

# Notes to the Financial Statements

*For the year ended 31st December, 2004*

## **1. ORGANISATION AND OPERATIONS**

Brilliance China Automotive Holdings Limited (the “Company”) was incorporated in Bermuda on 9th June, 1992 with limited liability. The Company’s American depositary shares (“ADSs”) and shares are traded on The New York Stock Exchange Inc. and The Stock Exchange of Hong Kong Limited (“SEHK”), respectively. The Company is an investment holding company. The principal activities of the Company’s subsidiaries (together with the Company referred to as the “Group”) are the manufacture and sale of minibuses, sedans and automotive components in the People’s Republic of China (the “PRC”).

## **2. PRINCIPAL ACCOUNTING POLICIES**

### **(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on SEHK. A summary of the significant accounting policies adopted by the Group is set out below.

### **(b) Recently issued accounting standards**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### **(c) Basis of preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is historical cost.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (d) Basis of consolidation

#### (i) Consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries made up to 31st December.

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

All significant intercompany transactions and balances and any unrealised gains or losses arising from intercompany transactions are eliminated on consolidation.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated income statement.

#### (ii) Subsidiaries

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

In the Company's balance sheet an investment in a subsidiary is stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (iii) Associates

An associate is an enterprise, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and the Group has significant influence over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (d) Basis of consolidation (Cont'd)

#### (iii) *Associates* (Cont'd)

The consolidated income statement includes the Group's share of results of its associates for the year. In the consolidated balance sheet, interests in associates are the Group's share of the net assets of the associates and goodwill or negative goodwill (net of accumulated amortisation) on acquisition less any accumulated impairment losses.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are eliminated unless the transactions provide evidence of an impairment of the asset transferred.

#### (iv) *Jointly controlled entities*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of results of jointly controlled entities for the year. The consolidated balance sheet includes the Group's share of net assets of the jointly controlled entities and goodwill or negative goodwill (net of accumulated amortisation) on acquisition less any accumulated impairment losses.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are eliminated unless the transactions provide evidence of an impairment of the asset transferred.

#### (v) *Translation of foreign currencies*

Subsidiaries, associates and jointly controlled entities established in the PRC maintain their books and records in Renminbi ("RMB") as functional currency while the Company and other subsidiaries maintain their books and records in American Dollar as functional currency.

Transactions in currencies other than the respective functional currencies are translated into respective functional currencies at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in other currencies at the balance sheet date are re-translated into respective functional currencies at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (d) Basis of consolidation (Cont'd)

#### (v) *Translation of foreign currencies* (Cont'd)

The Group prepares consolidated financial statements in RMB. For the purpose of consolidation, the balance sheets of subsidiaries expressed in American Dollar are translated into RMB at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at the average rate. Exchange differences are dealt with as a movement in reserves.

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

### (e) Intangibles

#### (i) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiaries, jointly controlled entities and associates at the date of acquisition.

Goodwill on acquisitions is amortised using the straight-line method over the shorter of the estimated future economic life of 20 years or the remaining lives of the respective subsidiaries, jointly controlled entities and associates from their initial recognition.

#### (ii) *Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so; and costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over a period which reflects the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (e) Intangibles (Cont'd)

#### (iii) *Acquired intangible assets*

Acquired intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over the estimated useful lives of 7 to 10 years.

### (f) Property, plant and equipment

Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

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

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction-in-progress, land and special tools and moulds, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values of 10%, using the straight-line method, at the following rates per annum:

Buildings	5%
Machinery and equipment (excluding special tools and moulds)	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

The costs of special tools and moulds included in machinery and equipment less accumulated impairment losses are depreciated over their estimated productive volume.

The costs of land use rights less accumulated impairment losses are depreciated on a straight-line basis over the term of the land use period.

The useful life of assets and depreciation method are reviewed periodically.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (g) Construction-in-progress

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

### (h) Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price 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.

### (i) Investment securities

Investment securities held on a continuing basis with an identified long-term purpose are stated at cost less any provision for impairment losses that is expected to be other than temporary.

The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (j) Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realisable value. Costs comprise all costs of purchase, direct labour, and an appropriate proportion of all production overhead and other costs incurred in bringing the inventories to their present location and condition. Costs are calculated on the moving-average basis, except for costs of work-in-progress and finished goods of sedans and minibuses, which are calculated by the specific identification basis with effect from 1st July, 2004. The effect of this change in estimate is not significant to the Group's financial statements.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs of completion and estimated selling expenses.

### (k) Accounts receivable and other receivables

Provision is made against accounts receivable and other receivables to the extent they are considered to be doubtful. Accounts receivable and other receivables are stated net of such provision.

### (l) Cash and cash equivalents and short-term bank deposits

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank deposits with maturity between three and twelve months are classified as short-term deposits.

### (m) Provisions

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

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (m) Provisions (Cont'd)

The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. Minibuses are sold with 24-month or 50,000 kilometres (2003: Same) first-to-occur limited warranty. Zhonghua sedans are sold with 36-month or 60,000 kilometres (2003: Same) first-to-occur limited warranty. During the warranty period, the Group pays service stations for parts and labour covered by the warranty.

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

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

	2004	2003
	RMB'000	RMB'000
Balance as at 1st January	23,643	18,854
Accrual for warranties issued during the year	45,088	87,405
Settlement made during the year	(47,673)	(82,616)
Balance as at 31st December	21,058	23,643

### (n) Government grants

A government grant is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (o) Operating leases

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

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over the expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease terms.

### (p) Employee benefits

#### (i) *Employee leave entitlements*

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

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

#### (ii) *Bonus plans*

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

#### (iii) *Pension obligations*

The Group's contributions to defined contribution retirement plans administered by the government of the PRC are recognised as an expense in the consolidated income statement. The assets of the schemes are held separately from those of the Group in independently administered funds. Further information is set out in Note 33.

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

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (q) Income tax

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising from investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

### (r) Contingent liabilities and contingent assets

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

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

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

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

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (s) Revenue recognition

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

#### (i) *Sale of goods*

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

#### (ii) *Interest income*

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

#### (iii) *Dividend income*

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

#### (iv) *Subsidy income*

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

### (t) Borrowing costs

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

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

### (u) Convertible bonds

Convertible bonds were issued at par and are stated in the balance sheet at face value plus accrued interest expense. Direct expenses in connection with the issuance of convertible bonds are capitalised as deferred expenses on the balance sheet and are amortised over the life of the convertible bonds.

# Notes to the Financial Statements (Cont'd)

*For the year ended 31st December, 2004*

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (v) Segment reporting

In accordance with the Group's internal financial reporting, management has determined that business segments be presented as the primary reporting format. As the whole of the Group's sale and manufacture is located in the PRC, management considered that secondary reporting format by geographical segments is not necessary.

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

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The principal activities of the Company's subsidiaries are the manufacture and sale of (1) minibuses and automotive components, and (2) Zhonghua sedans in the PRC.

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

	2004 RMB'000	2003 RMB'000
<b>Turnover</b>		
Sale of minibuses and automotive components	5,217,426	6,764,225
Sale of sedans	1,324,572	3,345,332
	<b>6,541,998</b>	10,109,557
<b>Other revenue</b>		
Subsidy income	1,815	48,497
Others	109,344	129,640
	<b>111,159</b>	178,137
<b>Interest income (Note 5)</b>	<b>58,800</b>	52,672
<b>Total revenue</b>	<b>6,711,957</b>	10,340,366

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

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

- (1) the manufacture and sale of minibuses and automotive components;
- (2) the manufacture and sale of Zhonghua sedans; and
- (3) the manufacture and sale of BMW sedans.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

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

### Business segments — 2004

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of Zhonghua sedans RMB'000	Manufacture and sale of BMW sedans RMB'000	Total RMB'000
Segment sales	5,546,263	1,324,572	—	6,870,835
Intersegment sales	(328,837)	—	—	(328,837)
	<u>5,217,426</u>	<u>1,324,572</u>	<u>—</u>	<u>6,541,998</u>
Segment results	517,998	(596,667)	—	(78,669)
Impairment of intangible assets	—	(300,000)	—	(300,000)
Unallocated costs				<u>(58,754)</u>
Operating loss				(437,423)
Interest income				58,800
Interest expense				(182,458)
Share of profits less losses of:				
Jointly controlled entities	31,465	—	19,611	51,076
Associates	—	61,115	(679)	<u>60,436</u>
Loss before taxation				(449,569)
Taxation				<u>41,810</u>
Loss after taxation				(407,759)
Minority interests				<u>456,328</u>
Profit attributable to shareholders				<u>48,569</u>

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

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

### Business segments — 2004 (Cont'd)

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of Zhonghua sedans RMB'000	Manufacture and sale of BMW sedans RMB'000	Total RMB'000
Segment assets	10,907,084	5,055,436	—	15,962,520
Investments in associates	—	358,828	13,157	371,985
Investments in jointly controlled entities	822,837	—	575,298	1,398,135
Unallocated assets				71,142
<b>Total assets</b>				<b>17,803,782</b>
Segment liabilities	7,325,527	721,854	—	8,047,381
Unallocated liabilities				1,808,165
<b>Total liabilities</b>				<b>9,855,546</b>
Other disclosures:				
Capital expenditure	228,362	1,002,524	—	1,230,886
Depreciation of property, plant and equipment	205,100	160,421	—	365,521
Amortisation on intangible assets and goodwill	48,458	225,136	—	273,594
Impairment losses	10,000	300,000	—	310,000

