

BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LTD

Form 20-F/A

November 17, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 20-F/A  
(Amendment No. 1)**

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

**OR**

- þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: December 31, 2007**

**OR**

- o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**OR**

- o **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: None

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

Ordinary Shares, par value US\$0.01 per share

**Title of Class**

**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, 2007:**

3,669,765,900 Ordinary Shares, par value US\$0.01 per share

2,103,661 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 o      No þ

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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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, 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

**Table of Contents**

	<b>Page</b>
<u>EXPLANATORY NOTE</u>	2
<b><u>Part I</u></b>	
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	3
<b><u>Part III</u></b>	
<u>ITEM 18. FINANCIAL STATEMENTS</u>	20
<u>ITEM 19. EXHIBITS</u>	20
<u>EX-12.1 SECTION 302 CERTIFICATION OF CEO</u>	
<u>EX-12.2 SECTION 302 CERTIFICATION OF CFO</u>	
<u>EX-13.1 SECTION 906 CERTIFICATION OF CEO &amp; CFO</u>	

**Table of Contents**

**EXPLANATORY NOTE**

The registrant is filing this Amendment No. 1 on Form 20-F/A ( Amendment No. 1 ) to its annual report on Form 20-F for the year ended December 31, 2007 filed with the Securities and Exchange Commission on June 27, 2008 (the original filing ) to reflect the following amendments to the original filing:

1. Item 5. Operating and Financial Review and Prospects Results of Operations has been amended to:
  - (i) separately discuss the profitability of each of the registrant s operating segments; and
  - (ii) disclose the impact of the registrant s write-back of inventory on cost of sales in 2007.
2. Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources has been amended to expand the discussion of the registrant s use of short-term financing.
3. The last paragraph of the Report of Independent Registered Public Accounting Firm has been revised to amend a clerical error.
4. The registrant s consolidated financial statements have been amended as follows:
  - (i) Note 3(b) has been amended to include costs related to shipping and handling costs incurred by the registrant;
  - (ii) Note 3(l) has been amended to disclose the registrant s accounting policy on value-added tax;
  - (iii) Note 13 has been amended to include information on the equity shares in the income (loss) of associated companies and jointly controlled entities as of December 31, 2005;
  - (iv) Note 30 has been amended to include business segment information for the year ended December 31, 2005; and
  - (v) Note 31 has been amended to include a full reconciliation of the ending balance of Accumulated other comprehensive income at December 31, 2007.

As a result, Part I, Item 5. Results of Operations, Part III, Item 18. Financial Statements and Part III, Item 19. Exhibits contained in the original filing are amended and restated in their entirety in this Amendment No. 1.

**Table of Contents**

Other than as set forth herein, the registrant has not modified or updated any other disclosures and has made no changes to the Items in the original filing. Accordingly, the registrant has omitted in this Amendment No. 1 all such unchanged information.

Other than as expressly set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any part of the original filing or reflect any events that have occurred after the original filing was filed on June 27, 2008. The filing of this Amendment No. 1, and the inclusion of newly executed certifications, should not be understood to mean that any other statements contained in the original filing are true and complete as of any date subsequent to June 27, 2008. Accordingly, this Amendment No. 1 should be read in conjunction with the original filing and the registrant's filings made with the Securities and Exchange Commission subsequent to the original filing, including any amendments to those filings.

**PART I**

**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

**Table of Contents**

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 since broadened and its future financial performance is driven by the sales of numerous vehicles and components in addition to those produced by Shenyang Automotive.

For additional information on the history and development of Brilliance China Automotive, see Item 4 Information on the Company History and Development of Brilliance China Automotive.

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 (equivalent to approximately Rmb 1,654.3 million at the time of issue) 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 the early redemption amount (as defined in the Trust Deed constituting the bonds) 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 the early redemption amount (as defined in the Trust Deed constituting the bonds). These bonds rank equally with all of Brilliance China Automotive's senior, unsecured and unsubordinated obligations. As of December 31, 2006, all of the outstanding bonds had been repurchased or redeemed. Total consideration for the repurchase and redemption amounted to approximately US\$202.5 million.

