

BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LTD

Form 20-F

June 26, 2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE
SECURITIES EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**Commission file number: 1-11412
BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED**

(Exact name of Registrant as specified in its charter)

Not Applicable

Bermuda

(Translation of Registrant's name into English)

(Jurisdiction of Incorporation or Organization)

Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

Exchange on which registered

American Depositary Shares

New York Stock Exchange, Inc.

Ordinary Shares, par value US\$0.01 per share

The Stock Exchange of Hong Kong Limited

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

**Number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31,
2005:**

3,668,390,900 Ordinary Shares, par value US\$0.01 per share

2,222,556 American Depositary Shares, each representing 100 Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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CONVENTIONS

Unless the context otherwise requires, references in this annual report to we, us, our, the Company or Brilliance China Automotive are to Brilliance China Automotive Holdings Limited and its consolidated subsidiaries and their respective operations. References to China or PRC are to the People's Republic of China, but do not apply to Hong Kong, Macau or Taiwan for purposes of this annual report.

FORWARD-LOOKING STATEMENTS

Certain information contained in this annual report that does not relate to historical financial information may be deemed to constitute forward-looking statements. The words or phrases will likely result, are expected to, will continue, is anticipated, estimate, project, believe or similar expressions identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results and those presently anticipated or projected. Brilliance China Automotive wishes to caution readers not to place undue reliance on any these forward-looking statements, which speak only as of the date made. Among the factors that could cause Brilliance China Automotive's actual results in the future to differ materially from any opinions or statements expressed with respect to future periods include:

unexpected adverse effects on the economy of the People's Republic of China, or China, and China's automobile sector in particular;

increased competition from other domestic and international automobile manufacturers;

our relative inexperience in manufacturing and selling sedans;

increased costs for raw materials and components;

possible further revaluation of the Renminbi against foreign currencies; and

fluctuations in foreign exchange rates.

When considering these forward-looking statements, you should keep in mind the factors described in Item 3 Key Information Risk Factors and other cautionary statements appearing in Item 5 Operating and Financial Review and Prospects of this annual report. These risk factors and statements describe circumstances that could cause actual results to differ materially from those contained in any forward-looking statement.

CURRENCY TRANSLATION

Unless otherwise specified, all references in this annual report to U.S. dollars or US\$ are to United States dollars; all references to Renminbi or Rmb are to Renminbi, which is the legal tender currency of China; all references to H.K. dollars or HK\$ are to Hong Kong dollars, which is the legal tender currency of Hong Kong and all references to Euro and Euros are to the legal tender currency of the European Monetary Union. On December 30, 2005, the noon buying rates in New York City for cable transfers of Renminbi, Hong Kong dollars and Euros, as certified for customs purposes by the Federal Reserve Bank of New York was US\$1.00 = Rmb 8.0702, US\$1.00 = HK\$7.7533 and Euro 1.00 = US\$1.1842. Unless otherwise specified, translations of amounts from Renminbi, Hong Kong dollars and Euros to U.S. dollars for the convenience of the reader have been made at those rates. No representation is made that the Renminbi, Hong Kong dollar or Euro amounts could have been, or could be converted into U.S. dollars at those rates or at any other rates. In addition, all financial information presented herein has been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**Selected Financial Data****Historical Financial Information of Brilliance China Automotive**

The following table presents the selected consolidated financial information of Brilliance China Automotive and its subsidiaries as of and for the years ended December 31, 2001, 2002, 2003, 2004 and 2005, which have been derived from our audited consolidated financial statements. The selected financial information for the years ended December 31, 2003, 2004 and 2005 and as of December 31, 2004 and 2005 should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements, prepared in accordance with U.S. GAAP, included elsewhere in this annual report, the accompanying notes thereto and Item 5 Operating and Financial Review and Prospects. The financial statements and footnotes for the years ended December 31, 2001 and 2002 and as of December 31, 2001, 2002 and 2003 are not included in this annual report.

(Amounts in millions, except per share/ADS and operating data)	As of and for the years ended December 31,					
	2001	2002	2003	2004	2005	2005 (US\$)
Income Statement Data:						
Total Sales	6,218.4	7,319.5	10,109.6	6,542.0	5,469.0	677.7
Cost of sales	4,308.0	5,411.3	7,727.1	5,491.3	5,012.0	621.1
Gross Profit	1,910.4	1,908.1	2,382.4	1,050.7	457.0	56.6
Selling, general and administrative expenses	673.4	1,067.2	1,410.1	1,510.4	1,195.3	148.1
Net income (loss)	887.1	610.5	780.8	1.2	(671.3)	(83.2)
Balance Sheet Data:						
Total assets	11,696.5	13,853.7	18,288.2	17,776.4	14,692.3	1,820.6
Current assets	6,127.1	8,263.0	10,286.5	9,428.3	7,110.2	881.1
Current liabilities	5,741.7	7,332.7	8,031.0	8,187.7	8,059.8	998.7
Capital stock	303.2	303.2	303.4	303.4	303.4	37.6
Total shareholders' equity	5,419.8	6,005.3	6,886.3	6,857.7	6,139.7	760.8
Cash Flow Statement Data:						
Payment for capital expenditure	782.5	798.8	955.9	999.1	558.0	69.1
Depreciation and amortization	118.1	270.6	677.8	603.0	616.6	76.4
Net cash flows (used in) provided by operating activities	1,326.8	1,913.0	753.4	(719.3)	896.3	111.1
Net cash flows (used in) provided by investing activities	(1,398.8)	(2,209.9)	(2,491.3)	(722.4)	325.6	40.3
Net cash flows (used in) provided by financing activities	(45.8)	365.9	2,281.1	853.9	(1,622.9)	(201.1)

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(Amounts in millions, except per share/ADS and operating data)	2001	As of and for the years ended December 31,					2005 (US\$)
		2002	2003	2004	2005	(Rmb, except operating data)	
Per Share/ADS Data:							
Basic earnings (loss) per share	0.25	0.17	0.21	0.0003	(0.1830)	(0.0227)	
Basic earnings (loss) per ADS	25.10	16.65	21.30	0.03	(18.30)	(2.27)	
Diluted earnings (loss) per share	0.25	0.17	0.21	0.0003	(0.1830)	(0.0227)	
Diluted earnings (loss) per ADS	25.10	16.65	21.16	0.03	(18.30)	(2.27)	
Cash dividends declared per ADS ⁽¹⁾	0.96	1.48	2.12	1.07	n/a	n/a	
Operating Data:							
Production volume (<i>units</i>)							
Minibus Deluxe model	9,413	8,620	9,291	7,682	8,752		
Minibus Mid-priced model	51,423	56,959	65,734	56,215	48,131		
Subtotal Minibuses	60,836	65,579	75,025	63,897	56,883		
Zhonghua Sedans ⁽²⁾		8,890	27,054	11,806	6,854		
Total	60,836	74,469	102,079	75,703	63,737		
Sales volume (<i>units</i>)							
Minibus Deluxe model	9,653	9,017	9,004	6,626	9,940		
Minibus Mid-priced model	53,356	56,121	65,614	54,992	50,060		
Subtotal Minibuses	63,009	65,138	74,618	61,618	60,000		
Zhonghua Sedans ⁽²⁾		8,816	25,600	10,982	9,000		
Total	63,009	73,954	100,218	72,600	69,000		

(1) Calculated using the respective U.S. dollar to Renminbi year-end noon buying rates for the years presented. Brilliance China Automotive declared cash dividends per ordinary share in H.K. dollars in each of 2004, 2003, 2002 and 2001.

(2)

Commercial
production of
Zhonghua
sedans began in
August 2002.

Exchange Rate Information

The following table sets forth certain information concerning exchange rates between Renminbi and U.S. dollars for the periods indicated:

Period	Period End	Noon Buying Rate		
		Average ⁽¹⁾	High	Low
2001	8.2761	8.2769	8.2776	8.2761
2002	8.2800	8.2772	8.2800	8.2765
2003	8.2767	8.2771	8.2800	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
January 2006	8.0608	8.0641	8.0702	8.0596
February 2006	8.0415	8.0514	8.0616	8.0415
March 2006	8.0167	8.0333	8.0505	8.0167
April 2006	8.0165	8.0159	8.0248	8.0040
May 2006	8.0215	8.0148	8.0300	8.0005
June 2006 (through June 20, 2006)	7.9969	8.0110	8.0225	7.9969

Source: The noon
buying rate in
New York for
cable transfers
payable in
foreign
currencies as
certified for
customs
purposes by the
Federal Reserve
Bank of New
York.

(1) Determined by averaging the rates on the last business day of each month during the respective year and on the last business day of each week during the respective month.

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Brilliance China Automotive is subject to various changing competitive, economic, political and social conditions in China, as well as special concerns and significant risks not usually encountered by a United States company. These include the following:

Risks Relating to Brilliance China Automotive Minibus and Sedan Businesses

Brilliance China Automotive experienced a net loss of Rmb 671.3 million in 2005 and may not be profitable in 2006 or in subsequent years.

Brilliance China Automotive recorded a net loss of Rmb 671.3 million (US\$83.2 million) in 2005 as compared with a net income of Rmb 1.2 million (US\$0.14 million) in 2004. During the same period, total sales of Brilliance China Automotive were Rmb 5,469.0 million (US\$677.7 million), representing a 16.4% decrease from Rmb 6,542.0 million (US\$790.4 million) in 2004. The decrease in total sales was primarily due to the decrease in the sales volumes of minibuses and the Zhonghua sedan and the decrease in average unit selling prices due to the intensified price competition of the Chinese automobile industry during 2005. There is no assurance that sales of vehicles by Brilliance China Automotive will not be affected by the highly competitive automobile market in China.

In 2005, Brilliance China Automotive also recognized a provision for impairment of intangible assets of Rmb 173.0 million, as compared with Rmb 50.0 million in 2004, in respect of the design and development costs of the Zhonghua sedans. Provision for impairment of goodwill increased from Rmb 47.3 million in 2004 to Rmb 257.7 million in 2005, primarily due to impairment loss in relation to one of Brilliance China Automotive's jointly controlled entities and a subsidiary. Provision for impairment of property, plant and equipment increased from Rmb 10.0 million in 2004 to Rmb 48.3 million in 2005, primarily due to the retirement from use and the change in use from production to rental of certain property, plant and equipment of the minibus and automotive components segment. There can be no assurance that Brilliance China Automotive will not be required to recognize a provision for impairment of intangible assets, an impairment loss on goodwill or a provision for impairment of the property, plant and equipment in 2006 or in subsequent years.

As a result of these factors, Brilliance China Automotive experienced a net loss in 2005, and may incur losses in 2006 and in subsequent years, which could impact Brilliance China Automotive's ability to implement its business strategy and adversely affect its financial condition.

If demand for minibuses and sedans in China does not increase, and if Shenyang Automotive does not increase its market share, the ability of Shenyang Automotive to increase its sales volume will be adversely impacted.

The success of Brilliance China Automotive's business strategy will depend on the ability of its 51.0%-owned subsidiary, Shenyang Brilliance JinBei Automobile Co., Ltd., or Shenyang Automotive, to increase substantially its sales volume. Such an increase can only be achieved if Shenyang Automotive increases its market share or if there is an overall increase in the size of the minibus and sedan markets in China. Although the overall unit sales of minibuses and sedans in China increased between 2000 and 2003 and we have experienced increased sales of our minibuses and Zhonghua sedans in 2003, the implementation of macro-economic policies and austerity measures in China has resulted in a significant slowdown in growth in domestic demand for automobiles since the second half of 2004. After a decrease of 17.4% from 74,618 units in 2003 to 61,618 units in 2004, Shenyang Automotive's sales volume of minibuses decreased by 2.6% from 2004 to approximately 60,000 units in 2005. Sales volume of Zhonghua sedans decreased 57.1% from 25,600 units in 2003 to 10,982 units in 2004, and to approximately 9,000 units in 2005, representing an 18.0% decrease from 2004. The pace and strength of the recovery in the automotive industry in China remain difficult to predict. In light of this industry-wide decline in demand, as well as other factors, there can be no assurance that demand for Shenyang Automotive's minibuses and sedans will return to previous levels. If overall demand for domestic minibuses and sedans does not increase in the future, the ability of Shenyang Automotive to increase its sales volume or market share could be adversely affected.

Table of Contents***Delays in the development of new products, lack of consumer acceptance of new products and unforeseen shifts in consumer preferences may have a negative effect on Brilliance China Automotive's financial results.***

Meeting consumer demand with new vehicles developed over increasingly shorter product development cycle times is critical to Brilliance China Automotive's continued success. Brilliance China Automotive's ability to strengthen its position within its traditional minibus segment while continue to expand into additional market segments with new products, such as sedans, will play a key role in determining its future success. In order to compete successfully within its traditional markets, as well as to enter new markets with new product offerings, Brilliance China Automotive must assess trends in consumer preferences, modify existing products or develop new products to match those trends and deliver to market these newly developed or modified products before such preferences change. Delays in the development of new products, lack of consumer acceptance of new products and unforeseen shifts in consumer preferences may have a negative effect on Brilliance China Automotive's financial results.

Brilliance China Automotive has experienced a management turnover and could continue to have problems retaining and recruiting key personnel in the future.

Brilliance China Automotive had a turnover of its directors and executive officers in 2004, 2005 and 2006, and this trend of management changes may continue in the future. In 2004, three of its directors had either resigned or retired. Of the three directors who resigned or retired in 2004, one was an executive director and two were independent non-executive directors. In 2005, three executive directors had resigned. Of the three directors who resigned in 2005, one was the President and Chief Executive Officer, another was the Vice President and Chief Financial Officer, and the third was the Vice Chairman, Executive Vice President and Company Secretary. In 2006, an executive director, who was appointed in 2004 as President and Chief Executive Officer to fill the then vacant positions, resigned and a non-executive director retired. While Brilliance China Automotive appointed a new President and Chief Executive Officer, a new Chief Financial Officer and new executive directors and independent non-executive directors between 2004 and now, there can be no assurance that this relatively new management team will be as effective in implementing Brilliance China Automotive's business strategies or that any of the new strategies that the new management team may decide to implement will achieve its intended objectives.

Brilliance China Automotive's success depends to a large degree upon the continued contributions of key management and other personnel, some of whom could be difficult to replace. There can be no assurance that Brilliance China Automotive will be able to recruit suitable candidates, and high turnover of senior management can adversely impact Brilliance China Automotive's stock price and customer relationships as well as make recruiting for future management positions more difficult. In addition, Brilliance China Automotive must successfully integrate any new management personnel that it recruits in order to achieve its operating objectives, and changes in other key management positions may temporarily affect its financial performance and results of operations as new management may need time to become familiar with its business. Accordingly, Brilliance China Automotive's future financial performance will depend to a great extent on its ability to motivate and retain key management personnel.

There are significant risks involved in Brilliance China Automotive's joint venture with BMW to produce BMW sedans in China.

On March 27, 2003, Brilliance China Automotive, through its indirect subsidiary, Shenyang JinBei Automotive Industry Holdings Company Limited, or SJAI, entered into a joint venture contract with BMW Holding BV, or BMW Holding, to assemble, produce and sell BMW designed and branded sedans in China. Production began in September 2003 and the 3-Series and 5-Series sedans were formally launched in China in October and November 2003, respectively. There are significant risks involved in this joint venture, including, but not limited to, the ability of the joint venture to obtain adequate financing as and when necessary, obtain timely delivery of imported components and parts, source necessary components at competitive prices, successfully develop, manufacture, market and sell BMW sedans in China, and obtain appropriate approvals for its new products from governmental authorities in China. Brilliance China Automotive currently has a 49.0% effective interest in the joint venture and provides guarantees for the performance of all obligations of SJAI, including required capital contributions.

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The ownership of Brilliance China Automotive by its largest shareholder is currently the subject of litigation.

On January 21, 2003, a writ dated January 21, 2003, or the Writ, brought by Broadsino Finance Company Limited, or Broadsino, as the Plaintiff, was filed with the Supreme Court of Bermuda which alleged that the interest of the Chinese Financial Education Development Foundation, or the Foundation, in 1,446,121,500 shares of Brilliance China Automotive, or the Sale Shares, was held in trust for Broadsino and was improperly transferred to Huachen Automotive Group Holdings Company Limited, or Huachen.

In the course of legal proceedings with Broadsino, Brilliance China Automotive achieved the following:

(i) overturning on February 11, 2003 an ex parte Court Order dated January 22, 2003 which had restrained Brilliance China Automotive from, amongst other things, registering the transfer of the Sale Shares by the Foundation to Huachen and/or Huachen to certain directors of Brilliance China Automotive; (ii) initiating on March 10, 2003, a Strikeout Summons at the Supreme Court to have the Writ and the statement of claim struck out, which proceedings were duly heard before the Supreme Court, and which resulted on December 31, 2003 in that court issuing a judgment to strike-out the Writ; (iii) challenging Broadsino's attempts for appeal to the Court of Appeal of Bermuda, Civil Appellant jurisdiction which appeal was then dismissed by that court's judgment of March 14, 2005 which ruled in Brilliance China Automotive's favor; (iv) challenging at all stages Broadsino's further attempts for leave to appeal to the Privy Council in the United Kingdom with respect to the Court of Appeal's judgment; and (v) being awarded costs in Broadsino's seeking of a grant of leave on November 10, 2005 in the Court of Appeal in Bermuda to withdraw its leave to appeal to the Privy Council.

On August 7, 2003, a lawsuit was filed in the United States District Court for the District of Columbia by the former Chairman of Brilliance China Automotive and others against the Liaoning Provincial Government relating to Huachen's ownership of certain shares of Brilliance China Automotive. On March 3, 2005, a motion to dismiss the claim in favor of Liaoning Provincial Government was granted by the District Court for lack of subject matter jurisdiction. The plaintiffs appealed to the United States Court of Appeal of the District of Columbia and a decision is pending. Brilliance China Automotive has never been named as a party to this lawsuit.

The directors of Brilliance China Automotive do not believe the recent litigation in Bermuda or any other litigation in other jurisdictions described above have had or will have a significant impact on the financial position of Brilliance China Automotive. See Item 8 Financial Information Legal Proceedings for further details of these litigation proceedings.

Failure by Brilliance China Automotive to continue to form and maintain alliances with foreign automobile manufacturers could adversely affect its competitiveness.

In order for Brilliance China Automotive to remain competitive and obtain additional technology and financing, it is crucial that it enters into and maintains alliances with foreign motor vehicle manufacturers. This is particularly true since China's accession to the World Trade Organization, or the WTO, in November 2001. As a result of the reduction in import restrictions, more automobile manufacturers have been and will be entering China's motor vehicle market. If Brilliance China Automotive cannot maintain its existing alliances with Toyota and BMW or form strategic alliances with other foreign automobile manufacturers regarding the establishment of joint ventures and the procurement of necessary components on commercially beneficial terms, its competitive position will be adversely affected.

The inability of Shenyang Automotive to access Toyota's technical resources to upgrade Shenyang Automotive's products, or Toyota's provision of assistance to any of Shenyang Automotive's competitors could negatively impact Shenyang Automotive's sales and competitive position.

Shenyang Automotive has historically relied to a significant extent on Toyota for technical assistance for its minibuses. On December 17, 2001, Shenyang Automotive entered into an agreement with Toyota for the technology transfer of the fifth generation of the Toyota minibus the Granvia for which production based upon semi-knockdown kits from Toyota commenced in 2003. In the first half of 2004, the Granvia, which is marketed under the brand name Granse (known as Grace before February 2004) when sold in China by Brilliance China Automotive, entered into commercial production, with more than 60% of its parts and components from domestic sources. Although Shenyang Automotive has introduced new products, including its successful mid-priced minibus, incorporating styling and engineering refinements and modifications without assistance from Toyota, lack of access to Toyota's technical resources may limit Shenyang Automotive's ability to upgrade significantly its existing Toyota-designed products.

Failure to update its existing models could eventually result in Shenyang Automotive's products becoming technologically inferior to its competitors' products, which could have an adverse impact on Shenyang Automotive's sales. Although Brilliance China Automotive has no knowledge of any intention of Toyota to produce, or assist a current or potential competitor in the production of, minibuses similar to those of Shenyang Automotive in China, neither Brilliance China Automotive nor Shenyang Automotive could prohibit Toyota from doing so.

Table of Contents***Any delay or disruption in Shenyang Automotive's ability to obtain engines from Toyota could limit Shenyang Automotive's ability to produce its deluxe minibuses.***

While Shenyang Automotive is currently in the process of replacing the Toyota engines used in some of its minibus models with Mitsubishi and Mianyang Xincheng engines, currently most of the engines installed in Shenyang Automotive's deluxe minibuses are purchased from Toyota on a commercial basis. Shenyang Automotive generally maintains an inventory of Toyota engines sufficient to sustain two months of planned production. To date, Shenyang Automotive has not experienced any material disruption in its supply of engines from Toyota. Changes in regulatory requirements, tariffs and other trade barriers and price or exchange controls could, however, hinder Shenyang Automotive's ability to import engines. An extended disruption or reduction in Shenyang Automotive's supply of Toyota engines would consequently limit Shenyang Automotive's ability to produce deluxe minibuses.

Any delay or disruption in Shenyang Automotive's ability to obtain engines could limit Shenyang Automotive's ability to produce its Zhonghua sedans.

Currently all of the Mitsubishi engines installed in Brilliance China Automotive's Zhonghua sedans are purchased from Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd., or Shenyang Aerospace, and Harbin DongAn Automotive Engine Manufacturing Co. Ltd., or Harbin DongAn, on a commercial basis. Shenyang Aerospace is an associated company of Brilliance China Automotive, in which Brilliance China Automotive has currently an indirect 12.8% equity interest. Harbin DongAn is a joint venture between Harbin DongAn Engine Group, Mitsubishi Group and Malaysia China Investment Holding Company. See Item 4 Information on the Company Business Overview Other Significant Subsidiaries, Jointly Controlled Entities and Associated Companies Shenyang Aerospace. Shenyang Automotive is currently in discussions with other domestic and overseas engine manufacturers, with a view towards broadening its engine sourcing for its Zhonghua sedans, and considering using foreign designs to produce domestically made engines for sedans and minibuses. Shenyang Automotive generally maintains an inventory of Mitsubishi and DongAn engines sufficient to sustain two months of planned production. To date, Shenyang Automotive has not experienced any material disruption in its supply of engines from Shenyang Aerospace and Harbin DongAn. However, there can be no assurance that Shenyang Automotive will at all times be able to obtain a steady supply of Mitsubishi engines from Shenyang Aerospace and Harbin DongAn. An extended disruption or reduction in Shenyang Aerospace's and Harbin DongAn's supply of engines to Shenyang Automotive would consequently limit Shenyang Automotive's ability to produce its Zhonghua sedans.

In addition, Shenyang Automotive plans to install engines manufactured by its new engine plant in its Zhonghua sedans. There is no assurance that these new engines will be successful or will not have quality-related problems. If Shenyang Automotive is not able to timely manufacture these new engines with the desired quality, Shenyang Automotive's ability to produce its Zhonghua sedans may be materially and adversely effected.

If Brilliance China Automotive fails to upgrade its existing production facilities or build new facilities in a timely and cost-efficient manner, its businesses, financial condition and results of operation may be negatively affected.

In order to maintain its competitive edge, Brilliance China Automotive's strategy is to upgrade its production facilities, including molding, welding, painting and assembly facilities and build new facilities, for example, the construction of its new engine plant. Any failure or delay in implementing such upgrading or construction plans in a timely and cost-efficient manner could limit its future growth and have a material adverse effect upon Brilliance China Automotive's businesses, financial condition and results of operations.

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Shenyang Automotive's competitors may have access to more advanced technology, greater financial resources and more substantial support from the Chinese government, which could negatively affect Shenyang Automotive's competitive position.

Some of Shenyang Automotive's competitors have formed joint ventures with, or licensed technology from, foreign automobile manufacturers, and others may do so in the future. These competitors may have access to greater financial resources than Brilliance China Automotive or to technology and equipment that are more advanced than the technology and equipment utilized by Brilliance China Automotive. In addition, some of Shenyang Automotive's potential competitors may receive substantial support from the Chinese government, including priority access to loans, favorable import quotas and tariffs, expedited approvals of proposed projects and products and preferential tax treatment. Such advantages may make it difficult for Shenyang Automotive to compete with these other automobile manufacturers.

Huachen, as Brilliance China Automotive's substantial shareholder, may not always act in the best interest of other shareholders.

Huachen, a wholly owned subsidiary of the Liaoning Provincial Government, currently owns 39.4% of the issued and outstanding shares of Brilliance China Automotive, which it acquired from the Chinese Financial Education Development Foundation in December 2002. Accordingly, Huachen is entitled to cast 39.4% of the votes on all matters voted on by the shareholders of Brilliance China Automotive (to the extent it is not required to abstain from exercising its voting rights under the Bye-laws of Brilliance China Automotive and applicable laws and regulations), and therefore is able to exert substantial influence over the election of Brilliance China Automotive's directors, the outcome of actions requiring majority shareholder approval and the business in general of Brilliance China Automotive. Such influence could preclude the ability of minority shareholders to influence important business decisions of Brilliance China Automotive, and may result in actions or omissions by Brilliance China Automotive that are not in the best interest of the minority shareholders.

Significant changes in the cost or availability of raw materials or components may have a material adverse impact on Brilliance China Automotive's results of operations.

Brilliance China Automotive has established relationships with over 280 suppliers in the PRC and sources the majority of its important components and raw materials from at least two different suppliers to ensure availability and increase competition among suppliers. Brilliance China Automotive has also made significant progress in increasing the domestic component content of its products. However, certain principal components of BMW sedans continue to be imported from overseas suppliers. For example, certain components used in sedans produced by BMW Brilliance are imported from BMW Group and certain other components used in minibuses are imported from Toyota. Because these components are imported from the BMW Group, Toyota and other suppliers in Europe and Japan, the costs as well as availability of such components may be affected by exchange rates, import restrictions, customs clearance, shipment schedules and import duties and consequently drive up Brilliance China Automotive's costs of production. In addition, unexpected disruptions in the supply of certain components, particularly from foreign suppliers, may also require using alternative suppliers or cause delays in the production process. Furthermore, an increase in the price of electricity or certain raw materials, such as steel, may result in increased costs of production. Significant changes in the cost or availability of raw materials or components may have an adverse impact on Brilliance China Automotive's results of operations.

Product liabilities and recall claims may adversely affect Brilliance China Automotive's results of operation.

Manufacturers and sellers of defective products in China may be subject to liability for losses and injury caused by such defective products under China's laws. However, there is currently no compulsory legal requirement under PRC legislation for automobile manufacturers to maintain insurance coverage in respect of production interruption, product liability or damage to third party properties. Brilliance China Automotive does not carry product liability insurance or insurance against losses due to production insurance, product recalls or damage to third party properties. Brilliance China Automotive cannot guarantee that product liability claims will not be brought against Brilliance China Automotive or its subsidiaries and affiliates in the future, and, if such claims are successful, that such claims will not have a material adverse impact upon Brilliance China Automotive's results of operations, or that the Chinese government will not impose new requirement for sufficient insurance to be maintained to cover the risks associated

with Brilliance China Automotive's China operations, including those of Shenyang Automotive.

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Brilliance China Automotive's business and future growth depend on availability of funding.

Research and development is capital intensive. Capital costs are funded by Brilliance China Automotive from operating cash flow and financing. The availability of future borrowings and access to the capital markets for financing depend on prevailing market conditions and the acceptability of the financing terms offered. Brilliance China Automotive cannot assure that future financings will be available on acceptable terms, or in amounts sufficient to fund its needs. If Brilliance China Automotive fails to obtain sufficient funding, it may be unable to implement its expansion plans, which may have a material adverse impact upon its business and financial condition.

Brilliance China Automotive is required to comply with increasingly stringent environmental standards applicable to its vehicles and manufacturing facilities.

Brilliance China Automotive's production facilities are subject to government pollution regulations enforced by the relevant local governments. In addition, the Chinese government has set vehicle safety, exhaust and performance standards with which Brilliance China Automotive must comply. Brilliance China Automotive's operations are sensitive to changes in the Chinese government's environmental policies relating to all aspects of the automobile manufacturing. There is no assurance that changes in such policies would not have an adverse effect on the revenue or results of operations of Brilliance China Automotive.

Brilliance China Automotive may encounter difficulties for compliance with the Sarbanes-Oxley Act of 2002.

The United States Securities and Exchange Commission, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending December 31, 2006. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may still be unable to attest to our management's assessment or may issue a report that concludes that our internal controls over financial reporting are not effective. In preparation for the implementation of the requirements of Section 404, we are undertaking company-wide documentation of internal controls, performing the system and process evaluation and testing required. During the course of our evaluation, documentation and attestation, we may identify certain deficiencies that could adversely affect our ability to record, process, summarize and report financial data consistent with our management's assertions in our financial statements. Although we will formulate plans for remedial measures to make necessary improvements to address any deficiency found, we cannot assure you that we will be able to remedy the identified deficiencies in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. We are also in the process of conducting further evaluation of our internal control over financial reporting and may identify other deficiencies that we may not be able to remedy in time by the deadline for compliance with Section 404. If we fail to achieve and maintain the adequacy of our internal controls, we or our auditors may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading prices of our ADSs. Furthermore, we have already incurred considerable costs and spent significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act. We anticipate that we will continue to incur considerable costs and use significant resources for compliance with Section 404.

Table of Contents***There is no assurance that the research and development carried out by Brilliance China Automotive will materialize in products that can achieve market acceptance.***

Brilliance China Automotive invests and plans to continue to invest capital and other resources to develop or acquire proprietary automobile-related technologies. As the development of proprietary technologies is a highly complex, uncertain and costly process, there is no assurance that Brilliance China Automotive can successfully develop and commercialize new products based on its new technologies and innovations (or to do so in a timely manner), or that any new products that Brilliance China Automotive introduces will achieve market acceptance. For example, Brilliance China Automotive will begin manufacturing engines at its new engine plant in late June 2006 for installation in its sedans. Brilliance China Automotive has made significant investments for the development and manufacture of these new engines and there is no assurance that the engines built at the new engine plant will achieve the desired quality or market acceptance. If Brilliance China Automotive's efforts to develop and commercialize new products based on such technologies are unsuccessful, it may not be able to recover its investment in such technologies and may suffer losses as a result of the failure of such products.

Moreover, if Brilliance China Automotive's research and development capabilities are impaired, the development of Brilliance China Automotive's products may be delayed and which, in turn, may adversely affect its business plans and operations.

Brilliance China Automotive's intellectual property rights may be infringed by third parties and, Brilliance China Automotive may also face infringement claims brought by third parties.

Brilliance China Automotive has adopted strict policies to protect its existing and future intellectual property under existing and future patent, copyright, trademark, trade secret and unfair competition laws. However, policing breaches of its intellectual property rights is difficult and sometimes impracticable. There is no assurance that the current measures taken by Brilliance China Automotive will prevent infringement of Brilliance China Automotive's intellectual property rights. Counterfeit automobiles and automotive parts that improperly use Brilliance China Automotive's brands, technology or designs could cause it to lose sales and damage its reputation, brands and product images. Even if Brilliance China Automotive succeeds in establishing infringement claims against third parties, they may be unable to pay damages and expenses.

Brilliance China Automotive may also face infringement claims brought by third parties. These claims against Brilliance China Automotive could cause it to incur significant legal fees and other costs, divert its management's attention and cause significant disruptions to its businesses and operations. If an infringement claim is successfully asserted against Brilliance China Automotive, it could also be required to pay substantial monetary damages and be enjoined from further production or sale of certain products, which could have a material adverse effect on its businesses, results of operations and financial condition.

Brilliance China Automotive has uninsured risks.

Brilliance China Automotive's insurance coverage, as of December 31, 2005, includes fire, flood, riot, strike, malicious damage, business interruption, transportation, product and public liability. However, there are certain types of losses, for instance, losses resulting from acts of terrorism which are disproportionately expensive or practically infeasible for Brilliance China Automotive to fully insure against, or to insure at all. Therefore, there may be circumstances in which Brilliance China Automotive will not be fully insured for losses and liabilities, which may in turn result in the interruption of its business. These uninsured losses and liabilities could adversely affect the financial position of Brilliance China Automotive.

Brilliance China Automotive may not succeed under the Local Branding approach to maintain and strengthen the name recognition of its Zhonghua brand and may subsequently suffer loss as PRC consumers give more weight to brand recognition as they make auto purchase decisions.

The Zhonghua brand is considered one of PRC's Local Brands of domestically produced vehicles. This Local Branding approach encourages PRC auto companies to establish and grow their self-established auto name brands and to use domestic technologies, production facilities and components to build vehicles. Shenyang Automotive's

Zhonghua had been recognized as a well-known Local Brand shortly after its launch. However, because PRC customers have associated auto brands with automobile quality, innovation and reliability, and brand recognition has become an increasingly important factor in consumers' decisions in purchasing vehicles, certain foreign auto brands

still have substantial brand recognition advantage over these Local Brands . Thus although Shenyang Automotive has committed itself to this branding approach and has made multi-faceted efforts to boost its brand recognition, there can be no assurance that this approach will be effective in the long run, nor can there be assurance that Zhonghua as well as other brands Brilliance China Automotive may launch in the future can withstand the severe competition from the long- established foreign auto brands.

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Risks Relating to the Minibus and Sedan Industries in China

China's automobile demands may become more volatile due to macroeconomic factors.

After the rapid growth between 2000 and 2003, China's sedan industry growth has slowed significantly in 2004. In particular, the sales volume increased 75% from 2002 to 2003, as compared to only 16% from 2003 to 2004. China's sedan industry has however showed significant improvement in 2005. According to China Automotive Technology & Research Center, sedan sales volume increased by 28.0% to 3,131,950 sedan units in 2005, compared to the 2,448,557 sedan units sold in 2004. Sales performance in China's sedan market improved further in the first four months of 2006 with a total of 1,719,032 sedan units being sold, compared to the 1,129,497 sedan units sold in the same period in 2005, an increase of 52.2% year on year. However, there is no assurance that this growth will continue.

The demand for automobiles in China is affected by various factors beyond Brilliance China Automotive's control, including:

economic and monetary policies implemented by the Chinese government;

availability of automobile consumption loans;

availability of automobile insurance policies;

consumer confidence;

volatility in petroleum, diesel and other commodity prices; and

development of transportation infrastructure, for example express ways.

If the general economy in China slows down or the Chinese government adopts new policies that adversely affect the automotive industry, the demand for automobiles is also likely to experience a significant down turn.

Over the years, Brilliance China Automotive has been increasing its production capacities in anticipation of a significant increase in automobile demand in China. Any slow down in automobile demand in China may lead to an increase in Brilliance China Automotive's inventory and could result in a significant underutilization of its production capacity. As a result, Brilliance China Automotive's results of operations and financial condition could be materially and adversely affected.

Competition is intense in China's automobile industry.

Brilliance China Automotive currently faces intense competition mainly from other Chinese domestic automobile manufacturers. Many of Brilliance China Automotive's competitors have joint ventures with leading foreign automobile manufacturers and may have significantly more resources than Brilliance China Automotive. Any further increase in competition may dilute Brilliance China Automotive's market share and reduce its profit margin. The competition that Brilliance China Automotive faces also requires it to increase its marketing and development costs.

As Chinese automotive components and parts industry is highly fragmented, Brilliance China Automotive competes with a large number of manufacturers in this market. Brilliance China Automotive also competes with other automobile manufacturers and automotive components and parts manufacturers in the hiring and retention of management and skilled employees. There can be no assurance that Brilliance China Automotive will be able to compete successfully with its competitors in the automobile and automotive components and parts industries. If Brilliance China Automotive's competitors gain a competitive advantage in terms of value for money, product quality, brand recognition or financial resources, the market share, profitability and financial position of Brilliance China Automotive may be adversely affected.

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Reduced tariffs and import restrictions on foreign-made motor vehicles and motor vehicle components as a result of China's entry into the WTO may lead to increased competition for Brilliance China Automotive.

The Chinese government imposes restrictions, quotas and tariffs on the import of foreign-made motor vehicles, as well as motor vehicle components. However, as a result of China's accession to the WTO, which regulates trading and tariffs among its signatory states, in November 2001, China has committed to reducing its import restrictions on motor vehicles and motor vehicle components. In addition, China will be required to conform its import tariffs to the uniform tariffs under the WTO.

Effective January 1, 2002, China reduced its import tariffs on motor vehicles and automotive components from between 80% to 100% and between 18% to 40%, respectively, to between 43.8% to 50.7% and between 14% to 31.4%, respectively. This range was lowered further to between 4.8% and 25% for automotive components in 2003, between 5% and 22.9% in 2004 and between 5% and 18.6% in 2005. In 2006, the import tariffs on automotive components were further reduced to between 5.0% and 14.3%. In 2004, the average import tariffs on automotive components for the deluxe minibuses (including Granse minibuses) and Zhonghua sedans were 13.8% and 10.5%, respectively, and in 2005, the average tariffs became 9.7% and 12.1% for the imported components for deluxe minibuses and Zhonghua sedans, respectively. In addition, tariffs on vehicles with nine seats or less and engine sizes of three liters or below fell from 43.9% in 2002 to 38.2% in 2003, while tariffs on vehicles with more than nine seats and engines of more than three liters decreased from 50.7% in 2002 to 43.0% in 2003. In 2004, tariffs were 34.2% for vehicles with nine seats or less and engine sizes of three liters or less and 37.6% for vehicles with more than nine seats and engines of more than three liters. In 2005, tariffs were fixed at 30% for all motor vehicles. These tariffs were further reduced to 28% in January 2006 and are scheduled for further reduction to 25% in July 2006.

Although lower tariffs and reduced import restrictions may benefit Brilliance China Automotive in terms of lower cost of imported components, lower tariffs and reduced import restrictions could also lead to a substantial increase in the number of minibuses, sport utility vehicles, sedans and other motor vehicles imported into China, thereby significantly increasing competition in Brilliance China Automotive's current and proposed markets.

The automobile industry is heavily regulated in China, and automobile-related regulations may become even more stringent in the future.

Brilliance China Automotive is subject to various laws, rules and regulations in China imposed at national, provincial and municipal levels that regulate or affect China automobile manufacturing industry and automotive components and parts manufacturing industry, including:

crash test requirements and other safety standards in relation to automobile and automotive parts and components;

emission standards;

maximum fuel consumption;

minimum warranty requirements;

automobile recall requirements;

noise, waste, discharge and other pollution controls relating to manufacturing of automobiles;

restrictions on road use, including time restriction and segmental restriction; and
market entry requirements and/or minimum production requirements for automobile and automotive components and parts

manufacturers.

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Moreover, every new product type must be approved by the Chinese government before it can be introduced into the market. This approval process can sometimes be lengthy, and can impact the ability of Brilliance China Automotive to introduce new products in a timely manner. This regulatory framework may limit the flexibility of Brilliance China Automotive to respond to market conditions or competition. The cost of complying with these policies and regulations can also be significant. Brilliance China Automotive's operations are sensitive to changes in the Chinese government's policies relating to all aspects of the automobile industry. There can be no assurance that changes in such policies would not have an adverse effect on the revenue or results of operations of Brilliance China Automotive.

In addition, China's regulators may introduce in the future more stringent regulations and measures which will affect Brilliance China Automotive's automobile manufacturing and automotive components and parts manufacturing businesses. In June 2006, the regulators have announced that new measures will be introduced to trim overcapacity in the PRC automobile industry and promote local brands. For example, annual sales of automobile manufacturers in China must reach certain levels in order for them to build new manufacturing plants. The imposition of any such more stringent requirements may require Brilliance China Automotive to incur substantial and costly changes to its automobile and/or automotive components and parts designs and its business structure or organization, or restrict its ability to respond to changing market conditions or competition. Moreover, Brilliance China Automotive's failure to comply with such laws and regulations would result in fines, penalties or lawsuits.

China's automobile industry is significantly dependent upon the economy of China.

The performance of China's automobile manufacturing industry is highly dependent on general economic conditions and the purchasing power of Chinese consumers. Thus, the revenue and profits of Brilliance China Automotive are subject to cyclical fluctuations and may be adversely affected by any unfavorable changes in the economic conditions in China.

Increase in fuel prices may adversely affect demand for automobiles.

Fuel prices (including prices of petroleum and diesel) in China reached historical heights in May 2006. Any further increase in fuel prices may:

have an adverse impact on China's economy and may thereby result in a slow down for automobile demand;

increase Brilliance China Automotive's production costs due to increase in costs of petrochemical products; and

discourage customers from purchasing automobiles due to increased running costs.

If fuel prices continue to increase or remain at high levels, Brilliance China Automotive's sales and profitability could be materially and adversely affected.