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

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

### Business segments — 2003

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of Zhonghua sedans RMB'000	Manufacture and sale of BMW sedans RMB'000	Total RMB'000
Segment sales	6,942,411	3,345,332	—	10,287,743
Intersegment sales	(178,186)	—	—	(178,186)
	6,764,225	3,345,332	—	10,109,557
Segment results	1,380,552	23,470	—	1,404,022
Unallocated costs				(131,657)
Operating profit				1,272,365
Interest income				52,672
Interest expense				(167,111)
Share of profits less losses of:				
Jointly controlled entities	88,361	—	(125,214)	(36,853)
Associates	—	131,187	767	131,954
Profit before taxation				1,253,027
Taxation				(153,033)
Profit after taxation				1,099,994
Minority interests				(163,547)
Profit attributable to shareholders				936,447

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

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

### Business segments — 2003 (Cont'd)

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of Zhonghua sedans RMB'000	Manufacture and sale of BMW sedans RMB'000	Total RMB'000
Segment assets	11,144,253	5,329,240	—	16,473,493
Investments in associates	—	318,082	4,276	322,358
Investments in jointly controlled entities	794,259	—	560,267	1,354,526
Unallocated assets				137,665
<b>Total assets</b>				<b>18,288,042</b>
Segment liabilities	6,927,652	1,017,834	—	7,945,486
Unallocated liabilities				1,741,018
<b>Total liabilities</b>				<b>9,686,504</b>
Other disclosures:				
Capital expenditure	1,023,356	1,041,544	—	2,064,900
Depreciation of property, plant and equipment	199,226	253,532	—	452,758
Amortisation on intangible assets and goodwill	47,323	227,307	—	274,630
Impairment losses	—	12,877	—	12,877

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 4. OPERATING (LOSS) PROFIT

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

	Note	2004 RMB'000	2003 RMB'000
<b>Charging:</b>			
Depreciation of property, plant and equipment		365,521	452,758
Amortisation of goodwill included in			
— General and administrative expenses		24,290	24,290
— Share of profits less losses of:			
Jointly controlled entities		21,486	21,486
Associates		1,777	1,777
Amortisation of intangible assets (included in cost of sales)	13	226,041	227,077
Amortisation of deferred expenses (included in general and administrative expenses)	23	8,920	1,486
Impairment losses on:			
— Intangible assets	13	300,000	—
— Property, plant and equipment	16	10,000	12,877
Staff costs (excluding directors' emoluments)	10	322,990	371,503
Cost of inventories		5,487,043	7,744,891
Provision for inventories		66,832	32,875
Provision for doubtful debts and write off of bad debts		55,292	4,825
Auditors' remuneration		5,270	2,564
Exchange loss, net		6,011	—
Research and development costs included in general and administrative expenses		176,434	155,599
Training expenses included in general and administrative expenses		1,820	1,218
Provision for warranty (included in selling expenses)		45,088	87,405
Operating lease charges in respect of:			
— Land and buildings		15,816	17,527
— Machinery and equipment		13,242	13,274
Loss on disposal of property, plant and equipment, net		9,710	—
Loss on disposal of construction-in-progress		2,809	—
<b>Crediting:</b>			
Gain on disposals of property, plant and equipment, net		—	14,004
Write back of provision for inventories sold		15,522	—
Write back of provision of doubtful debts		1,000	5,679
Write back of provision of impairment loss on investment securities		13,058	—
Exchange gain, net		—	120

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 5. INTEREST INCOME

	2004 RMB'000	2003 RMB'000
Interest income from		
Bank deposits	58,800	51,188
Others	—	1,484
	<b>58,800</b>	<b>52,672</b>

## 6. INTEREST EXPENSE

	2004 RMB'000	2003 RMB'000
Interest expense on		
Bank loans wholly repayable within one year	756	8,505
Discounted bank notes	169,820	157,419
Convertible bonds	12,401	1,187
Interest on financing from BMW Brilliance	17,850	—
Less: Interest expense capitalised in construction-in-progress at a rate of 4.2% per annum	<b>(18,369)</b>	—
	<b>182,458</b>	<b>167,111</b>

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 7. TAXATION

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

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

	2004 RMB'000	2003 RMB'000
<b>Current tax</b>		
Hong Kong profits tax	—	—
PRC enterprise income tax	11,340	145,654
<b>Deferred taxation</b>		
Deferred taxation relating to the origination and reversal of temporary differences ( <i>Note 32</i> )	(61,664)	(1,514)
	(50,324)	144,140
Share of taxation of jointly controlled entities	3,286	8,019
Share of taxation of associates	5,228	874
<b>Total income tax (income) expense in the consolidated income statement</b>	<b>(41,810)</b>	153,033

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 7. TAXATION (Cont'd)

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

	2004 RMB'000	2003 RMB'000
<b>(Loss) Profit before taxation</b>	<b>(449,569)</b>	1,253,027
Calculated at the weighted average statutory taxation rate in the PRC of 19.43% (2003: 22.56%)	<b>(87,334)</b>	282,709
Effect of tax holiday	<b>(81,347)</b>	(159,516)
Expenses not deductible for taxation purpose	<b>65,411</b>	29,840
Unrecognised tax losses	<b>61,460</b>	—
<b>Tax (income) expense for the year</b>	<b>(41,810)</b>	153,033

### Income Tax

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

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

The subsidiaries are subject to state and local income taxes in the PRC at their respective tax rates, based on the taxable income reported in their statutory financial statements in accordance with the relevant state and local income tax laws applicable.

Shenyang Brilliance JinBei Automobile Co., Ltd. ("Shenyang Automotive") is subject to state and local income taxes in the PRC at standard rates of 15% and 3% respectively in accordance with enterprise income tax laws applicable to Sino-foreign equity joint venture enterprises. Shenyang Automotive is exempted from local income tax of 3% as it was designated as "Technologically-Advanced Enterprise". As a result, the effective enterprise income tax rate for Shenyang Automotive was 15% for the year ended 31st December, 2004 (2003: 15%).

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 7. TAXATION (Cont'd)

### Income Tax (Cont'd)

Ningbo Yuming Machinery Industrial Co., Ltd. (“Ningbo Yuming”) and Ningbo Brilliance Ruixing Auto Components Co., Ltd. (“Ningbo Ruixing”) are subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws applicable. Pursuant to the relevant income tax laws in the PRC, the applicable state and local income tax rates were reduced to 15% and 1.5%, respectively. As a result, the effective enterprise income tax rate for Ningbo Yuming and Ningbo Ruixing are 16.5% (2003: 16.5%).

Shenyang XingYuanDong Automobile Component Co., Ltd. (“XingYuanDong”) is subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws. XingYuanDong received official designation by the local tax authority as a “New and Technologically-Advanced Enterprise” in 1999. During 2001, XingYuanDong was further designated by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. As a result, the effective enterprise income tax rate for XingYuanDong was 15% for the year ended 31st December, 2004 (2003: 7.5%).

Mianyang Brilliance Ruian Automotive Components Co., Ltd. (“Mianyang Ruian”) is subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws. During 2001, Mianyang Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. In 2004, Mianyang Ruian was also designated as an “encourage industries under Catalogue for the Guidance of Foreign Investment Industries” and located in the Western area of the PRC. Pursuant to the relevant income tax laws in the PRC, during 2004 to 2010, the applicable state income tax rate for Mianyang Ruian is 15%. In addition, Mianyang Ruian is also exempted from state and local enterprise income taxes for two years starting from the first profitable year followed by a 50% reduction of enterprise income tax for the next three years. Mianyang Ruian is also exempted from local enterprise income tax for the five-year period. As a result, the effective tax rate for Mianyang Ruian was 7.5% for the year ended 31st December, 2004 (2003: 15%).

Shenyang Brilliance Dongxing Automotive Component Co., Ltd. (“Dongxing Automotive”) is subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws. Dongxing Automotive received official designation by the local tax authority as a “New and Technologically-Advanced Enterprises” and a foreign-invested enterprise engaged in manufacturing activities. Pursuant to the relevant income tax laws in the PRC, Dongxing Automotive is exempted from state enterprise income tax for two years starting from the first profitable year in 1999 followed by a 50% reduction of state enterprise income tax for the next three years. In addition, Dongxing Automotive is also exempted from local enterprise income tax for the five-year period. As a result, the effective tax rate for Dongxing Automotive was 15% for the year ended 31st December, 2004 (2003: 7.5%).

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 7. TAXATION (Cont'd)

### Income Tax (Cont'd)

Other principal subsidiaries operating in the PRC are subject to state and local income taxes in the PRC at standard rates of 30% and 3% respectively, based on the respective taxable income reported in their statutory financial statements in accordance with the relevant state and local income tax laws applicable to foreign-invested enterprises.

### Value Added Tax ("VAT") and Consumption Tax

The general VAT rate applicable to sales and purchases of minibuses, sedans and automotive components in the PRC is 17%.

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

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately RMB467.3 million (2003: RMB613.4 million) which has been dealt with in the financial statements of the Company.