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 1,460.8 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) 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. As of December 31, 2007, none of the bonds had been repurchased, redeemed or converted into ordinary shares of Brilliance China Automotive. Pursuant to the terms of the bonds, the initial conversion price of HK\$1.93 was adjusted to

**Table of Contents**

HK\$1.53, or approximately 79.3% of the initial conversion price, with effect from March 10, 2008. Apart from the adjustment, no changes were made to the terms of the bonds.

**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, 2007 and 2006 was Rmb 14,149.1 million and Rmb 10,484.8 million, respectively. The increase in sales was primarily due to increases in unit sales of Shenyang Automotive's Zhonghua sedans and minibuses in 2007.

The mid-priced minibus continues to be one of Brilliance China Automotive's most popular and competitive products. Despite increasing competition in China's automobile industry, Brilliance China was able to maintain its position as the market leader in the minibus market in 2007. Sales of deluxe minibuses, mid-priced minibuses, Zhonghua sedans and components represented 9.5%, 22.9%, 61.9% and 5.7%, respectively, of Brilliance China Automotive's total sales revenue in 2007. 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 minibuses and sedans. As a result, average per unit production costs (including depreciation and amortization) for the deluxe minibuses 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 of over 90%.

In 2007, total cost of sales increased by 31.0% compared to 2006, primarily due to the increase in unit sales of both the Zhonghua sedans and minibuses. However, in 2007, the average per unit production costs for the Zhonghua sedans and minibuses decreased compared to 2006, mainly as a result of an improvement in production efficiency together with a decrease in unit cost of components as a result of economies of scale. As a result, our overall gross profit margin improved from 5.0% in 2006 to 7.8% in 2007.

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 and were between 5% and 18.6% in 2005, between 5.0% and 14.3% in 2006 and between 5.0% and 10.0% in 2007. 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. In 2006, the average tariffs were reduced to 8.2%



**Table of Contents**

and 10.4% on imported components for deluxe minibuses and Zhonghua sedans, respectively, and to 8.7% on imported components for both deluxe minibuses and Zhonghua sedans in 2007.

Shenyang Automotive has successfully increased the domestic component content of its products over the past few years, while at the same time maintaining quality. For example, in 2007, the domestic component content was 90% for the deluxe Hiase minibus, 100% for the mid-price Hiase minibus, 85% for the Granse minibus, 97% for manual transmission Junjie sedans (92% for automatic transmission) and 98% for manual transmission Zunchi sedan (94% for automatic transmission). While Shenyang Automotive will continue its efforts to increase the domestic component content, future improvements in domestic component content for its existing mid-priced and deluxe minibuses (other than the Granse model) is expected to 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. BMW Brilliance has reached the required domestic component ratio for all of its products and has received final government approval for tariff reduction from 25% to 10% in 2007.

**Results of Operations**

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(Rmb thousands)</b>		
Sales to third parties	10,994,675	9,067,505	3,859,151
Sales to affiliated companies	3,154,474	1,417,249	1,609,839
<b>Total Sales</b>	<b>14,149,149</b>	<b>10,484,754</b>	<b>5,468,990</b>
Cost of sales	(13,049,107)	(9,960,587)	(5,011,955)
Gross profit	1,100,042	524,167	457,035
Selling, general and administrative expenses	(1,535,695)	(1,384,718)	(1,195,336)
Interest expense	(203,263)	(177,001)	(182,354)
Interest income	125,470	90,738	60,189
Equity in earnings of associated companies and jointly controlled entities, net	192,261	149,320	48,995
Subsidy income	140,081	50,176	3,139
Other income, net	179,706	106,150	43,650
Impairment loss on intangible assets			(173,000)
Impairment loss on goodwill <sup>(1)</sup>		(73,343)	(257,720)
<b>(Loss) before taxation and minority interests</b>	<b>(1,398)</b>	<b>(714,511)</b>	<b>(1,195,402)</b>
(Provision) for income taxes	(45,208)	(47,879)	(101,884)
Minority interests	130,332	376,282	625,997
<b>Net income (loss)</b>	<b>83,726</b>	<b>(386,108)</b>	<b>(671,289)</b>