China's re-adjustment of consumption taxes on vehicles may cause decline of demand for certain models***Brilliance China Automotive currently manufactures.***

On April 1, 2006, the State Administration of Taxation of China, in an effort to encourage environmental protection and fuel efficiency, re-adjusted consumption tax rates on passenger vehicles. Before the re-adjustment, the consumption tax rate for passenger vehicles was a three-tiered system: 3% for automobiles with engine displacement lower than 1.0-liter; 5% for automobiles with engine displacements between 1.0 liter and 2.0-liter, and 8% for automobiles with engine displacements above 2.0-liter. After the re-adjustment, tax rates on vehicles with smaller engines (under 2.0-liter) either fell or remained unaltered, whereas tax rates on automobile with larger engines were raised. The new tax rates are: 3% for 0.0-1.5-liter; 5% for 1.51-2.0-liter; 9% for 2.01-2.5-liter; 12% for 2.51-3.0-liter; 15% for 3.01-3.5-liter; and 20% for 4.0-liter and above. Consequently, the tax rates on the BMW 3 and 5 series sedans produced by BMW Brilliance, as well as the 2.4-liter Zhonghua sedans have been raised by this re-adjustment. As a result of this new consumption tax regime, the prices of the above-mentioned vehicles have increased, which may lower demand for these vehicles in 2006 and subsequent years, and therefore negatively impact Brilliance China Automotive's businesses and results of operations.

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Risks Relating to China's Economy and Regulatory System

China's economic, political and social conditions, as well as government policies, could affect Brilliance China Automotive's businesses.

China's economy differs from the economies of most developed countries in many respects, including:
extent of government involvement;

level of development;

growth rate;

control of foreign exchange; and

allocation of resources.

While China's economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on Brilliance China Automotive's operations. For example, Brilliance China Automotive's financial condition and results of operations may be adversely affected by the Chinese government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

China's economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating the development of industries in China by imposing top-down policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Exchange rates fluctuations may affect the results of operations of Brilliance China Automotive.

Brilliance China Automotive's major operations are based in China and a significant proportion of its turnover is derived from its operations in China.

Renminbi was revalued on July 21, 2005 to Rmb 8.11 per US\$1.00 from its previously pegged rate of Rmb 8.28 per US\$1.00. The People's Bank of China also announced that Renminbi would be pegged to a basket of foreign currencies, rather than tied solely to the U.S. dollars, and would trade within a 0.3% band against this basket of currencies, which includes, without limitation, U.S. dollars, Euro, Japanese yen, South Korean won, British pounds, Thai baht and Russia ruble. There is no assurance on whether there will be any further revaluation of Renminbi. Any further revaluation of Renminbi may adversely affect China's economy and may therefore lead to a down turn in the automobile demand in China.

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Budgetary constraints on China's government entities and state enterprises could affect Shenyang Automotive's sales and pricing of products.

Brilliance China Automotive believes that approximately 30% and 35% of Shenyang Automotive's 2005 revenues from minibuses and sedans, respectively, were derived from sales to governmental agencies and certain state-run enterprises. Because of Shenyang Automotive's customer composition, sales and pricing of its products can be affected by budgetary constraints applicable to government entities and state enterprises.

Any significant failure or disruption of China's banking system could materially and adversely affect Brilliance China Automotive's ability to obtain credit.

Most major banks in China are owned by the Chinese government. Most of these banks have historically extended significant amounts of loans according to governmental policy rather than for commercial reasons. As a result, these banks currently have significant loans outstanding to state-owned enterprises, many of which have incurred recurring and material losses. Consequently, many banks in China have substantial levels of loans that are not current with respect to payments of either interest or principal and may not have made adequate provisions to cover potential losses on these loans. Any significant failure or disruption of China's banking system could materially and adversely affect Brilliance China Automotive's ability to obtain credit and the economic environment in which it conducts its business and may also affect its customers and distributors.

Shenyang Automotive's ability to obtain sufficient foreign exchange to satisfy its requirements is dependent on authorization of the State Administration of Foreign Exchange of China.

Substantially all of the revenues of Shenyang Automotive are denominated in Renminbi, while some of its operating expenses, purchase costs of components and capital expenditures are denominated in foreign currencies. The Renminbi currently is not a freely convertible currency. The State Administration of Foreign Exchange of China, under the authority of the People's Bank of China, regulates the conversion of Renminbi into foreign currency. There can be no assurance that the current authorizations for foreign-invested enterprises, such as Shenyang Automotive, to retain its foreign exchange to satisfy foreign exchange liabilities or to pay dividends in the future will not be limited or eliminated or that Shenyang Automotive will be able to obtain sufficient foreign exchange to pay dividends and to satisfy their other foreign exchange requirements.

There are inherent uncertainties in China's legal system which may affect Brilliance China Automotive.

China's legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little value as precedents.

Since 1979, the Chinese government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in China and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of Brilliance China Automotive and its joint ventures. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainty. The interpretation of PRC laws may be subject to policy changes which reflect domestic political changes. As China's legal system develops, the promulgation of new laws, changes to existing laws and the preemption of local regulations by national laws may have an adverse effect on Brilliance China Automotive's prospects, financial condition and results of operations.

Table of Contents**Other Risks*****There can be no assurance that there will not be another significant outbreak of a highly contagious disease.***

In 2003, there was an outbreak of Severe Acute Respiratory Syndrome, or SARS, in the PRC, Singapore, Hong Kong, other Asian countries and Canada. The SARS outbreak had a significant adverse impact on the economies of the affected countries. Recently, there have been media reports regarding the spread of the H5N1 virus or Avian Influenza A among birds, poultry and in some isolated cases, transmission of Avian Influenza A virus from animals to human beings. There can be no assurance that there will not be another significant outbreak of a severe contagious disease. If such an outbreak were to occur, it may have a material adverse impact on the operations of Brilliance China Automotive and its results of operations may suffer.

See also Government Regulation and Environmental Matters in Item 4 Information on the Company, Item 5 Operating and Financial Review and Prospects, Item 8 Financial Information Legal Proceedings and Item 11 Quantitative and Qualitative Disclosures About Market Risk.

ITEM 4. INFORMATION ON THE COMPANY**History and Development of Brilliance China Automotive**

Brilliance China Automotive Holdings Limited was established as an exempted company with limited liability under the laws of Bermuda on June 9, 1992. Brilliance China Automotive's principal place of business is Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong, telephone number: (852) 2523-7227.

Brilliance China Automotive was initially established to hold a 51.0% interest in Shenyang Brilliance JinBei Automobile Co., Ltd. (formerly known as Shenyang JinBei Passenger Vehicle Manufacturing Company, Ltd.), or Shenyang Automotive, a Sino-foreign equity joint venture enterprise established on July 22, 1991. The remaining 49.0% interest in Shenyang Automotive was owned by Shenyang JinBei Automotive Company Limited (formerly Shenyang Brilliance Automotive Company Limited and FAW-JinBei Automotive Company Limited), or JinBei. In February 2003, an amendment was made to Shenyang Automotive's joint venture contract and as a result, the term of Shenyang Automotive became perpetual. Shenyang Automotive is currently the leading manufacturer and distributor of minibuses in China and also the manufacturer of Zhonghua sedans.

On December 29, 2003, Brilliance China Automotive, through Shenyang XinJinBei Investment and Development Co., Ltd., or SXID, and Shenyang JinBei Automotive Industry Holdings Co., Ltd., or SJAI, its 99.0% and 98.0% indirectly owned subsidiaries, respectively, entered into agreements to acquire the entire equity interests of Shenyang Automobile Industry Asset Management Company Limited, or SAIAM, and Shenyang XinJinBei Investment Co., Ltd, or SXI. SAIAM and SXI own 29.9% and 11%, respectively, of the issued share capital of JinBei. Upon the completion of the acquisition and the receipt of government approvals for the transaction, which is expected by the end of 2006, Brilliance China Automotive's effective interest in Shenyang Automotive will increase from 51.0% to approximately 70.7%.

Prior to May 1998, Brilliance China Automotive's sole operating asset was its interest in Shenyang Automotive. On May 18, 1998, Brilliance China Automotive acquired 50% and 51% equity interests, respectively, in Mianyang Xincheng Engine Co., Ltd., or Mianyang Xincheng, a manufacturer of gasoline engines for use in passenger vehicles and light duty trucks, and Ningbo Yuming Machinery Industrial Co., Ltd., or Ningbo Yuming, a producer of automobile windows and window molding and stripping. Mianyang Xincheng is a Sino-foreign joint venture whose 50-year term will expire in 2048. Ningbo Yuming is a wholly foreign-owned enterprise with a 50-year term that will expire in 2043. On October 19, 2004, Brilliance China Automotive, through its subsidiary Beston Asia Investment Limited, entered into an agreement with Ms. Chen Qiuling for the acquisition of her 49% interest in Ningbo Yuming. Approvals of the acquisition were obtained from the relevant Chinese authorities on November 25, 2004 and Ningbo Yuming has thus become a wholly owned subsidiary of Brilliance China Automotive.

In addition to the acquisition of interests in Mianyang Xincheng and Ningbo Yuming, Brilliance China Automotive has also acquired from Brilliance Holdings Limited, an affiliated company, a 50.0% equity interest in Shenyang Xinguang Brilliance Automobile Engine Co., Ltd., or Shenyang Xinguang Brilliance, on December 11, 2000. Shenyang Xinguang Brilliance is a Sino-foreign equity joint venture manufacturer of gasoline engines for use in passenger vehicles and light duty trucks. Shenyang Automotive is a major customer of each of Mianyang Xincheng, Ningbo Yuming and Shenyang Xinguang Brilliance. Brilliance China Automotive believes that the acquisition of

these components suppliers has enabled it to maintain the quality, and ensure a stable supply, of certain key components required for the production needs of Shenyang Automotive.

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On October 12, 1998, June 9, 2000 and July 3, 2000, Brilliance China Automotive established wholly owned subsidiaries (1) Shenyang XingYuanDong Automobile Component Co., Ltd., or Xing Yuan Dong, (2) Ningbo Brilliance Ruixing Auto Components Co., Ltd., or Ningbo Brilliance Ruixing, and (3) Mianyang Brilliance Ruian Automotive Components Co., Ltd., or Mianyang Brilliance Ruian, respectively, to centralize and consolidate the sourcing of automotive parts and components for Shenyang Automotive, Ningbo Yuming, and Mianyang Xinchun, respectively. In order to maintain their preferential tax treatment from the Chinese government, Xing Yuan Dong, Ningbo Brilliance Ruixing and Mianyang Brilliance Ruian all began manufacturing automotive components in 2001.

Under an acquisition agreement dated April 25, 1998 between Shenyang Automotive and Shenyang State Assets Administration Bureau, Shenyang Automotive was to acquire a 21.0% indirect interest in Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd., or Shenyang Aerospace, a Sino-foreign equity joint venture. A revised agreement was subsequently signed on August 15, 1999 among Shenyang Automotive, Shenyang State Assets Administration Bureau, Shanghai Brilliance Industrial Company Limited and Xing Yuan Dong, under which Shenyang Automotive's effective interest in Shenyang Aerospace was reduced to 16.8% in exchange for cash consideration and the remaining 4.2% effective interest was transferred to Xing Yuan Dong at cost. At the completion of the transfer on May 25, 2000, Brilliance China Automotive's indirect effective interest in Shenyang Aerospace was 12.8% with Mitsubishi Motors Corporation, or MMC, Mitsubishi Corporate, China Aerospace Automotive Industry Group Co., MCIC Holdings Sdn. Bhd. and Shenyang Jianhua Motors Engine Co., Ltd., or Shenyang Jianhua, owning equity interests of 25.0%, 9.3%, 30.0%, 14.7% and 21.0%, respectively. Pursuant to a share transfer agreement dated September 29, 2005, Shenyang Jianhua agreed to sell to MMC 2% interest in Shenyang Aerospace. The transfer has yet to be approved by the relevant authorities in China. Upon completion of the transfer, each of Shenyang Jianhua and MMC will own an equity interests of 19.0% and 27.0% in Shenyang Aerospace, respectively. Upon completion of the acquisition of additional shares in JinBei and the receipt of approvals from relevant PRC authorities for the transfer, which is expected by the end of 2006, Brilliance China Automotive's effective interest in Shenyang Aerospace will increase to approximately 14.6%.

At the end of 1998, Shenyang Automotive began to construct new production lines for the manufacture of sedans and multi-purpose vehicles, or MPVs. These new production lines were completed in mid-2002 and reached a total annual production capacity of 100,000 sedans or MPVs as at the end of 2002. Beginning in 1999, Shenyang Automotive implemented an expansion of its minibus facilities that resulted in an increase in its annual production capacity for deluxe and mid-priced minibuses from 40,000 units to 70,000 units in 2002 (based on two shifts per day). The stamping and assembly workshops currently have annual production capacities of 80,000 and 90,000 units, respectively, based on two shifts of workers, and can be increased to 120,000 units based on three shifts. In 2003, Shenyang Automotive constructed a new painting facility with a capacity of 120,000 units per year. In June 2005, Shenyang Automotive invested and built a new engine plant with an initial planned capacity of 50,000 engines per year. The new engine plant is expected to commence commercial production in late June 2006.

On December 17, 2001, Shenyang Automotive entered into an agreement with Toyota Motor Corporation for the transfer of technology relating to the fifth generation of the Toyota minibus, the Granvia, which Shenyang Automotive markets under the brand name Granse (known as Grace before February 2004) in China. Production of this minibus model based on semi-knockdown kits from Toyota began in the second half of 2002 and commercial production using domestic parts and components commenced in the second half of 2004.

The Zhonghua sedan, designed by the world-renowned Italdesign, was launched to the market in China in August 2002, after approval for production and sale of the Zhonghua sedan was obtained from the Chinese government in May 2002. The latest model, Junjie, was launched in March 2006.

On March 27, 2003, Brilliance China Automotive, through its indirect subsidiary, SJAI, entered into a joint venture contract with BMW Holding to produce and sell BMW sedans in China. On April 28, 2003, Brilliance China Automotive increased its effective interest in SJAI from 81% to 89.1% and thereby increased its effective interest in the joint venture with BMW Holding BV from 40.5% to 44.6%. On December 16, 2003, Brilliance China Automotive further increased its effective interest in the joint venture to 49.0% by further increasing its interest in SJAI from 89.1% to 98.0%. BMW Brilliance received its business license on May 22, 2003 and introduced the BMW designed and branded 3-Series and 5-Series sedans in China in October and November of 2003, respectively, based on

knockdown kits supplied by BMW. BMW Brilliance also launched the new 3-Series sedans in China in September 2005. Since the first half of 2004, BMW Brilliance had begun to incorporate domestically produced components in its 3-Series and 5-Series sedans.

Brilliance China Automotive currently has no material acquisitions or divestitures planned or pending.

For additional information see Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures .

Table of Contents**Business Overview**

Brilliance China Automotive's core businesses are the manufacture and sale of minibuses and Zhonghua sedans in China through its subsidiary, Shenyang Automotive. Brilliance China Automotive also has a joint venture with BMW Holding to produce and sell 3-Series and 5-Series sedans in China. In 2005, Shenyang Automotive sold a total of approximately 60,000 minibuses and 9,000 Zhonghua sedans. In the year ended December 31, 2005, a total of 17,501 of the BMW sedans were sold. Currently, Shenyang Automotive has an annual production capacity of 80,000 units of deluxe and mid-priced minibuses (based on two shifts per day), 120,000 units of deluxe and mid-priced minibuses (based on three shifts per day), and 70,000 units of Zhonghua sedans (based on two shifts per day). BMW Brilliance currently has an annual production capacity of 30,000 units (based on two shifts per day). In addition, Brilliance China Automotive has also established strategic partnerships or working relationships with various other leading global automotive companies, including Toyota, Mitsubishi, FEV Motorentechnik GmbH, Porsche and Italdesign S.p.A.

Shenyang Automotive's production facilities are located in the industrial city of Shenyang, the capital of Liaoning Province in northeastern China. Shenyang Automotive's principal products are the deluxe minibus, the mid-priced minibus and the Zhonghua sedan. Mid-priced minibuses accounted for approximately 54.7% of the total sales revenue of Brilliance China Automotive in 2005. The deluxe and mid-priced minibuses are 8 to 15-seat minibuses adapted from Toyota's Hiace minibus (marketed under the name of Hiase in China) and Granvia minibuses (marketed under the name of Granse in China).

In 2001, Shenyang Automotive began to install multiple electronic fuel injection engines, which are currently used in all of Shenyang Automotive's mid-priced minibuses. With the installation of this engine in the mid-priced minibus, currently all of Shenyang Automotive's minibuses meet European II emission standards. Since 2004, the Chinese government has been encouraging its automobile manufacturers to meet the European III emission standards. Currently, most of the minibuses and Zhonghua sedans with manual transmissions have complied with the European III emission standards. It is expected that all remaining minibuses and Zhonghua sedans will meet the European III emission standards by the end of 2007.

On May 22, 2003, BMW Brilliance received its business license issued by the Shenyang City Administration for Industry and Commerce. Commercial production of BMW-designed and branded sedans commenced in September 2003 based on knockdown kits supplied by BMW Group. The 3-Series BMW sedans were launched in the market in October 2003 and the 5-Series were launched in November 2003. BMW Brilliance launched new versions of the 3-Series in September 2005. Since the first half of 2004, BMW Brilliance had begun to incorporate domestically produced components in its 3- and 5-Series sedans. However, a large portion of the production of these vehicles, especially the newly introduced sedans, is still primarily based upon complete knockdown parts supplied by BMW Group.

In 2005, Shenyang Automotive's sales volume decreased 5.0% from approximately 72,600 units in 2004 to approximately 69,000 units in 2005. The 2005 sales figure comprises approximately 60,000 minibuses and approximately 9,000 Zhonghua sedans. The decrease in overall sales was primarily due to the decrease in the sales volume of minibuses and the significant decrease in the sales volume of the Zhonghua sedans due to general production overcapacity and intensified price competition in China's automobile industry. Our joint venture, BMW Brilliance sold 17,501 BMW-branded sedans in 2005, compared to 8,708 in 2004. Shenyang Automotive's sales in China has been supported by a substantial network of approximately 200 minibus distributors, including approximately 100 exclusive minibus distributors, and approximately 120 sedan distributors, as well as approximately 380 after-sales service centers for minibuses and approximately 190 for sedans. Shenyang Automotive also continued to implement its 4S sales center system, with sales, after-sales service, spare parts and surveys offered by the same dealership outlet. As of the end of 2005, Shenyang Automotive had approximately 70 4S dealership outlets for minibuses and approximately 70 4S dealership outlets for Zhonghua sedans nationwide.

For the year ended December 31, 2005, Brilliance China Automotive reported sales of Rmb 5,469.0 million (US\$677.7 million), representing a decrease of approximately 16.4% compared to 2004 and net loss of Rmb 671.3 million (US\$83.2 million) compared with a net income of Rmb 1.2 million (US\$0.14 million) in 2004. The decrease in sales and net loss was primarily due to the decrease in sales volume of Shenyang Automotive, especially for the Zhonghua sedans, and the decrease in average unit selling prices, resulting from general production

overcapacity and intensified price competition faced by the PRC automobile manufacturers in 2005 that were exacerbated by rising global fuel prices, which led to an increase in petrol prices in the PRC.

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Principal Products

Shenyang Automotive's principal products are minibuses and the Zhonghua sedans. Our joint venture with BMW, BMW Brilliance, also produces BMW 3- and 5-Series sedans.

Shenyang Automotive's principal minibus products are the deluxe minibus and the mid-priced minibus, which constituted approximately 17.5% and 54.7% of Brilliance China Automotive's total sales revenue in 2005, respectively. These vehicles are used primarily for passenger transportation but can also be modified for use as police vans, ambulances or other specialty vehicles. Shenyang Automotive sells all of its minibuses under the JinBei brand name in a variety of models designed to meet the requirements of particular market segments. Brilliance China Automotive believes that Shenyang Automotive's minibuses have established a reputation in China for high quality and reliability that has enabled Shenyang Automotive to maintain its market-leading position in recent years. Shenyang Automotive commenced production of the high-end Granse model in 2002 based on semi-knockdown kits from Toyota and started production of the domestic version of the Granse model using domestic parts and components in the first half of 2004.

Shenyang Automotive's Zhonghua sedan was introduced to the commercial market in China in August 2002 and constituted approximately 20.2% and 15.8% of Brilliance China Automotive's total sales revenue in 2004 and 2005, respectively. The initial model was a five-seat manual transmission sedan with a 4-cylinder, 2.0-liter Mitsubishi engine. Shenyang Automotive now also produces manual transmission Zhonghua sedans with 2.4-liter engines and automatic transmission versions with both 2.0-liter and 2.4-liter engines. In December 2004, the facelift version of the Zhonghua model, known as Zunchi, was launched. In March 2006, Shenyang Automotive launched another Zhonghua model, Junjie, which features a 1.6-liter, 1.8-liter or 2.0-liter engine with manual or automatic transmission.

The following table sets forth certain information with respect to Shenyang Automotive's principal products as of the date of this annual report.

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	Deluxe Minibus (Granvia or Granse Model)	Deluxe Minibus (Hiase Model)	Mid-priced Minibus (Hiase Model)	Zhonghua Sedan Zunchi	Zhonghua Sedan Junjie
Maximum number of passengers	7-8	15	15	5	5
Engine type	Toyota 4-cylinder 2.7 liter gasoline engine and Mianyang Xinchun 2.7 liter gasoline engine	Toyota 4-cylinder 2.4 liter gasoline engine and Mitsubishi 2.4 liter gasoline engine	Mianyang Xinchun and Shenyang Xinguang 4-cylinder 2.2 liter gasoline engine	Mitsubishi 4-cylinder 2.0 and 2.4 liter gasoline engine	Mitsubishi 4-cylinder 1.8 and 2.0 liter and Mitsubishi DongAn 1.6 liter gasoline engine
Horsepower	105	100.6	92.5	122-130	134-173
Price Range in Rmb⁽²⁾	119,800-239,800	121,800-156,800	64,800-101,800	105,800-209,800	85,800-128,800
Fuel Consumption (Liters/100 km)⁽³⁾⁽⁴⁾	10	10	9.8	6.8(MT)/7.6(AT)	10.1 (MT)/10.7 (AT)
Maximum speed⁽⁴⁾	158 km/hr	130 km/hr	130 km/hr	195 km/hr (MT)/185 km/hr (AT)	185 km/hr (MT)/180 km/hr (AT)
Domestic component content	> 80%	> 85%	100%	92-100%	90-99%
Length	4.7 m	4.8 m	4.8 m	4.88 m	4.65 m

(1) Known as Grace before February 2004.

(2) Actual price depends on specific model.

(3) Based on an average speed of 50-55 kilometers per hour for minibuses and

80 kilometers
per hour for
sedans.

- (4) MT denotes
manual
transmission
and AT denotes
automatic
transmission.

The following table sets forth certain information with respect to BMW Brilliance's principal products as of the date of this annual report.

Models	BMW Brilliance 3-Series Sedan Series 320 and 325	BMW Brilliance 5-Series Sedan Series 520, 525 and 530
Maximum number of passengers	5	5
Engine types	BMW 4 and 6-cylinder 1.9 liter and 2.5 liter gasoline engines	BMW 6-cylinder 2.0 liter, 2.5 liter and 3.0 liter gasoline engines
Horsepower	150 218 bhp	170 231 bhp
Price range in Rmb⁽¹⁾	338,000 454,200	484,300 648,800
Fuel Consumption (Liters/100 km)⁽²⁾	7.4 8.4	9.8 9.9
Maximum speed	220 245 km/hr	230 250 km/hr
Length	4.52 m	4.84 m

- (1) Actual price
depends on
specific model.

- (2) Based on an
average speed
of 80 kilometers
per hour.

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Deluxe minibus. The deluxe minibus has historically been Shenyang Automotive's flagship product and is among the highest quality, most technologically advanced minibuses currently produced in China. The deluxe minibus is used primarily as a passenger vehicle and features air conditioning, optional power steering, power windows, automatic locks, a rear window wiper, full interior carpeting and alternative interior configurations.

Shenyang Automotive's high-end products have been further improved to incorporate more user-friendly features to meet diversified customer demands. In the deluxe line, Shenyang Automotive has introduced a locally developed model, based on the Toyota 441N, which is equipped with an anti-lock braking system, improved helix rear suspension and refined interior trim. It has the highest technical content among Shenyang Automotive's product lines.

On December 17, 2001, Shenyang Automotive entered into an agreement with Toyota for the technology transfer of the fifth generation of the Toyota minibus—the Granvia—for which production based upon semi-knockdown kits from Toyota commenced in 2002. Shenyang Automotive began producing the Granvia using domestic parts in the first half of 2004. The Granvia is marketed under the brand name Granse (known as Grace before February 2004) when sold in China by Shenyang Automotive. The Granse minibus exhibits several improvements over the fourth generation minibus, including more responsive performance when carrying heavy loads, better handling, better maneuverability, 360-degree interior moveable seats and a more luxurious and comfortable interior.

Mid-priced minibus. The mid-priced minibus was developed by Shenyang Automotive and was commercially introduced in the second half of 1996. Shenyang Automotive produces two principal mid-priced minibus models, both of which are based on the deluxe minibus and share the same styling and body of the deluxe minibus, with the principal difference being the engine. By equipping the majority of these models with a domestically manufactured Mianyang Xincheng or Shenyang Xinguang engine, Shenyang Automotive is able to sell them for significantly less than the deluxe minibus, yet still maintain function and quality standards for these models that are only slightly lower than the deluxe minibus. This has allowed the mid-priced minibus models to compete more effectively in terms of price with other domestically produced products. See Competition below.

In 2002, Shenyang Automotive introduced three new minibus models to the market, including mid-priced minibuses that utilize Mitsubishi engines and in 2003 Shenyang Automotive launched the updated versions of these minibus models. In 2004, Shenyang Automotive launched lower-priced models with more limited features in response to market demand and in the first half of 2005, a lower-priced domestic version of the Granse was launched. Early 2006, Shenyang Automotive launched the manual transmission model of the minibuses meeting the European III emission standards.

Since the end of 2003, Shenyang Automotive's minibus capacity has been 80,000 units per year (based on two shifts) and 120,000 units per year (based on three shifts). Brilliance China Automotive believes that its long-term interests require that Shenyang Automotive continue to expand its production capacity. Any increase in Shenyang Automotive's future revenue will depend on its ability to continue to expand in a similar manner. Realization of its production and sales goals is also contingent upon other factors, including the development of new vehicle models, the ability to continue to achieve overall cost reductions, ongoing access to high-quality raw materials and domestic component manufacturers and maintenance of a large well-trained labor force, an effective distribution network and after-sales service capabilities.

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Zhonghua sedan. The Zhonghua sedan was designed by Italdesign and was commercially introduced by Shenyang Automotive in August 2002 after receiving approval from the Chinese government in May 2002. This sedan is designed to target the mid-priced sedan market segment, including governmental institutions, businesses and individual users in China. This sedan model was specifically designed for the Chinese market and utilizes a high degree of domestic component content, thereby offering cost advantages to consumers. In 2003, Shenyang Automotive spent approximately Rmb 200.0 million on upgrading the Zhonghua production facilities and related dies and tools.

On March 27, 2001, Brilliance China Automotive entered into a three-year technical assistance agreement with BMW Group under which BMW engineers provide consulting services to help in the initial stages of production of Zhonghua sedans at Shenyang Automotive's sedan production facilities in Shenyang, including assistance in achieving and maintaining the desired level of production quality. A similar agreement entered into in early 2006 between Shenyang Automotive and BMW Group regarding the technical support program for the Junjie sedan will expire in July 2006.

The following table sets forth Brilliance China Automotive's revenues by category, for the years 2003 through 2005:

	2003		2004		2005	
	Revenue (Rmb million)	%	Revenue (Rmb million)	%	Revenue (Rmb million)	%
Minibus sales						
Deluxe minibus	1,284	12.7	960	14.7	958	17.5
Mid-priced minibus	4,962	49.1	3,797	58.1	2,989	54.7
Zhonghua sedan sales ⁽¹⁾	3,345	33.1	1,324	20.2	863	15.8
Subtotal	9,591	94.9	6,081	93.0	4,810	88.0
Other sources of income ⁽²⁾	519	5.1	461	7.0	659	12.0
Total	10,110	100.0	6,542	100.0	5,469	100.0

(1) Commercial launch of the Zhonghua sedan occurred in August 2002.

(2) Including sales of components and scrap metal.

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The following table sets forth the geographic breakdown of Shenyang Automotive's minibus and Zhonghua sedan sales revenue throughout China for the years 2003 through 2005:

Province/ Municipality	2003		2004		2005	
	Revenue (Rmb million)	%	Revenue (Rmb million)	%	Revenue (Rmb million)	%
Beijing	1,686	17.6	1,131	18.6	755	15.7
Guangdong	1,502	15.7	821	13.5	529	11.0
Liaoning	964	10.1	644	10.6	567	11.8
Shanghai	720	7.5	566	9.3	452	9.4
Jiangsu	660	6.9	389	6.4	283	5.9
Zhejiang	686	7.1	328	5.4	188	3.9
Shandong	465	4.8	237	3.9	183	3.8
Tianjin	257	2.7	183	3.0	115	2.4
Heilongjiang	212	2.2	134	2.2	82	1.7
Hebei	226	2.4	128	2.1	87	1.8
Hubei	189	2.0	128	2.1	82	1.7
Hunan	180	1.9	128	2.1	96	2.0
Shaanxi	165	1.7	128	2.1	77	1.6
Henan	168	1.7	110	1.8	106	2.2
Sichuan	240	2.5	103	1.7	115	2.4
Shanxi	106	1.1	103	1.7	72	1.5
Fujian	184	1.9	91	1.5	63	1.3
Jilin	136	1.4	85	1.4	72	1.5
Chongqing	145	1.5	85	1.4	48	1.0
Xinjiang	117	1.2	79	1.3	63	1.3
Yunnan	89	0.9	79	1.3	43	0.9
Anhui	102	1.1	79	1.3	53	1.1
Guangxi	96	1.0	73	1.2	34	0.7
Jiangxi	77	0.8	55	0.9	34	0.7
Inner Mongolia	44	0.5	49	0.8	34	0.7
Guizhou	52	0.5	30	0.5	19	0.4
Hainan			18	0.3	106	2.2
Other ⁽¹⁾	123	1.3	97	1.6	452	9.4
Total	9,591	100.0	6,081	100.0	4,810	100.0

(1) Gansu, Ningxia, Qinghai and Tibet as well as export to other countries.

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On March 14, 2003, Brilliance China Automotive received formal approval from the Chinese government with respect to the feasibility study for the establishment of a joint venture between BMW Holding, a wholly owned subsidiary of BMW AG, and SJAI, an indirect subsidiary of Brilliance China Automotive. On March 27, 2003, SJAI entered into a joint venture contract with BMW Holding in relation to the establishment of the joint venture in China. On April 28, 2003, Brilliance China Automotive, through its indirectly 90%-owned subsidiary, SXID, entered into an agreement with the 10% shareholder of SJAI to acquire an additional 9% interest in SJAI, thereby increasing its effective interest from 40.5% to 44.6%. On December 16, 2003, by increasing its indirect interest in SJAI from 89.1% to 98.0%, Brilliance China Automotive effectively further increased its interest in BMW Brilliance to 49.0%.

The registered capital and total investment cost of the joint venture is Euro 150 million and Euro 450 million, respectively. As of December 31, 2005, Brilliance China Automotive had injected approximately Rmb 688.5 million into the joint venture. The joint venture is 50%-owned by each of SJAI and BMW Holding and has a term of 15 years starting from May 22, 2003, the date of issuance of the joint venture's business license, which may be extended by mutual consent of the parties to the joint venture. The business scope of the joint venture is to produce and sell BMW-designed and branded passenger cars, engines, parts and components and to provide after-sales services (including repair, maintenance and spare parts) relating to its products. Profits of the joint venture are shared equally by SJAI and BMW Holding, in proportion to their respective contributions to the registered capital of the joint venture. This joint venture contract prohibits Brilliance China Automotive from entering into similar ventures with other automobile manufacturers for the manufacture and sale of premium sedans in China.

Brilliance China Automotive has agreed to provide a guarantee to BMW Holding in relation to the performance by SJAI of its obligations under the joint venture contract. A reciprocal guarantee has been provided by BMW AG to SJAI in respect of the obligations of BMW Holding under the joint venture contract. In addition, Brilliance China Automotive has been indemnified by SAIAM and Shenyang JinBei Automobile Industry Company Limited with respect to its liabilities under this guarantee to BMW Holding.

On May 22, 2003, the business license for the joint venture was issued by the Shenyang City Administration for Industry and Commerce. BMW Brilliance started the production of the 3-Series BMW sedans in September 2003 and the 5-Series BMW sedans in November 2003 based on semiknockdown kits supplied by BMW Group. In September 2005, BMW Brilliance launched a new model of the 3-Series BMW sedans. Since the first half of 2004, BMW Brilliance had begun to incorporate domestically produced components in its 3-Series and 5-Series sedans. However, a large portion of the production of these sedans, especially the newly introduced sedans, is still primarily based on complete knockdown parts supplied by BMW Group.

Production Process*Minibus Production Process and Equipment*

Stamping. Shenyang Automotive produces its own semi-finished steel sheets for stamping on a roll, drop and stack production line. Stamping is carried out at nine production stations that utilize 36 domestic and imported presses, the largest of which is calibrated at 3,200 tons and is used to stamp roofs and side panels for the deluxe and mid-priced minibuses. The 198 and 277 dies used for stamping and cutting body components for the Hiase and Granse minibuses, respectively, were purchased from Toyota. Substantially all of the stamped metal vehicle components utilized in Shenyang Automotive's minibuses are produced in this stamping workshop.

Welding. The welding workshop consists of 2 production lines and 13 process conveying lines, among which the Hiase has 6 lines and the Granse has 7 lines. Each line is focused on a different section of the minibus. These lines were manufactured with Toyota technology and utilize a combination of manual welding and automatic robotic welding, the latter of which is utilized for the more difficult welding points. Each welding station is equipped with a domestically manufactured testing machine. The annual production capacity based on two shifts is 120,000 units among which 80,000 units are dedicated to the existing minibuses and 40,000 units to the Granse.

Painting. Shenyang Automotive currently operates a 50,000 square foot painting workshop that was set up at the beginning of 2004 to enhance the production capacity. The new painting workshop has three floors, each with its own function. The new workshop has an annual production capacity of 120,000 units, with space reserved for expansion up to an annual production capacity of 150,000. The new workshop uses a painting method that combines the use of a conveyor, automated machine and robotic machine. Steps taken to prepare the vehicle body for painting include de-greasing, rinsing, phosphatization and electrophoretic coating. Using the 3C1B process, each of three coats of paint is applied by a sprayer to the minibus body and dried in a heated drying chamber. The specialized pre-painting preparation of the vehicle allows the frame to withstand corrosion for eight years. Also, the high standard of cleanliness in the painting workshop and the advanced paint sprayers used allow Shenyang Automotive to reduce environmental pollution, provide better working conditions for the painting workshop employees, conserve raw materials and ensure that each minibus receives three consistent, high-quality coats of paint. Finally, various quality control tests are conducted, including measurement of the luster and thickness of the paint on each vehicle.

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Assembly. Shenyang Automotive's final assembly workshop is equipped with a combination single slot, hanging and double slot conveyor. The conveyor is 570 meters long, has 86 separate workstations and is capable of producing minibuses at the rate of one every 160 seconds. Shenyang Automotive also developed jointly with the Shenyang Automation Research Center of the China Science Institute an automated lifting system that is used in the assembly of the power train, rear chassis and crank case, as well as a computerized hydraulic machine for carrying out the transfer from a single rail conveyor onto a hanging line conveyor—the first of its kind to be developed in China.

Testing. Shenyang Automotive employs an advanced comprehensive vehicle testing system to ensure that each vehicle conforms to specifications, including wheel alignment, exhaust emissions, steering, braking and engine performance and testing, and windshield leakage testing. All of these final testing procedures are also supported by a comprehensive quality control staff that monitors each step of the production process. See Business Overview—Quality Control below.

Zhonghua Sedan Production Process and Equipment

Stamping. At present, 147 pieces for 206 types of large and medium parts of the Zhonghua sedan (including Zunchi and Junjie) are produced in the stamping (or pressing) workshop. There are 593 imported and domestically produced moulds, five large and medium pressing lines, among which the line producing large (2,300 ton) parts was imported from Schuler of Germany and is equipped with robots to handle automated production. There is also an uncoiling and blanking line from Schuler, which can supply parts for up to seven production lines, as well as a 100-ton molding press imported from Kawasaki of Japan. The other pressing lines were purchased from a domestic equipment manufacturer.

Welding. The welding workshop is required to assemble and weld 394 separate panels, 30 machined parts, 10 roll-pressed parts and 30 standard parts. This line was designed, manufactured and installed by Kuka of Germany. The welding line consists of 24 zones and 331 stations, and is capable of spot-welding, carbon dioxide welding, project welding, T-stud welding, sealing, brazing and hemming. At present, there are 43 working robots in this workshop, which are used to weld, seal and inspect at the most important stations on the line. The SKID apparatus that transports components both on the ground and overhead adds speed and efficiency to the welding process.

Painting. Zhonghua sedans and the BMW-branded sedans share the same painting line. All of the equipment used in the painting line is provided by Durr of Germany, and the paint supply system was imported from Graco of the United States. Steps involved in the body painting process include pre-treatment, E-coat, sealing, PVC, primer, top-coat and cavity wax. The painting line is highly mechanized and automated, with a central control system imported from Siemens. The painting line may switch paints of different colors within 10 seconds and 15 paints of different colors may be used in the same painting line. All of the paints and other materials utilized in paint workshop are high quality products sourced both from within China and abroad.

Assembly and Testing. The performance of the assembly and testing workshop is guided by an information system based on bar code technology. The layout of the final assembly shop is designed by Schenck Engineering of Germany and consists of the body buffer line, main production line, test line, water proof line, finishing line and marriage line, as well as various sub-lines and a rework area. The assembly line utilizes a double-track conveyer system for transporting the vehicles through each process.

Instrument Production. The instrument panel workshop, occupying an area of 3,700 square meters, produces Zhonghua instrument panels. The processes include vacuum shaping, foaming, hydrocutting and welding, and use seven different machines. The workshop has a high production capacity for the production of parts and assembly of instrument panels.

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BMW Sedan Production Process

The automotive production process employed by BMW Brilliance is generally divided into four stages: welding, painting, assembly and testing. In each stage, BMW Brilliance utilizes equipment primarily imported from Germany. Each stage of the manufacturing process is also carefully monitored both by quality control engineers and through specialized testing equipment to ensure that the final product achieves the specified BMW Group's quality standards.

Welding. The manufacturing and welding process in the welding workshop is performed according to the BMW Group's global standard. The dimensional quality is checked with a CMM Machine from Wenzel Company of Germany. The sourced welding equipment is from standard suppliers in Germany. The welding workshop contains stud welding, spot welding, mig welding and sealing operations. The line operators have been trained by the BMW Group's specialists and the process is controlled by the BMW Group's specialists from Germany. The quality checks and audits are consistent with those performed at other BMW Group plants.

Painting. All of the equipment used in the painting line is provided by Durr of Germany, and the paint supply system was imported from Graco of the United States. Steps involved in the body painting process are highly mechanized and automated, with a central control system imported from Siemens. All of the paints and other materials utilized in the paint workshop are high quality products sourced both from within China and abroad.

Assembly. The assembly workshop consists of two areas, both using conveyor systems designed by the German supplier AFT with 58 line stations in total, as well as handling devices for heavy parts from Dalmecc Company.

Testing. The finishing and testing equipment is located in the second area of the assembly workshop. A wide range of special equipment used in BMW Group's plants worldwide is used to test 100% of the cars produced.

Raw Materials and Components

Raw Materials. To ensure its supply of high-quality domestic raw materials, components and spare parts, Shenyang Automotive has established stable relationships with over 280 suppliers in China as of December 2005. Shenyang Automotive sources the majority of its important components and raw materials from at least two different suppliers to ensure availability and increase competition among suppliers. In 2005, approximately 62.1% of Shenyang Automotive's components sourcing was handled through Brilliance China Automotive's subsidiaries and associated companies.

Steel is the principal raw material for Brilliance China Automotive's products. Shenyang Automotive purchases steel predominantly through the use of supply contracts. Since steel represented only approximately 7.2%, 6.2% and 6.1% of the total cost of goods sold for the Hiase minibus, Granse minibus and the Zhonghua sedans in 2005, respectively, the impact of rising steel prices on Shenyang Automotive's overall production costs was not significant. Furthermore, this increase in the costs for steel was offset by decreases in the costs of components due to a decrease in prices of the minibus components used in the minibuses and an increase in the ratio of domestically produced components used in the Zhonghua sedans.