## 9. DIVIDENDS

	2004 RMB'000	2003 RMB'000
2004 interim dividends of HK\$0.005 (2003: HK\$0.01) per ordinary share	19,450	38,541
Proposed final dividends of HK\$0.005 (2003: HK\$0.01) per ordinary share	19,450	38,885
	<b>38,900</b>	77,426

At a meeting held on 25th April, 2005, the directors proposed a final dividend of HK\$0.005 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but is reflected as an appropriation of retained earnings under proposed dividends for the year ended 31st December, 2004.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 10. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	2004 RMB'000	2003 RMB'000
Wages, salaries and performance related bonuses	231,907	274,449
Pension costs — defined contribution plans	37,543	50,544
Staff welfare costs	53,540	46,510
	<b>322,990</b>	<b>371,503</b>

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to the directors of the Company during the year are as follows:

	2004 RMB'000	2003 RMB'000
Executive directors (including ex-director):		
Fees	—	—
Other emoluments		
— Basic salaries, allowances and benefits in kind	13,326	12,173
— Performance related bonuses for the year	2,866	23,160
— Additional performance related bonuses for previous year	—	5,546
— Contributions to pension scheme	51	51
	<b>16,243</b>	<b>40,930</b>
Non-executive directors:		
Fees	212	—
Independent non-executive directors:		
Fees	207	207
	<b>16,662</b>	<b>41,137</b>

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

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

### (a) Directors' emoluments (Cont'd)

The emoluments of the directors (including ex-director, executive, non-executive and independent non-executive directors) analysed by the number of directors and emolument ranges are as set out below. The emoluments represent the amount paid to or receivable by the directors of the Company in the respective financial year and exclude the benefits derived or to be derived from the share options granted or exercised (Note 34(b)).

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	10	4
HK\$1,500,001 – HK\$2,000,000	—	1
HK\$2,500,001 – HK\$3,000,000	1	—
HK\$3,000,001 – HK\$3,500,000	3	—
HK\$3,500,001 – HK\$4,000,000	1	—
HK\$8,500,001 – HK\$9,000,000	—	1
HK\$9,000,001 – HK\$9,500,000	—	2
HK\$9,500,001 – HK\$10,000,000	—	1
	<b>15</b>	<b>9</b>

During the year, no emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office (2003: same).

No directors waived their emoluments during the year (2003: Same).

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

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

### (b) Five highest paid individuals

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

	2004 RMB'000	2003 RMB'000
Basic salaries, allowances and benefits in kinds	13,326	14,159
Performance related bonus for the year	2,866	23,160
Additional performance related bonuses for previous year	—	5,546
Contributions to pension scheme	51	51
	<b>16,243</b>	42,916
Number of directors	5	4
Number of employees	—	1

The emoluments of the five highest paid individuals analysed by the number of individuals and emolument ranges are set out below. The emoluments represent the amount paid to or receivable by the individuals in the respective financial year and exclude the benefits derived from the share options granted to or exercised by the individuals (Note 34(b)).

	Number of individuals	
	2004	2003
Emoluments bands		
HK\$2,500,001 – HK\$3,000,000	1	—
HK\$3,000,001 – HK\$3,500,000	3	1
HK\$3,500,001 – HK\$4,000,000	1	—
HK\$8,500,001 – HK\$9,000,000	—	1
HK\$9,000,001 – HK\$9,500,000	—	2
HK\$9,500,001 – HK\$10,000,000	—	1
	<b>5</b>	5

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 (2003: same).

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately RMB48,569,000 (2003: RMB936,447,000), divided by the weighted average of 3,668,390,900 shares (2003: 3,666,539,983 shares) outstanding during the year.

The diluted earnings per share is based on the adjusted net profit attributable to shareholders and adjusted weighted average number of shares calculated as follows:

	2004 RMB'000	2003 RMB'000
Profit attributable to shareholders	48,569	936,447
Accrued interest expense in relation to convertible bonds	—	1,187
Adjusted profit attributable to shareholders	48,569	937,634

	Number of shares	
	2004	2003
Basic weighted average number of shares	3,668,390,900	3,666,539,983
Weighted average number of shares deemed to be issued at no consideration if all outstanding options had been exercised	15,405,068	3,338,970
Weighted average number of shares deemed to be issued if all convertible bonds were converted into ordinary shares	—	32,519,357
Adjusted weighted average number of shares	3,683,795,968	3,702,398,310

The effect of conversion of convertible bonds into ordinary shares is not considered in calculating the diluted earnings per share for 2004 as average market price of the Company's shares during the year was lower than the conversion price.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 13. INTANGIBLE ASSETS

### The Group

	Sedan design rights RMB'000	Components and parts technology rights RMB'000	Sedan design and development costs RMB'000	Engine design and development costs RMB'000	Others RMB'000	Total RMB'000
	<i>(Note a)</i>	<i>(Note b)</i>	<i>(Note c)</i>	<i>(Note e)</i>		
At 1st January, 2004	527,042	692,208	—	—	1,226	1,220,476
Additions	—	—	254,059	23,919	8,006	285,984
Transfer from long-term prepayments <i>(Note 15)</i>	—	—	—	131,732	—	131,732
Amortisation charge	(97,300)	(127,792)	—	—	(949)	(226,041)
Impairment losses <i>(Note d)</i>	(103,000)	(136,000)	(61,000)	—	—	(300,000)
<b>At 31st December, 2004</b>	<b>326,742</b>	<b>428,416</b>	<b>193,059</b>	<b>155,651</b>	<b>8,283</b>	<b>1,112,151</b>
<b>At 31st December, 2004</b>						
Cost	681,100	820,000	254,059	155,651	11,243	1,922,053
Accumulated amortisation	(251,358)	(255,584)	—	—	(2,960)	(509,902)
Accumulated impairment losses	(103,000)	(136,000)	(61,000)	—	—	(300,000)
<b>Net book amount</b>	<b>326,742</b>	<b>428,416</b>	<b>193,059</b>	<b>155,651</b>	<b>8,283</b>	<b>1,112,151</b>
At 31st December, 2003						
Cost	681,100	820,000	—	—	3,237	1,504,337
Accumulated amortisation	(154,058)	(127,792)	—	—	(2,011)	(283,861)
<b>Net book amount</b>	<b>527,042</b>	<b>692,208</b>	<b>—</b>	<b>—</b>	<b>1,226</b>	<b>1,220,476</b>

Note:

- (a) Sedan design rights represent acquired rights, titles and interests in certain design and engineering agreements and technical assistance agreement in relation to Zhonghua sedans.
- (b) Components and parts technology rights represent rights, titles and interests in the interior design of the components and spare parts of Zhonghua sedans injected by a joint venture partner as capital into a subsidiary of the Company in 2003.
- (c) Sedan design and development costs represent costs of design and development of a new model of Zhonghua sedans in progress. As the new model has not been put into commercial production, no amortisation is provided.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 13. INTANGIBLE ASSETS (Cont'd)

- (d) As a result of the manufacture and sale of Zhonghua sedans resulting in a loss in 2004, the Group critically assessed the future economic benefit of the intangible assets in relation to Zhonghua sedans mentioned in (a) to (c) by assessing the present value of net cash inflow the manufacture and sale of Zhonghua sedans will bring to the Group in the future. Consequently, impairment losses of RMB300 million in total have been recognised in respect of these intangible assets.
- (e) Engine design and development costs represent the costs incurred in design and development of a new engine. The costs include fees for design and development of the engine paid to FEV Motorentechnik GmbH, an internationally-recognised leader in the design and development of internal combustion engines, as well as self incurred development costs. In addition, the Group had already incurred costs of approximately RMB538 million in the infrastructure included in construction-in-progress for the manufacture of the engine and had capital commitments, both authorised for and contracted for but not provided for, of approximately RMB406 million at 31st December, 2004.

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

## 14. GOODWILL

	<b>RMB'000</b>
<hr/>	
<b>Cost</b>	
At 1st January, 2004	439,583
Addition arising from acquisition of further interest in a subsidiary	3,935
<hr/>	
<b>At 31st December, 2004</b>	<b>443,518</b>
<hr/>	
<b>Accumulated amortisation</b>	
At 1st January, 2004	73,699
Amortisation for the year	24,290
<hr/>	
<b>At 31st December, 2004</b>	<b>97,989</b>
<hr/>	
<b>Net book value</b>	
<b>At 31st December, 2004</b>	<b>345,529</b>
<hr/>	
At 31st December, 2003	365,884
<hr/>	

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 15. LONG-TERM PREPAYMENTS

	Note	2004 RMB'000	2003 RMB'000
Prepayments for design and development of engine			
At 1st January		106,217	70,382
Additions		25,515	35,835
Transfer to intangible assets	13	(131,732)	—
<b>At 31st December</b>		<b>—</b>	<b>106,217</b>