(1) In 2006, an impairment loss on goodwill of Rmb 73.3 million in relation to one of Brilliance China

Automotive s  
jointly  
controlled  
entities was  
recognized.

**Table of Contents**

The following table sets forth the income/(loss) before taxation and minority interests of each of Brilliance China Automotive's operating segments:

	<b>Manufacture and sale of minibuses and automotive components Rmb 000</b>	<b>Manufacture and sale of Zhonghua sedans Rmb 000</b>	<b>Manufacture and sale of BMW sedans Rmb 000</b>	<b>Total* Rmb 000</b>
<b>2007</b>				
Total revenues from reportable segments	5,729,289	8,754,847		14,484,136
Elimination of intersegment revenues	(334,987)			(334,987)
Revenues from external customers	5,394,302	8,754,847		14,149,149
Segment (loss) income before taxation and minority interests	194,986	(286,223)	142,227	50,990
<b>2006</b>				
Total revenues from reportable segments	5,533,953	5,190,129		10,724,082
Elimination of intersegment revenues	(239,328)			(239,328)
Revenues from external customers	5,294,625	5,190,129		10,484,754
Segment (loss) income before taxation and minority interests	145,602	(830,404)	106,692	(578,110)
<b>2005</b>				
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	(75,047)	(970,603)	32,250	(1,013,400)

\* Please refer to Note 30 of the audited financial statements for a reconciliation of the above totals to the consolidated financial statements.

*Year Ended December 31, 2007 Compared to Year Ended December 31, 2006*

Total sales of Brilliance China Automotive in the year ended December 31, 2007 were Rmb 14,149.1 million (US\$1,939.7 million), representing a 34.9% increase from Rmb 10,484.8 million in 2006. The increase in total sales from 2006 to 2007 was primarily due to increases in unit sales of Shenyang Automotive's Zhonghua sedans and minibuses.

Total sales of the minibuses and automotive components segment were Rmb 5,394.3 million (US\$739.5 million) in the year ended December 31, 2007, representing a 1.9% increase from Rmb 5,295 million in 2006. Sales of the Zhonghua sedans were 8,754.8 million (US\$1,200.2 million) in the year ended December 31, 2007, representing a

68.7% increase from Rmb 5,190.1 million in 2006.

Shenyang Automotive sold 73,415 minibuses in 2007, representing a 10.8% increase from 66,245 minibuses sold in 2006. Of these minibuses sold, 59,517 were mid-priced minibuses, representing a 14.3% increase from 52,049 units sold in 2006. Unit sales of deluxe minibuses decreased slightly by 2.1% from 14,196 units in 2006 to 13,898 units in 2007. Shenyang Automotive sold 106,770 Zhonghua sedans in 2007, representing a 71.4% increase from 62,281 sedans sold in 2006. 33,689 units of the Zhonghua Zunchi model were sold in 2007, representing a 25.2% increase from 26,914 units for 2006. The Junjie model, which was

**Table of Contents**

launched in March 2006, recorded sales of 72,502 units during the year, compared to 35,367 units sold during the period from March to December 2006. The new Kubao coupe model was launched in September 2007 and recorded sales of 579 units in the last quarter of the year.