Components. Shenyang Automotive has adopted a system that regularly evaluates its existing suppliers. These suppliers range from well-known international suppliers to domestic suppliers with special technology and know-how. Shenyang Automotive has conducted a comprehensive survey of its suppliers against an array of criteria, such as quality problem feedback ratio, production capacity, quality assurance systems and after-sales services. Implementing this process has enabled Shenyang Automotive to build a stronger supplier network as the foundation for future growth.

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The domestic component content of the deluxe minibuses is currently 85% for the Hiase model and over 80% for the Granse model. The principal components of the Hiase deluxe model that we continue to import from Toyota are the engines and the rear axles. Shenyang Automotive has developed deluxe minibuses that would utilize Mitsubishi engines made by Shenyang Aerospace in order to offer a greater variety of products to its customers. These new models have a higher domestic component ratio. Mitsubishi engines have already been installed in some of the deluxe minibus (Hiase model) units.

The mid-priced minibus uses almost 100% domestic parts and the domestic component content of the Zhonghua sedan is over 90%. Brilliance China Automotive calculates domestic component content by looking through larger components, such as engines, produced by domestic Chinese entities to determine the percentage of such component's own components that were manufactured outside China.

Because certain components are imported from Toyota and other suppliers in Japan and Europe, the availability of foreign exchange, exchange rates, import restrictions and the level of import duties may affect the availability of certain components and Shenyang Automotive's costs of production. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources .

Shenyang Automotive is required to pay import duties on imported automobile components. Shenyang Automotive was subject to an average tariff rate of 9.7% and 12.1% on imported components used in its deluxe minibuses (including Granse minibuses) and Zhonghua sedans, respectively, in 2005. During 2005, imported components comprised approximately 2.2% of the total costs of all minibuses. In addition, imported components comprised 3.6% of the total costs of the Zhonghua sedan during 2005. Changes in foreign currency exchange rates also affect the cost of foreign-manufactured components imported by China's domestic manufacturers to make larger components, such as engines, which we purchase domestically. The total aggregate import tariffs paid by Shenyang Automotive for 2005 were approximately Rmb 15.2 million (US\$1.9 million). However, as a result of China's accession to the WTO, import tariffs on motor vehicle components decreased to between 4.8% and 25% effective January 1, 2003. In 2004, the import tariff on motor vehicle components ranged between 5.0% and 22.9% and in 2005, between 5.0% and 18.6%. In January 2006, the import tariffs on automotive components were further reduced to between 5.0% and 14.3%. A decrease in import tariffs will result in a decrease in the percentage of the total cost of minibuses and sedans that imported components comprise.

Brilliance China Automotive intends to continue its efforts to increase domestic component content for both deluxe minibuses and sedans, while at the same time emphasizing quality. See Item 5 Operating and Financial Review and Prospects .

Other Significant Subsidiaries, Jointly Controlled Entities and Associated Companies

Brilliance China Automotive believes that the acquisition of interests in strategic components suppliers has and will continue to broaden its revenue base, increase the reliability of the supply of certain core components of Shenyang Automotive's and BMW Brilliance's minibuses and sedans, enhance their ability to monitor component quality and facilitate greater coordination among the management and engineering personnel and their respective principal suppliers.

Mianyang Xincheng

Mianyang Xincheng, directly and indirectly through Xing Yuan Dong (described below), accounted for 5.4% of Shenyang Automotive's purchases of parts and components in 2005. Mianyang Xincheng's principal product is the 2.2 liter 491Q gasoline engine. In 2000, Mianyang Xincheng also began producing the 491QE electronic fuel injection engine on a mass production basis to satisfy the market's demand for products that can meet new higher emission standards. In 2001, Mianyang Xincheng developed three additional passenger vehicle gasoline engines. As a result, Shenyang Automotive has access to engines suited to a full range of light-duty passenger vehicles. Mianyang Xincheng had annual sales of Rmb 485.3 million in 2005. Shenyang Automotive, which installs Mianyang Xincheng's 491Q engine in most of its mid-priced minibuses, accounted for 56.1% of Mianyang Xincheng's sales in 2005. Mianyang Xincheng currently manufactured 491Q, 4G24, 495QF and 4R engines. It sold over 55,000 engines in 2005. Mianyang Xincheng's overall annual sales of gasoline engines in 2005 decreased by 21.0% from 2004. Mianyang Xincheng's current annual production capacity is 180,000 gasoline engines and 20,000 diesel engines. Mianyang Xincheng is planning to upgrade its existing engines and introduce new diesel engines by 2007.

In March 2004, the technology center of Mianyang Xinchun was designated by the PRC governmental authorities as a State-class enterprise technology center, becoming only the second State-class enterprise technology center in the PRC automotive gasoline engine industry.

Table of Contents*Ningbo Yuming*

Ningbo Yuming, directly and indirectly through Xing Yuan Dong and Ningbo Brilliance Ruixing (described below), accounted for 4.1% of Shenyang Automotive's purchases of parts and components in 2005. Ningbo Yuming's principal products are automobile window molding, anti-collision strips, stripping, as well as a front independent suspension system (including a high performance front axle) for use in light passenger vehicles. Ningbo Yuming had annual sales of Rmb 199.1 million in 2005. Ningbo Yuming intends to further develop front axles for use in different types of light duty vehicles to enlarge its market share in the safety components market. Ningbo Yuming received ISO-9002 accreditation in December 1999. Shenyang Automotive, which uses Ningbo Yuming's products in all of its deluxe minibuses, mid-priced minibuses and Zhonghua sedans, accounted for approximately 93.4% of Ningbo Yuming's sales in 2005. Shenyang Automotive also granted Ningbo Yuming the status of Class A Supplier in 1999, which it continues to hold.

Shenyang Xinguang

Shenyang Xinguang is principally engaged in the manufacture and sale of gasoline engines for use in passenger vehicles and light duty trucks. In 2005, engine purchases by Shenyang Automotive for use in mid-priced minibuses accounted for 42.6% of Shenyang Xinguang's total sales revenue, which amounted to Rmb 247.7 million. Shenyang Xinguang currently produces 491Q, 4G20 and 4G22 engines and has a production capacity of 60,000 engines per year. It sold over 30,900 engines in 2005.

Shenyang Xinguang started to further develop upgraded versions of the 491Q engine in 2005. These new 16-valve engines 4G20 and 4G22 have greater power and are designed to satisfy European III and IV emission standards. They are suitable for use in JinBei minibuses and Zhonghua sedans. Shenyang Xinguang produces this new engine by using part of its existing 491Q facilities, together with a new production line. Capacity for these 4G20 and 4G22 engines is 40,000 units per year. Shenyang Xinguang sold over 200 new engines in 2005.

Xing Yuan Dong, Ningbo Brilliance Ruixing and Mianyang Brilliance Ruian

Xing Yuan Dong assists Shenyang Automotive in obtaining and developing a reliable supply of domestically produced parts and components. Xing Yuan Dong also facilitates development of locally produced automotive parts and components and acts to improve the quality of these components. When a customized component is needed, Xing Yuan Dong provides potential suppliers with designs and specifications for the customized parts and components required by Shenyang Automotive. These potential suppliers liaise with Xing Yuan Dong and negotiate with Xing Yuan Dong about the details of production. Xing Yuan Dong then selects appropriate suppliers and offers technical assistance and cost evaluations. Xing Yuan Dong continuously strives to reduce the number of Shenyang Automotive's suppliers, lower costs, increase the efficiency and commitment of the remaining suppliers, streamline the component purchasing process and ensure a steady supply of high quality components. In 2001, Xing Yuan Dong, in order to maintain its preferential tax treatment from the PRC government, also began manufacturing automotive components for Shenyang Automotive. In 2005, 99.3% of Xing Yuan Dong's sales were to Shenyang Automotive.

Ningbo Brilliance Ruixing was established on June 9, 2000 as a wholly owned subsidiary of Brilliance China Automotive to facilitate the trading and development of automotive components between Ningbo Yuming and Shenyang Automotive. In 2005, 99.3% of Ningbo Brilliance Ruixing's sales were made to Shenyang Automotive through Xing Yuan Dong and 74.1% of Ningbo Brilliance Ruixing's purchases were from Ningbo Yuming. Beginning in 2001, Ningbo Brilliance Ruixing also began manufacturing automotive components for Shenyang Automotive. Ningbo Brilliance Ruixing's principal products are automatic mirrors and front axles.

Mianyang Brilliance Ruian was established on July 3, 2000 as a wholly owned subsidiary of Brilliance China Automotive to facilitate the trading and development of automotive components for Mianyang Xinchun. In 2005, 7.7% of Mianyang Brilliance Ruian's sales were made to Mianyang Xinchun and 90.6% of Mianyang Brilliance Ruian's sales of its manufactured automotive components were made to Shenyang Automotive through Xing Yuan Dong. In 2001, Mianyang Brilliance Ruian also began manufacturing automotive components for Shenyang Automotive.

Table of Contents*Shenyang Aerospace*

Shenyang Aerospace was formed for the purpose of manufacturing the 2.0-liter, 122 horsepower and the 2.4-liter, 130 horsepower Mitsubishi gasoline engines. Shenyang Aerospace commenced trial operation in March 1999. Shenyang Automotive uses these engines in its deluxe minibuses and in the Zhonghua sedans. In addition, Shenyang Aerospace's engines are also sold domestically to other passenger vehicle producers. Mitsubishi Motors Corporation, or MMC, Mitsubishi Corporation, China Aerospace Automotive Industry Group Co., MCIC Holdings Sdn. Bhd. and Shenyang Jianhua Motors Engine Co. Ltd., or Shenyang Jianhua, own equity interests of 25.0%, 9.3%, 30.0%, 14.7% and 21.0%, respectively, in Shenyang Aerospace. Pursuant to a share transfer agreement dated September 29, 2005, Shenyang Jianhua agreed to sell to MMC 2% interests in Shenyang Aerospace. The transfer was yet to be approved by the relevant authorities in the PRC. Upon the completion of the transfer, each of Shenyang Jianhua and MMC will own equity interests of 19.0% and 27.0% in Shenyang Aerospace, respectively. Upon completion of the acquisition of additional shares of JinBei and the receipt of approvals from relevant PRC authorities for the transfer, which are expected to be by the end of 2006, Brilliance China Automotive's effective interest in Shenyang Jianhua will increase to 76.6% and consequently Brilliance China Automotive's effective interest in Shenyang Aerospace will increase to approximately 14.6%.

Brilliance Dongxing and Xingchen Automotive Seats

In December 2001, Brilliance China Automotive entered into an agreement with Brilliance Holdings Limited for the acquisition of the entire issued share capital of Key Choices Group Limited, or Key Choices, at a consideration of approximately Rmb 278.2 million. Key Choices is an investment holding company and its principal assets are the 100% equity interest in the registered capital of Brilliance Dongxing and a 90% equity interest in the registered capital of Shenyang Xingchen Automotive Seats Co., Ltd., or Xingchen Automotive Seats. Brilliance Dongxing is a foreign-invested enterprise established in the PRC whose principal products are automotive components for use in passenger vehicles. In 2005, Brilliance Dongxing had annual sales of approximately Rmb 137.6 million and all of its sales were to Shenyang Automotive and other group companies. Xingchen Automotive Seats is a Sino-foreign equity joint venture established in the PRC in December 2001 that formerly was principally engaged in the manufacturing of automotive seats. However, Xingchen Automotive Seats ceased its operations in the second half of 2002.

Brilliance JinBei Engine Plant

In 2004, Shenyang Brilliance Jinbei Automobile Co., Ltd., or JinBei invested in a new engine plant located in the Shenyang Economic and Trade Development Zone. Construction on this plant was completed in December 2004 and the plant occupies 280,000 square meters of land, with a building size of approximately 64,000 square meters and a main workshop area of 52,000 square meters. FEV Motorentechnik GmbH provided certain technologies relating to engine production, and most of the required equipment was imported from Germany.

The first product currently under development at this plant is a four-cylinder, 16-valve multiple injection 1.8TCI turbo-charged engine for sedans. This engine will form the core of the new Brilliance China Automotive family of engine products and serve as the basis for expanding the size of engines used in Shenyang Automotive sedans from 1.6 liters to 2.0 liters. The development of 1.8 liter engines began in 2005, and these engines are expected to be offered to the market in the second half of 2008, with trial production commenced in 2006.

The engines will be mainly manufactured for use in Zhonghua sedans and the minibuses, but will also be open for sale to third party automotive manufacturers both domestically and abroad. The targeted capacity for the first phase of development is 50,000 engines per year, with two subsequent phases having targeted capacity of 100,000 and 200,000 engines per year, respectively. The first phase will require Rmb 1.13 billion in investment for completion. The intellectual property rights over the engines developed are owned by Brilliance China Automotive.

Table of Contents*Shenyang Brilliance Power Train Machinery Co., Ltd.*

Shenyang Brilliance Power Train Machinery Co., Ltd. is a PRC joint venture that was established in December 2004 by Shenyang Automotive and Brilliance China Automotive with registered capital of US\$22.9 million. Shenyang Automotive holds a 51% equity interest and Brilliance China Automotive holds a 49% equity interest. Brilliance China Automotive is established to purchase engines, manual and automatic transmissions and other components from various suppliers, including the Brilliance JinBei Engine Plant, to assemble completed powertrains for the engines made by Brilliance JinBei Engine Plant that can be used in automobiles, in particular Zhonghua sedans. The plant was in operation from the end of 2005. In addition to use in Zhonghua sedans, the powertrain products will also be sold to the external market. The target customers are automobile makers that have no powertrain manufacturing capacity of their own.

Shenyang Chenfa Automobile Component Co., Ltd.

Shenyang Chenfa Automobile Component Co., Ltd., or Shenyang Chenfa, is a wholly foreign-owned enterprise held by Brilliance China Automotive, with a registered capital of US\$8.0 million and a total investment of US\$8.4 million. Its scope of business is the production and sale of powertrains and automotive components. Shenyang Chenfa was established in June 2003 and currently has over 50 employees. The main product of Shenyang Chenfa is powertrains for Mitsubishi engines used in the Zhonghua sedan, of which it is capable of producing 40,000 units per year. This line has been in operation for more than one year. It also has an engine manifold production line and a cam bearing frame production line with a capacity of 50,000 units per year. Shenyang Chenfa is also responsible for purchasing engine management systems and other automotive components for Brilliance China Automotive.

Sales and Marketing

The following tables set forth by vehicle model for the years 2003 through 2005 the number of Shenyang Automotive minibuses and sedans sold and BMW Brilliance sedans sold and the percentage of unit sales represented by each model:

Shenyang Automotive

	2003		2004		2005	
	Units Sold	%	Units Sold	%	Units Sold	%
Shenyang Automotive						
Deluxe minibus	9,004	9.0	6,626	9.1	9,940	14.4
Mid-priced minibus	65,614	65.5	54,992	75.8	50,060	72.6
Zhonghua sedan	25,600	25.5	10,982	15.1	9,000	13.0
Total	100,218	100.0	72,600	100.0	69,000	100.0

BMW Brilliance

BMW sedans ⁽¹⁾	4,359	100.0	8,708	100.0	17,501	100.0
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(1) Commercial launch of the BMW sedans was in the fourth quarter of 2003.

Shenyang Automotive's marketing efforts are supervised by its general manager and are conducted primarily through a regionalized sales program under which Shenyang Automotive has divided China into six major sales regions and three sales belts, each headed by an experienced senior executive. These regions are further subdivided

into 30 provincial sales regions for minibuses and 26 provincial sales regions for sedans. Each of these sales regions corresponds to a separate province in China. These units are responsible for meeting defined sales targets, with the executives' compensation linked to performance. In addition, Shenyang Automotive implements a commission compensation package for its sales personnel and rewards with bonuses its non-sales personnel who develop customer leads that result in minibus sales. The retail prices and commission scales are both nationally unified by Shenyang Automotive, thereby preventing cross-regional sales and counter-productive price wars. Shenyang Automotive's minibuses and Zhonghua sedans are marketed through its nationwide sales network as well as annual automobile industry trade shows and at special sales shows sponsored by JinBei and Shenyang Automotive. Approximately 95% and 68% of Shenyang Automotive's 2005 unit sales of minibuses and sedans, respectively were made to its distributors and approximately 5% and 32%, respectively, were made directly to customers.

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Shenyang Automotive's sales in China has been supported by a substantial network of approximately 100 exclusive minibus distributors and approximately 120 sedan distributors, as well as approximately 380 after-sales service centers for minibuses and approximately 190 for sedans. Shenyang Automotive also continued to implement its 4S sales center system, with sales, service, spare parts and surveys offered by the same dealership outlet. As of December 31, 2005, Shenyang Automotive had approximately 70 dealership outlets for minibuses and approximately 70 dealership outlets for sedans, which had achieved the 4S dealership standard.

Shenyang Automotive's minibus and sedan sales were generally made on a cash basis in 2005. However, credit is offered to a few large customers following a financial assessment and an established payment record. Credit terms are generally between 30 to 90 days and security in the form of guarantees or bank notes is obtained from major customers. Designated staff monitors accounts receivable and follow up collection with the customers. Customers considered to be of high credit risk are traded on a cash basis. In addition, in order to incentivize customers and facilitate sales, Shenyang Automotive also accepts three-month to six-month bank-endorsed notes as payment for its minibuses and sedans.

Shenyang Automotive has 5 regional distribution centers in order to shorten delivery lead-times and to increase cost efficiencies. Also, by utilizing transportation methods such as trucking, rail and shipping, Shenyang Automotive ensures that most vehicles are not driven until they reach the end users. In 2005, all finished products were delivered to customers with zero mileage.

The following table sets forth the geographic breakdown of Shenyang Automotive's minibus and sedan unit sales throughout China for the years 2003 through 2005:

Province/Municipality	2003				2004				2005			
	Minibuses		Sedans		Minibuses		Sedans		Minibuses		Sedans	
	Units	%	Units	%	Units	%	Units	%	Units	%	Units	%
Beijing	15,679	21.0	2,876	11.2	13,031	21.1	1,002	9.1	10,395	17.3	453	5.0
Guangdong	13,000	17.4	3,158	12.3	9,385	15.2	825	7.5	7,107	11.8	467	5.2
Liaoning	7,780	10.4	2,408	9.4	6,173	10.0	1,145	10.4	6,461	10.8	1,650	18.3
Shanghai	6,571	8.8	1,301	5.1	6,933	11.3	296	2.7	6,347	10.6	141	1.6
Jiangsu	5,415	7.3	1,550	6.1	4,254	6.9	569	5.2	3,915	6.5	138	1.5
Zhejiang	5,071	6.8	2,002	7.8	3,534	5.7	505	4.6	2,578	4.3	88	1.0
Shandong	2,221	3.0	2,114	8.3	1,927	3.1	812	7.4	2,313	3.9	296	3.3
Tianjin	1,683	2.3	870	3.4	1,512	2.5	552	5.0	1,468	2.4	185	2.1
Heilongjiang	1,542	2.1	614	2.4	1,094	1.8	334	3.0	1,079	1.8	94	1.0
Hebei	1,351	1.8	862	3.4	1,089	1.8	361	3.3	1,187	2.0	44	0.5
Hubei	1,343	1.8	595	2.3	1,104	1.8	373	3.4	1,136	1.9	53	0.6
Hunan	1,274	1.7	572	2.2	1,006	1.6	408	3.7	1,125	1.9	275	3.1
Shaanxi	998	1.3	651	2.5	993	1.6	447	4.1	958	1.6	126	1.4
Henan	1,013	1.4	614	2.4	937	1.5	299	2.7	1,285	2.1	207	2.3
Sichuan	1,063	1.4	1,161	4.5	751	1.2	386	3.5	1,007	1.7	623	7.0
Shanxi	806	1.1	274	1.1	815	1.3	323	3.0	922	1.5	143	1.6
Fujian	1,184	1.6	637	2.5	811	1.3	229	2.1	824	1.3	98	1.1
Jilin	848	1.1	523	2.0	845	1.4	146	1.3	950	1.6	55	0.6
Chongqing	882	1.2	541	2.1	549	0.9	351	3.2	476	0.8	232	2.6
Xinjiang	1,080	1.5	237	0.9	764	1.3	166	1.5	830	1.4	90	1.0
Yunnan	301	0.4	482	1.9	674	1.1	244	2.2	551	0.9	90	1.0
Anhui	776	1.0	317	1.2	748	1.2	201	1.8	663	1.1	101	1.1
Guangxi	662	0.9	299	1.2	681	1.1	161	1.5	478	0.8	30	0.3
Jiangxi	446	0.6	301	1.2	440	0.7	193	1.8	396	0.7	120	1.3
Inner Mongolia	373	0.5	99	0.4	355	0.6	203	1.9	414	0.7	92	1.0
Guizhou	231	0.3	246	1.0	139	0.2	166	1.5	161	0.3	110	1.2

Hainan	8				175	0.3	39	0.4	1,519	2.5	31	0.3
Other⁽¹⁾	1,017	1.3	296	1.2	899	1.5	246	2.2	3,455	5.8	2,968	33.0
Total	74,618	100.0	25,600	100.0	61,618	100.0	10,982	100.0	60,000	100.0	9,000	100.0

(1) Gansu, Ningxia, Qinghai and Tibet as well as export to other countries.

Generally, Shenyang Automotive's sales are the highest in the second and fourth quarters of the year.

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The Chinese government continues to encourage the development of the relatively underdeveloped, resource-rich western provinces of China and significant government resources have been allocated in the past to develop the infrastructure of the western provinces. Brilliance China Automotive believes the government's policy regarding western China will be conducive to the development of the local automotive markets. Although Brilliance China Automotive's largest market today remains in the eastern coastal provinces, Brilliance China Automotive believes that the market in the western provinces of China represent substantial upward growth potential in the future. Brilliance China Automotive will continue to expand its dealership system in that region to tap into this potential growth.

Approximately 26.9 % of consolidated revenues in 2005 were generated from Shanghai Shenhua Holdings Co., Ltd. (formerly known as Shanghai Brilliance Group Co., Ltd. and Shanghai Shenhua Industrial Co., Ltd.) or Shanghai Shenhua. Shanghai Shenhua is an affiliate of Brilliance China Automotive that serves as the principal distributor of Shenyang Automotive's products. Shanghai Shenhua operates under substantially the same commercial terms and arrangements with Shenyang Automotive as its other third party distribution agents. However, in southern China, where it sells solely to distributors on an exclusive basis, Shanghai Shenhua receives additional compensation for operating after-sales service centers, which was a 1% commission on sales until January 2003.

Shenyang Automotive uses a computerized sales monitoring system to accurately identify customer demographics, determine which products and options are most in demand and improve inventory control. As Shenyang Automotive brings more product options to market, Brilliance China Automotive believes that this computer system will provide Shenyang Automotive with the ability to track customer preferences in various regions and adjust its production and distribution efforts accordingly.

In 2005, Shenyang Automotive spent approximately Rmb 177.0 million (US\$21.9 million) on overall advertising, consisting primarily of Internet, television and print advertising.

Competition

The Chinese minibus manufacturing industry is highly fragmented and competitive. According to the Chinese Automotive Technology & Research Center, in 2005, approximately 40 manufacturers sold an aggregate of 137,873 minibuses. The top five manufacturers sold an aggregate of 112,798 minibuses during the same period. Significant competitive factors in the industry include price, quality, reliability and customer service. Brilliance China Automotive believes that Shenyang Automotive is competitive in all of these respects, and particularly in terms of quality, although Shenyang Automotive has experienced competition in recent years from other manufacturers producing lower priced, mid-range minibuses.

The Chinese sedan manufacturing industry is also very competitive and fragmented. The top five brands account for 40.9% of the overall market based on unit sales volume. The market shares of the three leading manufacturers have been decreasing over the past several years. New models are being introduced on an increasingly rapid basis as the number of new entrants into the market has also increased. Unit sales of domestically produced sedans totaled 3,131,950 units in 2005, making sedans the largest segment of the Chinese automotive market, accounting for 51.5% of the overall market. Due to the implementation of macro-economic policies and austerity measures, the domestic demand for automobiles in China has declined significantly since the second half of 2004. Nevertheless, sedans are widely expected to continue to be the fastest growing segment of the Chinese automobile market over the next few years. However, while vehicle ownership is expected to continue to increase steadily in China as a result of increasing individual disposable income, there is also expected to be increasing pricing pressure as tariff rates decline and competition continues to grow from domestic, foreign and foreign-invested sedan manufacturers.

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Historically, Chinese motor vehicle producers have been exposed to little competition from non-Chinese enterprises, partly as a result of import restrictions on foreign-made components and motor vehicles. However, as a result of China's accession to the WTO, which regulates trading and tariffs among its signatory states, in November 2001, China committed to reducing its import restrictions on motor vehicles and motor vehicle components. In addition, China will be required to conform its import tariffs to the uniform tariffs under the WTO.

Effective January 1, 2002, China reduced its import tariffs on motor vehicles and automotive components from between 80% to 100% and between 18% to 40%, respectively, to between 43.8% to 50.7% and between 14.0% to 31.4%, respectively. This range was lowered further to between 4.8% and 25% for automotive components in 2003, between 5.0% and 22.9% in 2004 and between 5.0% and 18.6% in 2005. In January 2006, the import tariffs on automotive components were further reduced to between 5.0% and 14.3%. Tariffs on vehicles with nine seats or less and engine sizes of three liters or below fell from 43.9% in 2002 to 38.2% in 2003, while tariffs on vehicles with more than nine seats and engines of more than three liters decreased from 50.7% in 2002 to 43.0% in 2003. In 2004, tariffs were 34.2% for vehicles with nine seats or less and engine sizes of three liters or less and 37.6% for vehicles with more than nine seats and engines of more than three liters. In 2005 tariffs have been fixed at 30% of all motor vehicles. These tariffs levels were reduced to 28% in January 2006 and are scheduled to be further to 25% in July 2006. Such reductions in tariffs and import restrictions could potentially increase the competition Brilliance China Automotive will face from foreign manufacturers.

Listed below are Shenyang Automotive's current main competitors in the Chinese minibus and sedan market. The data listed for each is based on information published by the China Automotive Technology & Research Centre for the year ended December 31, 2005 regarding the Chinese automotive industry:

Minibus

Southeast Motors. Southeast Motors is currently 25% owned by Taiwan China Motors, 50% owned by Fujian Provincial Automobile Industry Company and 25% owned by Mitsubishi. Southeast Motors has launched over thirty different models of light passenger vehicles (including minibuses) under the Delica and Freeca brand names and also launched the MPV in 2004. Southeast Motors has an annual production capacity of 60,000 minibuses in 2005. Its sales volume in 2005 was 12,827 minibuses, representing a 32.8% decrease from 19,080 minibuses in 2004. Delica series includes seven-, eight- and eleven-seat ordinary, luxury and super luxury models and is currently priced between Rmb 79,800 to Rmb 199,800.

Nanjing Iveco. In 1995, Italy's Fiat Auto Company and Yuejin Group established Nanjing Iveco Automotive Company, Ltd., a 50-50 equity joint venture, for the manufacture of 33 models of five-ton passenger, goods and off-road vehicles in the Iveco S series. Models currently in production include the A30, A40 and A49 passenger vehicles, as well as a separate series of goods vehicles. Nanjing Iveco has an annual production capacity of 60,000 vehicles. In 2005, Nanjing Iveco sold 12,885 vehicles, representing a 23.8% increase from 10,407 minibuses in 2004. Its minibuses are currently priced between Rmb 112,900 to Rmb 206,900.

Jiangling Motors. Jiangling Motors Corp. of Jiangxi Province is currently 50% owned by the Ford Motor Company and 50% owned by the Changan Group. Jiangling Motors produced China Transit, a Ford brand minibus, light trucks and pick-ups. At present, China Transit is available in 15-seat, 12-seat and 9-seat versions. In 2005, Jiangling Motors sold a total of 18,887 minibuses, representing a 37.3% increase from 13,752 vehicles in 2003. Production capacity was approximately 100,000 per year by the end of 2005. Its minibuses are currently priced between Rmb 118,800 to Rmb 193,600.

Table of Contents*Zhonghua Sedan*

Brilliance China Automotive considers the following companies to be its main competitors in the market for sedans with engine size between 1.8 liter to 2.0 liter and priced between Rmb 100,000 and Rmb 200,000, which includes the Zhonghua sedan:

First Auto Works Group of the PRC. First Auto Works is one of the largest automotive companies in the PRC. First Auto Works Hongqi sedan was launched in 2001 and is considered one of the PRC government's showcase PRC-made sedans. Its latest model is known as the Hongqi Mingshi, was launched in 2004, and has a 1.8-liter engine with four doors. It is priced at approximately Rmb 159,800 to Rmb 198,800, similar to the Zhonghua sedan. First Auto Works sold 6,664 Honqi Mingshi sedans in 2005, representing a 3.8% decrease from 2004.

Shanghai Volkswagen Automotive. Shanghai Volkswagen Automotive was one of the original state-designed automobile manufacturers in the PRC. It is currently 50% owned by Volkswagen AG of Germany and 50% owned by Shanghai Automotive Industry Corp. It still holds a dominant share of the PRC sedan market and competes with the Zhonghua sedan through the Santana 3000 sedans. The Santana 3000 has a 1.78-liter engine and sells for between Rmb 118,000 to Rmb 149,000. In 2005, Shanghai Volkswagen Automotive sold 56,953 units of Santana 3000 sedans representing a 36.9% decrease from 2004.

Beijing Hyundai. Beijing Hyundai was established in 2002 as a 50-50 joint venture between Beijing Auto Investment and Hyundai Motor Co. of South Korea. It currently produces and sells the Sonata 2.0-liter, Sonata 2.5-liter and Sonata 2.7-liter, and the newly-introduced Elantra 1.6-liter and 1.8-liter models. The Sonata 2.0-liter sells for approximately Rmb 149,800 to Rmb 228,000. The Elantra 1.8 liter sedan sells for approximately Rmb 112,800 to Rmb 151,800. In 2005, Beijing Hyundai sold 45,006 units and 176,589 units of the Sonata 2.0 liter and the Elantra, respectively, representing an increase of 14.7% and 71.9%, respectively.

BMW Sedans

Brilliance China Automotive currently considers the Audi and Mercedes-Benz sedans produced by FAW Volkswagen and Beijing Benz Daimler Chrysler Auto Co. Ltd., respectively to be its closest competitors in the domestic market for high-end luxury cars produced in the PRC in terms of quality, craftsmanship, price, performance and technology.

FAW Volkswagen. FAW Volkswagen is 10% owned by Audi AG, 30% by Volkswagen AG and 60% by First Auto Works of China. FAW Volkswagen produces and sells the Audi A4 and A6 sedans and the Volkswagen Jetta and Bora sedans in the PRC. FAW Volkswagen's Audi sedans have a dominant share of the PRC's premium sedan market. FAW Volkswagen sold 46,177 and 42,331 units of Audi A6 sedans in 2004 and 2005, respectively. The Audi A4 sedan was formally launched in the PRC's market in 2003 and had a total sales volume of 15,841 and 7,770 in 2004 and 2005, respectively. A new Audi A6 was launched in June 2005. The Audi A4 sedan currently sells for between Rmb 275,400 to Rmb 479,500, and the new Audi A6 sedan sells for between Rmb 349,800 to Rmb 674,900.

Beijing Benz. Beijing Benz Daimler Chrysler Auto Co Ltd., or Beijing Benz, a 50-50 joint venture between Daimler Chrysler and Beijing Automotive Industry Holding Company, obtained a license to produce the Mercedes-Benz C-Class and E-Class sedans in the PRC in August 2005. Beijing Benz launched its domestically produced models of E280 and E200K in December 2005. These E-Class sedans currently are sold between Rmb 525,000 and Rmb 639,800 in the PRC. The vehicles are produced in a new facility in Beijing with an initial production capacity of 20,000 units per year.

Brilliance China Automotive does not consider current foreign importers of luxury cars with similar quality, craftsmanship, performance and technology to be direct competitors for the BMW sedans as they are subject to import tariffs and restrictions and cannot be priced competitively with BMW Brilliance's locally produced BMW sedans.

Table of Contents**Governmental Regulation**

The automobile industry in the PRC is controlled at the central government level by the National Development and Reform Commission, or NDRC and the Ministry of Commerce. These entities were created as a result of the governmental restructuring that commenced in March 2003. The NDRC generally oversees and regulates the automobile industry in the PRC and any new product or new automobile production facility must obtain the prior approval of this body before entering the market. Similarly, approval from the Ministry of Commerce must be obtained prior to any changes to existing products or the expansion of existing facilities. Both of these entities must also approve any Sino-foreign joint venture for the production of automobiles.

On June 1, 2004, the NDRC issued a new automobile policy to replace the one that had been in place since 1994. Two of the policy's stated goals are industry consolidation and enhancement of corporate capacity for research and development. To further these goals, the new policy sets minimum levels of investment for new plants and research and development. Engine plant investments are required to be over Rmb 1.5 billion and new automobile manufacturing projects must be over Rmb 2.0 billion. New automobile projects must also include a product research and development investment of at least Rmb 500 million.

In contrast to the old regulations, foreign investors in the automobile and motorcycle market will now be allowed to control more than 50% of a joint venture with the PRC partners if the joint venture is located in an export processing zone and plans to sell its products in overseas markets. The new policy will also allow foreign investors to establish more than two joint venture plants in the PRC to produce the same categories of vehicles if they do so with their existing PRC partners through acquisitions of other companies in the PRC.

The new policy acknowledges the success of the PRC's automobile industry and seeks to encourage this pillar industry to foster further growth, particularly of domestically produced and branded products and research and development, through consolidation of smaller, less-efficient manufacturers and increased foreign and domestic investment. In addition, the policy aims to centralize or reorganize certain automobile-related sectors, such as consumer loan services, to reduce overhead and administrative burdens on the industry and allowing industry participants to focus on their core businesses.

By encouraging industry consolidation and establishing clearer guidelines for foreign investment, the policy, in the opinion of Brilliance China Automotive, encourages existing players in the industry to grow and provides incentives for targeted investment from both domestic and foreign sources. Certain implementing regulations have and more such regulations are expected to be promulgated by the NDRC in the future.

On February 28, 2005, the General Administration of Customs, the NDRC, the Ministry of Finance and the Ministry of Commerce jointly issued the Administrative Measures on the Import of Automobile Parts with Complete Vehicle Characteristics. This measure sets up detailed standards and procedures of the identification of automobile parts with complete vehicle characteristics and treats automobile parts with complete vehicle characteristics, which include semi-knocked down kits, as complete vehicle imports and imposes vehicle import tariffs instead of component tariffs on them. Current vehicle import tariff level is 28% (scheduled to fall to 25% by July 2006) whereas current component tariff levels are between 5% and 14.3%.

On April 1, 2006, the State Administration of Taxation of the PRC, in an effort to encourage environmental protection and fuel efficiency, re-adjusted consumption tax rates on passenger vehicles. Before the re-adjustment, the consumption tax rate for passenger vehicles was a three-tiered system: 3% for automobiles with engine displacement lower than 1.0-liter; 5% for automobiles with engine displacements between 1.0 liter and 2.0-liter, and 8% for automobiles with engine displacements above 2.0-liter. After the re-adjustment, tax rates on vehicles with smaller engines (under 2.0-liter) either fell or remained unaltered, whereas tax rates on automobile with larger engines were raised. The new tax rates are: 3% for 0.0-1.5-liter; 5% for 1.51-2.0-liter; 9% for 2.01-2.5-liter; 12% for 2.51-3.0-liter; 15% for 3.01-3.5-liter; and 20% for 4.0-liter and above.

Table of Contents**Quality Control**

As a result of technical and managerial training from Toyota and technical assistance from BMW, Shenyang Automotive has adopted a highly regimented production quality management system for its minibuses and sedans. This two-fold system concentrates both on the quality of the raw materials and other production inputs and on the production process itself. In the production process, the focal point of quality control is the production line worker, who undergoes extensive training and testing to ensure that he or she performs the assigned task to the highest quality standards and is qualified and able to determine on his or her own whether or not the product meets the required specifications. In addition, Shenyang Automotive's specialized quality control engineers are present at each step of the production process, with 16, 16 and 12 separate quality inspection points for Hiase minibuses, the Granse minibuses and Zhonghua sedans, respectively.

In addition, Shenyang Automotive has established a quality improvement unit to supervise and monitor after-sales service centers in major regional sales bases, such as Guangzhou, Shanghai and Beijing, which also serve as channels for information feedback on product quality. Designated personnel are assigned to follow-up on finding remedies for recurring quality issues in a timely manner.

Shenyang Automotive was granted the internationally recognized ISO-9001-94 quality system certificate in October 1995, making it the first major automobile manufacturer in China to be awarded such certificate. Shenyang Automotive has successfully obtained recertification in each subsequent year by demonstrating a continued commitment to upholding among the highest quality standards in China's automobile industry. To date, approximately 149, 85 and 34 of Shenyang Automotive's over 280 component suppliers achieved TS16949, QS-9000 and VDA 6.1 quality system certification, respectively, and approximately 40 are accredited by ISO-9000.

After-Sales Service

In 2005, Shenyang Automotive's minibuses are sold with a 24-month or 50,000 kilometers (18-month or 30,000 kilometers for minibuses sold in 2002 and 2001) first-to-occur limited warranty. The Zhonghua sedans were sold with a 36-month or 60,000 kilometers (24-month or 40,000 kilometers for sedans sold in 2002) first-to-occur limited warranty. In addition to these basic limited warranties, during 2003 Shenyang Automotive also offered customers a broader warranty for its Zhonghua sedans. During the warranty period, Shenyang Automotive pays service stations for parts and labor covered by the warranty; thereafter, customers must pay for all parts and labor. In December 2004, Zunchi sedans were sold with a 10-year or 200,000 kilometers first-to-occur limited warranty on key components. In 2005, total warranty costs for minibuses and sedans sold during the year were approximately Rmb 26.0 million (US\$3.2 million) and Rmb 6.4 million (US\$0.8 million), respectively.

There are approximately 380 and approximately 190 service centers for Shenyang Automotive minibuses and sedans, respectively, throughout China, with centers clustered in areas that match distribution patterns of the vehicles. Such centers have been granted authority by Shenyang Automotive to service its minibuses and sedans, including the provision of repair services and the sale of spare parts. This extensive service network has enabled Shenyang Automotive to adopt its current policy of resolving routine customer complaints in all provincial capitals and major cities within 24 hours and major problems within three days.

To improve customer service, Shenyang Automotive continually reevaluates its existing distributors based on certain criteria, including financial soundness, customer service capabilities and customer complaint record. Shenyang Automotive has also implemented a more advanced 4S sales center system, with sales, service, spare parts and survey offered by the same dealership outlet. As of the end of 2005, Shenyang Automotive had approximately 70 and approximately 70 4S dealership outlets for its minibuses and sedans, respectively.

BMW Brilliance currently has approximately 60 distributors, which are mainly located in first tier cities in China. The number of distributors is expected to increase to over 80 by the end of 2006. Like Shenyang Automotive, BMW Brilliance implemented the more advanced 4S sales center system.

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Environmental Matters

The Chinese government has set vehicle safety, exhaust and performance standards with which Shenyang Automotive and BMW Brilliance must comply. Brilliance China Automotive believes that Shenyang Automotive's and BMW Brilliance's minibuses and sedans currently meet the standards imposed by the government. Their respective facilities are subject to government pollution regulations enforced by the Shenyang municipal government. If operations are found to be in violation, the government will allow a period of time to remedy the problem. If it should fail to do so, the government can force a shut-down of Shenyang Automotive's or BMW Brilliance's operations until such time as the violator complies with the regulations. To date, neither Shenyang Automotive nor BMW Brilliance has been cited as violating a government pollution regulation.

On January 1, 2000, the cities of Beijing and Tianjin, as well as Yunnan Province, put into effect emission standards that were significantly stricter than the then prevailing gasoline vehicle emission standards. Since then, these emission standards have been adopted nationwide. Shenyang Automotive's electronic fuel injection minibus, introduced in 1999, passed the emission standards tests at the China National Automobile Testing Center in Tianjin in October 1999. This engine not only produces cleaner emissions, but also achieved up to an 8% increase in fuel economy and a 3% increase in horsepower. In 2001, Shenyang Automotive began to install multiple electronic fuel injection engines, which are currently used in all of Shenyang Automotive's mid-priced minibuses. With the installation of this new engine in the mid-priced minibus, currently all of Shenyang Automotive's minibuses meet European II emission standards. All Zhonghua and BMW sedans also meet these emission standards. In 2004, the Chinese government began to encourage its vehicle manufacturers to meet the European III standards. Shenyang Automotive expects all of its minibuses and Zhonghua sedans to meet European III emission standards by the end of 2007. Currently, all minibuses and Zhonghua sedans with manual transmissions have complied with the European III emission standards.