## 16. PROPERTY, PLANT AND EQUIPMENT

	Land use rights RMB'000	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>Cost</b>						
At 1st January, 2004	84,575	1,035,787	3,083,992	293,035	93,867	4,591,256
Additions	6,523	22,494	162,444	34,293	20,227	245,981
Transfer from construction-in-progress (Note 17)	—	145,954	240,604	60,676	4,451	451,685
Disposals	—	(82,836)	(47,765)	(8,032)	(16,830)	(155,463)
Reclassification	—	—	(10,259)	10,259	—	—
<b>At 31st December, 2004</b>	<b>91,098</b>	<b>1,121,399</b>	<b>3,429,016</b>	<b>390,231</b>	<b>101,715</b>	<b>5,133,459</b>
<b>Accumulated depreciation and impairment losses</b>						
At 1st January, 2004	12,603	170,551	924,063	90,095	40,125	1,237,437
Charge for the year	2,369	44,002	250,277	54,396	14,477	365,521
Eliminated on disposals	—	(11,575)	(27,309)	(4,411)	(9,943)	(53,238)
Reclassifications	—	—	(1,888)	1,888	—	—
Impairment loss	—	—	10,000	—	—	10,000
<b>At 31st December, 2004</b>	<b>14,972</b>	<b>202,978</b>	<b>1,155,143</b>	<b>141,968</b>	<b>44,659</b>	<b>1,559,720</b>
<b>Net book value</b>						
<b>At 31st December, 2004</b>	<b>76,126</b>	<b>918,421</b>	<b>2,273,873</b>	<b>248,263</b>	<b>57,056</b>	<b>3,573,739</b>
At 31st December, 2003	71,972	865,236	2,159,929	202,940	53,742	3,353,819

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Notes:

- (a) All the land use rights of the Group are related to land located in the PRC where no individual land ownership right exists. Such land use rights have a duration of not more than 50 years. Buildings of the Group are also located in the PRC.
- (b) Shenyang Automotive transferred the legal titles and ownership of certain buildings with an aggregate net book value of approximately RMB150,763,000 (2003: RMB158,970,000) to BMW Brilliance Automotive Ltd. ("BMW Brilliance") in consideration of approximately RMB174,373,000 and entered into an agreement with BMW Brilliance to lease-back a substantial portion of the buildings. The agreement of sale includes an option for BMW Brilliance to require Shenyang Automotive to purchase back such buildings at the purchase price less depreciation upon the occurrence of certain events, including the passing of a valid resolution pursuant to the joint venture contract by the board of directors of BMW Brilliance. For financial reporting purposes, the buildings retained as assets on the balance sheet of the Group and the portion of consideration received from BMW Brilliance up to 31st December, 2004 amounting to approximately RMB74,605,000 is treated as a financing and will be partially offset against the lease rental payable in future years (Note 36(j)). The remaining balance of approximately RMB99,768,000 will be received from BMW Brilliance and will be accounted for as additional financing.

## 17. CONSTRUCTION-IN-PROGRESS

	2004 RMB'000	2003 RMB'000
At 1st January	570,233	453,028
Additions	673,406	755,729
Disposals	(2,809)	—
Transfer to property, plant and equipment ( <i>Note 16</i> )	(451,685)	(638,524)
<b>At 31st December</b>	<b>789,145</b>	<b>570,233</b>

Interest expense of approximately RMB18,369,000 (2003: Nil) was capitalised in construction-in-progress during the year.

## 18. INTERESTS IN SUBSIDIARIES

	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	4,361,090	4,043,481
Amounts due from subsidiaries:		
— Interest bearing ( <i>Note a</i> )	2,258,892	2,288,873
— Non-interest bearing ( <i>Note b</i> )	1,321,241	1,239,263
Accumulated impairment losses	(13,640)	(26,696)
	<b>7,927,583</b>	<b>7,544,921</b>

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 18. INTERESTS IN SUBSIDIARIES (Cont'd)

Notes:

- (a) The amounts are interest-bearing at rates ranged between 5.0% to 5.841% per annum which are unsecured and repayable within 1 to 2 years.
- (b) The amounts are unsecured, interest-free and without fixed repayment terms.

None of the subsidiaries had any loan capital outstanding as of 31st December, 2004.

Details of the Company's principal subsidiaries are as follows:

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of equity interest/voting right attributable to the Company		Principal activities
				Directly	Indirectly	
Shenyang Brilliance JinBei Automobile Co., Ltd.	Shenyang, the PRC	US\$444,160,000	Equity joint venture	51%	—	Manufacture, assembly and sale of minibuses and sedans
Ningbo Yuming Machinery Industrial Co., Ltd.	Ningbo, the PRC	US\$2,500,000	Wholly foreign owned enterprise	—	100%	Manufacture and sale of automotive components
Shenyang XingYuanDong Automobile Component Co., Ltd.	Shenyang, the PRC	US\$150,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Ningbo Brilliance Ruixing Auto Components Co., Ltd.	Ningbo, the PRC	US\$5,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Mianyang Brilliance Ruian Automotive Components Co., Ltd.	Mianyang, the PRC	US\$5,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Shenyang Brilliance Dongxing Automotive Component Co., Ltd.	Shenyang, the PRC	RMB12,000,000	Wholly foreign owned enterprise	—	100%	Manufacture and trading of automotive components and remodeling minibuses and sedans
Shenyang Jindong Development Co., Ltd.	Shenyang, the PRC	RMB10,000,000	Equity joint venture	—	75.5%	Trading of automotive components
Shenyang Jianhua Motors Engine Co., Ltd.	Shenyang, the PRC	RMB155,032,500	Equity joint venture	—	60.8%	Investment holding

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 18. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of equity interest/voting right attributable to the Company		Principal activities
				Directly	Indirectly	
China Brilliance Automotive Components Group Limited	Bermuda	US\$12,000	Company with limited liabilities	100%	—	Investment holding
Southern State Investment Limited	British Virgin Islands	US\$1	Company with limited liabilities	100%	—	Investment holding
Beston Asia Investment Limited	British Virgin Islands	US\$1	Company with limited liabilities	100%	—	Investment holding
Pure Shine Limited	British Virgin Islands	US\$1	Company with limited liabilities	100%	—	Investment holding
Key Choices Group Limited	British Virgin Islands	US\$50,000	Company with limited liabilities	100%	—	Investment holding
Brilliance China Automotive Finance Ltd.	British Virgin Islands	US\$50,000	Company with limited liabilities	100%	—	Financing
Shenyang ChenFa Automobile Component Co., Ltd.	Shenyang, the PRC	US\$8,000,000	Wholly foreign owned enterprise	100%	—	Development, manufacture and sale of power train
Shenyang XinJinBei Investment and Development Co., Ltd. ("SXID")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	—	99%	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("SJAI")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	—	98.01%	Investment holding
Shanghai Hidea Auto Design Co., Ltd.	Shanghai, the PRC	US\$2,000,000	Equity joint venture	—	63.25%	Design of automotive
Shenyang Brilliance Power Train Machinery Co., Ltd.	Shenyang, the PRC	US\$29,900,000	Equity joint venture	49%	26.01%	Dormant and intended for manufacture and sale of power train
Shenyang YuanChen Automotive Component Co., Ltd.	Shenyang, the PRC	US\$15,000,000	Wholly foreign owned enterprise	100%	—	Dormant

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 18. INTERESTS IN SUBSIDIARIES (Cont'd)

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

## 19. INTERESTS IN ASSOCIATES

	2004 RMB'000	2003 RMB'000
Share of net assets other than goodwill	345,331	293,927
Goodwill		
— Cost	33,667	33,667
— Accumulated amortisation	(7,013)	(5,236)
	26,654	28,431
	371,985	322,358

Details of the Group's principal associates as at 31st December, 2004 are as follows:

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

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 19. INTERESTS IN ASSOCIATES (Cont'd)

Unaudited combined financial information of the associates for the year ended 31st December, 2004 is summarised as follows:

	2004 RMB'000	2003 RMB'000
Non-current assets	1,509,527	1,194,894
Current assets	1,135,531	1,156,831
Current liabilities	(743,600)	(531,350)
Non-current liabilities	(396,927)	(431,791)
Net assets	1,504,531	1,388,584
Turnover	2,200,407	2,343,593
Net profit	275,460	631,546

## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2004 RMB'000	2003 RMB'000
Share of net assets other than goodwill	1,071,491	1,006,396
Goodwill		
— Cost	407,782	407,782
— Accumulated amortisation	(81,138)	(59,652)
	326,644	348,130
	1,398,135	1,354,526

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

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

Details of the jointly controlled entities are as follows:

<b>Name of company</b>	<b>Place of principal operations and establishment</b>	<b>Registered paid up capital</b>	<b>Legal structure</b>	<b>Percentage of equity interest held indirectly</b>	<b>Principal activities</b>
Mianyang Xincheng Engine Co. Ltd.	Mianyang, the PRC	US\$24,120,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("Xinguang Brilliance")	Shenyang, the PRC	US\$7,220,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
BMW Brilliance Automotive Ltd.	Shenyang, the PRC	US\$174,000,000	Equity joint venture	49.005%	Manufacture and sale of BMW sedans
Shenyang HuaBao Automotive Sales Service Co., Ltd. ("HuaBao")	Shenyang, the PRC	RMB15,000,000	Equity joint venture	49.005%	Trading of BMW sedans
Shanghai Kowin Automotive Component Co., Ltd.	Shanghai, the PRC	RMB10,000,000	Equity joint venture	25.5%	Trading of automotive components

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

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

Extracts of the financial information of BMW Brilliance for the year ended 31st December, 2004 based on its financial statements audited by certified public accountants other than Moores Rowland Mazars are as follows:

	2004 RMB'000	2003 RMB'000
Non-current assets	1,235,963	1,044,944
Current assets	5,737,548	3,618,675
Current liabilities	(5,490,071)	(3,537,906)
Non-current liabilities	(320,000)	—
Net assets	1,163,440	1,125,713
Turnover	3,707,111	1,785,567
Net profit (loss)	37,727	(251,343)

Unaudited combined financial information of the other jointly controlled entities for the year ended 31st December, 2004 is summarised as follows:

	2004 RMB'000	2003 RMB'000
Non-current assets	278,408	223,304
Current assets	886,520	1,049,951
Current liabilities	(619,817)	(759,558)
Net assets	545,111	513,697
Turnover	1,362,912	1,425,857
Net profit	93,893	203,400

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 21. PREPAYMENTS FOR A LONG-TERM INVESTMENT

On 29th December, 2003, SJAI (a 98.01% indirectly-owned subsidiary of the Company) and SXID (a 99.0% indirectly-owned subsidiary of the Company) entered into agreements with the respective sellers in relation to the acquisition of the entire equity interests of Shenyang Automobile Industry Asset Management Company Limited (“SAIAM”) and Shenyang XinJinBei Investment Co., Ltd. (“SXI”), respectively. SAIAM is interested in 29.9% and SXI in 11% of the equity interest in Shenyang JinBei Automotive Company Limited (“JinBei”), a company listed on the Shanghai Stock Exchange. The consideration for the acquisitions was RMB600 million and was determined after arm’s length negotiations between the parties taking into account the net liabilities position and net asset value of SAIAM and SXI, respectively.