Cost of sales increased 31.0% from Rmb 9,960.6 million in 2006 to Rmb 13,049.1 million (US\$1,788.9 million) in 2007. The increase was primarily due to the increase in the unit sales of both the Zhonghua sedans and minibuses. The average unit cost for both the Zhonghua sedans and minibuses decreased in 2007, mainly due to the improvement in production efficiency together with the decrease in unit cost of components as a result of economies of scale. The increase in cost of sales was partially offset by a write-back of inventory in 2007 of approximately Rmb 130.2 million (US\$17.8 million) as the inventories provided for in previous years have been sold in 2007. As a result, our overall gross profit margin improved from 5.0% in 2006 to 7.8% in 2007.

Selling, general and administrative expenses increased by 10.9% from Rmb 1,384.7 million, representing 13.2% of sales in 2006, to Rmb 1,535.7 million (US\$210.5 million), representing 10.9% of sales in 2007. The increase was mainly due to the increase in advertising, promotion and marketing expenses as well as transportation costs for finished products resulting from the increase in sales volume of Zhonghua sedans and minibuses during the year. The selling, general and administrative expenses as a percentage of turnover decreased in 2007 as a result of higher Zhonghua sedan and minibus sales volume achieved in 2007.

Interest expense net of interest income decreased by 9.8% from Rmb 86.3 million in 2006 to Rmb 77.8 million (US\$10.7 million) in 2007, resulting mainly from higher interest income earned from bank deposits and reduced short-term borrowings from last year.

Net equity in earnings of associated companies and jointly controlled entities increased by 28.8% from Rmb 149.3 million in 2006 to Rmb 192.3 million (US\$26.4 million) in 2007. This increase was mainly attributable to the increased profits contributed by BMW Brilliance, our 49.5% indirectly owned jointly controlled entity. Net profits contributed by BMW Brilliance increased by 33.3% from Rmb 106.7 million in 2006 to Rmb 142.2 million (US\$19.5 million) in 2007. The BMW joint venture achieved sales of 32,100 BMW sedans in 2007, an increase of 36.0% as compared to 23,600 BMW sedans sold in 2006.

Subsidy income increased from Rmb 50.2 million in 2006 to Rmb 140.1 million (US\$19.2 million) in 2007. The increase was mainly due to the receipt of a new government grant by a subsidiary in 2007.

Other income net of expenses increased by 69.2% from Rmb 106.2 million in 2006 to Rmb 179.7 million (US\$24.6 million) in 2007. The increase was primarily due to increases in foreign exchange gains.

No impairment loss on goodwill was provided for the year ended December 31, 2007 compared to a provision of Rmb 73.3 million in 2006. The 2006 impairment loss was related to one of Brilliance China Automotive's jointly controlled entities.

**Table of Contents**

Loss before taxation and minority interests decreased 99.8% from Rmb 714.5 million in 2006 to Rmb 1.4 million (US\$0.2 million) in 2007. The income before taxation and minority interests of the minibuses and automotive components segment increased 33.9% from Rmb 145.6 million in 2006 to Rmb 195.0 million (US\$26.7 million) in 2007, primarily due to a 10.8% increase in the sales volume of minibuses and a reduction in unit component costs in 2007 compared to 2006. The loss before taxation and minority interests of the Zhonghua sedan segment decreased 65.5% from Rmb 830.4 million in 2006 to Rmb 286.2 million (US\$39.2 million) in 2007, primarily due to the 71.4% increase in the sales volume of Zhonghua sedans in 2007, leading to a reduction in the unit cost of its components as a result of economies of scale, as well as an improvement in production efficiency. The income before taxation and minority interests of the BMW sedan segment increased 33.3% from Rmb 106.7 million in 2006 to Rmb 142.2 million (US\$19.5 million) in 2007, primarily due to a 36.0% increase in the sales volume of the BMW sedans in 2007.

Taxation decreased by 5.6% from Rmb 47.9 million in 2006 to Rmb 45.2 million (US\$6.2 million) in 2007, resulted mainly from utilization of previously unrecognized tax losses.