Insurance

Shenyang Automotive currently hold insurance policies that Brilliance China Automotive believes are customary and standard for companies of comparable size in comparable industries in China. Shenyang Automotive does not carry product liability insurance, and Brilliance China Automotive believes it is customary and standard in the Chinese automobile industry for manufacturers not to carry product liability insurance. BMW Brilliance has elected to purchase product liability and other insurance in order to conform with BMW's worldwide standards. Brilliance China Automotive does not carry any business interruption insurance.

Table of Contents**Organizational Structure**

The following table lists information concerning the subsidiaries, jointly controlled entities and associated companies of Brilliance China Automotive as of December 31, 2005:

	Jurisdiction of Incorporation	Effective Interest held by Brilliance China Automotive
Subsidiaries		
Shenyang Brilliance JinBei Automobile Co., Ltd.	China	51.0%
Ningbo Yuming Machinery Industrial Co., Ltd.	China	100.0%
Shenyang XingYuanDong Automobile Component Co., Ltd.	China	100.0%
Shenyang Jianhua Motors Engine Co., Ltd.	China	60.8%
Ningbo Brilliance Ruixing Auto Components Co., Ltd.	China	100.0%
Mianyang Brilliance Ruian Automotive Components Co., Ltd.	China	100.0%
Shenyang JinBei Automotive Industry Holdings Company Ltd.	China	98.0%
Shenyang XinJinBei Investment and Development Co., Ltd.	China	99.0%
Shenyang Brilliance Dongxing Automotive Component Co., Ltd.	China	100.0%
Shenyang JinDong Development Co., Ltd.	China	75.5%
Shenyang ChenFa Automobile Component Co., Ltd.	China	100.0%
Shanghai Hidea Auto Design Co., Ltd.	China	63.3%
Shenyang Brilliance Power Train Machinery Co., Ltd.	China	75.0%
China Brilliance Automotive Components Group Limited	Bermuda	100.0%
Southern State Investment Limited	BVI	100.0%
Beston Asia Investment Limited	BVI	100.0%
Pure Shine Limited	BVI	100.0%
Key Choices Group Limited	BVI	100.0%
Brilliance China Automotive Finance Ltd.	BVI	100.0%
Jointly Controlled Entities		
Mianyang Xincheng Engine Co., Ltd.	China	50.0%
Shenyang Xinguang Brilliance Automobile Engine Co., Ltd.	China	50.0%
BMW Brilliance Automotive Ltd.	China	49.0%
Associated Companies		
Chongqing FuHua Automotive Sales Service Co., Ltd.	China	29.4%
Chongqing Baosheng Automotive Sale and Service Co., Ltd.	China	29.4%
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd.	China	12.8%

Property, Production Facilities and Equipment

The Shenyang municipal government granted to Shenyang Automotive the right to use three parcels of land situated in the northern, eastern and western sectors of Shenyang with a total area of approximately 960,000 square meters, approximately 90% of which is currently utilized by Shenyang Automotive and BMW Brilliance. These land use rights will expire in 2021.

The western parcel consists of 66,000 square meters, 40,000 square meters of which is occupied by a mid-priced minibus production facility that is capable of producing 12,000 vehicles per year. This facility is currently utilized to produce a small number of special purpose minibuses and can also be used to produce components as well.

The northern parcel covers 40,000 square meters and is used by Shenyang Automotive primarily as a technical training facility.

The eastern parcel covers 850,000 square meters, including Shenyang Automotive's and BMW Brilliance's production facilities. Shenyang Automotive's minibus facility currently has a production capacity of 80,000 minibuses per year (based on two shifts) and 120,000 minibuses (based on three shifts). This facility is specially designed for the manufacture and assembly of minibuses and consists of four workshops. The stamping and assembly workshops currently have annual production capacities of 80,000 and 90,000 units, respectively, based on two shifts of workers, and can be increased to 120,000 units based on three shifts. The painting workshop currently has an annual production capacity of 120,000, based on two shifts of workers.

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In 2003, Shenyang Automotive completed the construction of new manufacturing facilities for sedans (including the Zhonghua sedan), which has a production capacity of 100,000 units, based on two shifts per day. The new manufacturing facilities are located adjacent to Shenyang Automotive's previously existing minibus production facilities in the eastern parcel and include new pressing, welding, painting and final assembly lines. Dies and other key production equipment were purchased from leading European equipment manufacturers for the Zhonghua sedan. The total costs for completion of this expansion project were approximately US\$250.0 million, including new equipment, construction costs and other expenditures, but excluding the design costs for the sedans. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources .

Certain workshops in these new sedan manufacturing facilities are currently shared with BMW Brilliance, including part of a welding workshop for the BMW sedans, all of the painting facilities, and part of the Zhonghua sedan assembly shop, which is currently used by BMW Brilliance to test BMW sedans.

Shenyang Automotive has transferred legal titles and ownership of certain buildings in its eastern parcel to BMW Brilliance for use in the production of BMW sedans. The agreement also states that BMW Brilliance will lease back a substantial portion of those buildings to Shenyang Automotive. BMW Brilliance also has the option 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 were retained as fixed assets on the balance sheet of Brilliance China Automotive and the portion of consideration received from BMW Brilliance is treated as a financing and will be partially offset against the lease rental payable in future years.

In December 2003, BMW Brilliance purchased certain machinery and equipment from Shenyang Automotive for use in the production of BMW sedans. The agreement of sale includes an option for BMW Brilliance to require Shenyang Automotive to purchase back such machinery and equipment 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. This machinery and equipment is maintained by BMW Brilliance for the manufacturing of its products, as well as to provide certain services to Shenyang Automotive upon the payment of a service fee, which is a predetermined fixed charge per unit based on the number of Zhonghua sedans produced by Shenyang Automotive using this machinery and equipment.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with the rest of this annual report, including the consolidated financial statements and notes thereto contained elsewhere in this annual report. The results discussed below are not necessarily indicative of the results to be expected in any future periods.

Overview

Brilliance China Automotive is a holding company. Prior to 2002, Brilliance China Automotive's operating segment consisted solely of the manufacture and sale of minibuses and automotive components through its subsidiaries and associated companies within China. No separate financial information and segment information was disclosed. In 2002 and 2003, Brilliance China Automotive began manufacturing and selling Zhonghua sedans and BMW sedans through Shenyang Automotive and BMW Brilliance, respectively, which are managed separately because each of them represents a strategic business unit that serves a different market in the PRC automobile industry. Therefore, Brilliance China Automotive's reportable operating segments consist of (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. The accounting policies of each operating segment are the same. Brilliance China Automotive evaluates performance based on stand-alone operating segment net income and generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. Brilliance China Automotive's activities are conducted predominantly in China. Accordingly, no geographical segmentation analysis is provided.

Prior to May 1998, Brilliance China Automotive's sole operating asset was its interest in Shenyang Automotive. As a result, Brilliance China Automotive's historical results of operations had been primarily driven by the sales price, sales volume and cost of production of Shenyang Automotive's minibuses. With a view to maintaining quality, ensuring a stable supply of certain key components and developing new businesses and products, Brilliance China

Automotive acquired interests in various suppliers of components and established joint ventures in China since May 1998. As a result of these additional investments and joint ventures, Brilliance China Automotive's income base has been broadened and its future financial performance will differ from that of Shenyang Automotive.

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In May 1998, Brilliance China Automotive acquired indirect interests in two components suppliers: (1) a 51% equity interest in Ningbo Yuming Machinery Industrial Co., Ltd., a wholly foreign-owned Chinese enterprise primarily engaged in the production of automobile window molding, stripping and other auto components; and (2) a 50% equity interest in Mianyang Xincheng Engine Co., Ltd., a Sino-foreign joint venture manufacturer of gasoline engines for use in passenger vehicles and light duty trucks. On October 19, 2004, Brilliance China Automotive, through a subsidiary, entered into an agreement to acquire the remaining 49% interest in Ningbo Yuming. With the approval of the acquisition by the government on November 25, 2004, Ningbo Yuming became a wholly owned subsidiary of Brilliance China Automotive.

In October 1998, June 2000 and July 2000, Brilliance China Automotive established Shenyang XingYuanDong Automobile Component Co., Ltd., Ningbo Brilliance Ruixing Auto Components Co., Ltd. and Mianyang Brilliance Ruian Automotive Components Co., Ltd., respectively, as its wholly owned subsidiaries to centralize and consolidate the sourcing of auto parts and components for Shenyang Automotive. In 2001, all three companies, in order to maintain their preferential tax treatment from the Chinese government, began manufacturing automotive components as well.

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

In May 2002, Shenyang Automotive obtained the approval from the Chinese government to produce and sell its Zhonghua sedans in China. The Zhonghua sedans were launched in the market in August 2002. In March 2006, a new model of the Zhonghua sedan, Junjie, was launched in the market.

On March 27, 2003, Brilliance China Automotive, through its indirect subsidiary, Shenyang JinBei Automotive Industry Holdings Co., Ltd., or SJAI, entered into a joint venture contract with BMW Holding to produce and sell BMW-designed and branded sedans in China. The registered capital and total investment cost of the joint venture was Euro 150 million and Euro 450 million, respectively. At that time, Brilliance China Automotive's effective interests in SJAI and the joint venture with BMW were 81% and 40.5%, respectively. On April 28, 2003, Brilliance China Automotive increased its effective interest in SJAI from 81% to 89.1% and thereby increased its effective interest in the joint venture with BMW from 40.5% to 44.6%. On December 16, 2003, Brilliance China Automotive further increased its effective interest in SJAI from 89.1% to 98.0% and thereby increased its effective interest in the joint venture with BMW from 44.55% to 49.0%.

On December 29, 2003, Brilliance China Automotive entered into agreements in relation to the proposed acquisition of an indirect 40.1% interest in Shenyang JinBei Automotive Company Limited, the joint venture partner of Shenyang Automotive and a supplier of automotive components for Brilliance China Automotive's minibuses and sedans. Upon receipt of the necessary governmental approvals for this transaction, which is expected by the end of 2006, Brilliance China Automotive's effective interest in Shenyang Automotive will increase from 51% to approximately 70.7%.

On November 28, 2003, Brilliance China Automotive, through its wholly owned subsidiary, Brilliance China Automotive Finance Ltd., issued an aggregate principal amount of US\$200.0 million zero coupon convertible bonds due 2008. These bonds are guaranteed by Brilliance China Automotive and are convertible into fully paid ordinary shares with a par value of US\$0.01 of Brilliance China Automotive at an initial conversion price of HK\$4.60 per share at any time from January 8, 2004 to November 14, 2008, unless the bonds have previously been redeemed or matured. Brilliance China Automotive Finance Ltd. may redeem a portion of the convertible bonds in certain circumstances at 100% of their outstanding principal amount during the period from November 28, 2005 to November 14, 2008. In addition, all or some of the bonds may be redeemed at the option of the holder at 102.27% of their principal amount on November 28, 2006 and upon certain events, such as the change of control of Brilliance China Automotive or the shares of Brilliance China Automotive ceasing to be listed on The Stock Exchange of Hong Kong Limited, the bonds may be redeemed at the option of the holder at 100% of their outstanding principal amount. These bonds rank equally with all of Brilliance China Automotive's senior, unsecured and unsubordinated obligations. As of December 31, 2005,

none of the bonds had been converted into the ordinary shares of Brilliance China Automotive. The net proceeds of the convertible bond offering were advanced to Brilliance China Automotive and were then loaned to certain subsidiaries of Brilliance China Automotive for their operating use.

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On June 7, 2006, Brilliance China Automotive, through its wholly owned subsidiary, Brilliance China Finance Limited (formerly known as Goldcosmos Investments Limited), issued zero coupon guaranteed convertible bonds due 2011 with an aggregate principal amount of approximately US\$183.0 million (equivalent to approximately Rmb 1,467.1 million at the time of issue). These bonds are guaranteed by Brilliance China Automotive and are convertible by the holders into fully paid ordinary shares with a par value of US\$0.01 of Brilliance China Automotive at an initial conversion price of HK\$1.93 per share at any time from July 6, 2006 to May 8, 2011, unless the bonds have previously been redeemed or matured. Brilliance China Finance Limited may redeem the convertible bonds in whole but not in part in certain circumstances at the early redemption amount (as defined in the Trust Deed constituting the bonds and filed as an exhibit to this annual report) during the period from June 7, 2008 to May 8, 2011. In addition, each holder will have the right, at the option of the holder, to redeem in whole but not in part the convertible bonds at 122.926% of their principal amount on June 7, 2009. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 141.060% of their outstanding principal amount on June 7, 2011.

Production Volumes and Sales

Brilliance China Automotive derives its revenues from the sale of minibuses, sedans and automotive components in China. Total sales for the years ended December 31, 2005 and 2004 was Rmb 5,469.0 million and Rmb 6,542.0 million, respectively. The decrease in sales was primarily due to the decrease in sales volume of Shenyang Automotive, especially for the Zhonghua sedans, and the decrease in average unit selling prices, resulting from general production overcapacity and intensified price competition faced by the Chinese automobile manufacturers in 2005 that were exacerbated by rising global fuel prices which led to an increase in petrol prices in China.

The mid-priced minibus has proven to be Brilliance China Automotive's most popular and competitive product. Despite the general slowdown of automobile industry, Brilliance China was able to maintain its position as the market leader in the minibus market in 2005. Sales of deluxe minibuses, mid-priced minibuses, Zhonghua sedans and components represented 17.5%, 54.7%, 15.8% and 12.0%, respectively, of Brilliance China Automotive's total sales revenue in 2005. Brilliance China Automotive expects that the minibuses, together with the Zhonghua sedans, will continue to represent a significant proportion of its total revenue.

Costs and Expenses

The major elements of Shenyang Automotive's production costs in recent years have been the purchase of automotive components, labor and depreciation and amortization. Shenyang Automotive has significantly lowered its per unit production costs by improving operating efficiency, increasing production volume and increasing the domestic component content ratios of its deluxe and mid-priced models. As a result, average per unit production costs (including depreciation and amortization) for the deluxe model have been steadily decreasing over the past several years. The domestic component ratio of the Zhonghua sedans also increased from 60% in August 2002 to its current level between 90% to 100%.

In 2005, per unit production costs for minibuses remained relatively stable. The average per unit production costs for the Zhonghua sedans decreased by approximately 5.6% mainly due to the implementation of the cost reduction program and the increase in domestic component contents in 2005. Due to the intensified price competition brought about by the significantly weakened market and the change in product mix, prices of minibuses and Zhonghua sedans decreased in 2005 by an average of 9.0% and 20.0% respectively, compared to those in 2004. Gross profit decreased significantly from Rmb 1,050.7 million (US \$130.2 million) in 2004 to Rmb 457.0 million (US \$56.6 million) in 2005 as a result of intensified price competition resulting from overcapacity, continued rising prices of raw materials and weakened market sentiments.

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Imported components are generally more expensive than domestically produced components and were subject to import duties that have ranged as high as 120% since January 1992. However, as a result of China's accession to the WTO in November 2001, import duties on automotive components decreased to between 14% and 31.4% in 2002, between 4.8% and 25% in 2003, between 5% and 22.9% in 2004 and between 5% and 18.6% in 2005. In 2006, the import duties on automotive components was further reduced to between 5% and 14.3%. In 2004, Shenyang Automotive paid an average tariff of 13.8% and 10.5% on its minibus (including Granse minibus) and sedan components, respectively. In 2005, Shenyang Automotive was subject to an average tariff rate of 9.7% and 12.1% on imported components used in its deluxe minibuses (including Granse minibuses) and Zhonghua sedans, respectively. Shenyang Automotive intends to continue its efforts to increase the domestic component content of its products, while at the same time maintaining quality. However, Brilliance China Automotive expects that future improvements in domestic component content for its existing mid-priced and deluxe minibuses (other than the Granse model) will be at a rate slower than in prior years due to an already high domestic component content ratio, and the extent and rate of any corresponding price reductions are expected to be lower than in prior years. Brilliance China Automotive expects to increase the ratio of domestic components in the Granse minibus and the Zhonghua sedan. Brilliance China Automotive also expects BMW Brilliance to increase the domestic components ratio in its BMW sedans.

Results of Operations

	Year ended December 31,		
	2005	2004	2003
	(Thousands of Rmb)		
Sales to third parties	3,859,151	4,402,141	7,797,054
Sales to affiliated companies	1,609,839	2,139,857	2,312,503
Total sales	5,468,990	6,541,998	10,109,557
Cost of sales	(5,011,955)	(5,491,250)	(7,727,125)
Gross profit	457,035	1,050,748	2,382,432
Selling, general and administrative expenses	(1,195,336)	(1,510,442)	(1,410,067)
Interest expense	(182,354)	(182,458)	(167,111)
Interest income	60,189	58,800	52,672
Equity in earnings of associated companies and jointly controlled entities, net	48,995	126,261	109,471
Subsidy income	3,139	1,815	48,497
Other income, net	43,650	25,709	78,293
Impairment loss on intangible assets ⁽¹⁾	(173,000)	(50,000)	
Impairment loss on goodwill ⁽²⁾	(257,720)	(47,320)	
(Loss) income before taxation and minority interests	(1,195,402)	(526,887)	1,094,187
(Provision) benefit for income taxes	(101,884)	63,110	(144,140)
Minority interests	625,997	464,991	(169,205)
Net (loss) income	(671,289)	1,214	780,842

(1) In 2005, a provision for impairment of intangible assets of Rmb 173.0

million in respect of the design and development costs of the Zhonghua sedans was recognized.

- (2) In 2005, an impairment loss on goodwill of Rmb 257.7 million in relation to one of Brilliance China Automotive's jointly controlled entities and a subsidiary was recognized.

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Total sales of Brilliance China Automotive in the year ended December 31, 2005 were Rmb 5,469.0 million (US\$677.7 million), representing a 16.4% decrease from Rmb 6,542.0 million in 2004. The decrease in total sales from 2005 to 2004 was primarily due to the decrease in sales volume of Shenyang Automotive's minibuses and Zhonghua sedans and the decrease in average unit selling prices due to the intensified price competition of the Chinese automobile industry during 2005.

Total sales of the minibuses and automotive components segment were Rmb 4,605.9 million (US\$570.7 million) in the year ended December 31, 2005, representing a 11.7% decrease from Rmb 5,217.4 million in 2004. Sales of the Zhonghua sedans were Rmb 863.1 million (US\$107.0 million) in the year ended December 31, 2005, representing a 34.8% decrease from Rmb 1,324.6 million in 2004.

Shenyang Automotive sold approximately 60,000 minibuses in 2005, representing a 2.6% decrease from approximately 61,618 minibuses sold in 2004. Of these vehicles sold, approximately 50,060 were mid priced minibuses, representing a 9.0% decrease from approximately 54,992 units sold in 2004. Unit sales of deluxe minibuses, however, increased by 50.0% from approximately 6,626 units in 2004 to approximately 9,940 units in 2005. Shenyang Automotive sold approximately 9,000 Zhonghua sedans in 2005, representing a 18.0% decrease from approximately 10,982 sedans sold in 2004.

Cost of sales decreased 8.7% from Rmb 5,491.3 million in 2004 to Rmb 5,012.0 million (US\$621.1 million) in 2005. The decrease was primarily due to the decrease in the unit sales of minibuses and Zhonghua sedans in 2005. Furthermore, the unit production costs of minibuses have decreased as a result of the reduction of materials and component costs in 2005. The overall gross profit margin of Brilliance China Automotive decreased from 16.1% in 2004 to 8.4% in 2005. The decrease in gross profit margin resulted mainly from the decrease in gross profit margin of both Zhonghua sedans and mid-priced minibuses due to the lower sales volume and decrease in average unit selling prices.

Selling, general and administrative expenses decreased 20.9% from Rmb 1,510.4 million, representing 23.1% of sales in 2004, to Rmb 1,195.3 million (US\$148.1 million), representing 21.9% of sales in 2005. The decrease was primarily due to the reduction in advertising, promotion and marketing expenses resulting from the decrease in sales volume of Zhonghua sedans and minibuses in 2005 and the reduction in research and development costs as compared to 2004.

Interest expense net of interest income amounted to Rmb 122.2 million (US\$15.1 million) in 2005, compared to Rmb 123.7 million in 2004.

Net equity in earnings of associated companies and jointly controlled entities decreased 61.2% from Rmb 126.3 million in 2004 to Rmb 49.0 million (US\$6.1 million) in 2005. The decrease was mainly due to the decrease in profit contributed by jointly controlled entities and associated companies and the losses of a jointly controlled engine company in 2005. However, the decrease was partly offset by the increase in contribution of profit from BMW Brilliance Automotive Ltd. in 2005. Net profits contributed by BMW Brilliance Automotive Ltd., the Group's 49% indirectly owned jointly controlled entity, increased 45.0% from Rmb 21.8 million in 2004 to Rmb 31.6 million in 2005. The BMW joint venture achieved sales of 17,501 BMW sedans in 2005, an increase of 101.0% as compared to 8,708 BMW sedans in 2004.

Subsidy income increased from Rmb 1.8 million in 2004 to Rmb 3.1 million in 2005. The increase was mainly due to recognition of a government grant to a subsidiary in 2005.

Other income net of expenses increased from Rmb 25.7 million in 2004 to Rmb 43.7 million (US\$5.4 million) in 2005. The increase was primarily due to service income received from a jointly controlled entity in 2005.

Impairment loss on intangible assets increased from Rmb 50.0 million in 2004 to Rmb 173.0 million in 2005. The impairment loss was related to the design and development costs of the Zhonghua sedans. The increase was mainly related to the lower sales volume and decrease in average unit selling prices of Zhonghua sedans in 2005.

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Impairment loss on goodwill increased from Rmb 47.3 million in 2004 to Rmb 257.7 million in 2005. The increase was mainly due to impairment loss in relation to one of the jointly controlled entities and a subsidiary.

Loss before taxation and minority interests increased 126.9% from Rmb 526.9 million in 2004 to Rmb 1,195.4 million in 2005. Brilliance China Automotive recorded a tax expense of Rmb 101.9 million in 2005 as compared to a net tax credit of Rmb 63.1 million in 2004, resulting mainly from the additional valuation allowance of deferred tax assets in 2005.

As a result, Brilliance China Automotive recorded a net loss of Rmb 671.3 million (US\$83.2 million) in 2005, compared with net income of Rmb 1.2 million in 2004. Basic loss per ADS amounted to Rmb 18.3 (US\$2.3) in 2005 as compared to the basic earnings per ADS of Rmb 0.03 (US\$0.0036) in 2004.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Total sales of Brilliance China Automotive in the year ended December 31, 2004 were Rmb 6,542.0 million (US\$790.4 million), representing a 35.3% decrease from Rmb 10,109.6 million in 2003. The decrease in total sales from 2003 to 2004 was primarily due to the decrease in the sales volume of minibuses and, especially, the Zhonghua sedans and the decrease in average unit selling prices due to the changes in product mix, resulting from the significant slowdown in growth in the domestic demand for automobiles in China and the intensified price competition during 2004.

Total sales of the minibuses and automotive components segment were Rmb 5,217.4 million (US\$630.4 million) in the year ended December 31, 2004, representing a 22.9% decrease from Rmb 6,764.2 million in 2003. Sales of the Zhonghua sedans were more significantly affected by the weakened Chinese automobile industry in 2004, with total sales amounting to Rmb 1,324.6 million (US\$160.0 million) in the year ended December 31, 2004, representing a 60.4% decrease from Rmb 3,345.3 million in 2003.

Shenyang Automotive sold a total of 61,618 minibuses in 2004, representing a 17.4% decrease over the 74,618 minibuses sold in 2003. Of these vehicles sold, 54,992 were mid-priced minibuses, representing a 16.2% decrease over the 65,614 mid-priced minibuses sold in 2003. Unit sales of the deluxe minibuses decreased 26.4% from 9,004 units in 2003 to 6,626 units in 2004. Shenyang Automotive also sold 10,982 Zhonghua sedans in 2004, compared to 25,600 sedans sold in 2003. In addition to these sales, Brilliance China Automotive's 49% indirectly owned BMW Brilliance also sold a total of 8,708 BMW sedans in 2004.

Cost of sales decreased 28.9% from Rmb 7,727.1 million in 2003 to Rmb 5,491.3 million (US\$663.5 million) in 2004. The decrease was primarily due to the decrease in the unit sales of minibuses and Zhonghua sedans in 2004. Cost of sales as a percentage of sales was 83.9% in 2004, compared to 76.4% in 2003. The overall gross profit margin of Brilliance China Automotive decreased from 23.6% in 2003 to 16.1% in 2004, as a result of lower gross profit margin in respect of minibuses and Zhonghua sedans. The decrease in gross margin of the minibuses was mainly due to the decrease in sales volume and the decrease in average selling prices resulting from the changes in product mix. The decrease in gross margin of the Zhonghua sedans and the loss-making position of this product segment was mainly due to the significant decrease in sales volume of these sedans compared to 2003 that prevented Brilliance China Automotive from benefiting from economies of scale in production and caused the per unit costs of Zhonghua sedans to rise above the breakeven level.

Selling, general and administrative expenses increased 7.1% from Rmb 1,410.1 million, representing 13.9% of sales in 2003, to Rmb 1,510.4 million (US\$182.5 million), representing 23.1% of sales in 2004. The decrease in selling expenses primarily due to the decrease in warranty costs and sales volume of the Zhonghua sedans and the decrease in marketing staff costs, was offset by the increase in general and administrative expenses resulting from the increase in research and development expenses incurred with respect to the Granse minibus and the Zhonghua sedans, the increase in provision for inventories and provision for and write-off of bad and doubtful debts in 2004.

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Interest expense net of interest income increased by 8.1% from Rmb 114.4 million in 2003 to Rmb 123.7 million (US\$14.9 million) in 2004 due to the increase in interest income from notes payable and the convertible bonds issued in November 2003.

Net equity in earnings of associated companies and jointly controlled entities increased by 15.3% from Rmb 109.5 million in 2003 to Rmb 126.3 million (US\$15.3 million) in 2004. The increase was mainly due to the contribution of profit from BMW Brilliance in 2004.

Subsidy income decreased 96.3% from Rmb 48.5 million in 2003 to Rmb 1.8 million in 2004. The decrease was mainly due to a tax refund of Rmb 48.5 million in 2003 in relation to Brilliance China Automotive's reinvestment of the dividends from certain subsidiaries as additional capital contribution. There was no such tax refund in 2004.

Other income net of expenses decreased from Rmb 78.3 million in 2003 to Rmb 25.7 million (US\$3.1 million) in 2004. The decrease was primarily due to the decrease in income from the sale of scrap metals in 2004 and a provision for impairment of the property, plant and equipment of Rmb 10 million in one of Brilliance China Automotive's subsidiaries in 2004.

In 2004, Brilliance China Automotive also recognized a provision for impairment of intangible assets of Rmb 50.0 million in respect of the design and development costs of the Zhonghua sedans and impairment loss on goodwill of Rmb 47.3 million in relation to one of Brilliance China Automotive's jointly controlled entities.

Brilliance China Automotive recorded a loss before taxation and minority interests of Rmb 526.9 million in 2004 as compared to an income before taxation and minority interests of Rmb 1,094.2 million in 2003. Brilliance China Automotive recorded net tax credit of Rmb 63.1 million in 2004 as compared to tax expenses of Rmb 144.1 million in 2003, resulting from the decrease in the taxable income of Brilliance China Automotive and the effect of deferred taxation in 2004.

As a result, net income decreased 99.8% to Rmb 1.2 million (US\$0.14 million) in 2004 from Rmb 780.8 million in 2003. Basic earnings per ADS were Rmb 0.03 (US\$0.0036) in 2004, representing a 99.9% decrease from Rmb 21.30 in 2003. Diluted earnings per ADS were Rmb 0.03 (US\$0.0036) in 2004, representing a 99.9% decrease from Rmb 21.16 in 2003.

Contingent Liabilities and Outstanding Guarantees

Brilliance China Automotive and its subsidiaries had endorsed or discounted bank notes which were not yet honored by the issuers as of December 31, 2005 and 2004 of approximately Rmb 1,128 million (US\$139.8 million) and Rmb 1,345 million, respectively. These bank notes were used as a financing tool primarily by Shenyang Automotive for the purchase of components from affiliated companies and third parties and for other capital expenditures.

As of December 31, 2005, Brilliance China Automotive and its subsidiaries had provided the following guarantees:

Corporate guarantees of approximately Rmb 120 million (US\$14.9 million) for revolving bank loans and notes drawn by affiliated companies of Shanghai Shenhua Holdings Co., Ltd., or Shanghai Shenhua. The guarantee arose from the mutual negotiation between Shenyang Automotive and Shanghai Shenhua. Associated with the corporate guarantee, Shanghai Shenhua also provided a cross guarantee for the bank facilities of Shenyang Automotive. The guarantee was for revolving activities of Shanghai Shenhua and will be terminated upon mutual agreements between Shenyang Automotive and Shanghai Shenhua. If Shanghai Shenhua defaults on the repayment of its bank loans or notes when they fall due, Shenyang Automotive is required to repay the outstanding balance. There is no recourse or collateralization provision in the guarantee. Default by Shanghai Shenhua and its affiliated companies is considered remote by management and therefore no liability for the guarantor's obligation under the guarantee existed as of December 31, 2005.

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A joint and several proportional corporate guarantee with a joint venture partner of Shenyang Aerospace on a long-term bank loan of approximately Rmb 111 million (US\$13.8 million) drawn by Shenyang Aerospace which will expire in 2008. The guarantee was provided by the Group and a joint venture partner of Shenyang Aerospace for its long-term loan financing needs during its start-up period. If Shenyang Aerospace defaults on the repayment of its bank loan when it falls due, the Group and the joint venture partners are jointly and severally liable to repay the outstanding balance. There is no recourse or collateralization provision in the guarantee. Default by Shenyang Aerospace is considered remote by management and therefore no liability for the guarantor's obligation under the guarantee existed as of December 31, 2005.

Corporate guarantees of bank loans amounting to Rmb 295 million (US\$36.6 million), which is also the maximum potential amount of future payments under the guarantee as of December 31, 2005, drawn by JinBei. Bank deposits of Rmb 311 million (US\$38.5 million) were pledged as a collateral for the corporate guarantees. However, default by JinBei is considered remote by management and therefore no liability for the guarantor's obligation under the guarantee existed as of December 31, 2005.

As of December 31, 2005, subsidiaries of Brilliance China Automotive had issued letters of credit amounting to Rmb 42.8 million (US\$5.3 million), compared to Rmb 11 million in 2004. None of the issued letters of credit were secured by any pledged bank accounts.

See also Item 8 Financial Information Legal Proceedings for a discussion of potential contingent liabilities relating to legal proceedings.

Liquidity and Capital Resources

The following table set forth our outstanding contractual and commercial commitments as of December 31, 2005:

	Total	Payment due by period (In thousands of Rmb)			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Contractual Obligations					
Notes payable (1)	3,026,952	3,026,952			
Notes payable to affiliated companies (2)	74,092	74,092			
Convertible bonds (3)	1,650,637	1,650,637			
Financing from BMW Brilliance (4)	109,784	109,784			
Operating lease obligations (relating to offices and property)	72,441	13,501	19,290	3,706	35,944
Unconditional purchase obligations	248,258	248,258			
Total	5,182,164	5,123,224	19,290	3,706	35,944

(1) Approximately Rmb 2.7 billion of the Rmb 3.0 billion notes payable had effective interest rates of 3% to 4%. The remaining Rmb 0.3 billion notes

payable were
interest free.

- (2) Notes payable to affiliated companies are non-interest bearing.
- (3) Included in the amount is a total accreted redemption premium payable on November 28, 2006 of approximately Rmb 36.6 million. The accreted redemption premium as of December 31, 2005 of approximately Rmb 25.4 million was calculated based on the outstanding principal of the convertible bonds using the effective interest method.
- (4) Accrued interest of approximately Rmb 35.2 million was calculated on the outstanding principal using the compound interest method at an effective annual rate of 11.127% on a quarterly basis.

Table of Contents*Cash Flows*

As of December 31, 2005, Brilliance China Automotive and its subsidiaries had Rmb 843.4 million in cash and cash equivalents, Rmb 1,053.8 million in short-term bank deposits and Rmb 1,932.6 million in pledged short-term bank deposits, a decrease of Rmb 401.1 million, an increase of Rmb 45.2 million and a decrease of Rmb 844.6 million from its positions as of December 31, 2004. The decrease in cash and cash equivalents during that period was mainly due an increase in cash used in financing activities, which offset increased cash inflows from operating and investing activities in 2005.

Brilliance China Automotive had bank notes payable of Rmb 3,101.0 million and outstanding short-term bank borrowings of Rmb 496.5 million, but had no long-term bank borrowings outstanding as of December 31, 2005.

For the year ended December 31, 2005, Brilliance China Automotive recorded net cash provided by operating activities of Rmb 896.3 million (US\$111.1 million), an increase from the amount of Rmb 719.3 million net cash used in operating activities in 2004. The change in cash flows used in/provided by operating activities was primarily due to the inter-year changes in the following current assets and current liabilities:

decreases in notes receivable from third parties and from affiliated companies in the amounts of Rmb 243.4 million and Rmb 306.2 million, respectively, for the year ended December 31, 2005, as compared to a decrease of Rmb 206.6 million and an increase of Rmb 118.0 million for the year ended December 31, 2004;

a decrease in inventory of Rmb 569.5 million (US\$70.6 million) for the year ended December 31, 2005, as compared to an increase in inventory of Rmb 328.2 million for the year ended December 31, 2004;

a decrease in notes and accounts payable of Rmb 333.3 million (US\$41.3 million) for the year ended December 31, 2005, as compared to a decrease of Rmb 391.1 million for the year ended December 31, 2004; and

an increase in amounts due to affiliated companies of Rmb 171.9 million (US\$21.3 million) for the year ended December 31, 2005, as compared to a decrease in such amounts due of Rmb 162.1 million for the year ended December 31, 2004.

Net cash provided by investing activities amounted to Rmb 325.6 million (US\$40.3 million) in 2005, an increase of Rmb 1,048.0 million from the amount of Rmb 722.4 million net cash used in investing activities in 2004. The increase was primarily attributable to the decrease in pledged short-term bank deposits of Rmb 844.5 million (US\$104.6 million), a decrease in interests in associated companies and jointly controlled entities of Rmb 11.5 million (US\$1.4 million), dividends received from an associate and from jointly controlled entities in the amounts of Rmb 42.0 million (US\$5.2 million) and Rmb 30.0 million (US\$3.7 million), respectively, and proceeds of Rmb 9.5 million (US\$1.2 million). The increase in cash provided by investing activities was partially offset by a Rmb 45.2 million (US\$5.6 million) increase in short-term bank deposits, a Rmb 8.7 million (US\$1.1 million) increase in advances to affiliated companies and cash paid for capital expenditures of Rmb 558.0 million (US\$69.1 million).

Net cash used in financing activities amounted to Rmb 1,622.9 million (US\$201.1 million) in 2005, as compared to net cash provided by financing activities in the amount of Rmb 853.9 million in 2004. This increase in cash used in financing activities is primarily attributable to a decrease in proceeds from short term loans and issuances of notes payable.

Debt Changes

On November 28, 2003, Brilliance China Automotive, through its wholly owned subsidiary, Brilliance China Automotive Finance Ltd., issued zero coupon guaranteed convertible bonds due 2008 with an aggregate principal amount of US\$200.0 million. These bonds are guaranteed by Brilliance China Automotive and are convertible into fully paid ordinary shares of par value US\$0.01 of Brilliance China Automotive at an initial conversion price of HK\$4.60 per share at any time from January 8, 2004 to November 14, 2008, unless the bonds have previously been redeemed or matured. Brilliance China Automotive Finance Ltd. may redeem a portion of the convertible bonds in certain circumstances at 100% of their outstanding principal amount during the period from November 28, 2005 to November 14, 2008. In addition, all or some of the bonds may be redeemed at the option of the holder at 102.27% of their principal amount on November 28, 2006 and upon certain events, such as the change of control of Brilliance

China Automotive or its shares ceasing to be listed on the Hong Kong Stock Exchange, the bonds may be redeemed at the option of the holder at 100% of their outstanding principal amount. These bonds rank equally with all of Brilliance China Automotive's senior, unsecured and unsubordinated obligations. As of December 31, 2005, none of the bonds had been converted.

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On June 7, 2006, Brilliance China Automotive, through its wholly owned subsidiary, Brilliance China Finance Limited (formerly known as Goldcosmos Investments Limited), issued zero coupon guaranteed convertible bonds due 2011 with an aggregate principal amount of approximately US\$183.0 million (equivalent to approximately Rmb 1,467.1 million at the time of issue). These bonds are guaranteed by Brilliance China Automotive and are convertible by the holders into fully paid ordinary shares of par value US\$0.01 of Brilliance China Automotive at an initial conversion price of HK\$1.93 per share at any time from July 6, 2006 to May 8, 2011, unless the bonds have previously been redeemed or matured. Brilliance China Finance Limited may redeem the convertible bonds in whole but not in part in certain circumstances at the early redemption amount (as defined in the Trust Deed constituting the bonds and filed as an exhibit to this annual report) during the period from June 7, 2008 to May 8, 2011. In addition, each holder will have the right, at the option of the holder, to redeem in whole but not in part the convertible bonds at 122.926% of their principal amount on June 7, 2009. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 141.060% of their outstanding principal amount on June 7, 2011.

In 2005, Brilliance China Automotive continued to maintain credit facilities with banks to finance its working capital needs. As of December 31, 2005, direct bank borrowings and bank notes payable decreased by 38.5% to Rmb 3,523.5 million (US\$436.6 million), a decrease of Rmb 2,203.7 million from Rmb 5,727.2 million as of December 31, 2004. The bank loans and bank notes payable were either secured by pledged short-term bank deposits or notes receivables, or unsecured, with maturity periods of less than one year. Brilliance China Automotive believes that it will continue to have access to sufficient bank facilities to meet its working capital requirements.

Capital Expenditures

Capital expenditures and operating expenses are funded by internal resources, loans and notes payable borrowed by Shenyang Automotive from third parties. Brilliance China Automotive's capital expenditures were Rmb 585.7 million in 2005, a decrease of Rmb 335.2 million from that in 2004. Major items of expenditure included facilities upgrades relating to the production of new versions of the Granse deluxe minibus and Zhonghua sedans and acquisition of new facilities for engine businesses.

Foreign Currency Requirements

Brilliance China Automotive together with its subsidiaries, associated companies and jointly controlled entities expect to require an aggregate of approximately Japanese Yen 6,000.0 million, US\$10.0 million and Euro 320.0 million to purchase imported equipment and components from Toyota of Japan, BMW of Germany and other overseas suppliers for its minibuses and sedans in 2006. This estimate is based upon the 2006 production plans of Brilliance China Automotive and its subsidiaries, associated companies and jointly controlled entities and the level of domestic content expected for its minibuses and sedans in 2006. Brilliance China Automotive believes that it will be able to obtain adequate amounts of foreign currency to meet its planned requirements for 2006. In 2005, Brilliance China Automotive received approximately Rmb 80.0 million from its sale of products to the Middle East, Russia and Europe. Under the Chinese law, Brilliance China Automotive and its associated companies and jointly controlled entities in China are able to obtain necessary foreign exchange in exchange for Renminbi upon approval from the State Administration of Foreign Exchange, based on executed purchase contracts, joint venture agreements, feasibility studies and other documents evidencing the needs and proposed usage of such foreign exchange.

Brilliance China Automotive does not consider exchange rate fluctuations to have any material effect on the overall financial performance of Brilliance China Automotive, but may consider entering into hedging transactions through exchange contracts in order to minimize foreign exchange risks, if and when necessary. There were no outstanding hedging transactions as of December 31, 2005.

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Research and Development, Patents and Licenses, etc.

During 2003, 2004 and 2005, Brilliance China Automotive spent Rmb 191.4 million, Rmb 479.9 million and Rmb 235.2 million, respectively, on research and development activities. In 2003, these amounts were used for the development of improved versions of existing minibus models, the development of an improved version of the Zhonghua sedan and the development of new engines, airbag systems and other components. In 2004, these amounts were primarily used for the development of new models of minibus, the development of the facelift version of the Zhonghua sedan and the development of a new 1.8 liter turbo engine with the technical assistance of FEV Motorentechnik GmbH. In 2005, these amounts were primarily used for the development of the new Zhonghua sedan, Junjie and the new 1.8 liter turbo engine.