Although the acquisition have been approved by State-Owned Assets Supervision and Administration Commission of Liaoning Provincial Government, the transfer of the entire interest of SAIAM is subject to the approval of State-Owned Assets Supervision and Administration Commission of the State Council and is subject to the granting of a waiver to SXID and SJAI from making an offer for all of the shares of JinBei under Regulation on Acquisitions of Listed Companies by the China Securities Regulatory Commission. Upon completion of the acquisitions, the Group will be effectively interested in an aggregate of approximately 40.13% of the equity interests of JinBei.

As at 31st December, 2004, the consideration RMB600 million paid to the shareholders of SAIAM and SXI was recorded as prepayments for a long-term investment.

## 22. INVESTMENT SECURITIES

	2004 RMB'000	2003 RMB'000
Equity securities, listed shares in Hong Kong		
Cost	30,363	30,363
Provision for impairment loss	—	(13,058)
	30,363	17,305
Equity securities, unlisted shares		
Cost	4,138	—
	34,501	17,305
Market value of listed equity securities	45,773	26,061

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 23. DEFERRED EXPENSES

	2004 RMB'000	2003 RMB'000
Direct expenses incurred in respect of the issue of convertible bonds	44,599	44,599
Accumulated amortisation	(10,406)	(1,486)
	<b>34,193</b>	43,113
Non-current portion	25,273	34,193
Current portion	8,920	8,920
	<b>34,193</b>	43,113

## 24. PLEDGED OF ASSETS

Pledged short-term bank deposits at 31st December, 2004 were pledged for the following purposes.

	2004 RMB'000	2003 RMB'000
Issue of certain notes payable	2,375,191	1,857,000
Bank loans granted to an affiliated company of BHL ( <i>Note</i> )	300,000	300,000
Bank loans granted to JinBei ( <i>Note 39 (b)</i> )	102,000	100,000
Issue of letter of credit and others	—	7,584
	<b>2,777,191</b>	2,264,584

In addition, the Group also pledged notes receivable both from third parties and affiliated companies of approximately RMB614 million (2003: RMB281 million) for issue of certain notes payable at 31st December, 2004.

*Note:*

The pledge of bank deposits was released on 25th March, 2005 (*Note 39(b)*).

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 25. INVENTORIES

	2004 RMB'000	2003 RMB'000
Raw materials	926,962	731,479
Work-in-progress	99,892	111,459
Finished goods	663,378	447,300
	<b>1,690,232</b>	1,290,238
Less: provision for inventories	<b>(113,184)</b>	(61,874)
	<b>1,577,048</b>	1,228,364

As at 31st December, 2004, the carrying amount of inventories that are stated at net realisable value amounted to approximately RMB241.2 million (2003: RMB56.7 million).

## 26. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable is set out below:

	2004 RMB'000	2003 RMB'000
Less than six months	29,033	85,251
Between six months to one year	8,825	1,520
Between one to two years	11,452	1,759
Above two years	54,040	47,759
	<b>103,350</b>	136,289
Less: Provision for doubtful debts	<b>(47,718)</b>	(46,272)
	<b>55,632</b>	90,017

The Group's credit policy is that credit is offered to customers following financial assessment and an established payment record. Security in the form of guarantees or bank notes is obtained from major customers. Credit limits are set for all customers and may exceed only with the approval of senior company officers. Customers considered to be of high credit risk are traded on a cash basis. Designated staff monitors accounts receivable and follow up collection with the customers. General credit terms are between 30 days to 90 days.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 27. NOTES RECEIVABLE

Notes receivable are primarily notes received from customers for settlement of trade receivable balances. As of 31st December, 2004, all notes receivable were guaranteed by established banks in the PRC and have maturities of six months or less from 31st December, 2004.

## 28. OTHER RECEIVABLES

	2004 RMB'000	2003 RMB'000
Advance to SAIAM ( <i>Note</i> )	300,000	300,000
Receivable of proceeds on the disposal of an associate	—	20,000
Subsidies receivable	—	500
Receivable from a jointly controlled entity	61,839	—
Others	155,460	193,499
	<b>517,299</b>	513,999
Less: Provision for doubtful debts	<b>(42,682)</b>	(13,112)
	<b>474,617</b>	500,887

*Note:*

As of 31st December, 2004, an amount of RMB300 million was advanced to SAIAM which will become a subsidiary of the Group after the completion of the acquisition of SAIAM as detailed in Note 21.

## 29. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

	2004 RMB'000	2003 RMB'000
Less than six months	676,652	1,049,822
Between six months to one year	27,608	38,836
Between one to two years	3,390	33,621
Above two years	25,328	1,774
	<b>732,978</b>	1,124,053

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 30. CONVERTIBLE BONDS

	2004 RMB'000	2003 RMB'000
Convertible bonds issued at par	1,654,300	1,654,300
Accrued interest expense	13,588	1,187
<b>At 31st December</b>	<b>1,667,888</b>	1,655,487

On 26th November, 2003, the Company, through its wholly owned subsidiary, Brilliance China Automotive Finance Ltd., issued zero coupon guaranteed convertible bonds (the "Bonds") due 2008 with principal amount of US\$200,000,000 (equivalent to approximately RMB1,654.3 million). The Bonds are listed on the Luxembourg Stock Exchange.

The Bonds are convertible into fully paid ordinary shares of US\$0.01 each of the Company at an initial conversion price of HK\$4.60 per share, subject to the following two events, at any time on or after 8th January, 2004, and up to and including 14th November, 2008, unless the Bonds previously have been redeemed or previously have matured.

- (a) The Bonds will mature on 28th November, 2008. At any time from 28th November, 2005 through 14th November, 2008, all, or from time to time, some of the aggregate outstanding principal amount of the Bonds is redeemable at the option of Brilliance China Automotive Finance Ltd. at the early redemption amount if the closing price of the shares of the Company on the SEHK for each of the last 20 consecutive trading days has been at least 130% of the conversion price or if at least 90% in principal amount of the Bonds has been converted, redeemed or purchased and cancelled. Unless previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at 100% of their outstanding principal amount on 28th November, 2008.
- (b) All or some of the Bonds may be redeemed at the option of the relevant holder on 28th November, 2006 at 102.27% of their principal amount. The Bonds may also be redeemed, in whole or in part, at the option of the holders at the early redemption amount on the occurrence of a change of control of the Company. The Bonds may also be redeemed at the option of the holders if the shares of the Company cease to be listed or admitted to trading in the SEHK.

As at 31st December, 2004, none of the Bonds had been converted into the ordinary shares of the Company.

The proceeds received, net of direct expenses incurred for the issuance of Bonds, by Brilliance China Automotive Finance Ltd. were advanced to the Company for purpose mentioned in Note 31.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 31. ADVANCES FROM A SUBSIDIARY

Advances from a subsidiary are unsecured, interest-free and expected not to be repaid within the next twelve months from 31st December 2004. The advances were used to finance certain subsidiaries of the Company.

## 32. DEFERRED TAXATION

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

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

	2004 RMB'000	2003 RMB'000
At 1st January	39,555	38,041
Deferred taxation credited to income statement ( <i>Note 7</i> )	61,664	1,514
<b>At 31st December</b>	<b>101,219</b>	<b>39,555</b>

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

	Provisions and accruals		Pre-operating expenses		Provision for impairment of property, plant and equipment		Amortisation and provision for impairment of intangible assets		Research & development costs		Total	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1st January	30,181	21,212	—	16,829	2,751	—	6,623	—	—	—	39,555	38,041
Credited (Charged) to income statement	20,481	8,969	—	(16,829)	(1,706)	2,751	36,665	6,623	6,224	—	61,664	1,514
<b>At 31st December</b>	<b>50,662</b>	<b>30,181</b>	<b>—</b>	<b>—</b>	<b>1,045</b>	<b>2,751</b>	<b>43,288</b>	<b>6,623</b>	<b>6,224</b>	<b>—</b>	<b>101,219</b>	<b>39,555</b>

Deferred tax assets are recognised for deductible temporary differences to the extent that realisation of the related tax benefit through future taxable profits is probable. As at 31st December, 2004, the Group has unrecognised tax losses of approximately RMB409,736,000 (2003: Nil) available to offset against future taxable profits. Deferred tax assets for these tax losses are not recognised as it is uncertain that related tax assets will be utilised in the foreseeable future. All unused tax losses will expire in 2009.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 32. DEFERRED TAXATION (Cont'd)

	2004	2003
	RMB'000	RMB'000

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The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	<b>96,998</b>	39,555
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## 33. 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 20% to 23.5% (2003: 22% to 23.5%) of salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's Hong Kong employees are covered by the mandatory provident fund which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contributions to the scheme at 5% of the employees' salary with the maximum contributions by each of the Group and the employees limited to HK\$1,000 per month. The retirement benefit scheme cost charged to the income statements 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, 2004 were approximately RMB37.5 million (2003: RMB50.5 million).