We recognized other comprehensive income of Rmb 33.7 million (US\$4.6 million) in 2007, comprising of the fair value adjustment for securities available-for-sale and the share of a jointly controlled entity's fair value adjustment for hedging derivatives in the amount of Rmb 2.4 million (US\$0.3 million) and Rmb 31.3 million (US\$4.3 million), respectively. The fair value adjustment for securities available-for-sale during the year represents an increase of 118.2% from Rmb 1.1 million in 2006.

As a result, we recorded comprehensive income of Rmb 117.4 million (US\$16.1 million) in 2007 as compared with a comprehensive loss of Rmb 385.1 million in 2006.

Basic earnings and dilutive earnings per ADS amounted to Rmb 2.28 (US\$0.31) and Rmb 2.27 (US\$0.31), respectively, in 2007, as compared to basic and dilutive losses per ADS of Rmb 10.53 in 2006.

*Year Ended December 31, 2006 Compared to Year Ended December 31, 2005*

Total sales of Brilliance China Automotive in the year ended December 31, 2006 were Rmb 10,484.8 million (US\$1,343.5 million), representing a 91.7% increase from Rmb 5,469.0 million in 2005. The increase in total sales from 2005 to 2006 was primarily due to increases in unit sales of Shenyang Automotive's minibuses and, especially, Zhonghua sedans in 2006.

Total sales of the minibuses and automotive components segment were Rmb 5,295 million (US\$678.5 million) in the year ended December 31, 2006, representing a 15.0% increase from Rmb 4,606 million in 2005. Sales of the Zhonghua sedans were 5,190 million (US\$665.0 million) in the year ended December 31, 2006, representing a 501.3% increase from Rmb 863.1 million in 2005.

Shenyang Automotive sold 66,245 minibuses in 2006, representing a 10.4% increase from approximately 60,000 minibuses sold in 2005. Of these vehicles sold, 52,049 were mid-priced minibuses, representing a 4.0% increase from approximately 50,060 units sold in 2005.

**Table of Contents**

Unit sales of deluxe minibuses increased by 42.8% from approximately 9,940 units in 2005 to 14,196 units in 2006. Shenyang Automotive sold 62,281 Zhonghua sedans in 2006, representing a 592.0% increase from approximately 9,000 sedans sold in 2005.

Cost of sales increased 98.7% from Rmb 5,012.0 million in 2005 to Rmb 9,960.6 million (US\$1,276.3 million) in 2006. The increase was primarily due to the increase in the unit sales of both minibuses and Zhonghua sedans in 2006. However, the average unit costs for both the minibuses and Zhonghua sedans decreased in 2006, mainly due to the improvement in production efficiency and economies of scales together with the decrease in cost of components. Despite the increase in sales and decrease in unit costs, the overall gross profit margin of Brilliance China Automotive decreased from 8.4% in 2005 to 5.0% in 2006. The decrease in gross profit margin resulted mainly from the significant increase in sales of Zhonghua sedans, which did not reach profitability in 2006, as well as a shift in product mix to lower-margin products.

Selling, general and administrative expenses increased by 15.8% from Rmb 1,195.3 million, representing 21.9% of sales in 2005, to Rmb 1,384.7 million (US\$177.4 million), representing 13.2% of sales in 2006. The increase was mainly due to the increase in advertising, promotion and marketing expenses as well as transportation costs for finished products resulting from the increase in sales volume of Zhonghua sedans and minibuses in 2006, together with an increase in staff costs. Selling, general and administrative expenses as a percentage of turnover decreased from 21.9% in 2005 to 13.2% in 2006 as the rate of increase in turnover exceeded that of advertising, promotion and marketing expenses in 2006.

Interest expense net of interest income decreased by 29.4% to Rmb 86.3 million (US\$11.1 million) in 2006 from Rmb 122.2 million in 2005, resulting mainly from the increase in interest income from deposits placed with banks and a financial institution.