Trend information

General trends that Brilliance China Automotive expects will have a significant impact on its results of operations in the near future include the following:

Increased Demand for Motor Vehicles. The rate of increase in China's gross domestic product has been one of the highest in the world over the past decade, and this growth has fueled demand for automobiles. In fact, demand in the Chinese automobile industry has been growing over the past several years at a faster rate than the growth in China's gross domestic product. This trend is expected to have a favorable impact on Brilliance China Automotive's sales volume for both minibuses and sedans. However, due to the implementation of macro-economic policies and austerity measures, there was a significant slowdown in growth in domestic demand for automobiles since the second half of 2004. Therefore, while growth in demand for automobiles is expected to continue, it is likely to increase at a slower rate than in prior years.

Competition. As a result of China's accession to the WTO, domestic production of automobiles (including minibuses and sedans) is expected to increase, particularly through Sino-foreign joint ventures that are being established for this purpose. Formation of new Sino-foreign joint ventures and further investments by foreign auto makers to increase the capacity of existing operations could result in overcapacity and increased domestic competition for Brilliance China Automotive and greater downward pressure on vehicle prices as competitors begin to employ a higher ratio of domestically produced components and as more competitors achieve economies of scale due to increased volume of production.

Price. Retail prices in the automotive market are expected to continue to fall as a result of the localization of production and sourcing of components as described immediately above as well as increased competition. A decrease in average selling prices may lower margins and cause industry-wide deterioration of profitability. This expected decline in vehicle prices will likely have an adverse effect on Brilliance China Automotive's gross income and profits.

Growth, Consolidation and Development. On June 2, 2004, the NDRC issued a new automotive policy for China, which will likely result in consolidation in the industry and further the development and sophistication of the automobile industry in areas such as consumer financing and research and development. The new policy sets minimum levels of investment for new plants and research and development, imposes vehicle import tariffs instead of component tariffs on semi-knocked down imports and, under certain conditions, allows foreign investors to control more than 50% of a joint venture with Chinese partners and open more than two joint venture plants in China to produce the same categories of vehicles. The new policy acknowledges the success of China's automobile industry and seeks to encourage this pillar industry to foster further growth, particularly of domestically produced and branded products and research and development, through consolidation of smaller, less-efficient manufacturers and increased foreign and domestic investment. In addition, the policy aims to centralize or reorganize certain automobile-related sectors, such as consumer loan services, to reduce overhead and administrative burdens on the industry and allow industry participants to focus on their core businesses. By encouraging industry consolidation and establishing clearer guidelines for foreign investment, the policy encourages existing players in the industry to grow and provides incentives for

targeted investment from both domestic and foreign sources. However, the ultimate impact of the new policy on Brilliance China Automotive is still uncertain and subject to more detailed guidance and implementing regulations that are expected to be promulgated by the NDRC in the future.

Improvements in China's Infrastructure. China continues to improve and expand its roadway system. By making automobile travel a more practical and accessible mode of transportation for motorists in China, such improvements in China's infrastructure will likely add to demand for automobiles.

Rising Fuel Prices. China's fuel prices reached historical heights in May 2006 and may continue to increase. Such increases will likely have a negative influence on Brilliance China Automotive's sales volume.

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Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions.

Brilliance China Automotive's consolidated financial statements have been prepared in accordance with US GAAP. Brilliance China Automotive's principal accounting policies are set forth in note 3 to its consolidated financial statements. US GAAP requires that Brilliance China Automotive adopt the accounting policies and make estimates that its directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of its results of operations and financial condition. However, different policies, estimates and assumptions in critical areas could lead to materially different results.

Brilliance China Automotive considers certain accounting policies, including those related to revenue recognition, warranties, inventories, investment in jointly controlled entities and associated companies, taxation, related party transactions and impairment of long-lived assets, to be critical accounting policies due to the estimation processes involved in each.

Revenue Recognition

Brilliance China Automotive recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101) (as amended by Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104)). SAB 101 and SAB 104 require that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) is based on management's judgments regarding the fixed nature of the fee charged for services rendered and products delivered, and the collectibility of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Sales represent the invoiced value of goods, net of consumption tax, discounts and returns. Sales are recognized when goods are delivered to customers and the significant risks and rewards of ownership of the goods have been transferred to customers. Provisions for sales allowances and rebates are made at the time of the sales of goods and are recognized as a reduction of sales.

Warranties

Shenyang Automotive's minibuses are sold with a 24-month or 50,000 kilometers first-to-occur limited warranty. The Zhonghua sedans are sold with a 36-month or 60,000 kilometers first-to-occur limited warranty. Zunchi sedans are sold with a 10-year or 200,000 kilometers first-to-occur limited warranty. During the warranty period, Shenyang Automotive pays service stations for parts and labor covered by the warranty. The costs of the warranty obligation are accrued as selling expenses at the time the sales are recognized, based on the estimated costs of fulfilling the total obligations, including handling and transportation costs. The factors used to estimate warranty expenses are reevaluated periodically in light of actual experience. Actual warranty expense may be different from our estimates.

Table of Contents*Inventories*

Inventories are carried at the lower of cost or market. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is 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. Brilliance China Automotive provides allowance for excess, slow moving and obsolete inventory by specific identification and reduces the carrying value of its inventory to the lower of cost or market.

Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment and purchased intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its undiscounted future cash flow. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Deferred Taxation

Deferred income tax is provided using the liability method, in which deferred income taxes are recognized for temporary differences between the tax and financial statement bases of assets and liabilities. The tax consequences of those differences expected to occur in subsequent years are recorded as assets and liabilities on the balance sheet. Estimates may differ from actual results. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of, the deferred tax assets will not be realized.

Transactions with affiliated companies

An affiliated company is a company in which one or more of the directors or substantial shareholders of Brilliance China Automotive 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. The accounting treatment for transactions with these affiliated companies, including sales and revenue recognition policies, is similar to that for transactions with third parties.

Recent Accounting Pronouncements

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets – An Amendment of FASB Statement No. 140* (SFAS No. 156). SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, which for the Group will be as of the beginning of fiscal 2007. The Company does not believe that the adoption of SFAS No. 156 will have a significant effect on its financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As of March 2, 2006, the Company did not have any hybrid financial instruments subject to the fair value election under SFAS No. 155. The Group is required to adopt SFAS No. 155 effective at the beginning of 2008.

In November 2005, the FASB issued Staff Position (FSP) FAS115-1 and FAS 124-1, which nullifies certain provisions of EITF Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, and completely supersedes EITF Topic D-44, *Recognition of Other Than Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*, addresses (1) determining when an investment should be considered impaired, (2) determining whether an impairment should be deemed other than temporary, and (3) measuring impairment loss. Combined FSP Nos. FAS 115-1 and FAS 124-1 were applied as discussed in Notes 3(j) and 14 to the Group's consolidated financial statements.

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In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The Group is required to adopt SFAS No. 154 for accounting changes and error corrections that occur after the beginning of 2007. The Group's results of operations and financial condition will only be impacted following the adoption of SFAS No. 154 if it implements changes in accounting principle that are addressed by the standard or corrects accounting errors in future periods.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), Share Based Payment (SFAS 123(R)). SFAS 123(R) is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, which supersedes Accounting Principles Board (APB) No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. SFAS 123(R) requires companies to recognize compensation expense in the income statement for an amount equal to the fair value of the share-based payment issued. This applies to all transactions involving the issuance of equity by a company in exchange for goods and services, including employees. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) outlining the SEC Staff's interpretation of SFAS 123(R). This interpretation provides their views regarding interactions between SFAS 123(R) and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. Subsequently in August, October and November 2005, the FASB released FSP 123(R)-1, Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R), FSP123(R)-2, Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R) and FSP 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. Additionally, on February 1, 2006, the FASB issued FSP 123(R)-4, Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event. The FSPs clarify certain accounting provisions set forth in SFAS 123(R). The requirements and guidance prescribed in SFAS 123(R), SAB 107 and the FSPs is effective in 2006. The Group considers that the adoption of SFAS 123R will not have significant impact on its financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**Directors and Senior Management**

On September 16, 2005, Mr. He Guohua and Mr. Wang Shiping were appointed as executive directors. On January 6, 2006, Mr. Lin Xiaogang resigned as the President, Chief Executive Officer and an executive director and on June 23, 2006, Mr. Wu Yong Cun retired as a non-executive director. Effective January 6, 2006, Mr. Qi Yumin was appointed as the President, Chief Executive Officer and an executive director.

The directors and senior executive officers of Brilliance China Automotive as of the date of this annual report are identified below.

Name	Age	Position	Year First Elected or Appointed Director or Officer
Executive Directors			
Wu Xiao An	44	Chairman of the Board and Executive Vice President	1994
Qi Yumin	46	President and Chief Executive Officer	2006
He Guohua	55	Director	2005
Wang Shiping	49	Director	2005
Lei Xiaoyang	49	Director	2003
Independent Non-Executive Directors			
Xu Bingjin	66	Director	2003
Song Jian	49	Director	2004
Jiang Bo	46	Director	2004

Others

Zha Jianping	35	Chief Financial Officer	2005
Zhang Ruiping	35	Qualified Accountant	2004

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Table of Contents**Executive Directors**

Mr. WU Xiao An (also known as Mr. Ng Siu On), age 44, has been the Chairman of the Board of Brilliance China Automotive since June 2002, and an executive director since 1994. He is responsible for the overall management and strategy of Brilliance China Automotive. He was the Vice Chairman and the Chief Financial Officer of the Company from 1994 to June 2002. He is also a director of Huachen and Shenyang Automotive. Mr. Wu holds a Bachelor of Arts Degree from Beijing Foreign Languages Institute and a Master of Business Administration Degree from Fordham University in New York. He served from 1988 to 1993 as Deputy Manager of the Bank of China, New York Branch.

Mr. QI Yumin, age 46, has been an executive Director, the President and the Chief Executive Officer of Brilliance China Automotive since January 2006. He is a senior engineer. Since December 2005, Mr. Qi has been the Chairman and President of Huachen. Prior to joining Huachen, Mr. Qi has been the Chairman and the general manager of Dalian Heavy Industries Co., Ltd. and as the Chairman and the President of DHI DCW Group Co., Ltd. He was the Vice Mayor of Dalian Municipal Government from October 2004 to December 2005. Mr. Qi is currently a member of the National People's Congress of the PRC Dalian Committee and a member of the Chinese People's Political Consultative Conference Liaoning Provincial Committee. Mr. Qi holds a Bachelor Degree in Engineering Science from Xi'an University of Technology and a Master Degree of Business Administration from Dalian University of Technology.

Mr. HE Guohua, age 55, has been an executive Director of Brilliance China Automotive since September 2005. Mr. He is currently a director and the Vice President of Huachen and the Vice Chairman and a director of Shenyang Automotive. He is also a director and the Chairman of JinBei (an A-share listed company in the PRC). Mr. He previously worked as an engineer of Shenyang First Machine Tools Factory and was a director of Shenyang Planning & Economic Commission, a director of the Shenyang Economic & Trade Commission, a deputy director of the Shenyang Automotive Development Office and the Chairman and General Manager of Shenyang Automotive Assets Operation Corporation. Mr. He is a PRC Senior Engineer in electrical engineering. He graduated from Hefei University of Technology, majoring in Micro Computer Science in 1984.

Mr. WANG Shiping, age 49, has been an executive Director of Brilliance China Automotive since September 2005. Mr. Wang is currently a director and the Vice President of Huachen and a director of Shenyang Automotive. He is a director and the Chairman of Shanghai Shenhua. Mr. Wang was previously the Deputy Head Engineer of Radiator Branch Company of China First Automobile Group Corporation, the General Manager of FAW-ZEXEL Air-Condition Branch Company, the Deputy General Manager and Director of Strategic Planning of Fawer Automobile Part Co., Ltd. Mr. Wang is a Senior Engineer (Researcher) in corporate management. He graduated from Anshan Iron & Steel University in 1983 with a Bachelor of Engineering Degree. He also received a Master of Business Economics Degree from the Graduate School of the Chinese Academy of Social Sciences in 1998.

Mr. LEI Xiaoyang, age 49, was a non-executive Director of Brilliance China Automotive from June 2003 to June 2005 and was redesignated as an executive Director of the Company effective in June 2005. Mr. Lei has been the Deputy Chief Economist as well as the General Manager of the Department of Asset Operations in Huachen since January 2003. He was the Assistant President of Liaoning International Trust and Investment Corporation from June 1996 to September 2002, and was in charge of the Financing Department, the Accounting Department, the Strategic Planning Department and the Securities Department. Mr. Lei holds a Bachelor of Engineering Degree from the Shenyang Polytechnic University and a Master of Finance Degree from Liaoning University as well as a Master of Business Administration Degree from Roosevelt University.

Table of Contents**Independent Non-Executive Directors**

Mr. Xu Bingjin, age 66, has been an independent non-executive Director of Brilliance China Automotive since June 2003. Mr. Xu is currently the Chairman of the Association of Sino-European Economic and Technical Cooperation. He was formerly an assistant minister of the Ministry of Foreign Trade and Economic Cooperation, a director of the Office of National Mechanic and Electronic Products Importation and Exportation and a Senior Consultant at the World Trade Organization Research Association. Mr. Xu received a Bachelor of Science Degree in Engineering Economics from Jilin University of Technology in 1964 and holds the title of Senior Engineer.

Mr. SONG Jian, age 49, has been an independent non-executive Director of Brilliance China Automotive since September 2004. Mr. Song is currently the Executive Vice President of the Tsinghua Automotive Engineering Institute, the Deputy Dean of the Automotive Engineering Department at Tsinghua University, the Vice Director of the National Laboratory in Automotive Safety and Energy and an advisor to the Beijing Government in Science and Technology. In 1998, Mr. Song received the Award for Outstanding Science and Technology Persons in the China Automotive Industry. In 2005, he was ranked first in the Class One China Automotive Industry and Technology Advancement Award. Mr. Song holds a Bachelor Degree and a Doctorate Degree, both in Engineering Science, from Tsinghua University. He is currently a professor of Automotive Dynamics and Control Engineering at Tsinghua University.

Mr. JIANG Bo, age 46, has been an independent non-executive Director of Brilliance China Automotive since September 2004. Mr. Jiang is an accountant, a certified public accountant and a certified public valuer in the PRC. He has been the general manager of Liaoning Reanda Certified Public Accountants in the PRC since 1999 and was a director of Dandong Zhongpeng Accounting Firm from 1993 to 1999. Mr. Jiang has over 10 years of experience in auditing financial statements of companies listed on the PRC stock exchanges. Mr. Jiang has been a Certified Public Valuer since 1998 and has been involved in asset appraisals of companies in preparation for listing in the PRC. He has participated in various listing projects of state-owned enterprises in the PRC and overseas and has gained experience in reviewing and analyzing the audited financial statements of companies listed in the PRC. Mr. Jiang has worked with one of the Big-4 international accounting firms in the auditing of a state-owned enterprise. Mr. Jiang holds a Bachelor of Science Degree in Mathematics from Liaoning University and a diploma in Accounting from the Central Finance and Economics University.

Others

Mr. ZHA Jianping, age 35, has been the Chief Financial Officer of Brilliance China Automotive since January 2005. Mr. Zha is a qualified accountant in the PRC. He was awarded a Bachelor Degree in Economics from the University of Finance and Economics in Shanghai in 1993. Mr. Zha has more than eleven years of financial management experience with extensive experience in corporate finance and strategic planning. He was in charge of the acquisition and corporate restructuring of JinBei. Currently, Mr. Zha is the Vice President of JinBei and the Chief Financial Officer of Xing Yuan Dong as well as a director of Shenyang Automotive. Mr. Zha was formerly the Chief Financial Officer of Shenyang Automotive. Prior to joining Brilliance China Automotive, Mr. Zha worked and handled finance-related matters in Nam Kwong Group Company Limited, a conglomerate with operation in the PRC, Macau and overseas for seven years.

Ms. ZHANG Ruiping, age 35, has been the qualified accountant of Brilliance China Automotive since November 2004. Ms. Zhang is the head of the financial department of Brilliance China Automotive and its subsidiaries. She graduated from Shanghai University of Finance and Economics. She is a qualified PRC accountant and also a PRC certified public accountant registered as an individual member with the Shanghai Institute of Certified Public Accountants. She worked at the financial department of China Merchants Group, Hong Kong from 1996 to 1999 and was the manager of the finance department of Shanghai Shenhua Holdings Co., Ltd from 1999 to 2003.

There is no family relationship between any director or executive officer of Brilliance China Automotive and any other director or executive officer.

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Compensation

The aggregate amount of compensation, consisting of salary, allowances and benefits in kind, paid by Brilliance China Automotive to its directors and executive officers during 2005 was approximately Rmb 12.9 million (US\$1.6 million).

Board Practices

The board of directors of Brilliance China Automotive currently consists of eight members, one-third of whom are required to retire from office by rotation at each annual general meeting in accordance with the terms of its By-laws. Those directors that retire from office, however, may be immediately re-elected as directors by the shareholders.

Service Agreements

On March 1, 2006, Brilliance China Automotive entered into a service agreement with Mr. Wu Xiao An, an executive director of the Company for a term of three years beginning March 1, 2006. On March 1, 2006, Brilliance China Automotive entered into a service agreement with Mr. Qi Yumin, an executive director of the Company for a term of three years beginning January 6, 2006. Save as disclosed herein, no director has a service contract with Brilliance China Automotive that is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

Audit Committee

Brilliance China Automotive has established an audit committee whose primary duties consist of reviewing and supervising the financial reporting process of Brilliance China Automotive. The audit committee currently consists of three independent non-executive directors, Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, and Mr. Xu is the chairman of the committee.

Meetings

Meetings of the audit committee shall be held at least twice per year, and Brilliance China Automotive's external auditors may request a meeting if they consider that one is necessary. A quorum for a meeting of the audit committee shall be two members. Brilliance China Automotive's secretary shall serve as secretary of the audit committee and shall (i) circulate to members of the committee the draft and final versions of minutes of audit committee meetings and (ii) circulate to the board reports of the audit committee. Brilliance China Automotive's Chief Financial Officer, the Head of Internal Audit and a representative of its external auditors shall normally attend audit committee meetings as well. The audit committee shall meet with Brilliance China Automotive's external auditors at least once per year.

Authority and Duties

The audit committee is authorized by the board to investigate any activity within its scope of duty. It is authorized to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the audit committee. The audit committee is authorized by the board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The duties of the audit committee are to:

be primarily responsible for the appointment, re-appointment and removal of the external auditor, the remuneration and terms of the engagement of the external auditor, and the resignation or dismissal of the external auditor;

review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and to oversee the work of external auditor (including resolution of disagreements between management and the external auditor regarding financial reporting). The committee should establish with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

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develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The committee should identify to the Board any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken;

monitor the integrity of financial statements of Brilliance China Automotive and Brilliance China Automotive's annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing Brilliance China Automotive's reports and accounts before submission to the board, the committee should focus particularly on:

changes in accounting policies and practices;

accounting policies which require difficult, subjective or complex judgments (also known as critical accounting policies);

significant adjustments resulting from audits;

going concern assumptions and any qualifications;

compliance with accounting standards; and

compliance with listing rules of stock exchange(s) and other applicable legal and regulatory requirements and guidance in relation to financial reporting;

In regard to the review of financial information:

members of the committee must liaise with the Board, senior management and the person appointed as Brilliance China Automotive's qualified accountant;

the committee must meet at least once a year with the external auditor; and

the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by Brilliance China Automotive's qualified accountant, compliance officer (if any) or auditor;

establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

review Brilliance China Automotive's financial controls, internal control and risk management systems;

discuss with the management the system of internal control and ensure that management has discharged its duty to establish and maintain an effective internal control system;

discuss policies with respect to risk assessment and risk management;

consider the findings of investigations of internal control matters as delegated by the board, or on the committee's own initiative, and review management's response;

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where an internal audit function exists, to ensure co-ordination between the internal and external auditors, to ensure that the internal audit function is adequately resourced and has appropriate standing within Brilliance China Automotive, and to review and monitor the effectiveness of the internal audit function;

where an internal audit function exists, to meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with external auditors;

review the group's financial and accounting policies and practices;

review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control, and management's response;

review with the external auditor any audit problems or difficulties and management's response;

ensure that the board provides a timely response to the issues raised in the external auditor's management letter;

report to the board on the matters set out in the code provision of Rule C.3 of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

give pre-approval of other services and fees of the external auditor;

set clear hiring policies for employees or former employees of the external auditors;

report regularly to the board of the result of their review of the financial reporting system and internal control procedures and recommendations (if any) thereon; and

consider other topics, as determined from time to time by the board.

The audit committee met in April, 2003, 2004, 2005 and 2006, September 2003, 2004 and 2005, and also December 2004.

Remuneration Committee

Brilliance China Automotive has established a remuneration committee. The remuneration committee shall consist of not less than three members, a majority of whom should be independent non-executive directors. The remuneration committee currently consists of three independent non-executive directors, Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, and two executive directors, Mr. Wu Xiao An and Mr. Qi Yumin. Mr. Xu Bingjin is the chairman of the committee.

Meetings

Meetings of the remuneration committee shall be held at least once a year. Meetings will be held at the request of any member of the board. A quorum for a meeting of the remuneration committee shall be two members. Brilliance China Automotive's secretary shall serve as the secretary of the remuneration committee and shall (i) circulate to members of the committee the draft and final versions of minutes of remuneration committee meetings and (ii) circulate to the board reports of the remuneration committee.

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Authority and Duties

The remuneration committee is authorized by the board to carry out any activity within its scope of duty. It may request from the management information relating to the compensation and remuneration packages of employees as appropriate to enable members of the committee to perform their duties set out herein. The remuneration committee may consult the chairman and/or chief executive officer of Brilliance China Automotive regarding any proposed remuneration or compensation in respect of any executive director of Brilliance China Automotive, as appropriate. The remuneration committee is also authorized by the board to obtain outside legal or other independent professional advice and to secure the attendance of other persons with relevant experience and expertise, at the expense of Brilliance China Automotive.

The duties of the remuneration committee are to:

make recommendations to the board on the policy and structure for all remuneration of the directors and senior management of Brilliance China Automotive and its subsidiaries and on the establishment of a formal and transparent procedure for developing the policy of Brilliance China Automotive and its subsidiaries on such remuneration;

determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board on the remuneration of non-executive directors;

review and approve performance-based remuneration in accordance with corporate goals and objectives resolved by the board from time to time;

review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment in order to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for Brilliance China Automotive and its subsidiaries;

review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

ensure that no director or any of his associates is involved, directly or indirectly, in deciding such director's remuneration; and

in respect of any service agreement to be entered into between Brilliance China Automotive/its subsidiaries and its respective director or proposed director, the prior approval of which by the shareholders of Brilliance China Automotive in general meeting is required pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules), to review and provide recommendations to the shareholders of Brilliance China Automotive (other than the shareholders who are directors with a material interest in the relevant service agreements and their respective associates (as defined in the Listing Rules)) as to whether the terms of the service agreements are fair and reasonable and whether such service agreements are in the interests of Brilliance China Automotive and the shareholders as a whole, and to advise shareholders on how to vote.

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Summary Corporate Governance Differences

There are significant differences between Brilliance China Automotive's corporate governance practices and those of domestic companies listed on the New York Stock Exchange. Pursuant to Section 303A.11 of the New York Stock Exchange Listing Manual, these differences are set forth in the table below:

NYSE	Brilliance China Automotive
Listed companies must have a majority of independent directors. Companies must identify which directors are independent and disclose the basis for that determination.	Brilliance China Automotive is not required to have a majority of independent directors. Under the rules of The Stock Exchange of Hong Kong Limited, Brilliance China Automotive is required to have at least three independent non-executive directors. Brilliance China Automotive identifies the status of each director based on standards set forth by The Stock Exchange of Hong Kong Limited. Under those standards, the board of directors need not affirmatively determine that a director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company) for that director to be deemed independent. It is for the independent non-executive directors to make the relevant declaration. Every independent non-executive director has to declare his independency at the time of his appointment and on an annual basis.
Non-management directors must meet at executive sessions without management.	Non-management directors are not required to meet at executive sessions without management.
Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.	Brilliance China Automotive is not required to have a nominating/corporate governance committee composed entirely of independent directors and does not have such a committee.
Listed companies must have a compensation committee composed entirely of independent directors.	Brilliance China Automotive has established a remuneration committee. The remuneration committee must consist of not less than three members, a majority of whom must be independent non-executive directors.
Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	Brilliance China Automotive is not required to adopt a code of business conduct and ethics for directors, officers and employees and is not required to promptly disclose any waivers of any such code for directors or executive officers. Brilliance China Automotive has adopted a Model Code for Securities Transactions by Directors and a Code for Securities Transactions by Employees that, among other things, sets forth a policy for compliance with securities laws, primarily insider trading, and has also adopted an Employee Handbook that, among other things, contains procedures for

compliance with securities laws, a policy on
confidential information and a code of conduct.

Table of Contents**Employees**

As of December 31, 2005, Brilliance China Automotive had 9 employees located in Hong Kong, compared with 9 as of both December 31, 2004 and December 31, 2003. These employees are primarily responsible for overseeing the financial management and operations and for developing strategic business plans, preparing financial statements and coordinating investor relations for Brilliance China Automotive.

As of December 31, 2005, Brilliance China Automotive and its subsidiaries had a total of 8,911 employees, compared with 9,112 as of December 31, 2004 and 9,000 as of December 31, 2003. As of December 31, 2005, Shenyang Automotive had a total of 6,470 employees, compared with 6,731 as of December 31, 2004 and 6,704 as of December 31, 2003.

The following chart sets forth the number of the Group's employees by functional area as of December 31, 2005:

Functional Area	Number of Employees
Administrative personnel	1,448
Technical personnel	1,336
Production workers	6,127
Total	8,911

Substantially all of Brilliance China Automotive and its subsidiaries' employees are based in Shenyang, Liaoning Province, China.

Brilliance China Automotive and its subsidiaries have not experienced any strikes or other labor disputes that materially affected their business activities. Brilliance China Automotive considers its labor relations to be good.

Share Ownership

As of the date of this annual report, no directors or executive officers own any shares in Brilliance China Automotive.

Employee Share Option Schemes*The 1999 Share Option Scheme*

On September 18, 1999, Brilliance China Automotive approved a share option scheme, or the Original Scheme, under which the directors may, at their discretion, at any time during the ten years from the date of approval of the scheme, invite employees of any member company of the Group, including executive directors, to take up share options of Brilliance China Automotive. The maximum number of shares on which options may be granted may not exceed 10% of the issued share capital of Brilliance China Automotive 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 The Stock Exchange of Hong Kong 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.

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

	Number of share options	
	2005	2004
At January 1,	14,490,000	15,490,000
Cancelled/Lapsed during the year	(11,690,000)	(1,000,000)
At December 31,	2,800,000	14,490,000

The outstanding share options under the Original Scheme entitle the holder to subscribe for each ordinary share of Brilliance China Automotive at HK\$1.896 for each outstanding share option, exercisable from June 2, 2001 to June 1, 2011.

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New Share Option Scheme

On June 28, 2002, Brilliance China Automotive adopted a new share option scheme, or the New Scheme in compliance with the amendments to the listing rules and regulations of The Stock Exchange of Hong Kong Limited that became effective on September 1, 2001. The New Scheme became effective on July 15, 2002 and the Original Scheme was terminated. Pursuant to the Original Scheme, all the share options granted prior to its termination shall continue to be valid and exercisable in accordance with its terms. Share options granted after July 15, 2002 are subject to the terms of the New Scheme. Pursuant to the New Scheme, Brilliance China Automotive's Board of Directors may grant options to the participants (including Brilliance China Automotive's employees, non-executive directors, suppliers and customers, etc.) to subscribe for Brilliance China Automotive's common stock at a price that shall not be lower than the higher of:

- (a) the closing price of the common stock 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;
- (b) the average closing price of the common stock 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; or
- (c) the nominal value of the common stock.

The New Scheme allows Brilliance China Automotive to grant options to a wider category of participants. Under the New Scheme, the board would also have the discretion to set a minimum period for which an option must be held before the exercise of the subscription rights attached to that option, as well as any performance targets it considers appropriate before an option can be exercised. The purpose of the New Scheme is to provide incentives or rewards to participants under the scheme for their contribution to Brilliance China Automotive and its subsidiaries and to enable Brilliance China Automotive and its subsidiaries to recruit and retain skilled employees.

During (a) the year ended December 31, 2002, 13,972,000 share options granted to a former Director and certain former employees have been cancelled or lapsed; (b) the year ended December 31, 2003, 2,338,000 share options granted to a former employee have been exercised; (c) the year ended December 31, 2004, 1,000,000 share options granted to a former employee have been cancelled or lapsed; and (d) the year ended December 31, 2005, 11,690,000 share options granted to certain former Directors and a former employee have been cancelled or lapsed in accordance with the terms of the Original Scheme.

At December 31, 2005, no share option has been granted under the New Scheme.

Call Option Agreements

On December 18, 2002, Huachen Automotive Group Holdings Company Limited, or Huachen entered into a principal agreement, or the Principal Agreement, with the Chinese Financial Education Development Foundation, or 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 Brilliance China Automotive and the Foundation's entire shareholding interests in Brilliance China Automotive. Completion of the Principal Agreement took place upon signing.

On December 18, 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), or the Management Directors, entered into a call option agreement, or the 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 ordinary shares, totaling 346,305,630 shares in aggregate and representing approximately 9.446% of the then issued share capital of Brilliance China Automotive, 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 December 18, 2002, or 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 February 6, 2003.

Under the terms of the Call Option Agreements, each of 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 favor of Huachen until full payment of the exercise price.

None of the call options were exercised in 2005.

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The following table sets forth certain information regarding ownership of Brilliance China Automotive's capital stock as of December 31, 2005 by all persons who are known to Brilliance China Automotive to own more than 5% of Brilliance China Automotive's shares or ADSs. The voting rights of Brilliance China Automotive's major shareholders are identical to those of its other shareholders.

Title of Class	Identity of Person or Group	Number of Shares	Percent of Capital Stock
		Owned	
Ordinary Shares	Huachen Automotive Group Holdings Company Limited ⁽¹⁾	1,446,121,500	39.42%
Ordinary Shares	Templeton Asset Management Ltd.	215,388,000	5.87%
Ordinary Shares	Brandes Investment Partners, L.P.	306,052,000	8.34%

⁽¹⁾ Huachen Automotive Group Holdings Company Limited is a wholly owned subsidiary of the Liaoning Provincial Government.

On December 18, 2002, Huachen, a wholly owned subsidiary of the Liaoning Provincial Government, entered into a principal agreement with the Chinese Financial Education Development Foundation, the then substantial shareholder of Brilliance China Automotive, for the purchase from the Chinese Financial Education Development Foundation of a total of 1,446,121,500 ordinary shares, representing approximately 39.45% of the then issued share capital of Brilliance China Automotive and the Chinese Financial Education Development Foundation's entire shareholding interest in Brilliance China Automotive. Completion of the principal agreement took place at signing on December 18, 2002. Accordingly, as of December 31, 2003, Huachen is entitled to cast 39.42% (diluted from the initial 39.45% due to the exercise of certain share options during 2003) of the votes on all matters to be voted on by the shareholders of Brilliance China Automotive (to the extent it is not required to abstain from exercising its voting rights under the applicable laws and regulations), and will therefore exert substantial influence over the election of Brilliance China Automotive's directors, the outcome of actions requiring majority shareholder approval and the business in general of Brilliance China Automotive. See Item 8 Financial Information Legal Proceedings for a description of the litigation relating to this purchase.

Related Party Transactions

JinBei holds a 49% equity interest in Shenyang Automotive. Shenyang Automotive began operating as a separate legal entity from JinBei in January 1992. Shenyang Automotive and JinBei are parties to a trademark license agreement under which JinBei has granted to Shenyang Automotive the license to use indefinitely the JinBei trademark on its products and marketing materials. On December 29, 2003, Brilliance China Automotive, through Shenyang JinBei Automotive Industry Holdings Co., Ltd., or SJAI, and Shenyang XinJinBei Investment and Development Co., Ltd., or SXID, its 98.0% and 99.0% indirectly owned subsidiaries, respectively, entered into agreements to acquire the entire equity interests of Shenyang Automobile Industry Asset Management Company Limited, or SAIAM, and Shenyang XinJinBei Investment Co., Ltd, or SXI, which own 29.9% and 11%, respectively, of the issued share capital of JinBei. Upon receipt of the necessary governmental approvals for this transaction, Brilliance China Automotive's effective interest in Shenyang Automotive will increase from its initial 51.0% to

approximately 70.7%. This acquisition is expected to be completed by the end of 2006.

In 2005, Brilliance China Automotive purchased Rmb 1,062.5 million of its component parts from various affiliated companies and paid a Rmb 112.2 million subcontracting charge to a jointly controlled entity. These figures represented a decrease of 47.1% from Rmb 2,006.7 million and a decrease of 37.2% from Rmb 178.7 million, respectively, from 2004 to 2005. Brilliance China Automotive believes that its purchases of such parts have been on terms as favorable to Brilliance China Automotive as it could have obtained from unrelated third parties on an arm's-length basis.

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Significant transactions between Brilliance China Automotive or its subsidiaries and affiliated companies in the ordinary course of business during 2003, 2004 and 2005 are set forth below:

	2005	2004 (Rmb 000)	2003
Sales to JinBei and its affiliated companies	69,432	38,127	150,637
Purchases from JinBei and its affiliated companies	383,808	764,311	986,828
Sales to Shanghai Shenhua and its affiliated companies	1,469,402	1,895,881	1,984,715
Purchases from Shanghai Shenhua and its affiliated companies	85,354	214,467	222,940
Sales to other affiliated companies of Brilliance Holdings Limited			504
Purchases from a joint venture partner of Shenyang Aerospace	1,987	39,019	
Subcontracting charges to BMW Brilliance	112,160	178,685	17,438
Purchases from other affiliated companies of Brilliance Holdings Limited	66,441	89,690	93,498
Purchases from associated companies and jointly controlled entities	524,221	898,914	1,597,289
Sales to affiliated companies of the joint venture partner of Ningbo Yuming			5,135
Purchases from affiliated companies of the joint venture partner of Ningbo Yuming		342	16,338
Sales to associated companies and jointly controlled entities	71,005	205,849	171,512
Consideration paid to the joint venture partner of Ningbo Yuming for acquisition of 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	
Finance charge to a jointly controlled entity	17,329	17,850	
Operating lease rental on machineries and equipment charged by a jointly controlled entity	2,260	12,840	12,000
Operating lease rental from a jointly controlled entity	15,078	15,364	
Sales of property, plant and equipment to JinBei and its affiliated companies		4,407	
Sales of property, plant and equipment to a jointly controlled entity	263	1,105	
Purchase of machinery from JinBei and its affiliated companies		58,089	
Service income from a jointly controlled entity	43,671		

The above transactions were carried out after negotiations between Brilliance China Automotive and its subsidiaries and the affiliated companies in the ordinary course of business and on the basis of estimated market value as determined by the directors of Brilliance China Automotive.

During the year ended December 31, 2002, JinBei allowed Shenyang Automotive to use certain components-related technology in the manufacturing of the Zhonghua sedan. This technology was transferred from JinBei to Shenyang Automotive in the form of an increase in the registered capital of Shenyang Automotive in January 2003, and Shenyang Automotive thereby became the legal owner of this components-related technology.

In 2003, Shenyang Automotive transferred the legal titles and ownership of certain buildings at their net book value to BMW Brilliance 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, as of December 31, 2005 and 2004, the net book value of the buildings amounting to

approximately Rmb 142.6 million and Rmb 150.8 million, respectively were retained as assets on the consolidated balance sheet of Brilliance China Automotive and the portion of consideration received from BMW Brilliance up to December 31, 2005 and 2004 amounting to approximately Rmb 74.6 million was treated as a financing and will be partially offset against the lease rental payable in future years. The remaining balance of approximately Rmb 99.8 million will be received from BMW Brilliance and will be accounted for as additional financing.

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In December 2003, BMW Brilliance purchased certain machineries and equipment from Shenyang Automotive at their net book value mutually agreed by both parties for use in the production of BMW sedans. The agreement of sale includes an option for BMW Brilliance to require Shenyang Automotive to purchase back such machineries and equipment at the purchase price less depreciation over a specified period 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. These machineries and equipment are maintained by BMW Brilliance for the manufacturing of its products and is also used by Shenyang Automotive for a service fee based on the number of Zhonghua sedans produced by Shenyang Automotive using these machineries and equipment. As of December 31, 2005 and 2004, service fees of approximately Rmb 308.3 million and Rmb 196.1 million had accrued, respectively.

The operating subsidiaries of Brilliance China Automotive have provided the following outstanding guarantees to affiliated companies as of December 31, 2005:

a corporate guarantee of approximately Rmb 120 million (US\$14.9 million) for revolving bank loans and notes drawn by affiliated companies of Shanghai Shenhua. However, default by Shanghai Shenhua and its affiliated companies is considered remote by management and therefore no liability for the guarantor's obligation under the guarantee existed as of December 31, 2005;

a joint and several proportional guarantee with all the initial joint venture partners of Shenyang Aerospace on a long-term bank loan of approximately Rmb 111 million (US\$13.8 million) drawn by Shenyang Aerospace that will expire in 2008. However, default by Shanghai Aerospace is considered remote by management and therefore no liability for the guarantor's obligation under the guarantee existed as of December 31, 2005; and

corporate guarantees for bank loans amounting to Rmb 295 million (US\$36.6 million) drawn by JinBei. Bank deposits of Rmb 311 million were pledged as a collateral for the corporate guarantee. However, However, default by JinBei is considered remote by management and therefore no liability for the guarantor's obligation under the guarantee existed as of December 31, 2005.

Set forth below is information on amounts due from affiliated companies to Brilliance China Automotive and its subsidiaries arising from trading activities as of December 31, 2005, 2004 and 2003:

	2005	2004	2003
	(Rmb 000)		
Notes receivable from affiliated companies			
Notes receivable from affiliated companies of JinBei	9,446	22,500	4,505
Notes receivable from Shanghai Shenhua	328,482	601,348	487,770
Notes receivable from associated companies and jointly controlled entities	1,042	21,295	31,900
Notes receivable from an affiliated company of the joint venture partner of Ningbo Yuming			3,000
Total⁽¹⁾	338,970	645,143	527,175
Amounts due from affiliated companies			
Due from Shanghai Shenhua and its affiliated companies	276,763	386,710	54,967
Due from Shanghai Yuantong ⁽²⁾			355,835
Due from affiliated companies of the joint venture partner of Ningbo Yuming			4,408
Due from affiliated companies of JinBei	62,877	58,312	53,242
Due from affiliated companies of Brilliance Holdings Limited	54,222		
Due from associated companies and jointly controlled entities	205,565	75,224	46,453
Due from a joint venture partner of Shenyang Aerospace	1,505	882	
Receivable arising from the disposal of machineries and equipment to BMW Brilliance ⁽³⁾	269,003	269,003	269,003
Provision for doubtful debts	(29,720)	(24,720)	(9,720)

Total	840,215	765,411	774,188
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- (1) The notes receivable from affiliated companies are guaranteed by banks in China and have maturities of six months or less. The fair value of the notes receivable approximates their carrying value.
- (2) The amounts due from Shanghai Yuantong as of December 31, 2003 were non-interest bearing. Subsequent to December 31, 2003, Rmb 350 million of endorsed bank notes were received from Shanghai Yuantong.
- (3) The outstanding balance is unsecured, non-interest bearing and will be settled by BMW Brilliance when certain conditions specified in the agreement of sale are fulfilled.

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Set forth below is information on advances from Brilliance China Automotive and its subsidiaries to affiliated companies as of December 31, 2005, 2004 and 2003:

	2005	2004 (Rmb 000)	2003
Advances to affiliated companies			
Advances to JinBei and its affiliated companies	16,185	16,786	69,748
Advances to associated companies and jointly controlled entities	7,226	22,528	
Advances to Shanghai Shenhua	9,045		
Advances to Brilliance Holdings Limited and its affiliated companies	15,273		172,955
Advances to other affiliated companies (non-interest bearing)	452	138	779
Provision for doubtful debts	(9,250)	(1,975)	
Total	38,931	37,477	243,482

Set forth below is information on advances from affiliated companies to Brilliance China Automotive and its subsidiaries as of December 31, 2005, 2004 and 2003.

	2005	2004 (Rmb 000)	2003
Advances from affiliated companies			
Advances from affiliated companies of Brilliance Holdings Limited	28,558	14,319	15,294
Advances from an associated company	607		
Advances from an affiliated company of Shanghai Shenhua	236	230	
Advances from affiliated companies of JinBei	1,088	945	516
Advances from affiliated companies of the joint venture partner of Ningbo Yuming			1,845
Advances from other affiliated companies		382	382
Financing received from BMW Brilliance	74,605	74,605	74,605
Total	105,094	90,481	92,642

Aside from the financing received from BMW Brilliance, the other advances from affiliated companies are unsecured, non-interest bearing and have no fixed repayment terms.