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 34. SHARE CAPITAL AND SHARE OPTIONS

### (a) Share capital

	2004		2003	
	Number of shares '000	Amount '000	Number of shares '000	Amount '000
<b>Authorised:</b>				
Ordinary shares of US\$0.01 each	5,000,000	US\$50,000	5,000,000	US\$50,000
<b>Issued and fully paid:</b>				
Ordinary shares of US\$0.01 each				
At 1st January	3,668,391	RMB303,388	3,666,053	RMB 303,194
Issue of shares ( <i>Note b</i> )	—	—	2,338	RMB194
<b>At 31st December</b>	<b>3,668,391</b>	<b>RMB303,388</b>	<b>3,668,391</b>	<b>RMB 303,388</b>

### (b) Share options

*Original share option scheme approved in 1999*

On 18th September, 1999, the Company approved a share option scheme under which the directors may, at their discretion, at any time during the ten years from the date of approval of the scheme, invite employees of any member company of the Group, including executive directors, to take up share options of the Company. The maximum number of shares on which options may be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of options from time to time. The exercise price in relation to each option offer shall be determined by the directors at their absolute discretion, but in any event shall not be less than the greater of (i) 80 percent of the average of the official closing price of the shares on SEHK for the five trading days immediately preceding the relevant offer date or (ii) the nominal value of the shares. The directors may determine and adjust the period within which the relevant grantee may exercise his or her option and the proportion of the options to be exercised in each period, so long as the period within which the option must be exercised is not more than ten years from the date of grant of the option.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 34. SHARE CAPITAL AND SHARE OPTIONS (Cont'd)

### (b) Share options (Cont'd)

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

In 2001, share options were granted to certain directors and employees of the Group, entitling them to subscribe for a total of 31,800,000 ordinary shares of the Company at HK\$1.896 per ordinary share. The exercisable period of these options is from 2nd June, 2001 to 1st June, 2011.

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

	<u>Number of share options</u>	
	<u>2004</u>	<u>2003</u>
At 1st January	15,490,000	17,828,000
Granted during the year	—	—
Exercised during the year	—	(2,338,000)
Cancelled/Lapsed during the year	(1,000,000)	—
<b>At 31st December</b>	<b>14,490,000</b>	<b>15,490,000</b>

#### *New share option scheme approved in 2002*

On 28th June, 2002, the Company adopted a new share option scheme (the “New Scheme”) in compliance with the amendments to Chapter 17 of the listing rules of the SEHK which came into effect on 1st September, 2001. The New Scheme came into effect on 15th July, 2002 and the original share option scheme adopted by the Company on 18th September, 1999 (as described above) was terminated. Any new share option granted after 15th July, 2002 will be in accordance with the terms of the New Scheme, but the outstanding share option granted under the original scheme will not be affected. Pursuant to the New Scheme, the Company’s Board of Directors may grant options to the participants (including the Group’s employees, non-executive directors, suppliers and customers, etc.) to subscribe for the Company’s shares at a price which shall not be lower than the higher of:

- (i) the closing price of the shares on the relevant Stock Exchange as stated in such Stock Exchange’s quotation sheet on the date of the offer of grant, which must be a trading date;
- (ii) the average closing price of the shares on the relevant Stock Exchange as stated in such Stock Exchange’s quotation sheets for the five trading days immediately preceding the date of the offer of grant; and

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 34. SHARE CAPITAL AND SHARE OPTIONS (Cont'd)

### (b) Share options (Cont'd)

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

(iii) the nominal value of the shares.

As of 31st December, 2004, no share option was granted under the New Scheme.

#### *Call Option Agreements*

On 18th December, 2002, Huachen Automotive Group Holdings Company Limited (“Huachen”) entered into a principal agreement (the “Principal Agreement”) with the Chinese Financial Education Development Foundation (the “Foundation”), the then substantial shareholder, to purchase from the Foundation a total of 1,446,121,500 ordinary shares, representing approximately 39.446% of the then issued share capital of the Company and the Foundation’s entire shareholding interests in the Company. Completion of the Principal Agreement took place upon signing.

On 18th December, 2002, each of Mr. Wu Xiao An (also known as Mr. Ng Siu On), Mr. Su Qiang (also known as Mr. So Keung), Mr. Hong Xing and Mr. He Tao (also known as Mr. Ho To) (the “Management Directors”) entered into a call option agreement (“Call Option Agreements”) with Huachen, immediately after the Principal Agreement was entered into and after completion of the sale and purchase of the ordinary shares pursuant thereto. Pursuant to the terms of the Call Option Agreements, Huachen granted to each of the Management Directors a call option in respect of a specified number of shares, totalling 346,305,630 shares in aggregate and representing approximately 9.446% of the then issued share capital of the Company, at an exercise price of HK\$0.95 per Share. Each call option is exercisable in whole or in part at any time during the period of 3 years commencing from the date falling 6 months after the earlier of: (a) the end of the general offer made to the remaining shareholders by Huachen and the Management Directors dated 18th December, 2002 (the “Offer”); and (b) the close of the Offer in accordance with the offer document issued by the offerors in respect of the Offer as required under the Hong Kong Code on Takeovers and Mergers. The Offer closed on 6th February, 2003.

Under the terms of the Call Option Agreements, the Management Directors may elect to pay the exercise price in full or to pay 10% of the exercise price at the time of exercise of the option. If the Management Directors elect the latter payment option, the balance of the exercise price will be payable within a 3-year period after the date of completion of the purchase of the relevant shares pursuant to the exercise of such option, and the share will be pledged as security in favour of Huachen until full payment of the exercise price.

As of 31st December, 2004, none of the call options were exercised.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 35. RESERVES

### The Group

	Share premium RMB'000	Cumulative translation adjustments reserve RMB'000	Dedicated capital (Note i) RMB'000	Capital reserve (Note iii) RMB'000	Retained earnings (Note ii) RMB'000	Total RMB'000	Proposed dividend RMB'000
At 1st January, 2003	2,033,916	39,179	132,179	—	3,480,577	5,685,851	39,210
Issue of ordinary shares	4,507	—	—	—	—	4,507	—
Dividends declared during the year	—	—	—	—	(38,541)	(38,541)	38,541
Distributions during the year	—	—	—	—	—	—	(77,751)
Profit for the year	—	—	—	—	936,447	936,447	—
Transfer to dedicated capital (Note a)	—	—	99,989	—	(99,989)	—	—
Capitalisation of dedicated capital (Note b)	—	—	(120,000)	120,000	—	—	—
Dividends declared subsequent to year end	—	—	—	—	(38,885)	(38,885)	38,885
At 31st December, 2003	2,038,423	39,179	112,168	120,000	4,239,609	6,549,379	38,885
Dividends declared during the year	—	—	—	—	(19,450)	(19,450)	19,450
Distributions during the year	—	—	—	—	—	—	(58,335)
Profit for the year	—	—	—	—	48,569	48,569	—
Transfer to dedicated capital (Note a)	—	—	46,184	—	(46,184)	—	—
Dividends declared subsequent to year end	—	—	—	—	(19,450)	(19,450)	19,450
<b>At 31st December, 2004</b>	<b>2,038,423</b>	<b>39,179</b>	<b>158,352</b>	<b>120,000</b>	<b>4,203,094</b>	<b>6,559,048</b>	<b>19,450</b>
Company and subsidiaries	2,038,423	39,179	158,352	120,000	4,092,304	6,448,258	19,450
Jointly controlled entities	—	—	—	—	(9,071)	(9,071)	—
Associates	—	—	—	—	119,861	119,861	—
<b>At 31st December, 2004</b>	<b>2,038,423</b>	<b>39,179</b>	<b>158,352</b>	<b>120,000</b>	<b>4,203,094</b>	<b>6,559,048</b>	<b>19,450</b>

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 35. RESERVES (Cont'd)

- (a) As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, the Company's subsidiaries are required to maintain discretionary dedicated capital, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund. The dedicated capital is to be appropriated from statutory net profit as stipulated by statute or by the board of directors of respective subsidiaries and recorded as a component of shareholders' equity. For the year ended 31st December, 2004, appropriations of approximately RMB46 million (2003: RMB100 million) to the general reserve fund were made by subsidiaries of the Company. No appropriation to the enterprise expansion fund was made by the subsidiaries (2003: Nil). Under generally accepted accounting principles in Hong Kong ("HK GAAP"), the appropriation for the staff welfare and incentive bonus fund is charged to income statement.
- (b) In 2003, as approved by the board of directors of XingYuanDong in accordance with the relevant laws and regulations, dedicated capital of XingYuanDong amounting to RMB120 million was released for capitalisation of paid up registered capital. Such release of dedicated capital is credited to the capital reserve.
- (c) Distributions received from the Company's subsidiaries are denominated in U.S. Dollars and are translated at the prevailing unified exchange rate in the PRC. Total accumulated distributable profits of these subsidiaries under HKGAAP as of 31st December, 2004 amounted to approximately RMB456.0 million (2003: RMB647.3 million). The distributable profits of subsidiaries are different from the amounts reported under HK GAAP.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 35. RESERVES (Cont'd)