Net equity in earnings of associated companies and jointly controlled entities increased 204.7% from Rmb 49.0 million in 2005 to Rmb 149.3 million (US\$19.1 million) in 2006. The increase was mainly attributable to the increased profits contributed by BMW Brilliance in 2006. Net profits contributed to Brilliance China Automotive by BMW Brilliance increased by 237.7% from Rmb31.6 million in 2005 to Rmb106.7 million in 2006. The BMW joint venture achieved sales of 23,600 BMW sedans in 2006, an increase of 34.8% as compared to 17,501 BMW sedans in 2005.

Subsidy income increased from Rmb 3.1 million in 2005 to Rmb 50.2 million (US\$6.4 million) in 2006. The increase was mainly due to the receipt of new government grants by a subsidiary in 2006.

Other income net of expenses increased from Rmb 43.7 million in 2005 to Rmb 106.2 million (US\$13.6 million) in 2006. The increase was primarily due to increases in Brilliance China Automotive's sales of scrap materials and rental income.

No impairment loss on intangible assets was provided for the year ended December 31, 2006 compared to a provision of Rmb 173.0 million in 2005. The 2005 impairment loss was

**Table of Contents**

related to the low sales volume and decrease in average unit selling prices of Zhonghua sedans in 2005.

Impairment loss on goodwill decreased from Rmb 257.7 million in 2005 to Rmb 73.3 million (US\$9.4 million) in 2006. The decrease was mainly because Brilliance China Automotive recognized impairment loss for one of its jointly controlled entities in 2006, while it recognized an impairment loss both for the jointly controlled entity and a subsidiary in 2005.

Loss before taxation and minority interests decreased 40.2% from Rmb 1,195.4 million in 2005 to Rmb 714.5 million (US\$91.6 million) in 2006. The income before taxation and minority interests of the minibus and automotive components segment improved from a loss of Rmb 75.0 million in 2005 to an income of Rmb 145.6 million (US\$18.7 million) in 2006, primarily due to the higher sales volume of the high-end Granse minibus in 2006. The loss before taxation and minority interests of the Zhonghua sedan segment decreased 14.4% from Rmb 970.6 million in 2005 to Rmb 830.4 million (US\$106.4 million) in 2006, primarily due to the strong demand for the Zhonghua sedans driven by the introduction of the new Junjie model in 2006, which was well received by the market. The decrease in loss before taxation and minority interests of the Zhonghua sedan segment was partially offset by the relatively lower margin of the Junjie model and the increase in selling expenses in 2006, especially those relating to the Junjie model. The income before taxation and minority interests of the BMW sedan segment increased 230.8% from Rmb 32.3 million in 2005 to Rmb 106.7 million (US\$13.7 million) in 2006, primarily due to a 34.8% increase in the sales volume of BMW sedans in 2006, allowing the joint venture to achieve better economies of scale in component procurement and lower unit costs.

Taxation decreased by 53.0% from Rmb 101.9 million in 2005 to Rmb 47.9 million (US\$6.1 million) in 2006, resulting mainly from the recognition of certain deferred tax assets as expenses in 2005.

We recognized income of Rmb 1.1 million (US\$0.1 million) under other comprehensive income compared to a loss of Rmb 27.2 million under other comprehensive loss, representing the fair value adjustment for securities available-for-sale during the year.

As a result, Brilliance China Automotive recorded a comprehensive loss of Rmb 385.1 million (US\$49.3 million) in 2006, compared with a comprehensive loss of Rmb 698.5 million in 2005. Basic loss per ADS amounted to Rmb 10.53 (US\$1.3) in 2006 as compared to the basic loss per ADS of Rmb 18.3 (US\$2.3) in 2005.

**Contingent Liabilities and Outstanding Guarantees**

As of December 31, 2007, Brilliance China Automotive and its subsidiaries had provided the following guarantees:

Corporate guarantees of approximately Rmb 60 million (US\$8.2 million) for revolving bank loans and notes drawn by affiliated companies of 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



**Table of Contents**

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 provision for the guarantor's obligation under the guarantee was recorded as of December 31, 2007.

