue of shares by exercise of share options	**6,759**	**–**	**–**	**(2,459)**	**–**	**4,300**
Dividends	**–**	**–**	**–**	**–**	**(475,104)**	**(475,104)**
Profit and total comprehensive income for the year	**–**	**(23,881)**	**–**	**–**	**530,251**	**506,370**
As at 31st December, 2016	**2,473,444**	**17,835**	**39,179**	**942**	**2,220,893**	**4,752,293**

The directors consider that the Company had approximately RMB2,260.1 million (2015: RMB2,204.9 million) available for distribution to shareholders.

37. INTERESTS IN SUBSIDIARIES

Details of the Company's subsidiaries as at 31st December, 2016 and 2015 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 at 31st December, 2015 and 2016		Principal activities *(Note a)*
				Directly	*Indirectly*	
Shenyang Automotive	Shenyang, the PRC	US$444,160,000	Equity joint venture	51%	9.9%	Manufacture, assembly and sale of minibuses and automotive components
Ningbo Yuming Machinery Industrial Co., Ltd.	Ningbo, the PRC	US$22,500,000	Wholly foreign owned enterprise	–	100%	Manufacture and sale of automotive components
Xing Yuan Dong	Shenyang, the PRC	US$150,000,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Ningbo Brilliance Ruixing Auto Components Co., Ltd.	Ningbo, the PRC	US$5,000,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Mianyang Ruian	Mianyang, the PRC	US$22,910,000	Wholly foreign owned enterprise	100%	–	Manufacture and trading of automotive components
Shenyang Brilliance Dongxing Automotive Component Co., Ltd.	Shenyang, the PRC	RMB222,000,000	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	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	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

37. 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 at 31st December, 2015 and 2016		Principal activities *(Note a)*
				Directly	*Indirectly*	
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	British Virgin Islands	US$50,000	Company with limited liabilities	100%	–	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd.	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	–	100%	Investment holding
Shanghai Hidea Auto Design Co., Ltd.	Shanghai, the PRC	US$2,000,000	Equity joint venture	25%	45.68%	Design of automobiles
Brilliance-BEA Auto Finance Co., Ltd	Shanghai, the PRC	RMB800,000,000	Equity joint venture	55%	–	Provision of financing service

Note a: Except for the subsidiaries incorporated in Bermuda and the British Virgin Islands, all other subsidiaries principally operate in the PRC.

38. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 69 to 144 were approved and authorised for issue by the board of directors on 24th March, 2017.