### The Company

	Share premium RMB'000	Cumulative translation adjustments reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Proposed Dividend RMB'000
At 1st January, 2003	2,033,916	39,179	3,083,317	5,156,412	39,210
Issue of ordinary shares	4,507	—	—	4,507	—
Dividends declared during the year	—	—	(38,541)	(38,541)	38,541
Distributions during the year	—	—	—	—	(77,751)
Profit for the year	—	—	613,390	613,390	—
Dividends declared subsequent to year end	—	—	(38,885)	(38,885)	38,885
At 31st December, 2003	2,038,423	39,179	3,619,281	5,696,883	38,885
Dividends declared during the year	—	—	(19,450)	(19,450)	19,450
Distributions during the year	—	—	—	—	(58,335)
Profit for the year	—	—	467,263	467,263	—
Dividends declared subsequent to year end	—	—	(19,450)	(19,450)	19,450
<b>At 31st December, 2004</b>	<b>2,038,423</b>	<b>39,179</b>	<b>4,047,644</b>	<b>6,125,246</b>	<b>19,450</b>

The directors consider that the Company had approximately RMB4,106.3 million (2003: RMB3,658.2 million) available for distribution to shareholders (including dividend proposed subsequent to year end) as of 31st December, 2004.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 36. RELATED PARTY TRANSACTIONS

(a) Name and relationship

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

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

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

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 36. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Particulars of significant transactions between the companies comprising the Group and affiliated companies in the ordinary course of business during the year are summarised below:

	2004 RMB'000	2003 RMB'000
Sales of goods:		
— JinBei and its affiliated companies	38,127	150,637
— Shanghai Shenhua and its affiliated companies	1,895,881	1,984,715
— Affiliated companies of BHL	—	504
— Jointly controlled entities	161,685	171,512
— Associates	44,164	—
— Affiliated companies of the joint venture partner of Ningbo Yuming	—	5,135
Purchases of goods:		
— JinBei and its affiliated companies	764,311	986,828
— Shanghai Shenhua and its affiliated companies	214,467	222,940
— Affiliated companies of BHL	89,690	93,498
— Jointly controlled entities	196,725	935,903
— Associates	702,189	661,386
— Affiliated companies of the joint venture partner of Ningbo Yuming	342	16,338
— A joint venture partner of Shenyang Aerospace	39,019	—
Consideration paid to the joint venture partner of Ningbo Yuming for acquisition further interests in Ningbo Yuming	10,000	—
Purchase of intangible asset from an affiliated company of the joint venture partner of Ningbo Yuming	6,940	—
Purchase of machinery from affiliated companies of JinBei	58,089	—
Interest to a jointly controlled entity	17,850	—
Operating lease rental on machinery and equipment charged by a jointly controlled entity	12,840	12,000
Operating lease rental from a jointly controlled entity	15,364	—
Subcontracting charge to a jointly controlled entity	178,685	—
Proceeds from sale of property, plant and equipment		
— JinBei and its affiliated companies	4,407	—
— a jointly controlled entity	1,105	—

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 36. RELATED PARTY TRANSACTIONS (Cont'd)

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

- (c) As at 31st December, 2004, amounts due from affiliated companies arising from trading activities consisted of the following:

	2004	2003
	RMB'000	RMB'000
Due from related parties:		
— Shanghai Yuantong Automobile Sales and Service Company Limited	—	355,835
— Shanghai Shenhua and its affiliated companies	386,710	54,967
— Affiliated companies of JinBei	58,312	53,242
— Affiliated companies of the joint venture partner of Ningbo Yuming	—	4,408
— Jointly controlled entities	75,224	46,453
— A joint venture partner of Shenyang Aerospace	882	—
— BMW Brilliance arising from the disposal of machinery and equipment	269,003	269,003
	<b>790,131</b>	783,908
Less: Provision for doubtful debts	<b>(24,720)</b>	(9,720)
	<b>765,411</b>	774,188

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

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 36. RELATED PARTY TRANSACTIONS (Cont'd)

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

	2004 RMB'000	2003 RMB'000
Less than six months	403,314	415,305
Between six months to one year	3,619	21
Between one to two years	370,630	358,751
Over two years	12,568	9,831
	<b>790,131</b>	<b>783,908</b>

- (d) As at 31st December, 2004, the notes receivable from affiliated companies arising from trading activities consisted of the following:

	2004 RMB'000	2003 RMB'000
Notes receivable from related parties:		
— Affiliated companies of JinBei	22,500	4,505
— Shanghai Shenhua	601,348	487,770
— Affiliated companies of the joint venture partner of Ningbo Yuming	—	3,000
— Associates	19,323	1,900
— Jointly controlled entities	1,972	30,000
	<b>645,143</b>	<b>527,175</b>

All the notes receivable from affiliated companies are guaranteed by banks in the PRC and have maturities of six months or less from 31st December, 2004.

- (e) At 31st December, 2004, included in prepayments and other current assets were approximately RMB9.5 million (2003: RMB26 million) of prepayments for purchases of raw materials made to an affiliated company of BHL.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 36. RELATED PARTY TRANSACTIONS (Cont'd)

- (f) As at 31st December, 2004, amounts due to affiliated companies arising from trading activities consisted of the following:

	2004	2003
	RMB'000	RMB'000
Due to related parties:		
— Associates	42,820	65,615
— Jointly controlled entities	234,131	309,781
— Shanghai Shenhua and its affiliated companies	40,570	84,417
— JinBei and its affiliated companies	195,166	216,559
— Affiliated companies of BHL	8,705	2,478
— Affiliated companies of the joint venture partner of Ningbo Yuming	—	1,037
— Affiliated companies of the joint venture partner of Xinguang Brilliance	—	4,967
— Other affiliated companies	1,330	—
	<b>522,722</b>	684,854

The amounts due to affiliated companies are unsecured and non-interest bearing. Amounts due to affiliated companies are generally settled on a monthly basis at 25% to 33% of the previous month's ending balances. The aging analysis of amounts due to affiliated companies is as follows:

	2004	2003
	RMB'000	RMB'000
Less than six months	516,188	643,547
Between six months to one year	5,275	230
Between one to two years	119	40,869
Over two years	1,140	208
	<b>522,722</b>	684,854

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 36. RELATED PARTY TRANSACTIONS (Cont'd)

- (g) As at 31st December, 2004, the notes payable to affiliated companies arising from trading activities consisted of the following:

	2004 RMB'000	2003 RMB'000
Notes payable to related parties:		
— Shanghai Shenhua	4,116	—
— Affiliated companies of JinBei	24,229	27,272
— Associates	4,582	3,919
— Jointly controlled entities	87,310	4,140
— Other affiliated companies	925	100
	<b>121,162</b>	35,431

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

- (i) As at 31st December, 2004, the advances to affiliated companies consisted of:

	2004 RMB'000	2003 RMB'000
Advances to related parties:		
— Associates	2,163	—
— Jointly controlled entities	20,365	—
— BHL and its affiliated companies	—	172,955
— Affiliated companies of JinBei	16,786	69,748
— Other affiliated companies	138	779
	<b>39,452</b>	243,482
Less: Provision for doubtful debts	<b>(1,975)</b>	—
	<b>37,477</b>	243,482

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 36. RELATED PARTY TRANSACTIONS (Cont'd)

Except for an advance of RMB6.5 million to a jointly controlled entity which is interest bearing at 5.841% per annum, the remaining advances are non-interest bearing. The advances to affiliated companies are unsecured and have no fixed repayment terms.

- (j) As at 31st December, 2004, the advances from affiliated companies consisted of:

	2004 RMB'000	2003 RMB'000
Advances from related parties:		
— Affiliated companies of BHL	14,319	15,294
— Affiliated company of Shanghai Shenhua	230	—
— Affiliated companies of JinBei	945	516
— Affiliated companies of the joint venture partner of Ningbo Yuming	—	1,845
— Financing received from BMW Brilliance ( <i>Note 16(b)</i> )	74,605	74,605
— Other affiliated companies	382	382
	<b>90,481</b>	<b>92,642</b>