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Amounts due to affiliated companies arising from trading activities consisted of the following:

	2005	2004 (Rmb 000)	2003
Notes payable to affiliated companies			
Notes payable to affiliated companies of JinBei	8,139	24,229	27,272
Notes payable to associated companies and jointly controlled entities	22,491	91,892	8,059
Notes payable to other affiliated companies		925	100
Notes payable to affiliated companies of Brilliance Holdings Limited	43,462		
Notes payable to Shanghai Shenhua		4,116	
Total	74,092	121,162	35,431
Amounts due to affiliated companies			
Due to JinBei and its affiliated companies	142,438	195,166	216,559
Due to other affiliated companies of Brilliance Holdings Limited	22,025	8,705	2,478
Due to Shanghai Shenhua and its affiliated companies	4,191	40,570	84,417
Due to affiliated companies of the joint venture partner of Ningbo Yuming			1,037
Due to affiliated companies of the joint venture partner of Xinguang Brilliance			4,967
Due to associated companies and jointly controlled entities	465,023	276,951	375,396
Due to other affiliated companies	130	1,330	
Total	633,807	522,722	684,854

The amounts due to affiliated companies are unsecured, non-interest bearing and have no fixed repayment terms.

As of December 31, 2004, included in prepayments and other current assets were approximately Rmb 9.5 million of prepayment for purchases of raw materials made to an affiliated company of Brilliance Holdings Limited.

As of December 31, 2003, included in other receivables was Rmb 20 million of outstanding proceeds from the disposal of an associated company to an affiliated company.

ITEM 8. FINANCIAL INFORMATION**Consolidated Statements and Other Financial Information**

See Item 18 Financial Statements for a list of the financial statements filed with this document.

Legal Proceedings*Broadsino Litigation*

On January 21, 2003, a writ dated January 21, 2003, or the Writ, brought by Broadsino Finance Company Limited, or Broadsino, as the Plaintiff, was filed with the Supreme Court of Bermuda which alleged that the interest of the Chinese Financial Education Development Foundation, or the Foundation, in 1,446,121,500 shares of Brilliance China Automotive, or the Sale Shares, was held in trust for Broadsino and was improperly transferred to Huachen Automotive Group Holdings Company Limited, or Huachen.

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In the course of legal proceedings with Broadsino, Brilliance China Automotive achieved the following:

- (i) overturning on February 11, 2003 an ex parte Court Order dated January 22, 2003 which had restrained Brilliance China Automotive from, amongst other things, registering the transfer of the Sale Shares by the Foundation to Huachen and/or Huachen to certain directors of Brilliance China Automotive;
- (ii) initiating on March 10, 2003, a Strikeout Summons at the Supreme Court to have the Writ and the statement of claim struck out, which proceedings were duly heard before the Supreme Court, and which resulted on December 31, 2003 in that court issuing a judgment to strike-out the Writ;
- (iii) challenging Broadsino's attempts for appeal to the Court of Appeal of Bermuda, Civil Appellant jurisdiction which appeal was then dismissed by that court's judgment of March 14, 2005 which ruled in Brilliance China Automotive's favor;
- (iv) challenging at all stages Broadsino's further attempts for leave to appeal to the Privy Council in the United Kingdom with respect to the Court of Appeal's judgment; and
- (v) being awarded costs in Broadsino's seeking of a grant of leave on November 10, 2005 in the Court of Appeal in Bermuda to withdraw its leave to appeal to the Privy Council.

The directors of Brilliance China Automotive do not believe the proceedings with Broadsino will have any significant impact on the financial position of Brilliance China Automotive and of the Group.

Yang Rong Employment Proceedings

On or about October 25, 2002, Brilliance China Automotive was served with a claim lodged by Mr. Yang Rong in the Labour Tribunal in Hong Kong against Brilliance China Automotive for alleged wrongful repudiation and/or breach of his employment contract. The claim was for approximately US\$4.3 million (equivalent to approximately Rmb 35.6 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 January 28, 2003. Mr. Yang subsequently applied for a review of this decision. At the review hearing on July 4, 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. On September 16, 2003, a Statement of Claim was served on Brilliance China Automotive. On November 4, 2003, Brilliance China Automotive filed a Defence and Counterclaim with the High Court. Mr. Yang filed a Reply to Defence and Defence to Counterclaim on April 26, 2004. On July 21, 2004, Mr. Yang obtained leave from the Court to file an Amended Reply to Defence and Defence to Counterclaim. Brilliance China Automotive filed and served a Reply to Defence to Counterclaim on September 4, 2004. Pleadings closed on September 18, 2004. The parties filed and served Lists of Documents on October 26, 2004 and witness statements were exchanged on February 28, 2005. The parties applied by consent to adjourn sine die a checklist hearing fixed for April 20, 2005, as the respective parties anticipated that they would be filing supplemental evidence and amending their pleadings. The Court approved the application and made an Order on April 19, 2005 that the checklist hearing be vacated and adjourned sine die with liberty to restore. Pursuant to a request made by Mr. Yang on June 2, 2005 for further and better particulars of the Defence and Counterclaim, Brilliance China Automotive filed and served its Answer to Mr. Yang's request on July 4, 2005.

On August 17, 2005, in compliance with its continuing discovery obligations, Brilliance China Automotive filed and served a Supplemental List of Documents. Subsequently, on September 5, 2005, Mr. Yang also filed and served a Supplemental List of Documents. Further interlocutory steps are in progress. There have been no other material developments in the litigation. The directors of Brilliance China Automotive do not believe the action will have any significant impact on the financial position of Brilliance China Automotive and of the Group. The directors of Brilliance China Automotive intend to continue vigorously defending the action.

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Dividends

All dividends to holders of ADSs are declared and paid in U.S. dollars. Interim dividends may be paid at the discretion of Brilliance China Automotive's board of directors based on its evaluation of the financial condition of Brilliance China Automotive, while final dividends are subject to the approval of the shareholders at a general meeting. Historically, Brilliance China Automotive has paid a quarterly dividend at the rate of US\$0.02 per share in each quarter, commencing in the first quarter of 1993. Brilliance China Automotive began to pay dividends on a semi-annual basis in the second half of 1996. The amount of these dividend payments have been adjusted on a pro rata basis to reflect Brilliance China Automotive's 1999 and 2000 bonus share issuances as well as the increase in earnings per share. No dividends were declared or paid for 2005.

Under Section 54 of the Companies Act 1981 of Bermuda (as amended), a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that Brilliance China Automotive is, or would after payment be, unable to pay its liabilities as they become due; or

the realizable value of Brilliance China Automotive's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account. As a Bermuda company, Brilliance China Automotive must abide by these criteria in formulating its dividend policy.

Applicable Chinese laws and regulations require that before a foreign-invested enterprise distributes profits to investors it must:

satisfy all tax liabilities;

provide for losses in previous years;

in the case of a Sino-foreign joint venture, also make appropriation, in proportions determined at the sole discretion of the board of directors of the joint venture, to a general reserve fund, an enterprise expansion fund and a staff welfare and employee bonus fund. During the year ended December 31, 2005, Shenyang Automotive was not required to and therefore did not make any additional contributions into these funds.

Distributions of profits to investors are required to be in proportion to each party's shareholdings in the joint venture; and

in the case of a wholly foreign owned enterprise, appropriate 10% of profit after providing for taxes and losses in previous years to a general reserve fund until the balance of the fund reaches 50% of its share capital. Any further appropriation thereafter is optional. The appropriation to an enterprise expansion fund and a staff welfare fund is at the sole discretion of the board of directors of the wholly foreign owned enterprise. During the year ended December 31, 2005, Xing Yuan Dong and Mianyang Brilliance Ruian made an additional Rmb 9.3 million (US\$1.2 million) to the general reserve fund, enterprise expansion fund and staff welfare fund.

Significant Changes

There have been no significant changes since December 31, 2005, the date of the annual financial statements in this annual report.

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Brilliance China Automotive's ordinary shares are listed on The Stock Exchange of Hong Kong Limited under the stock code 1114, and Brilliance China Automotive's ADSs are listed on the New York Stock Exchange, Inc. under the symbol CBA. The following table sets forth for the periods indicated the reported high and low sales prices for the ordinary shares and the ADSs on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, Inc., respectively:

	The New York Stock Exchange, Inc. (US\$) ADSs		The Stock Exchange of Hong Kong Limited (HK\$) Ordinary Shares	
	High	Low	High	Low
2001: 1 st quarter	31.55	22.88	2.78	1.60
2 nd quarter	33.85	23.15	2.75	1.76
3 rd quarter	24.38	11.51	1.96	0.82
4 th quarter	22.70	14.69	1.76	1.11
2002: 1 st quarter	21.48	16.00	1.70	1.26
2 nd quarter	18.50	12.34	1.49	0.98
3 rd quarter	15.15	12.10	1.22	0.98
4 th quarter	19.00	10.65	1.49	0.80
2003: 1 st quarter	25.49	18.11	2.03	1.42
2 nd quarter	29.29	20.48	2.28	1.56
3 rd quarter	34.49	26.80	2.73	2.10
4 th quarter	61.30	34.20	4.75	2.65
2004: 1 st quarter	62.75	39.52	4.85	3.85
2 nd quarter	48.25	28.55	3.73	2.15
3 rd quarter	32.20	19.21	2.53	1.52
4 th quarter	24.40	17.75	1.93	1.40
2005: 1 st quarter	22.73	14.76	1.78	1.22
2 nd quarter	20.00	15.75	1.61	1.26
3 rd quarter	19.10	13.41	1.50	0.98
4 th quarter	15.25	12.56	1.18	0.97
2006: January	17.80	14.91	1.40	1.12
February	23.66	16.51	1.57	1.26
March	17.48	14.52	1.36	1.12
April	19.25	14.84	1.55	1.14
May	18.70	15.44	1.47	1.18
June (through June 20)	16.40	14.05	1.27	1.10

To the best of Brilliance China Automotive's knowledge, as of June 20, 2006, Brilliance China Automotive had 2,424,556 ADSs outstanding, which were held by 83 registered holders of record in the United States (including 2,366,366 ADSs held by two nominee holders). One ADS is equivalent to 100 ordinary shares.

Trading of Brilliance China Automotive's shares in Hong Kong was suspended from January 24, 2003 through January 27, 2003 and trading of Brilliance China Automotive's ADSs in New York was also suspended on January 24, 2003 to allow Brilliance China Automotive to clarify the impact of the court order obtained by Broadsino Finance Company Limited against Brilliance China Automotive, the Executive Directors, the Chinese Financial Education Development Foundation and Huachen Automotive Group Holdings Company Limited restraining the registration of any sale or transfer of shares of Brilliance China Automotive.

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Trading of Brilliance China Automotive's shares in Hong Kong was suspended from 2:36 p.m. Hong Kong time October 2, 2003 through October 3, 2003 and trading of Brilliance China Automotive's ADSs in New York was suspended on October 2, 2003 pending the release of an announcement in relation to the placement of an aggregate of 113,640,000 shares of Brilliance China Automotive by certain directors of Brilliance China Automotive.

Trading of Brilliance China Automotive's shares in Hong Kong was suspended on December 31, 2003 pending the release of an announcement in relation to the acquisition by Brilliance China Automotive, through its indirectly owned subsidiaries SJA1 and SXID, of the entire equity interests of SAIAM and SXI.

Trading of Brilliance China Automotive's shares in Hong Kong was suspended from 9:37 a.m. Hong Kong time May 8, 2006 through May 9, 2006 and trading of Brilliance China Automotive's ADSs in New York was suspended on May 8, 2006, pending the release of an announcement in relation to the issuance by Brilliance China Finance Limited (formerly known as Goldcosmos Investments Limited) of zero coupon guaranteed convertible bonds due 2011 with an aggregate principal amount of approximately US\$183.0 million.

ITEM 10. ADDITIONAL INFORMATION

Memorandum of Association and Bye-laws

Described below is a summary of certain provisions of Brilliance China Automotive's memorandum of association and Bye-laws, as currently in effect.

General

Brilliance China Automotive was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on June 9, 1992. Its headquarters are located at Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong and it is registered with the Registrar of Companies in Hong Kong as an overseas company under Part XI of the Companies Ordinance.

Brilliance China Automotive's memorandum of association also sets out its objects, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule of the Companies Act. As an exempted company, Brilliance China Automotive will be carrying on business outside Bermuda, although it maintains a registered office in Bermuda. Brilliance China Automotive's Bye-laws were conditionally adopted on September 18, 1999.

Directors

Disclosure of interests in contracts with Brilliance China Automotive or its subsidiaries

A director may not vote or be counted in the quorum on any resolution of the board of directors concerning his own appointment as the holder of any office or place of profit with Brilliance China Automotive or any other company in which Brilliance China Automotive is interested.

A director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with Brilliance China Automotive must declare the nature of his interest at the meeting of the board of directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the board of directors after he knows that he is or has become so interested.

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Save as otherwise provided by the Bye-laws, a director may not vote (nor be counted in the quorum) on any resolution of the board of directors in respect of any contract, proposal or arrangement in which he or any of his associates are materially interested, and if he does so his vote may not be counted (nor shall he be counted in the quorum), but this prohibition will not apply to any of the following matters:

any contract or arrangement for the giving by Brilliance China Automotive of any security or indemnity to the director or his associates in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or his associates at the request of or for the benefit of Brilliance China Automotive or any of its subsidiaries;

any contract or arrangement for the giving by Brilliance China Automotive of any security to a third party in respect of a debt or obligation of Brilliance China Automotive, or any of its subsidiaries, for which the director or his associates have assumed responsibility or guaranteed or secured in whole or in part whether solely or jointly;

any contract or arrangement concerning an offer of the shares, debentures or other securities of or by Brilliance China Automotive or any other company which Brilliance China Automotive may promote or be interested in for subscription or purchase where the director or his associates are interested as a participant in the underwriting or sub-underwriting of the offer;

any contract or arrangement concerning any other company in which the director or his associates are interested whether directly or indirectly, as an officer or executive or shareholder or in which the director or his associates are beneficially interested in shares of that company, other than a company in which the director together with any of his associates beneficially own 5% or more of the issued shares of any class of shares of such company (or of any third company through which his interest is derived) or of the voting rights;

any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme under which the director or his associates may benefit;

any proposal or arrangement for the benefit of employees of Brilliance China Automotive or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme which relates both to directors and employees of Brilliance China Automotive or any of its subsidiaries and does not give the director any privilege not generally accorded to the class of persons to whom such scheme or fund relates; and

any contract or arrangement in which the director or his associates are interested in the same manner as other holders of shares or debentures or securities of Brilliance China Automotive by virtue only of their interest in shares or debentures or other securities of Brilliance China Automotive.

Remuneration

The directors are entitled to receive remuneration for their services a sum determined by Brilliance China Automotive in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the directors in such proportions and in such manner as the board of directors may agree, or failing agreement, equally, except that in such event any director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during the period for which he has held office.

Borrowing powers

Subject to the provisions of the Companies Act, the board of directors may exercise all the powers of Brilliance China Automotive to raise or borrow or to secure the payment of any sum or sums of money for the purposes of Brilliance China Automotive and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The board of directors may raise or secure the payment or repayment of such sum or sums in such manner and

upon such terms and conditions in all respects as it thinks fit and in particular by the issue of debentures, debenture stock, bonds or other securities of Brilliance China Automotive, whether outright or as collateral security for any debt, liability or obligation of Brilliance China Automotive or of any third party.

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Alterations to constitutional documents

The memorandum of association of Brilliance China Automotive may, with the consent of the Minister of Finance of Bermuda, be altered by Brilliance China Automotive in general meeting. The Bye-laws may be amended by the directors subject to the approval of Brilliance China Automotive in general meeting. The Bye-laws state that a special resolution is required to alter the memorandum of association on to approve any amendment of the Bye-laws.

Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every separate general meeting the provisions of the Bye-laws relating to general meetings will apply, but so that the necessary quorum is not less than two persons holding or representing by proxy one-third in nominal value of the issued shares of the class, and that any holder of shares of the class present in person or by proxy or by a duly authorized corporate representative may demand a poll.

Special resolutions majority required

A special resolution of Brilliance China Automotive must be passed by a majority of not less than three-fourths of the votes cast of such members as, being entitled so to do, vote in person, or by a duly authorized corporate representative, or where proxies are allowed, by proxy at a general meeting of which not less than 21 days notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days notice has been given.

Voting rights and right to demand a poll

Subject to any special rights, privileges or restrictions as to voting attached to any class or classes of shares, at any general meeting on a show of hands every member who is present in person or by a duly authorized corporate representative shall have one vote and on a poll, every member present in person or by a duly authorized corporate representative or by proxy shall have one vote for every share of which he is the holder which is fully paid up or credited as fully paid (but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share). On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required under The Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or demanded (before or at the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll):

by the chairman of the meeting;

by at least three members present in person, or by a duly authorized corporate representative, or by proxy for the time being entitled to vote at the meeting;

by any member or members present in person, or by a duly authorized corporate representative, or by proxy, and representing not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or

by any member or members present in person, or by a duly authorized corporate representative, or by proxy having the right to attend and vote at the meeting, and in respect of whose shares, sums have been paid up in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares having that right.

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Requirements for annual general meetings

An annual general meeting must be held once in every year and within not more than fifteen months after the last preceding annual general meeting.

Notices of annual general meetings

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing and any other special general meeting shall be called by at least 14 days' notice in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice shall specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business.

Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or by a duly authorized corporate representative or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy or by a duly authorized corporate representative one-third in nominal value of the issued shares of that class and that any holder of shares of the class present in person by proxy or by a duly authorized corporate representative may demand a poll.

Dividends

Brilliance China Automotive in general meeting may declare dividends in any currency but no dividends may exceed the amount recommended by the board of directors.

Unless and to the extent that the rights attached to any shares or its terms of issue otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid upon a share in advance of calls will for this purpose be treated as paid up on the shares. The board of directors may retain any dividends or other moneys payable on or in respect of a share upon which Brilliance China Automotive has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The board of directors may deduct from any dividend or bonus payable to any member all sums of money, if any, presently payable by him to Brilliance China Automotive on account of calls, installments or otherwise.

Whenever the board of directors or Brilliance China Automotive in general meeting has resolved that a dividend be paid or declared, the board of directors may further resolve either:

that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, on the basis that the shares so allotted shall be of the same class or classes as the class or classes of shares already held by the allottee, provided that the members will be entitled to elect to receive such dividend (or part of it) in cash in lieu of such allotment; or

that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board of directors may think fit, on the basis that the shares so allotted shall be of the same class or classes as the class or classes of shares already held by the allottee.

Brilliance China Automotive may also, upon the recommendation of the board of directors, by a special resolution resolve in respect of any one particular dividend of Brilliance China Automotive that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive a dividend in cash in lieu of an allotment.

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Whenever the board of directors or Brilliance China Automotive in general meeting has resolved that a dividend be paid or declared the board of directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board of directors for the benefit of Brilliance China Automotive until claimed and Brilliance China Automotive may not be constituted a trustee. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board of directors and must revert to Brilliance China Automotive.

Procedures on liquidation

A resolution that Brilliance China Automotive be wound up by the court or be wound up voluntarily must be a special resolution. If Brilliance China Automotive is wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if the surplus assets are insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If Brilliance China Automotive is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of Brilliance China Automotive and whether the assets consist of property of one kind or consists of properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. With the like sanction, the liquidator may vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

Transfer of shares

Subject to the Companies Act, all transfers of shares must be effected by transfer in writing in the usual or common form or in any other form acceptable to the board of directors and may be under hand or by means of mechanically imprinted signatures or such other manner as the board of directors may approve. An instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor, providing that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its absolute discretion to do so, shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members.

The board of directors may, in its absolute discretion, transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board of directors otherwise agrees, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or another branch register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office in Bermuda.

The board of directors may in its absolute discretion and without assigning any reason, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom it does not approve, or any share issued under any share option scheme for employees upon which a restraint on transfer still applies, and it may refuse to register the transfer of any shares (not being fully paid shares) on which Brilliance China Automotive has a lien. The board of directors may also refuse to register a transfer of shares (whether fully paid or not) in favor of more than four persons jointly. If the board of directors refuses to register a transfer, it will within two months after the date on which the transfer was lodged with Brilliance China Automotive send to the transferor and transferee notice of the refusal.

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The board of directors may decline to recognize any instrument of transfer unless:
the sum, if any, as the board of directors shall determine to be paid to Brilliance China Automotive has been paid;

the shares are free of any lien in favor of Brilliance China Automotive;

the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s);

other evidence as the board of directors may reasonably require to show the right of the transferor to make the transfer has been presented (particularly if the instrument of transfer is executed by some other person on his behalf); and

in some circumstances, the permission of the Bermuda Monetary Authority has been obtained.

The registration of transfers may, on giving notice by advertisement in an appointed newspaper in Bermuda and in one or more newspapers circulating in Hong Kong, be suspended at times and for periods as the board of directors may determine and either generally or in respect of any class of shares. The register of members must not be closed for more than thirty days in any year.

Recent Amendments to the Bye-laws

In 2003, the Companies Act 1981 of Bermuda (as amended) was amended to permit companies to offer their shareholders a summary financial report in place of the complete annual report and accounts. On February 17, 2002, The Stock Exchange of Hong Kong Limited announced amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, or the Listing Rules, which will allow companies to distribute to their shareholders a summary financial report instead of the longer report. On February 5, 2002, The Stock Exchange of Hong Kong Limited also announced amendments to its Listing Rules that allow companies to distribute corporate communications to their shareholders via electronic means. As a result of these amendments, the board of directors of Brilliance China Automotive amended the Bye-laws of Brilliance China Automotive to permit Brilliance China Automotive to take advantage of these changes to the Listing Rules by allowing shareholders to choose to receive a summary financial report in place of the longer, complete annual report and to receive copies of corporate communications by electronic means or by relying on the versions of those documents published on Brilliance China Automotive's website instead of printed copies of such documents. These amendments were approved by the shareholders of Brilliance China Automotive by way of a special resolution at the special general meeting held on June 28, 2002.

At the annual general meeting held on June 25, 2004, the shareholders of Brilliance China Automotive approved amendments to the Bye-laws in order to reflect certain recent amendments to the Listing Rules, which came into effect on March 31, 2004. A brief description of these amendments to the Bye-laws is as follows:

Bye-law 1(A): To amend the existing definition of associates and Clearing House and to add a new definition for subsidiaries

Bye-law 70: To reflect the requirement of voting by poll in respect of certain transactions under the Listing Rules

Bye-law 76: To provide for circumstances under which shareholders are required to abstain from voting or restricted to vote for or against any particular resolution as required by the revised Appendix 3 to the Listing Rules

Bye-laws 98(E), 98(H) and 98(K): To be consistent with the provisions of the revised Appendix 3 to the Listing Rules so that, subject to certain exceptions, a director shall abstain from voting at the board meeting on any contract or arrangement in which he and/or any of his associates has/have a material interest nor shall he be

counted towards the quorum of the relevant board meeting

Bye-law 103: To be consistent with the revised Appendix 3 to the Listing Rules which stipulates the minimum seven-day period for lodgment by a shareholder of the notice to nominate a director and the nomination shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days before the date of such general meeting

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In light of the numerous changes listed above as well as those from prior amendments, the shareholders adopted at the same annual general meeting a fully restated and consolidated set of the Bye-laws incorporating all previous amendments thereto passed at the special general meeting held on June 28, 2002 and the amendments approved at the annual general meeting on June 25, 2004, in substitution for the existing Bye-laws.

At the annual general meeting held on June 24, 2005, Brilliance China Automotive amended the Bye-laws in order to reflect certain amendments to the Listing Rules of The Stock Exchange of Hong Kong Limited, which came into effect on January 1, 2005. A brief description of the amendments is as follows:

Bye-law 6(A): To reflect the existing authorized share capital of Brilliance China Automotive

Bye-law 70: To facilitate the process for demanding a poll at general meetings

Bye-law 99: To provide for retirement by rotation of every director at annual general meetings of Brilliance China Automotive in compliance with code provision A.4.2 of the Code on Corporate Governance Practices issued by The Stock Exchange of Hong Kong Limited

Bye-law 102 (A) and (B): To specify that any director of Brilliance China Automotive appointed to fill a casual vacancy shall hold office until the next following general meeting, instead of the next following annual general meeting

Material Contracts

The following contracts, not being contracts in the ordinary course of business, have been entered into by Brilliance China Automotive and/or its subsidiaries within the two years preceding the date of this annual report and are or may be material.

- (a) Equity Interest Transfer Agreement dated October 19, 2004 between Ms. Chen Qiuling and Beston Asia Investment Limited in relation to the transfer of Ms. Chen's 49% interest in Ningbo Yuming Machinery Industrial Co., Ltd. to Beston Asia Investment Limited;
- (b) Service Agreement for Executive Director dated March 1, 2006 between Brilliance China Automotive and Mr. Wu Xiao An;
- (c) Service Agreement for Executive Director dated March 1, 2006 between Brilliance China Automotive and Mr. Qi Yumin;
- (d) Purchase Agreement, dated May 8, 2006, between Brilliance China Finance Limited (formerly known as Goldcosmos Investments Limited), Brilliance China Automotive and Citigroup Global Markets Limited relating to the sale of zero coupon guaranteed convertible bonds due 2011 by Brilliance China Finance Limited; and
- (e) Trust Deed, dated June 7, 2006, between Brilliance China Finance Limited (formerly known as Goldcosmos Investments Limited), Brilliance China Automotive and The Bank of New York, London Branch relating to the zero coupon guaranteed convertible bonds due 2011 issued by Brilliance China Finance Limited.

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Exchange Controls

Brilliance China Automotive has been designated as a non-resident for exchange control purposes by the Bermuda Monetary Authority, whose permission was obtained and is in force for the issue of the ordinary shares and ADSs of Brilliance China Automotive to persons not resident in Bermuda for exchange control purposes.

The transfer of shares between persons regarded as residents outside Bermuda for exchange control purposes and the issue of shares to or by such persons may be effected without specific consent under the Exchange Control Act 1972 of Bermuda (as amended) and regulations thereunder. Issues and transfers of shares involving any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the Exchange Control Act.

There are no limitations on the rights of non-Bermuda owners of Brilliance China Automotive's capital stock to hold or vote their shares. Because Brilliance China Automotive has been designated as a non-resident for Bermuda exchange control purposes, there are no restrictions on its ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of Brilliance China Automotive's ordinary shares, other than in respect of local Bermuda currency.

In accordance with Bermuda law, share certificates are only issued in the names of corporations or individuals. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, Brilliance China Automotive is not bound to investigate further or incur any responsibility in respect of the proper administration of any such estate or trust.

Brilliance China Automotive will take no notice of any trust applicable to any of its shares whether or not it had notice of such trust.

As an exempted company, Brilliance China Automotive is exempted from Bermuda laws that restrict the percentage of share capital that may be held by non-Bermudians, but as an exempted company, Brilliance China Automotive may not participate in certain business transactions, including:

the acquisition or holding of land in Bermuda (except that required for its business and held by way of lease or tenancy for terms of not more than 50 years) without the express authorization of the Bermuda legislature;

the taking of mortgages on land in Bermuda to secure an amount in excess of BD\$50,000 without the consent of the Minister of Finance of Bermuda;

the acquisition of securities secured on any land in Bermuda, other than certain types of Bermuda government securities; or

the carrying on of business of any kind in Bermuda, except in furtherance of the business of Brilliance China Automotive carried on outside Bermuda or under a license granted by the Minister of Finance of Bermuda.

The Bermuda government actively encourages foreign investment in exempted entities such as Brilliance China Automotive that are based in Bermuda but do not operate in competition with local business. In addition to having no restrictions on the degree of foreign ownership, Brilliance China Automotive is subject neither to taxes on its income or dividends nor to any foreign exchange controls in Bermuda. In addition, there is no capital gains tax in Bermuda, and profits can be accumulated by Brilliance China Automotive, as required, without limitation.

The Chinese government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. Effective January 1, 1994, the dual foreign exchange system in China was abolished in accordance with the notice of the People's Bank of China concerning future reform of the foreign currency control system issued December 1993. The conversion of Renminbi into U.S. dollars in China currently must be based on the People's Bank of China rate. The People's Bank of China rate is set based on the previous day's Chinese interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets.

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Brilliance China Automotive 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 Brilliance China Automotive 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 Brilliance China Automotive as it has no estimated assessable profits 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 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 years ended 2005, 2004 and 2003.

Ningbo Yuming Machinery Industrial Co., Ltd., or Ningbo Yuming and Ningbo Brilliance 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 Brilliance Ruixing was 16.5% for the years ended 2005, 2004 and 2003.

Shenyang Xing Yuan Dong Automobile Component Co., Ltd., or Xing Yuan Dong and Brilliance Dongxing 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. Xing Yuan Dong and Brilliance Dongxing received official designation by the local tax authority as a New and Technologically-Advanced Enterprise and a foreign-invested enterprise engaged in manufacturing activities. As a result, the effective enterprise income tax rate for Xing Yuan Dong and Brilliance Dongxing were 16.5% for the years ended 2005 and 2004, and 7.5% for the year ended 2003.

Mianyang Brilliance 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 applicable. During 2001, Mianyang Brilliance Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. In 2004, Mianyang Brilliance Ruian was also designated as an encouraged industries under Catalogue for the Guidance of Foreign Investment Industries and located in the Western area of the PRC. As a result, the applicable state income tax rate for Mianyang Brilliance Ruian is 15% from 2004 to 2010. In addition, Mianyang Brilliance Ruian is also exempted from state and local enterprise income taxes for two years starting from the first profitable year in 2001 followed by a 50% reduction of enterprise income tax for the next three years. Mianyang Brilliance Ruian is also exempted from local enterprise income tax for the same five-year period. As a result, the effective tax rate for Mianyang Brilliance Ruian was 7.5% for the years ended 2005 and 2004, and 15% for the year ended 2003.

Shenyang ChenFa 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 applicable. In current year, Shenyang ChenFa received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. Pursuant to the relevant income tax laws in the PRC, Shenyang ChenFa is exempted from state enterprise income tax for two years starting from the first profitable year in 2004 followed by 50% reduction of state enterprise income tax for the next three years. In addition, Shenyang ChenFa is also exempted from local enterprise income tax for the same five-year period. As a result, the effective tax rate for Shenyang ChenFa was 0% for the years ended 2005 and 2004.

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Other subsidiaries in China are subject to state and local income taxes within China at standard rates of 30% and 3%, respectively, based on the 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 and Consumption Tax

Under the Provisional Regulations on Value Added Tax in the People's Republic of China, which came into effect on January 1, 1994, all subsidiaries are subject to value added tax, which is the principal indirect tax on the sale of tangible goods. The general value added tax rate applicable to sales and purchases of minibuses, sedans and automotive components in China is 17%. Sales of minibuses and sedans are also subject to consumption tax at standard rates ranging from 5% to 8% in 2005.

Customs Duties

See Item 11 Quantitative and Qualitative Disclosures About Market Risk Tariff Reductions for a discussion of the import tariffs that generally apply to Brilliance China Automotive and its subsidiaries. Brilliance China Automotive and its subsidiaries paid approximately Rmb 15.2 million as custom duty in 2005.

Documents on Display

Brilliance China Automotive is subject to the informational requirements of the U.S. Securities and Exchange Act of 1934, as amended, or the Exchange Act, and, in accordance with the Exchange Act, Brilliance China Automotive files annual reports on Form 20-F within six months of its fiscal year end, and submit other reports and information under cover of Form 6-K with the SEC. You may read and copy this information at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Recent filings and reports are also available free of charge through the EDGAR electronic filing system at www.sec.gov. You can also request copies of the documents, upon payment of a duplicating fee, by writing to the public reference section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room or accessing documents through EDGAR. As a foreign private issuer, Brilliance China Automotive is exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to shareholders.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Exchange Rates**

In the year ended December 31, 2005, approximately 2.1%, 1.3% and 0.5% of Shenyang Automotive's costs of sales were denominated in Japanese Yen, U.S. dollars and Euros, respectively. These costs related primarily to the purchase and importation of equipment and components from foreign suppliers. Shenyang Automotive pays a Japanese Yen price for the components and spare parts imported from Toyota through Japanese Yen-denominated letters of credit issued by the Bank of China and other Chinese banks. Because the Renminbi is not directly convertible into Japanese Yen, these letters of credit are funded by Shenyang Automotive in U.S. dollars. However, because Shenyang Automotive's products are sold in China primarily in Renminbi transactions, its revenues and profits are predominantly in Renminbi, requiring Shenyang Automotive to convert a portion of its Renminbi earnings into U.S. dollars and Euros. Accordingly, Shenyang Automotive is exposed to Renminbi/U.S. dollar exchange rate risk, U.S. dollar/Japanese Yen exchange rate risk and U.S. dollar/Euro exchange rate risk.

The value of Renminbi to the U.S. dollar increased by approximately 2.5% in 2005 as a result of the loosening of the peg to the U.S. dollar on July 21, 2005. The appreciation of the Renminbi versus the Japanese Yen, U.S. dollar or Euro has made purchases of foreign-produced components and payments denominated in foreign currency less expensive for Shenyang Automotive in Renminbi terms, thereby marginally improving its results of operations. A devaluation of the Renminbi would have the opposite effect. While there can be no assurance that the exchange rates will continue their current trends or that a devaluation or continued appreciation of the Renminbi will not occur, Brilliance China Automotive does not believe that such occurrences would, in any event, have any material adverse effect on Brilliance China Automotive's earnings.

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Other than US\$200 million zero coupon convertible bonds issued in 2003 and US\$183 million zero coupon guaranteed convertible bonds issued in 2006, Brilliance China Automotive and its subsidiaries currently have no foreign currency-denominated borrowings from third parties, but have outstanding letters of credit of Yen 193.0 million and US\$2.9 million and Euro 0.6 million from local banks. Brilliance China Automotive also advanced shareholder's loans to its subsidiaries in the amounts of approximately HK\$266.2 million, Rmb 1,708.1 million and US\$193.3 million in 2005.

Since Brilliance China Automotive does not believe that exchange rate fluctuations have any material effect on the overall financial performance of Brilliance China Automotive, and the amount of foreign currency that it requires is not significant, Brilliance China Automotive does not enter into any hedging transactions with respect to its exposure to foreign currency movements.

Interest Rates

Funds not required by Brilliance China Automotive in the short term are kept as temporary demand or time deposits in commercial banks. Brilliance China Automotive does not hold any market risk-sensitive instruments for trading purposes. As of December 31, 2005, Brilliance China Automotive had short-term bank loans outstanding in the amount of Rmb 496.5 million. The average annual rate for discounting notes receivables with banks in 2005 ranged from 3% to 4% per annum, which rate is fixed separately for each transaction. Brilliance China Automotive did not have any variable rate loans or commitments outstanding as of December 31, 2005.

For the year ended December 31, 2005, Brilliance China Automotive's interest income was Rmb 60.2 million (US\$7.5 million) and its interest expense was Rmb 182.4 million (US\$22.6 million). A 10% change in interest rates would result in a change in interest income of approximately Rmb 6.0 million (US\$0.7 million) and a change in interest expense of approximately Rmb 18.2 million (US\$2.3 million).

Tariff Reductions

The PRC government imposes restrictions, quotas and tariffs on the import of foreign-made motor vehicles, as well as motor vehicle components. However, as a result of the PRC's accession to the WTO, which regulates trading and tariffs among its signatory states, in November 2001, the PRC has committed to reducing its import restrictions on motor vehicles and motor vehicle components. In addition, the PRC will be required to conform its import tariffs to the uniform tariffs under the WTO.

Effective January 1, 2002, the PRC reduced its import tariffs on motor vehicles and automotive components from between 80% to 100% and between 18% to 40%, respectively, to between 43.8% to 50.7% and between 14% to 31.4%, respectively. This range was lowered further to between 4.8% and 25% for automotive components in 2003, between 5% and 22.9% in 2004 and between 5% and 18.6% in 2005. In 2006, the import tariffs on automotive components were further reduced to between 5.0% and 14.3%. In 2004, the average import tariffs on automotive components for the deluxe minibuses (including Granse minibuses) and Zhonghua sedans were 13.8% and 10.5%, respectively, and in 2005, the average tariffs became 9.7% and 12.1% for the imported components for deluxe minibuses and Zhonghua sedans, respectively. In addition, tariffs on vehicles with nine seats or less and engine sizes of three liters or below fell from 43.9% in 2002 to 38.2% in 2003, while tariffs on vehicles with more than nine seats and engines of more than three liters decreased from 50.7% in 2002 to 43.0% in 2003. In 2004, tariffs were 34.2% for vehicles with nine seats or less and engine sizes of three liters or less and 37.6% for vehicles with more than nine seats and engines of more than three liters. In 2005, tariffs were fixed at 30% for all motor vehicles. These tariffs were further reduced to 28% in January 2006 and are scheduled for further reduction to 25% in July 2006.

Although lower tariffs and reduced import restrictions may benefit Brilliance China Automotive in terms of lower cost of imported components, lower tariffs and reduced import restrictions could also lead to a substantial increase in the number of minibuses, sport utility vehicles, sedans and other motor vehicles imported into China, thereby significantly increasing competition in Brilliance China Automotive's current and proposed markets.

Except as described above, Brilliance China Automotive's management believes that at present and in its normal course of business, Brilliance China Automotive is not subject to any other market-related risks.

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ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

None.

Use of Proceeds

Not applicable.

ITEM 15. DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer of Brilliance China Automotive are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-14(c) and 15d-14(c)). Within 90 days prior to the date of this annual report, the management of Brilliance China Automotive carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of Brilliance China Automotive's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, they have concluded that these disclosure controls and procedures are effective to ensure that material information required to be included in our periodic SEC reports relating to Brilliance China Automotive is made known to them.

There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors of Brilliance China Automotive has determined that Brilliance China Automotive does not have an audit committee financial expert, as defined by the SEC, serving on its audit committee. Brilliance China Automotive is seeking to appoint a director who would serve as the audit committee financial expert on the audit committee. However as of the date of this annual report, no suitable candidate has been identified.

Table of Contents**ITEM 16B. CODE OF ETHICS**

Brilliance China Automotive has not adopted a code of ethics that applies to the principal executive officer, the principal financial officer and the principal accounting officer or controller. However, the board of directors of Brilliance China Automotive has adopted or follows the following written standards for purposes of corporate governance:

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong, including the Model Code for Securities Transactions by Directors of Listed Issuers;

Non-Statutory Guidelines on Directors' Duties issued by the Hong Kong Companies Registry in January 2004;

Guide for Independent Non-Executive Directors issued by The Hong Kong Institute of Directors in 2000;

Guidelines for Directors issued by The Hong Kong Institute of Directors in 2005; and

Code for Securities Transactions by Employees.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

PricewaterhouseCoopers acted as Brilliance China Automotive's independent auditors for the fiscal year ended December 31, 2003 and Moores Rowland Mazars has acted as Brilliance China Automotive's independent auditors for the fiscal years ended December 31, 2004 and 2005. The chart below sets forth the total amount billed to us by PricewaterhouseCoopers and Moores Rowland Mazars.

	2005	Total Fees 2004	2003
	Rmb 000	Rmb 000	Rmb 000
Audit fees	3,146	4,452	3,807
Audit-related fees	723	662	662
Tax fees			11
Other fees			248
Total	3,869	5,114	4,728

Audit Fees

Audit fees are the aggregate fees billed by the auditors for the annual financial statement audit and other procedures required to be performed by the auditors so as to form an opinion on Brilliance China Automotive's annual financial statements. Audit fees also include fees billed in connection with the issuance of comfort letters.

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Audit-Related Fees

Audit-related fees are the aggregate fees billed by the auditors in relation to agreed-upon procedures performed on Brilliance China Automotive's interim financial statements and internal control reviews.

Tax Fees

Tax fees are the aggregate fees billed by the auditors for tax compliance on Hong Kong profits tax matters.

Other Fees

Other fees are the aggregate fees billed by the auditors in relation to the delivery of a training session to Brilliance China Automotive on high-level risk and control assessment.

Pre-Approval Policies and Procedures

As part of its duties, the Audit Committee considers the appointment of the external auditor and the audit fee and discusses with the external auditor, before the audit commences, the nature and scope of the audit. The Audit Committee pre-approves the fees and services provided by the external auditor through meetings or written resolutions circulated to members of the Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Brilliance China Automotive has elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 to F-52 following Item 19.

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ITEM 19. EXHIBITS

The following exhibits are furnished along with annual report or are incorporated by reference as indicated.