Saved for the advances from BMW Brilliance as detailed in Note 16(b), other advances from affiliated companies are unsecured, non-interest bearing and have no fixed repayment terms.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 37. CASH (USED IN) GENERATED FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
(Loss) Profit before taxation	(449,569)	1,253,027
Share of profits less losses of:		
Jointly controlled entities	(51,076)	37,310
Associates	(60,436)	(132,411)
Interest income	(58,800)	(52,672)
Interest expense	182,458	167,111
Write back of provision for inventories sold	(15,522)	—
Depreciation of property, plant and equipment	365,521	452,758
Amortisation of intangible assets	226,041	227,077
Amortisation of goodwill of subsidiaries	24,290	24,290
Amortisation of deferred expenses	8,920	1,486
Loss (Gain) on disposals of property, plant and equipment	9,710	(14,004)
Loss on disposals of construction-in-progress	2,809	—
Write back of impairment loss on investment securities	(13,058)	—
Write back of provision for doubtful debts	(1,000)	(5,679)
Provision for inventories	66,832	32,875
Provision for impairment losses on property, plant and equipment	10,000	12,877
Provision for impairment losses on intangible assets	300,000	—
Provision for doubtful debts and write off of bad debts	55,292	4,825
Decrease (Increase) in accounts receivable	32,858	(73,888)
Decrease (Increase) in notes receivable	206,553	(357,708)
Increase in notes receivable from affiliated companies	(117,968)	(314,190)
(Increase) Decrease in amounts due from affiliated companies	(10,157)	268,881
Decrease (Increase) in other receivables	31,335	(40,307)
Decrease in prepayments and other current assets	193,277	118,612
Increase in inventories	(394,986)	(492,915)
Increase in non-current assets	—	(13,786)
(Decrease) Increase in accounts payable	(391,075)	48,461
Increase in notes payable to affiliated companies	—	35,431
Decrease in amounts due to affiliated companies	(162,132)	(29,516)
Increase (Decrease) in customer advances	48,656	(85,206)
(Decrease) Increase in other payables	(145,367)	81,715
Increase (Decrease) in accrued expenses and other current liabilities	85,409	(69,474)
Increase in other tax recoverable	(41,468)	—
Decrease in other taxes payable	(148,334)	(18,838)
<b>Cash (used in) generated from operations</b>	<b>(210,987)</b>	<b>1,066,142</b>

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 38. COMMITMENTS

### (a) Capital commitments

	2004	2003
	RMB'000	RMB'000
<hr/>		
Contracted but not provided for:		
— Construction projects	265,920	515,212
— Acquisition of plant and machinery	233,254	69,553
— Others	52,010	98,383
	<hr/>	<hr/>
	551,184	683,148
	<hr/>	<hr/>
Authorised but not contracted for:		
— Construction projects and acquisition of plant and machinery	1,585,781	983,630
	<hr/>	<hr/>

### (b) Operating lease commitments

As at 31st December, 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	2004	2003
	RMB'000	RMB'000
Within one year	10,510	11,526
In the second to fifth years inclusive	14,840	17,863
Over five years	39,211	46,687
	<hr/>	<hr/>
	64,561	76,076
	<hr/>	<hr/>

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 38. COMMITMENTS (Cont'd)

### (c) Future operating lease arrangements

As at 31st December, 2004, the Group had future aggregate minimum lease receivable under non-cancellable operating leases as follows:

	2004 RMB'000	2003 RMB'000
Within one year	19,579	14,152
In the second to fifth years inclusive	56,607	56,607
Over five years	119,112	133,264
	<b>195,298</b>	<b>204,023</b>

## 39. CONTINGENCIES

- (a) As at 31st December, 2004, the Group had bank notes of approximately RMB6,118 million (2003: RMB1,492 million) which were endorsed or discounted but not yet honored.
- (b) As at 31st December, 2004, the Group had provided the following guarantees:
- Corporate guarantees of approximately RMB296 million (2003: RMB690 million) for revolving bank loans and notes drawn by affiliated companies of Shanghai Shenhua;
  - A joint and several proportional guarantee with all the joint venture partners of Shenyang Aerospace on a long-term bank loan of approximately RMB221 million drawn by Shenyang Aerospace (2003: RMB344 million) which will expire in 2008;
  - Corporate guarantees for bank loans amounting to RMB300 million (2003: RMB300 million) drawn by an affiliated company of BHL. The same amount of bank deposits was pledged as a collateral for the corporate guarantee as detailed in Note 24. The pledge of bank deposits and the corporate guarantees were released on 25th March, 2005; and
  - Corporate guarantees for bank loans amounting to RMB100 million (2003: RMB100 million) drawn by JinBei. Bank deposits of RMB102 million (2003: RMB100 million) was pledged as a collateral for the corporate guarantee as detailed in Note 24.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 39. CONTINGENCIES (Cont'd)

- (c) On 21st January, 2003, a writ dated 21st January, 2003 (the “Writ”) brought by Broadsino Finance Company Limited (“Broadsino”), as the Plaintiff, was filed with the Supreme Court of Bermuda and an ex parte Court Order dated 22nd January, 2003 (the “Court Order”) granted by the Supreme Court of Bermuda in favour of Broadsino was served on the registered office of the Company in Bermuda. The Writ alleged that the interest of the Chinese Financial Education Development Foundation (the “Foundation”) in 1,446,121,500 shares of the Company (the “Sale Shares”) was held in trust for Broadsino and was improperly transferred to Huachen Automotive Group Holdings Company Limited (“Huachen”). The Court Order restrained the Company from, among other things, (a) registering the transfer of the Sale Shares by the Foundation to Huachen and/or Huachen to certain directors of the Company; or (b) if such transfer had already been registered, registering any further dealings in such Sale Shares, in each case pending determination by the Supreme Court of Bermuda of the legal proceedings initiated by Broadsino against the Company, the Foundation, Huachen and certain directors of the Company. Broadsino claimed that the Company was aware of the trust arrangement and further alleged that the Company knowingly participated in a breach of that alleged trust arrangement by allowing the transfer of the Sale Shares from the Foundation to Huachen. Broadsino sought recovery of the Sale Shares and, in the alternative, damages.

Upon an application by the Company, the Court Order was discharged by a judgement of the Supreme Court of Bermuda given on 11th February, 2003. On 26th February, 2003, a statement of claim was filed by Broadsino as a procedural step in furtherance of the legal proceedings. On 10th March, 2003, the Company took out a summons (the “Strikeout Summons”) at the Supreme Court of Bermuda to have the Writ and the statement of claim struck out. The strikeout proceedings were duly heard before the Supreme Court of Bermuda on 22nd and 23rd July, 2003. On 31st December, 2003 the Supreme Court of Bermuda issued its judgement on the strike-out proceedings, and struck out the Writ in respect of legal proceedings brought by Broadsino against the Company. Broadsino submitted an application for leave to appeal to the Supreme Court of Bermuda, but at the hearing of the application before the court on 9th March, 2004, Broadsino’s application was refused.

Broadsino subsequently issued a Notice of Appeal dated 18th June, 2004, whereby it sought to appeal to the Court of Appeal of Bermuda, Civil Appellate Jurisdiction the decision of the Supreme Court of Bermuda dated 31st December, 2003. The Company responded with a notice of cross appeal dated 21st July, 2004. Following further submissions from each of Broadsino and the Company, the appeal was considered at a hearing in the Court of Appeal on 7th, 8th and 9th March, 2005, in respect of which Broadsino was required to provide security for the Company’s costs of appeal.

# Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2004

## 39. CONTINGENCIES (Cont'd)

The Court of Appeal of Bermuda ruled in its judgment of 14th March, 2005 in the Company's favour and dismissed Broadsino's appeal. The Court of Appeal determined: (a) that Broadsino never had any beneficial interest in the Company's shares and as such there could be no express or resulting trust in Broadsino's favour when the shares were transferred to the Foundation; (b) that Broadsino was paid for its interest in Shenyang Automotive and therefore there was no basis for a trust; (c) that even if Broadsino had not been paid for its interests in Shenyang Automotive there was no basis for a trust but instead a contractual claim in debt; and (d) that there was no evidence before the Court of Appeal that the Company by its directors knew of the alleged trust.

On 5th April, 2005, Broadsino acting through its Bermuda counsel, has submitted a notice of motion for leave to appeal to the Court of Appeal of Bermuda, which seeks leave to appeal to the Privy Council with respect to the Court of Appeal's judgment. This matter is expected to be considered by the Court of Appeal on 9th June, 2005.

The directors of the Company do not believe the proceedings with Broadsino will have any significant impact on the financial position of the Company and of the Group, and intend to continue the defence of this legal action.

- (d) On or about 25th October, 2002, the Company was served with a claim lodged by Mr. Yang Rong ("Mr. Yang") in the Labour Tribunal in Hong Kong against the Company for alleged wrongful repudiation and/or breach of his employment contract. The claim was for approximately US\$4.3 million (equivalent to approximately RMB35.6 million) with respect to loss of salary. In addition, Mr. Yang claimed unspecified damages in respect of bonuses and share options. The claim was dismissed by the Labour Tribunal in Hong Kong on 28th January, 2003. Mr. Yang subsequently applied for a review of this decision. At the review hearing on 4th July, 2003, the Labour Tribunal ordered the case to be transferred to the High Court in Hong Kong. The claim has therefore been transferred to the High Court and registered as High Court Action No. 2701 of 2003 (the "Action").

On 16th September, 2003, a Statement of Claim was served on the Company. On 4th November, 2003, the Company filed a Defence and Counterclaim with the High Court. Mr. Yang filed a Reply to Defence and Defence to Counterclaim on 26th April, 2004. On 21st July, 2004, Mr. Yang obtained leave from the Court to file an Amended Reply to Defence and Defence to Counterclaim. The Company filed and served a Reply to Defence to Counterclaim on 4th September, 2004. Pleadings closed on 18th September, 2004. The parties filed and served Lists of Documents on 26th October, 2004 and witness statements were exchanged on 28th February, 2005. The directors of the Company do not believe the Action will have any significant impact on the financial position of the Company and of the Group. The directors of the Company intend to continue vigorously defending the Action.

## 40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 28 to 95 were approved and authorised for issue by the Board of Directors on 25th April, 2005.