- 1.1 Amended and Restated Bye-Laws of Brilliance China Automotive, dated June 25, 2004.*

- 2.1 Trust Deed, dated June 7, 2006, between Brilliance China Finance Limited (formerly known as Goldcosmos Investments Limited), Brilliance China Automotive and The Bank of New York, London Branch relating to the zero coupon guaranteed convertible bonds due 2011 issued by Brilliance China Finance Limited.
- 4.1 English translation of Equity Interest Transfer Agreement dated October 19, 2004 between Ms. Chen Qiuling and Beston Asia Investment Limited in relation to the transfer of Ms. Chen's 49% interest in Ningbo Yuming Machinery Industrial Co., Ltd. to Beston Asia Investment Limited.*

- 4.2 Form of Service Agreement for Executive Director.

- 4.3 Purchase Agreement, dated May 8, 2006, between Brilliance China Finance Limited (formerly known as Goldcosmos Investments Limited), Brilliance China Automotive and Citigroup Global Markets Limited relating to the sale of zero coupon guaranteed convertible bonds due 2011 by Brilliance China Finance Limited.

- 7.1 Statement explaining how certain ratios were calculated in the annual report.

- 8.1 List of significant subsidiaries, jointly controlled entities and associated companies of Brilliance China Automotive as of December 31, 2005.

- 12.1 Section 302 Certification of the Chief Executive Officer.

- 12.2 Section 302 Certification of the Chief Financial Officer.

- 13.1 Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.

* Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on June 28, 2005.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

BRILLIANCE CHINA AUTOMOTIVE
HOLDINGS LIMITED

/s/ Wu Xiao An
WU Xiao An
Chairman

Date: June 26, 2006

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**Report of Independent Registered Public Accounting Firm of Moores Rowland Mazars, dated April 21, 2006
To the Shareholders of
Brilliance China Automotive Holdings Limited**

We have audited the accompanying consolidated balance sheets of Brilliance China Automotive Holdings Limited (a Bermuda corporation) and its subsidiaries (the Group) as of December 31, 2005 and 2004, and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2005 and 2004 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brilliance China Automotive Holdings Limited and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years ended December 31, 2005 and 2004, in conformity with U.S. generally accepted accounting principles.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong, April 21, 2006

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**Report of Independent Registered Public Accounting Firm of PricewaterhouseCoopers, dated April 22, 2004
The following report is a copy of a report previously issued by PricewaterhouseCoopers
To the Shareholders of**

Brilliance China Automotive Holdings Limited

We have audited the accompanying consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity of Brilliance China Automotive Holdings Limited (a Bermuda corporation) and its subsidiaries (the Group) for the year ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2003 consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Brilliance China Automotive Holdings Limited and its subsidiaries for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, April 22, 2004

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Table of Contents**Consolidated Statements of Income and Comprehensive Income***For the years ended December 31, 2005, 2004 and 2003*

	Year ended December 31,		
	2005 RMB 000	2004 RMB 000	2003 RMB 000
	(except for share and ADS data)		
Sales to third parties	3,859,151	4,402,141	7,797,054
Sales to affiliated companies	1,609,839	2,139,857	2,312,503
Total sales	5,468,990	6,541,998	10,109,557
Cost of sales (include purchase of goods and subcontracting charges from affiliated companies) (2005: RMB1,174,732,000, 2004: RMB2,185,428,000, 2003: RMB2,934,331,000)	(5,011,955)	(5,491,250)	(7,727,125)
Gross profit	457,035	1,050,748	2,382,432
Selling, general and administrative expenses	(1,195,336)	(1,510,442)	(1,410,067)
Interest expense	(182,354)	(182,458)	(167,111)
Interest income	60,189	58,800	52,672
Equity in earnings of associated companies and jointly controlled entities, net	48,995	126,261	109,471
Subsidy income	3,139	1,815	48,497
Other income, net	43,650	25,709	78,293
Impairment loss on intangible assets	(173,000)	(50,000)	
Impairment loss on goodwill	(257,720)	(47,320)	
(Loss) income before taxation and minority interests	(1,195,402)	(526,887)	1,094,187
(Provision) benefit for income taxes	(101,884)	63,110	(144,140)
Minority interests	625,997	464,991	(169,205)
Net (loss) income	(671,289)	1,214	780,842
Other comprehensive (loss) income			
Fair value adjustment for securities available-for-sales	(27,227)	28,468	
Comprehensive (loss) income	(698,516)	29,682	780,842
Basic (loss) earnings per share	RMB(0.1830)	RMB0.0003	RMB0.2130
Basic (loss) earnings per ADS	RMB(18.30)	RMB0.03	RMB21.30
Diluted (loss) earnings per share	RMB(0.1830)	RMB 0.0003	RMB0.2116
Diluted (loss) earnings per ADS	RMB(18.30)	RMB 0.03	RMB21.16
Weighted average number of shares outstanding	3,668,390,900	3,668,390,900	3,666,539,983
Weighted average number of ADSs outstanding	36,683,909	36,683,909	36,665,400
Net income adjusted for the dilutive effect of convertible bonds	(671,289)	1,214	783,515
Weighted average number of shares outstanding adjusted for dilutive effect of stock options and convertible bonds	3,668,390,900	3,683,795,968	3,702,398,310
Weighted average number of ADSs outstanding adjusted for dilutive effect of stock options and convertible bonds	36,683,909	36,837,960	37,023,983

The accompanying notes are an integral part of these consolidated statements of income and comprehensive income.

Table of Contents**Consolidated Balance Sheets***As of December 31, 2005 and 2004*

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Assets		
Current assets		
Cash and cash equivalents	843,400	1,244,499
Short-term bank deposits	1,053,832	1,008,602
Pledged short-term bank deposits	1,932,649	2,777,191
Deferred expenses – current portion	8,920	8,920
Notes receivable	377,505	620,899
Notes receivable from affiliated companies	338,970	645,143
Accounts receivable, net	124,958	55,632
Due from affiliated companies	840,215	765,411
Inventories, net	1,046,818	1,577,048
Other receivables	432,019	474,617
Prepayments and other current assets	57,707	127,080
Income tax recoverable	12,476	44,285
Other taxes recoverable	1,766	41,468
Advances to affiliated companies	38,931	37,477
Total current assets	7,110,166	9,428,272
Property, plant and equipment	4,362,762	4,295,576
Intangible assets	584,811	952,440
Interests in associated companies and jointly controlled entities	1,520,696	1,792,590
Investment securities	22,684	49,911
Goodwill	339,710	418,400
Prepayment for a long-term investment	600,000	600,000
Deferred tax assets		114,005
Deferred expenses – non-current portion	16,353	25,273
Long-term land lease prepayments	124,157	76,126
Other long-term assets	10,966	23,833
Total assets	14,692,305	17,776,426

Table of Contents**Consolidated Balance Sheets (Continued)***As of December 31, 2005 and 2004*

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Liabilities and shareholders equity		
Current liabilities		
Convertible bonds	1,639,550	
Short-term bank loans	496,500	
Notes payable	3,026,952	5,727,216
Notes payable to affiliated companies	74,092	121,162
Accounts payable	928,892	732,978
Due to affiliated companies	633,807	522,722
Customer advances	318,978	265,489
Other payables	434,651	363,584
Dividends payable	3,406	3,478
Accrued expenses and other current liabilities	265,908	274,183
Income tax payable	14,309	43,974
Other taxes payable	117,695	42,391
Advances from affiliated companies	105,094	90,481
Total current liabilities	8,059,834	8,187,658
Convertible bonds		1,667,888
Deferred income	79,602	
Commitments and contingencies (Note 21)		
Total liabilities	8,139,436	9,855,546
Minority interests	413,181	1,063,226
Shareholders equity		
Capital stock		
Common stock (5,000,000,000 shares of US\$0.01 each authorized and 3,668,390,900 shares of US\$0.01 each issued and outstanding as of December 31, 2005 and 2004)	303,388	303,388
Additional paid-in capital	2,325,690	2,325,690
Accumulated other comprehensive income	40,420	67,647
Dedicated capital	167,631	158,352
Capital reserve	120,000	120,000
Retained earnings	3,182,559	3,882,577
Total shareholders equity	6,139,688	6,857,654
Total liabilities and shareholders equity	14,692,305	17,776,426

The accompanying notes are an integral part of these consolidated balance sheets.

Table of Contents**Consolidated Statements of Cash Flows***For the years ended December 31, 2005, 2004 and 2003*

	Year ended December 31,		
	2005 RMB 000	2004 RMB 000	2003 RMB 000
Cash flows from operating activities:			
Net (loss) income	(671,289)	1,214	780,842
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Deferred income tax	114,005	(74,450)	(1,514)
Depreciation of property, plant and equipment	399,744	365,638	447,094
Amortization of long-term land lease prepayments	3,886	2,369	2,153
Amortization of intangible assets	204,009	226,041	227,077
Amortization of deferred expenses	8,920	8,920	1,486
Minority interests in net (loss) income of consolidated subsidiaries	(625,998)	(464,991)	169,205
Provision for doubtful debts and write off of bad debts	55,703	55,292	4,825
Write back of provision for doubtful debts	(7,459)	(1,000)	(5,679)
Provision for impairment of intangible assets	173,000	50,000	
Provision for impairment of property, plant and equipment	48,299	10,000	6,027
Provision for impairment of investment in a jointly controlled entity	179,030	47,320	
Provision for impairment of goodwill in a subsidiary	78,690		
Write back of provision for inventories sold	(39,638)	(15,522)	
(Gain) loss on disposal of property, plant and equipment	(341)	12,519	(14,004)
Gain on disposal of a jointly controlled entity	(2,098)		
Amortization of deferred compensation expenses			173,213
Government grant recognized	(941)		
Unrealized exchange gain	(40,829)		
Equity in earnings of associated companies and jointly controlled entities, net	(48,995)	(126,261)	(109,471)
Accreted redemption premium on convertible bonds	12,419	12,401	

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Table of Contents**Consolidated Statements of Cash Flows (Continued)***For the years ended December 31, 2005, 2004 and 2003*

	Year ended December 31,		
	2005	2004	2003
	RMB 000	RMB 000	RMB 000
(Increase) decrease in operating assets:			
Accounts receivable	(69,974)	32,858	(73,888)
Notes receivable	243,394	206,553	(357,708)
Notes receivable from affiliated companies	306,173	(117,968)	(314,190)
Due from affiliated companies	(79,804)	(10,157)	268,881
Inventories	569,524	(328,154)	(460,040)
Other receivables	7,278	50,625	(40,307)
Prepayments and other current assets	69,374	191,443	118,612
Decrease (increase) in non-current assets	12,866	(6,843)	(13,786)
Increase (decrease) in operating liabilities:			
Notes and accounts payable	(333,250)	(391,075)	48,461
Due to affiliated companies	171,871	(162,132)	(29,516)
Notes payable to affiliated companies	(47,070)		35,431
Customer advances	53,486	48,656	(85,206)
Other payables	43,423	(121,962)	81,715
Accrued expenses and other current liabilities	(8,277)	85,409	(69,474)
Import tariff and taxes payable	117,152	(306,000)	(36,871)
Net cash provided by (used in) operating activities	896,283	(719,257)	753,368
Cash flows from investing activities:			
Capital expenditures	(558,028)	(999,058)	(955,887)
Proceeds from disposal of property, plant and equipment	9,487	18,204	118,301
(Increase) decrease in short-term bank deposits	(45,230)	661,994	(897,207)
(Increase) decrease in pledged short-term bank deposits	844,542	(512,607)	(914,584)
(Increase) decrease in advances to affiliated companies	(8,729)	204,030	1,061,214
Increase in long term investment		(4,138)	
Increase in other long-term assets		(6,523)	(874)
Decrease in other receivables arising from short-term investments			500,000
Decrease (increase) in interests in associated companies and jointly controlled entities	11,517	(12,250)	(702,278)
Dividend received from associated companies and jointly controlled entities	72,000	15,103	
Payment for acquisition of further interest in a subsidiary		(10,000)	
Prepayment for a long-term investment			(600,000)
Increase in other receivables			(300,000)
Proceeds received from disposal of investment in an associated company		20,000	200,000
Advances to a joint venture partner of a non-wholly owned subsidiary		(97,156)	
Net cash provided by (used in) investing activities	325,559	(722,401)	(2,491,315)

Table of Contents**Consolidated Statements of Cash Flows (Continued)***For the years ended December 31, 2005, 2004 and 2003*

	Year ended December 31,		
	2005 RMB 000	2004 RMB 000	2003 RMB 000
Cash flows from financing activities:			
Proceeds from short-term bank loans	501,202	900,000	
Repayment of short-term bank loans	(4,702)	(900,000)	(150,000)
Issuance of bank notes payable	7,934,900	12,405,435	8,674,563
Repayment of bank notes payable	(10,106,000)	(11,376,454)	(7,828,000)
Decrease in advances from affiliated companies	(9,434)	(2,161)	(144,383)
Financing received from a jointly controlled entity			74,605
Proceeds from issuance of common stock			4,701
Dividends paid	(19,450)	(88,974)	(43,634)
Dividends paid to joint venture partners		(83,987)	(113,284)
Proceeds from issuance of convertible bonds			1,654,300
Payment of direct expenses incurred in connection with the issuance of convertible bonds			(44,599)
Capital contributions from joint venture partners			196,826
Receipts of government grants	80,543		
Net cash (used in) provided by financing activities	(1,622,941)	853,859	2,281,095
Net (decrease) increase in cash and cash equivalents	(401,099)	(587,799)	543,148
Cash and cash equivalents, beginning of year	1,244,499	1,832,298	1,289,150
Cash and cash equivalents, end of year	843,400	1,244,499	1,832,298

The accompanying notes are an integral part of these consolidated statements of cash flows.

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Table of Contents**Consolidated Statements of Changes in Shareholders' Equity***For the years ended December 31, 2005, 2004 and 2003*

	Common stock		Additional		Accumulated other			Retained earnings	Total
	Number of shares issued	Amount	paid-in capital	Deferred stock compensation	Dedicated capital	Capital reserve	Comprehensive income		
		RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
Balance as of December 31, 2002	3,666,052,900	303,194	2,321,183	(173,213)	132,179		39,179	3,382,780	6,005,302
Issuance of shares	2,338,000	194	4,507						4,701
Amortization of deferred compensation expenses				173,213					173,213
Net income								780,842	780,842
Transfer to dedicated capital					99,989			(99,989)	
Capitalization of dedicated capital					(120,000)	120,000			
Dividends declared								(77,751)	(77,751)
Balance as of December 31, 2003	3,668,390,900	303,388	2,325,690		112,168	120,000	39,179	3,985,882	6,886,307
Net income								1,214	1,214
Transfer to dedicated capital					46,184			(46,184)	
Net realized gain on marketable equity securities							28,468		28,468
Dividends declared								(58,335)	(58,335)
Balance as of December 31, 2004	3,668,390,900	303,388	2,325,690		158,352	120,000	67,647	3,882,577	6,857,654
Net loss								(671,289)	(671,289)
Transfer to dedicated capital					9,279			(9,279)	
							(27,227)		(27,227)

Net unrealized loss on marketable equity securities									
Dividends declared							(19,450)	(19,450)	
Balance as of December 31, 2005	3,668,390,900	303,388	2,325,690	167,631	120,000	40,420	3,182,559	6,139,688	

The accompanying notes are an integral part of these consolidated statements of changes in shareholders' equity.

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Table of Contents**Notes to Consolidated Financial Statements****1. ORGANIZATION, PRINCIPAL ACTIVITIES AND OPERATING ENVIRONMENT**

Brilliance China Automotive Holdings Limited (the Company) was incorporated in Bermuda on June 9, 1992 with limited liability. The Company's 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 are the manufacture and sale of minibuses, sedans and automotive components in the People's Republic of China (the PRC).

Details of the Company's principal subsidiaries as of December 31, 2005 are as follows:

Name	Place of establishment/incorporation	Percentage of equity interest/voting right attributable to the Company		Principal activities
		Directly	Indirectly	
Shenyang Brilliance JinBei Automobile Co., Ltd. (Shenyang Automotive)	Shenyang, the PRC	51%		Manufacture, assembly and sale of minibuses and sedans
Ningbo Yuming Machinery Industrial Co., Ltd. (Ningbo Yuming)	Ningbo, the PRC		100%	Manufacture and sale of automotive components
Shenyang XingYuanDong Automobile Component Co., Ltd. (Xing Yuan Dong)	Shenyang, the PRC	100%		Manufacture and trading of automotive components
Ningbo Brilliance Ruixing Auto Components Co., Ltd. (Ningbo Ruixing)	Ningbo, the PRC	100%		Manufacture and trading of automotive components
Mianyang Brilliance Ruian Automotive Components Co., Ltd. (Mianyang Ruian)	Mianyang, the PRC	100%		Manufacture and trading of automotive components
Shenyang Brilliance Dongxing Automotive Component Co., Ltd. (Dongxing Automotive)	Shenyang, the PRC		100%	Manufacture and trading of automotive components and remodeling minibuses and sedans
Brilliance China Automotive Finance Ltd.	British Virgin Islands	100%		Financing
Shenyang ChenFa Automobile Component Co., Ltd.	Shenyang, the PRC	100%		Development, manufacture and sale of engines components
Shenyang XinJinBei Investment and Development Co., Ltd. (SXID)	Shenyang, the PRC		99%	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd. (SJAI)	Shenyang, the PRC		98.01%	Investment holding

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Details of the Group's interests in associated companies and jointly controlled entities are included in Note 13. For the years ended December 31, 2005, 2004 and 2003, approximately 27%, 29% and 20% of the consolidated revenue was generated from sales of goods to Shanghai Shenhua Holdings Co., Ltd. (Shanghai Shenhua), an affiliated company.

2. BASIS OF PRESENTATION

The financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. This basis of accounting differs from that used in the statutory financial statements of the Company's subsidiaries, which were prepared in accordance with the relevant accounting principles and financial reporting regulations applicable to foreign investment enterprises as established by the Ministry of Finance in the PRC. Certain accounting principles stipulated under U.S. GAAP are not applicable in the PRC.

The principal adjustments made to conform the statutory financial statements to U.S. GAAP included the following:

Reclassification of certain items, designated as construction-in-progress in the statutory financial statements, as property, plant and equipment;

Reclassification of certain items, designated as long-term land lease prepayments from property, plant and equipment in the statutory financial statements;

Reclassification of certain items, designated as reserves appropriated from net income in the statutory financial statements, as charges to income;

Recognition of deferred income taxes;

Recognition of provision for impairment loss of long-lived assets;

Amortization and recognition of provision for impairment loss of intangible assets;

Recognition of research and development expenditures; and

Recognition of stock-based compensation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of consolidation**

The consolidated financial statements of the Group include the financial statements of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement respectively.

In 2004, the Group adopted Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

(FIN 46R). FIN 46R addresses the consolidation of an entity whose equity holders either (a) have not provided sufficient equity at risk to allow the entity to finance its own activities or (b) do not possess certain characteristics of a controlling financial interest. FIN 46R requires the consolidation of such an entity, known as a variable interest entity (VIE), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that is obligated to absorb a majority of the risk of loss from the VIE 's activities entitled to receive a majority of the VIE 's residual returns, or both. FIN 46R excludes from its scope businesses (as defined by FIN 46R) unless certain conditions exist.

In connection with adopting FIN 46R, the Group has identified a supplier to which the Group had provided a guarantee of approximately RMB300 million, which expired in the first quarter of 2005. The annual purchase from the supplier was approximately RMB92 million in 2005. The Group made and continues to make exhaustive but so far unsuccessful efforts to obtain information necessary to apply the FIN 46R 's provision as the Group does not have the contractual or legal right to obtain such information. The Group 's maximum exposure to loss as a result of its involvement with this supplier is approximately RMB300 million, representing the guarantee to the supplier in the event of its liquidation. Except the above, the adoption of FIN 46R did not have a material impact on the Group 's financial position or results of operations.

Intragroup balances and transactions, including sales to companies within the Group and resulting unrealized profits, are eliminated in full. Unrealized losses resulting from intragroup transactions are eliminated unless the cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) Sales

Sales represent the invoiced value of goods, net of consumption tax, discounts and returns, and are recognized when goods are delivered to the customers and the significant risks and rewards of ownership of the goods have been transferred to customers. Provisions for sales allowances and rebates are made at the time of sales of goods and are recognized as a reduction of sales. Costs related to shipping and handling are included in selling, general and administrative expenses for all periods presented.

(c) Cash, cash equivalents and short-term bank deposits

Cash represents cash on hand and deposits with financial institutions which are repayable on demand. Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(d) Inventories

Inventories are carried at the lower of cost or market. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is 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. The Group provides allowance for excess, slow moving and obsolete inventory by specific identification and reduces the carrying value of its inventory to the lower of cost or market. When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

(e) Property, plant and equipment and long-term land lease prepayments

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets beyond its originally assessed standard of performance, the expenditure is capitalized as an additional cost of the assets.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Depreciation is calculated on a straight-line basis, at annual rates estimated to write off the cost less estimated residual value of 10% of each asset over its expected useful life. The annual rates are as follows:

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 are amortized over their estimated productive volume.

When property, plant and equipment are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Construction-in-progress consists of factories and office buildings under construction and machinery pending installation and includes the costs of construction, machinery and equipment, and any interest charges arising from borrowings used to finance these assets during the period of construction or installation. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for their intended use.

Long-term land lease prepayments is amortized on a straight-line basis over the term of lease.

(f) Intangible assets

Purchased intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets of 7 years.

(g) Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment and purchased intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its undiscounted future cash flow. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(h) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets resulting from the Company's acquisitions of interests in its subsidiaries.

Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which was effective for the Group for year 2002, prohibits the amortization of goodwill and purchased intangible assets with indefinite useful lives. The Group reviews goodwill for impairment annually at the year end and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The Group performs a two-step impairment test. In the first step, the Group compares the fair value of each reporting unit to its carrying value. The Group determines the fair value of its reporting units based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Group must perform the second step impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Group records an impairment loss equal to the difference.

(i) Investments in associated companies and jointly controlled entities

An associated company is a company in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in the investee's financial and operating policy decisions. A jointly controlled entity is a company in which the Group has joint control with the other joint venture partners. Investments in associated companies and jointly controlled entities are accounted for using the equity method (equity method investment). Goodwill arising on the acquisition of interests in associated companies and jointly controlled entities (equity method goodwill) is included in the carrying cost of the investment. The Group considers whether the fair values of any of its equity method investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. In assessing the recoverability of equity method investments (including equity method goodwill), the Group uses discounted cash flow models. If the fair value of the equity investee is determined to be lower than carrying value, an impairment is recognized.

(j) Investment securities

The Group's investment securities consist of marketable available-for-sale securities and investments in unlisted equity securities. Securities classified as available-for-sale under Accounting for Certain Investments in Debt and Equity Securities, SFAS No. 115 are carried at fair value, with unrealized gains and losses, net of income taxes, recorded in the accumulated other comprehensive income (loss), a separate component of statement of changes in shareholders equity, until realized. The fair values of individual investments in marketable securities are determined based on market quotations. Gains or losses on securities sold are based on the specific identification method. Equity securities that are restricted for more than one year or not publicly traded are recorded at cost.

The Group periodically reviews to assess whether its investments in non-marketable equity securities and available-for-sale securities are impaired and if any impairment is other than temporary. Factors considered by us in assessing whether an impairment is other than temporary include the credit quality of the investment, the duration of the impairment, our ability and intent to hold the investment until recovery and overall economic conditions. A decline in value of these securities below cost that is deemed to be other than temporary results in an impairment charge to earnings that reduces the carrying amount of the securities to fair value establishing a new cost basis.

(k) Taxation*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.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

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 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 a Technologically-Advanced Enterprise. As a result, the effective enterprise income tax rate for Shenyang Automotive was 15% for the years ended December 31, 2005, 2004 and 2003.

Ningbo Yuming and 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 was 16.5% for the years ended December 31, 2005, 2004 and 2003.

Xing Yuan Dong and Dongxing Automotive 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. Xing Yuan Dong and Dongxing Automotive received official designation by the local tax authority as a New and Technologically-Advanced Enterprise and a foreign-invested enterprise engaged in manufacturing activities. As a result, the effective enterprise income tax rates for Xing Yuan Dong and Dongxing Automotive were 16.5%, 16.5% and 7.5% for the years ended December 31, 2005, 2004 and 2003, respectively.

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 applicable. 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 encouraged industries under Catalogue for the Guidance of Foreign Investment Industries and located in the Western area of the PRC. As a result, the applicable state income tax rate for Mianyang Ruian is 15% from 2004 to 2010. In addition, Mianyang Ruian is also exempted from state and local enterprise income taxes for two years starting from the first profitable year in 2001 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 same five-year period. As a result, the effective tax rate for Mianyang Ruian was 7.5%, 7.5% and 15% for the years ended December 31, 2005, 2004 and 2003, respectively.

Shenyang ChenFa 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 applicable. In the current year, Shenyang ChenFa received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities and is confirmed by the local tax authority that it is exempted from state enterprise income tax for the two years starting from the first profitable year in 2004 followed by a 50% reduction of state enterprise income tax for the next three years. In addition, Shenyang ChenFa is also exempted from local enterprise income tax for the same five-year period. As a result, the effective tax rate for Shenyang ChenFa was 0% for the years ended December 31, 2005 and 2004.

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%.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

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

(l) Deferred taxation

Deferred income taxes are provided using the liability method in which deferred income taxes are recognized for temporary differences between the tax and financial statement bases of assets and liabilities. The tax consequences of those differences expected to occur in subsequent years are recorded as assets and liabilities on the balance sheet.

A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of, the deferred tax assets will not be realized.

(m) Foreign currency translation

The functional currency of the Company and its subsidiaries is RMB. Transactions denominated in foreign currencies are translated into RMB at exchange rates prevailing at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into RMB at exchange rates prevailing at the balance sheet dates. The resulting exchange differences are included in the determination of income. Non-monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates prevailing at the time of transaction.

Foreign currency translation adjustments in other comprehensive income arose from the Company's change in functional currency in previous years.

(n) Warranty

A provision is recognized when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligations. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Shenyang Automotive's minibuses are sold with a 24-month or 50,000 kilometers (2004 and 2003: same) first-to-occur limited warranty. The Zhonghua sedans are sold with a 36-month or 60,000 kilometers (2004 and 2003: same) first-to-occur limited warranty. Zunchi sedans are sold with a 10-year or 200,000 kilometers (2004 and 2003: N/A) first-to-occur limited warranty. During the warranty period, Shenyang Automotive pays service stations for parts and labor covered by the warranty.

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

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

	2005	2004
	RMB '000	RMB '000
Balance as of January 1	21,058	23,643
Accrual for warranties issued during the year	32,396	45,088
Settlement made during the year	(30,994)	(47,673)
Balance as of December 31	22,460	21,058

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Notes to Consolidated Financial Statements (Continued)

(o) Advertising expenses

Advertising expenses are expended as incurred. For the years ended December 31, 2005, 2004 and 2003, advertising expenses of approximately RMB177.0 million, RMB206.9 million and RMB201.1 million, respectively, have been charged to selling, general and administrative expenses.

(p) Research and development expenses

Research and development expenses are expended as incurred. For the years ended December 31, 2005, 2004 and 2003, research and development expenses of approximately RMB235.2 million, RMB479.9 million and RMB191.4 million, respectively, have been charged to selling, general and administrative expenses.

(q) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the lessor are accounted for as operating leases. Payment 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 period of the relevant leases.

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 fixed assets. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease terms.

(r) Stock based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Issued to Employee , which states that compensation expense related to employee stock options is recorded if, on the date of grant, the quoted market value of the underlying stock exceeds the exercise price. The Company adopted the disclosure-only requirements of SFAS No. 123 Accounting for Stock-Based Compensation and the related amendments under the provisions of SFAS No. 148 Accounting for Stock-Based Compensation, Transition and Disclosure which allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro-forma net income or loss and pro-forma earnings or loss per share disclosures for employee stock grants as if the fair-value-based method of accounting as prescribed in SFAS No. 123 and SFAS No. 148 was adopted. No stock options have been granted by the Company under the Plan during the year 2005 and 2004.

Had compensation cost for the Company s stock options granted been determined based on the fair value of the stock options at the grant date, consistent with the provisions of SFAS No. 123 and SFAS No. 148, the Company s net income and earnings per share for the year ended December 31, 2003 would have been adjusted to the pro-forma amounts indicated below:

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

	Year ended December 31, 2003
	RMB 000
Net income as reported	780,842
Add: Adjustments for APB Opinion No. 25	173,213
Less: Fair value of stock options	(210,711)
Pro-forma net income	743,344
Basic earnings per ADS:	
As reported	21.30
Pro-forma	20.27
Diluted earnings per ADS:	
As reported	21.16
Pro-forma	20.15
Basic earnings per share:	
As reported	0.2130
Pro-forma	0.2027
Diluted earnings per share:	
As reported	0.2116
Pro-forma	0.2015

(s) (Loss) earnings per share and (loss) earnings per ADS

The calculation of basic (loss) earnings per share is based on the net (loss) income for the year and the weighted average number of shares of common stock outstanding during the year.

The calculation of diluted (loss) earnings per share is based on the net (loss) income for the year and the weighted average number of shares of common stock and adjusted for the effects of all dilutive potential shares of common stock outstanding during the year.

A reconciliation of the net (loss) income used in calculation of basic and diluted (loss) earnings per share/ADS is as follows:

	Year ended December 31,		
	2005	2004	2003
	RMB 000	RMB 000	RMB 000
Net (loss) income during the year	(671,289)	1,214	780,842
Add: accreted redemption premium related to the convertible bonds			1,187
Amortization of deferred expenses			1,486
Net (loss) income during the year adjusted for accreted redemption premium related to the convertible bonds and amortization of deferred expenses	(671,289)	1,214	783,515

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

A reconciliation of the weighted average number of shares of common stock used in calculation of basic and diluted (loss) earnings per share is as follows:

	Year ended December 31,		
	2005	2004	2003
Weighted average number of shares of common stock used in calculation of basic (loss) earnings per share	3,668,390,900	3,668,390,900	3,666,539,983
Dilutive effect of stock options		15,405,068	3,338,970
Dilutive effect of convertible bonds			32,519,357

Weighted average number of shares of common stock adjusted for dilutive effect of stock options and convertible bonds used in calculation of diluted (loss) earnings per share

	3,668,390,900	3,683,795,968	3,702,398,310
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As the Company was in loss position for 2005, 336,956,522 and 6,258,959 potentially dilutive stocks for the year ended December 31, 2005 from conversion of the convertible bonds and outstanding share options respectively, were excluded from the calculation of diluted loss per share because to do so would be anti-dilutive.

The diluted earnings per share/ADS calculation for the year ended December 31, 2004 is based on weighted average number of common stocks/ADSs outstanding plus the weighted average number of shares/ADSs deemed to be issued as if all outstanding share options granted had been exercised.

For the year ended December 2004, 336,956,522 potentially dilutive stocks from conversion of the convertible bonds were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

The diluted earnings per share/ADS calculation for the year ended December 31, 2003 includes the impact of shares that would result from the conversion of convertible bonds. In addition, the related accreted redemption premium on convertible bonds is added back to net income, since these would not be paid if the bonds were converted to shares.

The calculation of (loss) earnings per ADS is based on the weighted average number of ADSs outstanding during the years presented. The weighted average number of ADS outstanding is calculated based on the assumption that all of the outstanding ordinary shares were held in the form of ADSs (at the ratio of 100 shares for each ADS).

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

A reconciliation of the weighted average number of ADSs for calculation of basic and diluted (loss) earnings per ADS is as follows:

	Year ended December 31,		
	2005	2004	2003
Weighted average number of ADSs used in calculation of basic (loss) earnings per ADS	36,683,909	36,683,909	36,665,400
Dilutive effect of stock options		154,051	33,390
Dilutive effect of convertible bonds			325,193
Weighted average number of ADSs adjusted for dilutive effect of stock options and convertible bonds used in calculation of diluted (loss) earnings per ADS	36,683,909	36,837,960	37,023,983

(t) Segmental information

Segmental information is presented in accordance with SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information which establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographic areas and major customers. Disclosure of segmental information in accordance with SFAS No. 131 is made in Note 30.

(u) Comprehensive income

SFAS No. 130 Reporting Comprehensive Income requires the components of comprehensive income to be disclosed in the financial statements. Comprehensive income consists of net income, the net unrealized gains or losses on available-for-sale marketable securities, foreign currency translation adjustments, minimum pension liability adjustments and unrealized gains and losses on financial instruments qualifying for hedge accounting. For the Group, such items consist primarily of unrealized gains and losses on marketable equity investments and foreign currency translation adjustments. The Group has disclosed comprehensive income, which encompasses net (loss) income in the statement of income and comprehensive income.

There was no other comprehensive income or loss for the year ended December 31, 2003 other than net income for the year.

(v) Convertible bonds

Convertible bonds were issued at par and are stated in the balance sheet at face value plus accreted redemption premium which was calculated based on the outstanding principal of the convertible bonds using effective interest method so that the carrying value of the bonds equal the redemption price at 102.27% on November 28, 2006. Direct expenses in connection with the issuance of convertible bonds are capitalized as deferred expenses on the balance sheet and are amortized over the life of the convertible bonds.

(w) Guarantees

Guarantee issued by the Group are initially recognized on the balance sheet as a liability at the fair value, or market value, of the obligations the Group assumed under that guarantee in accordance with FASB FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 is applicable on a prospective basis to guarantees issued or modified after December 31, 2002. FIN 45 also contains disclosure provisions surrounding existing guarantees, which are effective for financial statements with periods ended after December 15, 2002. As of December 31, 2005 and 2004, the fair values of the guarantees the Group have entered into since December 31, 2002 are not material to the Group's financial position. Please refer to Notes 3(n) and 21(c) for details.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****(x) Allowance for doubtful accounts**

Accounts receivable are stated at the amount billed to customers. The Group recognizes allowance for doubtful accounts to ensure trade and other receivables are not overstated due to uncollectibility. The Group's estimate is based on a variety of factors, including historical collection experience, existing economic conditions and a review of the current status of the receivable. Accounts past due more than the Group's general credit period are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

(y) Fair value of financial instruments

The estimated fair values for financial instruments under SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair values of the Group's financial instruments, which include cash, accounts receivable, intercompany receivables and payables and other payables, approximate their carrying values in the financial statements.

(z) Other new accounting pronouncements

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140* (SFAS) No. 156. SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, which for the Group will be as of the beginning of fiscal 2007. The Company does not believe that the adoption of SFAS No. 156 will have a significant effect on its financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As of March 2, 2006, the Company did not have any hybrid financial instruments subject to the fair value election under SFAS No. 155. The Group is required to adopt SFAS No. 155 effective at the beginning of 2008.

In November 2005, the FASB issued Staff Position (FSP) FAS 115-1 and FAS 124-1, which nullifies certain provisions of EITF Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, and completely supersedes EITF Topic D-44, *Recognition of Other Than Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*, addresses (1) determining when an investment should be considered impaired, (2) determining whether an impairment should be deemed other than temporary, and (3) measuring impairment loss. Combined FSP Nos. FAS 115-1 and FAS 124-1 were applied as discussed in Notes 3(j) and 14 to the Group's consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The Group is required to adopt SFAS No. 154 for accounting changes and error corrections that occur after the beginning of 2007. The Group's results of operations and financial condition will only be impacted following the adoption of SFAS No. 154 if it implements changes in accounting principle that are addressed by the standard or corrects accounting errors in future periods.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), Share Based Payment (SFAS 123(R)). SFAS 123(R) is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, which supersedes Accounting Principles Board (APB) No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. SFAS 123(R) requires companies to recognize compensation expense in the income statement for an amount equal to the fair value of the share-based payment issued. This applies to all transactions involving the issuance of equity by a company in exchange for goods and services, including employees. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) outlining the SEC Staff's interpretation of SFAS 123(R). This interpretation provides their views regarding interactions between SFAS 123(R) and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. Subsequently in August, October and November 2005, the FASB released FSP 123(R)-1, Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R), FSP123(R)-2, Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R) and FSP 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. Additionally, on February 1, 2006, the FASB issued FSP 123(R)-4, Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event. The FSPs clarify certain accounting provisions set forth in SFAS 123(R). The requirements and guidance prescribed in SFAS 123(R), SAB 107 and the FSPs is effective in 2006. The Group considers that the adoption of SFAS 123R will not have significant impact on its financial statements.

4. SUBSIDY INCOME

For the years ended December 2005 and 2004, the Company's subsidiaries were granted government subsidies of RMB3,139,000 and RMB1,815,000 respectively. For the year ended December 31, 2003, the Company was granted subsidies in the form of tax refunds on re-investments amounting to approximately RMB48,497,000 in relation to the Company's re-investment of the dividends declared by certain subsidiaries of the Company to those subsidiaries as additional capital contributions by foreign investors. Such subsidies were approved by the relevant local tax bureaus in accordance with the relevant income tax laws in the PRC. All of the approved subsidies were received by the Group during the year and were recorded as income.

5. INCOME TAXES

For the years ended December 31, 2005, 2004 and 2003, certain of the Company's subsidiaries were subject to income taxes in the PRC at the applicable statutory tax rates on allowable losses or taxable income as reported in the statutory financial statements adjusted for the reduced tax rates and exemptions described in Note 3(k).

The amount of (provision) benefit for income taxes in the consolidated income statement represents:

	Year ended December 31,		
	2005	2004	2003
	RMB 000	RMB 000	RMB 000
Current taxation	12,121	(11,340)	(145,654)
Deferred taxation	(114,005)	74,450	1,514
	(101,884)	63,110	(144,140)

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The reconciliation of the Group's effective income tax rate, based on (loss) income before taxes and minority interests, to its statutory income tax rate for years ended December 31, 2005, 2004 and 2003 is as follows:

	Year ended December 31,		
	2005	2004	2003
	%	%	%
Average statutory tax rate (including state and local income tax)	10.25	17.44	21.71
Effect of statutory tax holiday	3.07	15.44	(12.66)
Effect of non-deductible expenses	(2.62)	(5.38)	3.29
Effect of valuation allowances	(22.93)	(15.06)	(2.11)
Others, not individually significant	3.71	(0.46)	2.94
Effective tax rate	(8.52)	11.98	13.17

The average statutory tax rates for the relevant periods represented the weighted average tax rates of the Company's subsidiaries calculated on the basis of the relative amount of (loss) income before taxes and the applicable statutory tax rate of each subsidiary.

Components of deferred tax assets were as follows:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Deferred tax asset:		
Research and development costs	57,519	45,683
Provisions and accruals	46,488	47,633
Provision for impairment of property, plant and equipment	7,619	2,751
Amortization and provision for impairment of intangible assets	102,436	58,942
Tax losses carry forward	185,868	61,460
	399,930	216,469
Valuation allowance (Note)	(399,930)	(102,464)
Net deferred tax assets		114,005

Note: At December 31, 2005, valuation allowances of approximately RMB185.9 million (2004: RMB61.5 million) and RMB214 million (2004: RMB41 million) were made for deferred tax assets recognized in respect of the unused tax losses and deductible temporary differences because it is more likely than not that the tax benefit will be not be realized in the foreseeable future. The net change in valuation allowances for the year ended December 31, 2005 of approximately RMB297.4 million (2004: RMB79.4 million) represented valuation allowances provision of approximately RMB114 million (2004: Nil) made for deferred tax assets previously recognized with reference to a forecast of taxable profits of a subsidiary for next five years and the increase in deferred tax assets of approximately RMB183.4 million (2004: RMB79.4 million). The temporary differences do not expire under current legislation but the unrecognized tax losses of RMB565.9 million (2004: RMB409.7 million) and RMB673.2 million (2004: Nil) will expire in 2009 and 2010, respectively.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****6. PLEDGED SHORT-TERM BANK DEPOSITS**

As of December 31, 2005 and 2004, approximately RMB1,932.6 million and RMB2,777.2 million, respectively, of the short-term bank deposits were pledged as security for banking facilities, corporate guarantees for bank loans drawn by affiliated companies and bank guaranteed notes issued (Notes 19 and 21).

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Accounts receivable	173,325	103,350
Less: Allowance for doubtful debts	(48,367)	(47,718)
	124,958	55,632

Movements of allowance for doubtful debts during the years ended December 31, 2005 and 2004 were:

	2005	2004
	RMB 000	RMB 000
Balance as of January 1	47,718	46,272
Additional provision	1,177	2,526
Write-back of provision	(528)	(1,000)
Written off against accounts receivable		(80)
Balance as of December 31	48,367	47,718

8. NOTES RECEIVABLE

Notes receivable are primarily notes received from customers for the settlement of trade receivable balances. As of December 31, 2005 and 2004, all notes receivable were guaranteed by established banks in the PRC and have maturities of six months or less. The fair value of the notes receivable approximated their carrying value.

Approximately RMB238 million (2004: RMB614 million) of the notes receivable both from third parties and affiliated companies were pledged for the issuance of notes payable (Note 19).

9. OTHER RECEIVABLES

Included in other receivables as of December 31, 2005 and 2004 was an amount of RMB300 million advanced to Shenyang Automobile Industry Asset Management Company Limited (SAIAM) which will become a subsidiary of the Group after the completion of the proposed acquisition of SAIAM as detailed in Note 16.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****10. INVENTORIES, NET**

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Inventories consist of:		
Raw materials	564,596	888,378
Work-in-progress	64,025	97,362
Finished goods	418,197	591,308
	1,046,818	1,577,048

11. PROPERTY, PLANT AND EQUIPMENT AND LONG-TERM LAND LEASE PREPAYMENTS

Property, plant and equipment consist of:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Buildings	1,260,101	1,126,073
Machineries and equipment	4,136,064	3,450,089
Motor vehicles	117,497	101,715
Furniture, fixtures and office equipment	382,017	390,197
Construction-in-progress	454,591	789,145
	6,350,270	5,857,219
Less: Accumulated provision for impairment losses	(95,868)	(47,949)
	6,254,402	5,809,270
Less: Accumulated depreciation	(1,891,640)	(1,513,694)
Net book value	4,362,762	4,295,576

(a) During the years ended December 31, 2005, 2004 and 2003, capitalized interest expenses amounted to approximately RMB23.9 million, RMB18.4 million and RMB Nil, respectively.

(b) Buildings amounting to approximately RMB41,022,000 and long-term land lease prepayments amounting to approximately RMB64,405,000 were injected by Shenyang JinBei Automotive Company Limited (JinBei), the joint venture partner of Shenyang Automotive, as part of its additional capital contributions to Shenyang Automotive during the year ended December 31, 2003 (see Note 28).

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

- (c) In December 2003, Shenyang Automotive disposed of certain machineries and equipment at their net book value to the Group's jointly controlled entity, BMW Brilliance Automotive Ltd (BMW Brilliance), at a consideration mutually agreed by both parties. The agreement of sale includes an option for BMW Brilliance to require Shenyang Automotive to purchase back such machineries and equipment at the purchase price less depreciation over a specified period 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. These machineries and equipment are maintained and operated by BMW Brilliance for the manufacturing of its products. BMW Brilliance will provide certain services to Shenyang Automotive upon the payment of a service fee which is determined based on the number of Zhonghua sedans produced by Shenyang Automotive using these machineries and equipment at a predetermined formulated unit charge. As of the date of approval of 2005 financial statements, the basis of service fees has not yet been finalized and service fees of approximately RMB308,283,000, RMB196,125,000 and RMB17,438,000 have been accrued as of December 31, 2005, 2004 and 2003, respectively.
- (d) In 2003, Shenyang Automotive transferred the legal titles and ownership of certain buildings at their net book value to BMW Brilliance 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, as of December 31, 2005 and 2004, the net book value of the buildings, amounting to approximately RMB142,556,000 and RMB150,763,000, respectively, were retained as assets on the balance sheet of the Group and the portion of consideration received from BMW Brilliance up to December 31, 2005 and 2004, amounting to approximately RMB74,605,000, was treated as a financing and will be partially offset against the lease rental payable in future years. The remaining balance of approximately RMB99,768,000 (2004: RMB99,768,000) will be received from BMW Brilliance and will be accounted for as additional financing.
- (e) As a result of the retirement from use and the change in use from production to rental of certain property, plant and equipment of the Group's minibus and automotive components segment, the Group assessed the recoverability of the carrying value of these long-lived assets, which resulted in impairment losses of approximately RMB48.3 million, RMB10.0 million and RMB6.0 million for the years ended December 31, 2005, 2004 and 2003 respectively. These losses reflect the amounts by which the carrying values of these assets exceeded their estimated fair values determined by their estimated discounted future cash flows. The impairment loss was recorded as a component of Selling, general and administrative expenses in the Consolidated Statement of Income and Comprehensive Income for the years.

12. INTANGIBLE ASSETS

	As of December 31,	
	2005	2004
	RMB '000	RMB '000
Cost		
Beginning of year	1,512,342	1,504,337
Additions	9,380	8,005
End of year	1,521,722	1,512,342
Accumulated amortization		
Beginning of year	(509,902)	(283,861)
Amortization for the year	(204,009)	(226,041)
End of year	(713,911)	(509,902)

Accumulated impairment

Beginning of year	(50,000)	
Impairment loss provision for the year	(173,000)	(50,000)
End of year	(223,000)	(50,000)

Net book value

End of year	584,811	952,440
Beginning of year	952,440	1,220,476

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Notes to Consolidated Financial Statements (Continued)

There was a group of intangible assets that were similar in their use in the operations of the Group as they related to a specific model of Zhonghua sedans. The Group assessed the future economic benefit of this group as a whole based on net future cash flow from the manufacture and sale of that specific model of Zhonghua sedans. Included in the group of intangible assets were primarily:

- (a) Sedan design rights, which include rights, titles and interests in certain design and engineering agreements and a technical assistance agreement related to Zhonghua sedans; and
- (b) Components and parts technology rights, which include rights, titles and interests in the design of the components and spare parts for Zhonghua sedans contributed by Shenyang JinBei Automotive Company Limited (JinBei), a joint venture partner, as capital into Shenyang Brilliance JinBei Automobile Co. Ltd., a subsidiary of the Company in 2003 (see note 28).

Since the operations in the manufacture and sale of Zhonghua sedans had resulted in loss in 2005, the Group critically assessed the future economic benefit of the intangible assets in relation to Zhonghua sedans mentioned in (a) to (b) by assessing the net cash inflow the manufacture and sale of Zhonghua sedans will bring to the Group in the future.

Accordingly, for the year ended December 31, 2005 impairment loss provision of RMB173 million (2004: RMB50 million) was provided for these intangible assets.

For each of the five years ending December 31, 2010, the estimated amortization expense of the intangible assets in existence as of December 31, 2005 will be approximately RMB171.1 million.

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Table of Contents**Notes to Consolidated Financial Statements (Continued)****13. INTERESTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES**

Interests in associated companies and jointly controlled entities as of December 31, 2005 consist of:

Name of company	Place of establishment	Percentage of equity interest held indirectly by the Company	Principal activities
Associated companies:			
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. (Shenyang Aerospace)	Shenyang, the PRC	12.77%	Manufacture and sale of automotive engines
Chongqing FuHua Automotive Sales Service Co., Ltd. (Chongqing Fuhua)	Chongqing, the PRC	29.403%	Trading of sedans and minibuses
Chongqing Baosheng Automotive Sale and Service Co., Ltd. (Chongqing Baosheng)	Chongqing, the PRC	29.403%	Trading of BMW sedans
Jointly controlled entities:			
Mianyang Xincheng Engine Co., Ltd. (Mianyang Xincheng)	Mianyang, the PRC	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	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
BMW Brilliance Automotive Ltd. (BMW Brilliance)	Shenyang, the PRC	49.005%	Manufacture and sale of BMW sedans

Note: During the year, two jointly controlled entities, Shenyang HuaBao Automotive Sales Service Co. Ltd. (Huabao) and Shanghai Kowin Automobile Company Co., Ltd. (Kowin) were disposed of.

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The carrying values of interests in associated companies and jointly controlled entities are:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Interests in associated companies:		
Shenyang Aerospace	349,401	364,158
Chongqing Fuhua	9,709	9,518
Chongqing Baosheng	4,116	3,640
	363,226	377,316
Interests in jointly controlled entities:		
Mianyang Xinchun	311,102	387,812
Xinguang Brilliance	244,890	447,823
Huabao		4,922
BMW Brilliance	601,478	570,375
Kowin		4,342
	1,157,470	1,415,274
	1,520,696	1,792,590

The acquisitions of associated companies and jointly controlled entities have been accounted for using the purchase method of accounting. The tangible assets were valued in the acquisitions at their estimated fair values. The excess of the purchase price over the fair values of the net assets acquired has been accounted for as goodwill. The carrying values of goodwill of the acquired associated companies and jointly controlled entities, which are included in the carrying amount of interests in associated companies and jointly controlled entities are as follows:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Shenyang Aerospace	31,983	31,983
Mianyang Xinchun	91,410	91,410
Xinguang Brilliance	73,343	252,373
	196,736	375,766

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The changes in the carrying amount of equity-method goodwill for the year ended December 31, 2005, are as follows:

	Manufacture and sale of minibuses and automotive components	Manufacture and sale of Zhonghua sedans	Total
	RMB 000	RMB 000	RMB 000
Balance as of January 1, 2005	343,783	31,983	375,766
Impairment losses	(179,030)		(179,030)

Balance as of December 31, 2005

At of December 31, 2005, the Group recorded an impairment charge of RMB179.0 million (2004: RMB47.3 million) for equity method goodwill associated with its minibuses and automotive components operations due to lower than expected projected operating profits and cash flows. The fair value of the equity method investments was estimated using the expected present value of future cash flows.

The equity shares in the income (loss) of the associated companies and jointly controlled entities for the years ended December 31, 2005 and 2004 were:

	Year ended December 31,	
	2005	2004
	RMB 000	RMB 000
Associated companies:		
Shenyang Aerospace	28,386	57,854
Chongqing Fuhua	192	(8)
Chongqing Baosheng	477	(860)
	29,055	56,986
Jointly controlled entities:		
Mianyang Xinchun	1,978	33,331
Xinguang Brilliance	(13,296)	17,173
Huabao		(2,334)
BMW Brilliance	31,582	21,764
Kowin	(324)	(659)
	19,940	69,275
	48,995	126,261

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Combined unaudited financial information of the associated companies is summarized as follows:

	Year ended December 31,	
	2005	2004
	RMB 000	RMB 000
Revenue	1,807,849	2,221,460
Profit before taxation, net	147,361	296,835
Net income	131,955	272,213
	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Current assets	908,750	1,135,531
Non-current assets	2,020,235	1,509,527
Total assets	2,928,985	2,645,058
Current liabilities	(940,641)	(743,600)
Long-term liabilities	(470,967)	(396,927)
Total liabilities	(1,411,608)	(1,140,527)
Total shareholders' equity	1,517,377	1,504,531

Combined unaudited financial information of the jointly controlled entities is summarized as follows:

	Year ended December 31,	
	2005	2004
	RMB 000	RMB 000
Revenue	6,597,047	5,070,023
Profit before taxation, net	23,277	135,455
Net income	23,277	128,882
	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Current assets	3,983,194	6,686,994
Non-current assets	1,727,924	1,277,418
Total assets	5,711,118	7,964,412
Current liabilities	(3,579,826)	(5,934,842)
Long-term liabilities	(420,000)	(320,000)
Total liabilities	(3,999,826)	(6,254,842)
Total shareholders' equity	1,711,292	1,709,570

Table of Contents**Notes to Consolidated Financial Statements (Continued)****14. INVESTMENT SECURITIES**

The aggregate cost, gross unrealized gain and fair value pertaining to available-for-sale securities are as follows:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Available-for-sale securities	17,305	17,305
Gross unrealized gain	28,468	28,468
Gross unrealized loss	(27,227)	
	18,546	45,773
Unlisted securities at cost	4,138	4,138
	22,684	49,911

The change in net unrealized gain reported as a separate component of accumulated other comprehensive income was RMB1.2 million and RMB28.5 million as of December 31, 2005 and 2004, respectively. At December 31, 2005, the Group determined that the decline in value of securities with unrealized losses shown in the above table is not other-than-temporary in nature.

Investments with an aggregate cost of RMB4.1 million (2004: RMB4.1 million) were not evaluated for impairment because (a) the Group did not estimate the fair value of those investments in accordance with paragraphs 14 and 15 of SFAS No. 107 and (b) the Group did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments.

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Table of Contents**Notes to Consolidated Financial Statements (Continued)****15. GOODWILL**

The changes in the carrying amount of goodwill associated with the manufacture and sale of minibuses and automotive components operations for the year ended December 31, 2005, were as follows:

	RMB 000
Balance as of January 1, 2005	418,400
Impairment losses	(78,690)
Balance as of December 31, 2005	339,710

At of December 31, 2005, the Group recorded an impairment charge of RMB79 million (2004: Nil) for goodwill associated with its manufacture and sale of minibuses and automotive components operations due to lower than expected projected operating profits and cash flows. The fair value of that reporting unit was estimated using the expected present value of future cash flows.

16. PREPAYMENT FOR A LONG-TERM INVESTMENT

On December 29, 2003, SJA (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 interested 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 respective financial position of SAIAM and SXI.

Although the acquisition has approved by State-Owned Assets Supervision and Administration Commission of Liaoning Provincial Government and State-owned Assets Supervision and Administration Commission of the State Council of the PRC, the transfer of the entire interest of SAIAM and SXI is subject to the granting of a waiver to SXID and SJA from making an offer for all of the shares of JinBei under the 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.

At December 31, 2005 and 2004, the consideration RMB600 million paid to the shareholders of SAIAM and SXI and the amount was recorded as prepayments for a long-term investment by the Group. The directors have assessed the fair value of the underlying shares in JinBei and are satisfied that the carrying amount of the prepayments is supported by the fair value of the underlying shares by reference to a valuation conducted by an investment bank.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****17. DEFERRED EXPENSES**

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Direct expenses incurred in connection with the issuance of convertible bonds (Note 18)	44,599	44,599
Amortization of deferred expenses	(19,326)	(10,406)
	25,273	34,193
Non-current portion	16,353	25,273
Current portion	8,920	8,920
	25,273	34,193

18. CONVERTIBLE BONDS

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Convertible bonds issued at par	1,654,300	1,654,300
Accreted redemption premium	26,008	13,588
Exchange gain	(40,758)	
	1,639,550	1,667,888

On November 28, 2003, the Company, through its wholly owned subsidiary, Brilliance China Automotive Finance Ltd., issued Zero Coupon Guaranteed Convertible Bonds due 2008 (the Bonds) 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 common stocks of US\$0.01 each of the Company at an initial conversion price of HK\$4.60 per share and the total potential number of shares was 336,956,522, subject to the following two events, at any time on or after January 8, 2004, and up to and including November 14, 2008, unless the Bonds previously have been redeemed or previously have matured.

- (i) The Bonds will mature on November 28, 2008. At any time from November 28, 2005 through November 14, 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 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 November 28, 2008.
- (ii) All or some of the Bonds may be redeemed at the option of the relevant holder on November 28, 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 (2.27% of principal 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 for trading on the SEHK.

As of December 31, 2005, none of the Bonds had been converted into the common stock of the Company.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****19. NOTES PAYABLE**

As of December 31, 2005, approximately RMB2,703 million (2004: RMB4,874 million) of notes payable had effective interest rates of 3% to 4%, the remaining RMB324 million (2004: RMB853 million) of notes payable were interest free. All notes payable were guaranteed by banks, repayable within one year, secured by short-term bank deposits of approximately RMB1,450 million (2004: RMB2,375 million) and bank guaranteed notes received from third parties and affiliated companies of approximately RMB238 million (2004: RMB614 million).

20. TAXES PAYABLE

Taxes payable consist of:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Income tax payable	14,309	43,974
VAT payable	47,087	13,249
Others	70,608	29,142
Other taxes payable	117,695	42,391
	132,004	86,365

21. COMMITMENTS AND CONTINGENCIES**(a) Commitments**

As of December 31, 2005, the Group had approximately RMB1,781.0 million in outstanding capital and purchases commitments of which certain items are denominated in Deutsch Marks, Japanese Yen, U.S. Dollars and Euros. The amount included contracted but not provided for capital commitment for construction projects, purchase of equipment, and others amounting to approximately RMB248.3 million and authorized but not contracted for capital commitment amounting to approximately RMB1,532.7 million.

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

As of December 31, 2005, the future aggregate minimum lease payments under non-cancellable operating leases are detailed as follows:

	Operating lease RMB 000
Within one year	13,501
One to two years	7,840
Two to three years	6,865
Three to four years	4,585
Four to five years	3,706
Over five years	35,944
Total minimum lease payment	72,441

(b) Operating lease income

Operating leases arise from the leases for certain buildings to BMW Brilliance (see also Note 25(f)). The lease terms are generally 180 months.

Depreciation expense for assets subject to operating leases is provided primarily on the straight-line method over the estimated useful life of the assets. Depreciation expense relating to the buildings held as investments in operating leases was RMB4.2 million and RMB4.7 million for the years ended December 31, 2005 and 2004, respectively.

Investments in operating leases are as follows:

	As of December 31, 2005 RMB 000
Buildings	97,358
Accumulated depreciation	(10,780)
Net investment in operating leases	86,578

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Future minimum rental payments to be received on non-cancellable operating leases are contractually due as follows:

	As of December 31, 2005
	RMB 000
Within one year	14,152
One to two years	14,152
Two to three years	14,152
Three to four years	14,152
Four to five years	14,152
Over five years	104,959
Total	175,719

There were no contingent rentals under the respective lease contracts.

(c) Contingent liabilities

(i) The Group had endorsed or discounted bank notes which were not yet honored by the issuers as of December 31, 2005 and 2004 amounting to approximately RMB1,128 million and RMB1,345 million, respectively.

(ii) As of December 31, 2005, the Group had provided the following guarantees:

- (1) Corporate guarantees of approximately RMB120 million (2004: RMB296 million) for revolving bank loans and notes drawn by affiliated companies of Shanghai Shenhua Holdings Co., Ltd. (Shanghai Shenhua):

The guarantee arose from the mutual negotiation between Shenyang Automotive and Shanghai Shenhua. Associated with the corporate guarantee, Shanghai Shenhua also provided a cross guarantee for the bank facilities of Shenyang Automotive. The guarantee was for revolving activities of Shanghai Shenhua and will be terminated upon mutual agreements between Shenyang Automotive and Shanghai Shenhua. If Shanghai Shenhua defaults on the repayment of its bank loans or notes when they fall due, Shenyang Automotive is required to repay the outstanding balance. There is no recourse or collateralization provision in the guarantee. As of December 31, 2005, the guarantee provided for the bank loans and notes drawn by affiliated companies of Shanghai Shenhua was approximately RMB120 million (2004: RMB296 million), which is also the maximum potential amount of future payments under the guarantee as of December 31, 2005. However, default by Shanghai Shenhua and its affiliated companies is considered remote by management and therefore no liability for the guarantor's obligation under the guarantee existed as of December 31, 2005.

- (2) A joint and several proportional corporate guarantee with a joint venture partner of Shenyang Aerospace on a long-term bank loan of approximately RMB111 million (2004: RMB221 million) drawn by Shenyang Aerospace which will expire in 2008:

The guarantee was provided by the Group and a joint venture partner of Shenyang Aerospace for its long-term loan financing needs during its start-up period. If Shenyang Aerospace defaults on the repayment of its bank loan when it falls due, the Group and the joint venture partners are jointly and severally liable to repay the outstanding balance. There is no recourse or collateralization provision in the guarantee. As of December 31, 2005, the guarantee provided for the outstanding bank loan of Shenyang Aerospace was RMB111 million (2004: RMB221 million), which is also the maximum potential amount of future payments under the guarantee as of December 31, 2005. However, default by Shenyang Aerospace is considered remote by management and therefore no liability for the guarantor's obligation under the guarantee existed as of December 31, 2005.

- (3) Corporate guarantees of bank loans amounting to RMB295 million (2004: RMB100 million), which is also the maximum potential amount of future payments under the guarantee as of December 31, 2005, drawn by JinBei. Bank deposits of RMB311 million (2004: RMB102 million) were pledged as a collateral for the corporate guarantees. However, default by JinBei is considered remote by management and therefore no liability for the guarantor's obligation under the guarantee existed as of December 31, 2005.

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Notes to Consolidated Financial Statements (Continued)

(iii) On January 21, 2003, a writ dated January 21, 2003 (the Writ) brought by Broadsino Finance Company Limited (Broadsino), as the Plaintiff, was filed with the Supreme Court of Bermuda (the Supreme Court) which 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).

In the course of legal proceedings with Broadsino, the Company achieved the following:

(i) overturning on February 11, 2003 an ex parte Court Order dated January 22, 2003 which had restrained the Company from, amongst other things, registering the transfer of the Sale Shares by the Foundation to Huachen and/or Huachen to certain directors of the Company; (ii) initiating on March 10, 2003, a Strikeout Summons at the Supreme Court to have the Writ and the statement of claim struck out, which proceedings were duly heard before the Supreme Court, and which resulted on December 31, 2003 in that court issuing a judgement to strike-out the Writ; (iii) challenging Broadsino's attempts for appeal to the Court of Appeal of Bermuda, Civil Appellant jurisdiction which appeal was then dismissed by that court's judgement of March 14, 2005 which ruled in the Company's favour; (iv) Broadsino's further attempts for leave to appeal to the Privy Council in the United Kingdom with respect to the Court of Appeal's judgement being challenged at all stages by the Company; and (v) Broadsino seeking a grant of leave on November 10, 2005 in the Court of Appeal in Bermuda to withdraw its leave to appeal to the Privy Council and the Company being awarded its costs of the leave application.

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.

(iv) On or about October 25, 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 January 28, 2003. Mr. Yang subsequently applied for a review of this decision. At the review hearing on July 4, 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 September 16, 2003, a Statement of Claim was served on the Company. On November 4, 2003, the Company filed a Defence and Counterclaim with the High Court. Mr. Yang filed a Reply to Defence and Defence to Counterclaim on April 26, 2004. On July 21, 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 September 4, 2004. Pleadings closed on September 18, 2004. The parties filed and served Lists of Documents on October 26, 2004 and witness statements were exchanged on February 28, 2005.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

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

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

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

Further interlocutory steps are in progress. There have been no other material developments in the litigation.

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.

22. CAPITAL STOCK

	2005		As of December 31, 2004		2003	
	Number of shares 000	Amount 000	Number of shares 000	Amount 000	Number of shares 000	Amount 000
Authorized:						
Common stock of US\$0.01 each	5,000,000	US\$ 50,000	5,000,000	US\$ 50,000	5,000,000	US\$ 50,000

Issued and fully paid:

Common stock of US\$0.01 each	3,668,391	RMB303,388	3,668,391	RMB303,388	3,668,391	RMB303,388
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During 2003, an employee of the Group exercised certain of his stock options and as a result 2,338,000 shares of common stock of US\$0.01 each were issued at a price of HK\$1.896 per share (Note 23). These new shares ranked *pari passu* with existing shares.

23. STOCK OPTIONS**Original share option scheme approved in 1999**

Upon the listing on the Company's shares on the SEHK, the Company adopted an employee share option scheme (the Scheme). Pursuant to the Scheme, the Company's Board of Directors may grant options to employees of the Group to subscribe for the Company's common stock at a price which shall be the higher of:

- a price being not less than 80%, of the average closing price of the common stock on the relevant stock exchange as stated in such stock exchange's quotation sheets for the five trading days immediately preceding the relevant date in respect of such options; and
- the nominal value of the common stock.

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 the option from time to time.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

On June 2, 2001, share options were granted to certain directors and employees of the Group, entitling them to subscribe for a total of 31,800,000 shares of the Company's common stock at HK\$1.896 per share. The exercisable period of these options is from June 2, 2001 to June 1, 2011. The compensation expense associated with these grants was fully vested and was charged to income during the year ended December 31, 2001. During the year ended December 31, 2003, 2,338,000 shares of the above share options were exercised. Accordingly, the common stock and additional paid-in capital were increased by approximately RMB194,000 and RMB4,507,000, respectively. No option was granted under this scheme in 2005 and 2004.

	No. of stock options 000
As of January 1, 2004	15,490
Granted	
Exercised	
Cancelled/lapsed	(1,000)
As of December 31, 2004	14,490
Granted	
Exercised	
Cancelled/lapsed	(11,690)
As of December 31, 2005	2,800

New share option scheme approved in 2002

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

- (a) the closing price of the common stocks 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;
- (b) the average closing price of the common stocks 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
- (c) the nominal value of the common stock.

As of December 31, 2005, no share option was granted under the New Scheme.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Call Option Agreements**

On December 18, 2002, Huachen entered into a principal agreement (the "Principal Agreement") with the Foundation to purchase from the Foundation a total of 1,446,121,500 shares of common stock, representing approximately 39.446% of the then issued share capital of the Company and the Foundation's entire shareholding interest in the Company. Completion of the Principal Agreement took place upon signing.

On December 18, 2002, each of Mr. Wu Xiao An, Mr. Su Qiang, Mr. Hong Xing and Mr. He Tao (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 common stocks 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 of common stock, totaling 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 February 6, 2003, the closing date of the general offer made to the remaining shareholders by Huachen and the Management Directors dated December 18, 2002.

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, without interest, within a 3-year period after the date of completion of the purchase of the relevant common stock, and the shares will be pledged as security in favor of Huachen until full payment of the exercise price.

As a result of the Call Option Agreements entered into between Huachen and the Management Directors, compensation expense associated with these call options is being recognized by the Company on a straight-line basis from December 18, 2002 to August 6, 2003, the date that the call options became fully vested. Accordingly, compensation expenses of approximately RMB173.2 million and RMB10.3 million were charged to the income statements for the years ended December 31, 2003 and 2002, respectively.

As of December 31, 2005, none of the call options had been exercised.

Pro-forma disclosures setting forth compensation expense assuming the Company had determined it based on the fair value of the stock options in accordance with SFAS No. 123 and No. 148 are presented in Note 3(r).

The fair value of each option granted is estimated using the Black-Scholes option pricing model. The weighted average assumptions used for grants of share options and fair value of share option made in 2002 is as follows:

Risk-free interest rate	4.96%
Expected option life Issued on December 18, 2002	1 year
Expected dividend yield	4.11%
Volatility	48.01%

24. DISTRIBUTION OF PROFIT

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 income as stipulated by statute or by the board of directors of respective subsidiaries and recorded as a component of shareholders' equity. For the years ended December 31, 2005, 2004 and 2003, the subsidiaries of the Company appropriated approximately RMB9.3 million, RMB46.2 million and RMB100.0 million, respectively, to the general reserve fund. No appropriation to the enterprise expansion fund was made by the subsidiaries for the years ended December 31, 2005, 2004 and 2003.

In 2003, as approved by the board of directors of Xing Yuan Dong in accordance with the relevant laws and regulations, dedicated capital of Xing Yuan Dong amounting to RMB120 million was released for capitalization as paid-in capital of Xing Yuan Dong. Such release was credited to the capital reserve, which represents the capitalization of the retained earnings of Xing Yuan Dong and is a non-distributable reserve of the Group.

The Group's share of undistributed earnings retained in the associated companies and jointly controlled entities amounted to approximately RMB107.20 million and RMB110.8 million as of December 31, 2005 and 2004, respectively.

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Dividends declared by the Company during 2005 and 2004 consisted of:

	Year ended December 31,	
	2005	2004
	RMB 000	RMB 000
2004 and 2003 final dividends of HK\$0.005 and HK\$0.01 per share, respectively	19,450	38,885
2005 and 2004 interim dividends of HK\$Nil and HK\$0.005 per share, respectively		19,450
	19,450	58,335

On April 21, 2006 the directors of the Company did not recommend the payment of final dividend for the year.

25. RELATED PARTY TRANSACTIONS

(a) Name and relationship

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

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Save as disclosed elsewhere in the financial statements, particulars of significant transactions with affiliated companies (these affiliated companies and the Company have certain directors in common and/or other relationships as specified) are summarized below:

(b) Amounts due from affiliated companies arising from trading activities consisted of the following:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Due from related parties:		
Shanghai Shenhua and its affiliated companies	276,763	386,710
Affiliated companies of JinBei	62,877	58,312
Affiliated companies of BHL	54,222	
Jointly controlled entities	13,380	26,643
A joint venture partner of Shenyang Aerospace	1,505	882
BMW Brilliance		
Trade receivables	192,185	48,581
Consideration receivable arising from the disposal of machinery and equipment (note (i))	269,003	269,003
	869,935	790,131
Less: Provision for doubtful debts	(29,720)	(24,720)
	840,215	765,411
(i) The outstanding balance is unsecured, non-interest bearing and will be settled by BMW Brilliance when certain conditions specified in the agreement of sale are fulfilled (See also Note 11(c)).		
(ii) Except for (i) above, the amounts due from affiliated companies are unsecured, non-interest bearing and		

have no fixed
repayment
terms.

- (c) Notes receivable
from affiliated
companies
arising from
trading activities
consisted of the
following:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Notes receivable from related parties:		
Affiliated companies of JinBei	9,446	22,500
Shanghai Shenhua	328,482	601,348
Associated companies and jointly controlled entities	1,042	21,295
	338,970	645,143

All the notes receivable from affiliated companies are guaranteed by banks in the PRC and have maturities of six months or less. The fair value of the notes receivable approximates their carrying value.

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

(d) Amounts due to affiliated companies arising from trading activities consisted of the following:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Due to related parties:		
Associated companies and jointly controlled entities	465,023	276,951
Shanghai Shenhua and its affiliated companies	4,191	40,570
JinBei and its affiliated companies	142,438	195,166
Affiliated companies of BHL	22,025	8,705
Other affiliated companies	130	1,330
	633,807	522,722

The amounts due to affiliated companies are unsecured, non-interest bearing and have no fixed repayment terms.

(e) Notes payable to affiliated companies arising from trading activities consisted of the following:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Notes payable to related parties:		
Shanghai Shenhua		4,116
Affiliated companies of BHL	43,462	
Affiliated companies of JinBei	8,139	24,229
Associated companies and jointly controlled entities	22,491	91,892
Other affiliated companies		925
	74,092	121,162

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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

(f) Save as disclosed elsewhere in the financial statements, significant transactions with affiliated companies consisted of the following:

	Year ended December 31,		
	2005 RMB 000	2004 RMB 000	2003 RMB 000
Sales of goods:			
JinBei and its affiliated companies	69,432	38,127	150,637
Shanghai Shenhua and its affiliated companies	1,469,402	1,895,881	1,984,715
Affiliated companies of BHL			504
Jointly controlled entities	71,005	205,849	171,512
Affiliated companies of the joint venture partner of Ningbo Yuming			5,135
	1,609,839	2,139,857	2,312,503
Purchase of goods:			
JinBei and its affiliated companies	383,808	764,311	986,828
Shanghai Shenhua and its affiliated companies	85,354	214,467	222,940
Affiliated companies of BHL	66,441	89,690	93,498
Associated companies and jointly controlled entities	524,221	898,914	1,597,289
Affiliated companies of the joint venture partner of Ningbo Yuming		342	16,338
Affiliated companies of the joint venture partner of Xinguang	761		
A joint venture partner of Shenyang Aerospace	1,987	39,019	
Subcontracting charges to a jointly controlled entity	112,160	178,685	17,438
	1,174,732	2,185,428	2,934,331
Consideration paid to the joint venture partner of Ningbo Yuming for acquisition of 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	
Finance charge to a jointly controlled entity	17,329	17,850	
Operating lease rental on machinery and equipment charged by a jointly controlled entity	2,260	12,840	12,000
Operating lease rental from a jointly controlled entity	15,078	15,364	
Proceeds from sale of property, plant and equipment			
JinBei and its affiliated companies		4,407	
A jointly controlled entity	263	1,105	
Purchase of machinery from affiliated companies of JinBei		58,089	
Service income from a jointly controlled entity	43,671		

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

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Other significant transactions with affiliated companies consisted of:

i. Trademark license

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

ii. Guarantees provided to affiliated companies

Please refer to Note 21 (c) (ii) for details of the guarantees provided to affiliated companies.

(g) Advances to affiliated companies consisted of the following:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Advances to related parties:		
Associated companies and jointly controlled entities	7,226	22,528
BHL and its affiliated companies	15,273	
Shanghai Shenhua	9,045	
Affiliated companies of JinBei	16,185	16,786
Other affiliated companies	452	138
	48,181	39,452
Less: provision for doubtful debts	(9,250)	(1,975)
	38,931	37,477

The advances to affiliated companies are unsecured, non-interest bearing and have no fixed repayment terms (2004: same except an advance to a jointly controlled entity of RMB6.5 million which was interest bearing at 5.841% per annum).

(h) Advances from affiliated companies consisted of the following:

	As of December 31,	
	2005	2004
	RMB 000	RMB 000
Advances from related parties:		
Associated companies	607	
Affiliated companies of BHL	28,558	14,319
An affiliated company of Shanghai Shenhua	236	230
Affiliated companies of JinBei	1,088	945
Financing received from BMW Brilliance (Note 11(d))	74,605	74,605
Other affiliated companies		382
	105,094	90,481

Save for the financing received from BMW Brilliance as detailed in Note 11(d), other advances from affiliated companies are unsecured, non-interest bearing and have no fixed repayment terms.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****26. RETIREMENT PLAN AND EMPLOYEES' BENEFIT**

As stipulated by the regulations of the PRC government, the Company's subsidiaries in the PRC have defined contribution retirement plans for their employees. The PRC government is responsible for the pension liability to these retired employees. The Company's subsidiaries are required to make specified contributions for the state-sponsored retirement plan at 20% of the basic salary costs of their staff for 2005 (2004: 20% to 23.5%; 2003: 22% to 23.5%) payable to Labor and Social Security Bureaus of the PRC government. The retirement plan contributions payable for the years ended December 31, 2005, 2004 and 2003 were approximately RMB33.1 million, RMB37.5 million and RMB50.4 million, respectively. In addition to the pension contributions, pursuant to the relevant laws and regulations of the PRC, the Company's subsidiaries are required to provide benefits such as housing funds, medical insurance and unemployment insurance for their PRC employees. These provisions, which were approximately RMB29.6 million, RMB35 million and RMB46.5 million for the years ended December 31, 2005, 2004 and 2003, respectively, were calculated at a certain percentage (approximately 15.4% to 25.4% in 2005, 14.8% to 23.4% in 2004 and 13% to 18% in 2003) of the employees' basic salaries.

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 contribution to the scheme at 5% of the employees' salary with 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 consolidated statement of income represents contributions payable by the Group to the fund. During the years ended December 31, 2005, 2004 and 2003, contributions amounting to approximately HK\$122,000, HK\$147,000 and HK\$150,000, respectively, were made.

27. EXECUTIVE BONUS PLAN

Certain officers of the Company are participants in the Executive Bonus Plan (the "Plan"). The Plan provides that up to 5% of the Company's net income be set aside each year for distribution among plan participants based upon performance as determined by the Company's board of directors. The allocation of bonuses among participants is determined at the discretion of the President of the Company. For the years ended December 31, 2005 and 2004, no performance bonus was allocated. For the year ended December 31, 2003, the Company accrued RMB34.4 million under the Plan.

28. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Year ended December 31,		
	2005	2004	2003
	RMB '000	RMB '000	RMB '000
Cash paid for:			
Interest (net of amount capitalized: 2005: RMB23,875,000; 2004: RMB 18,369,000; 2003: RMBNil)	111,303	154,041	165,924
Income taxes	33,975	127,538	163,687

During the years ended December 31, 2005, 2004 and 2003, major non-cash transactions included:

In 2003, as approved by the joint venture partners of Shenyang Automotive, the registered capital and total investment of Shenyang Automotive was increased by approximately RMB2,260 million, which was contributed by the Company and JinBei in proportion to their original equity interests in Shenyang Automotive. The Company contributed 51% of the increase in paid-in capital of Shenyang Automotive by way of capitalization of its dividend receivable from a subsidiary amounting to approximately RMB1,152.6 million. JinBei contributed the remaining 49% of the paid-in capital of Shenyang Automotive by injecting buildings amounting to approximately RMB41.0 million (Note 11(b)), long-term land lease prepayments amounting to approximately RMB64.4 million (Note 11(b)), components and parts technology right amounting to RMB820 million (Note 12(b)) and approximately RMB182 million in cash.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****29. OTHER SUPPLEMENTAL INFORMATION**

The following items are charged (credited) to the consolidated statements of income and comprehensive income:

	Year ended December 31,		
	2005	2004	2003
	RMB 000	RMB 000	RMB 000
Import tariffs	15,224	56,857	104,598
Research and development costs	235,177	479,928	191,433
Foreign exchange (gains) losses, net	(21,487)	6,011	(120)
Provision for impairments of property, plant and equipment	48,299	10,000	6,027
Provision for doubtful debts and write off of bad debts	55,703	55,292	4,825

30. SEGMENT INFORMATION

SFAS No. 131 establishes standards for reporting information about operating segments in financial statements.

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Group began manufacturing and selling Zhonghua sedans and BMW sedans, respectively, which are managed separately because each of them represents a strategic business unit that serves a different market in the automobile industry. Therefore, the Group's reportable operating segments consist of i) manufacture and sale of minibuses and automotive components; ii) manufacture and sale of Zhonghua sedans; and iii) manufacture and sale of BMW sedans. The accounting policies of each operating segment are the same as those described in the summary of significant accounting policies. The Group evaluates performance based on stand-alone operating segment net income and generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. The Group's activities are conducted predominantly in the PRC. Accordingly, no geographical segmentation analysis is provided.

The Group's credit risk primarily consists of receivables from a variety of customers including state and local agencies, municipalities and private industries. The Group had one customer and its affiliates (see Note 25(f)) that accounted for more than ten percent of revenues. The Group reviews its accounts receivable and provides estimates of allowances as deemed necessary.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Business segments 2005**

	Manufacture and sale of minibuses and automotive components	Manufacture and sale of Zhonghua and sedans	Manufacture and sale of BMW sedans	Total
	RMB 000	RMB 000	RMB 000	RMB 000
Total revenues from reportable segments	4,837,379	863,140		5,700,519
Elimination of intersegment revenues	(231,529)			(231,529)
Revenues from external customers	4,605,850	863,140		5,468,990
Segment (loss) income before taxation and minority interests	(190,107)	(980,264)	32,250	(1,138,121)
Unallocated amounts corporate expenses				(57,281)
Income before taxation and minority interests				(1,195,402)
Segment assets as of December 31, 2005	9,207,757	4,531,308	615,304	14,354,369
Unallocated amounts corporate assets				337,936
Total assets as of December 31, 2005				14,692,305
Other disclosures:				
Depreciation of fixed assets	257,112	142,632		399,744
Amortization of long-term land lease prepayments	3,021	865		3,886
Amortization on intangible assets	4,883	199,126		204,009
Impairment of equity method goodwill (Note 13)	179,030			179,030
Impairment of goodwill in a subsidiary (Note 15)	78,690			78,690
Interest income	59,339	850		60,189
Interest expense	171,842	10,512		182,354
Capital expenditure	183,786	401,886		585,672
Equity in earnings of associated companies and jointly controlled entities	(11,642)	28,387	32,250	48,995
Equity method goodwill (Note 13)	164,753	31,983		196,736
Goodwill (Note 15)	339,710			339,710

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Business segments 2004**

	Manufacture and sale of minibuses and automotive components	Manufacture and sale of Zhonghuaand sedans	Manufacture and sale of BMW sedans	Total
	RMB 000	RMB 000	RMB 000	RMB 000
Total revenues from reportable segments	5,546,263	1,324,572		6,870,835
Elimination of intersegment revenues	(328,837)			(328,837)
Revenues from external customers	5,217,426	1,324,572		6,541,998
Segment income (loss) before taxation and minority interests	423,966	(882,174)	18,562	(439,646)
Unallocated amounts corporate expenses				(87,241)
Income before taxation and minority interests				(526,887)
Segment assets as of December 31, 2004	11,848,130	5,268,699	588,455	17,705,284
Unallocated amounts corporate assets				71,142
Total assets as of December 31, 2004				17,776,426
Other disclosures:				
Depreciation of fixed assets	202,731	162,907		365,638
Amortization of long-term land lease prepayments	2,369			2,369
Amortization on intangible assets	905	225,136		226,041
Impairment of equity method goodwill (Note 13)	47,320			47,320
Interest income	56,716	2,084		58,800
Interest expense	169,075	13,383		182,458
Capital expenditure	221,838	699,031		920,869
Equity in earnings of associated companies and jointly controlled entities	49,845	57,854	18,562	126,261
Equity method goodwill (Note 13)	343,783	31,983		375,766
Goodwill (Note 15)	418,400			418,400

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Table of Contents**Notes to Consolidated Financial Statements (Continued)****31. ACCUMULATED OTHER COMPREHENSIVE INCOME**

SFAS No. 130 requires the components of comprehensive income to be disclosed in the financial statements.

Comprehensive income consists of net (loss) income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are excluded from net income. For the Group, comprehensive income consists primarily of unrealized gains and losses on marketable equity investments and foreign currency translation adjustments for the years ended December 31, 2005, 2004 and 2003.

	Unrealized gain (loss) on marketable available-for-sale securities	Foreign currency translation adjustments	Accumulative other comprehensive income
	RMB 000	RMB 000	RMB 000
Balance as of January 1, 2004		39,179	39,179
Current year change	28,468		28,468
Balance as of December 31, 2004	28,468	39,179	67,647
Current year change	(27,227)		(27,227)
Balance as of December 31, 2005	1,241	39,179	40,420

32. COMPARATIVE FIGURES

Certain comparative figures in previous years have been reclassified to confirm to the fiscal 2005 presentation.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on April 21, 2006.