Corporate guarantees of bank loans amounting to Rmb 200 million (US\$27.4 million), which is also the maximum potential amount of future payments under the guarantee as of December 31, 2007, drawn by JinBei. Bank deposits of Rmb 213 million (US\$29.2 million) were pledged as a collateral for the corporate guarantees. However, default by JinBei is considered remote by management and therefore no provision for the guarantor's obligation under the guarantee was recorded as of December 31, 2007.

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, 2007:

Contractual Obligations	Total	Payment due by period (Rmb thousands)			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Notes payable (1)	2,828,373	2,828,373			
Notes payable to affiliated companies (2)	207,774	207,774			
Convertible bonds (3)	1,752,233		1,752,233		
Financing from BMW Brilliance (4)	174,373	40,601	16,445	20,481	96,846
Operating lease obligations (relating to offices and property)	66,519	16,367	10,464	8,392	31,296
Unconditional purchase obligations	718,733	718,733			
Total	5,748,005	3,811,848	1,779,142	28,873	128,142

(1) Approximately Rmb 0.8 billion of the Rmb 2.8 billion notes payable had effective interest rates of 3% to 4%. The remaining Rmb 2 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 June 7, 2009 of approximately Rmb 327.4 million (US\$ 44.9 million). The accreted redemption premium as of December 31, 2007 of approximately Rmb 162.3 million (US\$ 22.2 million) was calculated based on the outstanding principal of the convertible bonds using the effective interest method.

**Table of Contents**

- (4) Accrued interest of approximately Rmb 68.0 million was calculated on the outstanding principal using the compound interest method at an effective annual rate of 11.127% on a quarterly basis.

*Cash Flows*

As of December 31, 2007, Brilliance China Automotive and its subsidiaries had Rmb 1,373.4 million in cash and cash equivalents, Rmb 518.0 million in short-term bank deposits and Rmb 1,971.7 million in pledged short-term bank deposits, a decrease of Rmb 94.7 million, a decrease of Rmb 98.8 million and an increase of Rmb 346.6 million from its positions as of December 31, 2006, respectively. The decrease in cash and cash equivalents during that period was mainly due to an increase in notes payable which necessitated an increase in pledged deposits.

Brilliance China Automotive had notes payable of Rmb 3,036.1 million and outstanding short-term bank borrowings of Rmb 370.0 million, but had no long-term bank borrowings outstanding as of December 31, 2007.

For the year ended December 31, 2007, Brilliance China Automotive recorded net cash provided by operating activities of Rmb 1,338.4 million (US\$183.5 million), an increase of Rmb 192.8 million from the amount of Rmb 1,145.6 million net cash provided by operating activities in 2006. The increase was primarily due to:

a net profit of Rmb83.7 million (US\$11.5 million) in 2007 compared to a net loss of Rmb 386.1 million in 2006; and

an increase in notes and accounts payable in the amount of Rmb 2,689.1 million (US\$368.6 million) for the year ended December 31, 2007, as compared to an increase of Rmb 1,487.9 million for the year ended December 31, 2006.

Net cash used in investing activities amounted to Rmb 566.8 million (US\$77.7 million) in 2007, a decrease of Rmb 1,081.6 million from Rmb 514.8 million of net cash provided by investing activities in 2006. The decrease was primarily attributable to the increase in pledged short-term deposits of Rmb 346.5 million in 2007 (US\$47.5 million) compared to a decrease of Rmb 307.5 million in 2006, an increase in short-term bank deposits of Rmb 98.8 million in 2007 (US\$13.5 million) compared to Rmb 437.0 million in 2006, and a decrease of dividend income to Rmb 21.0 million in 2007 (US\$2.8 million) from Rmb 81.0 million in 2006.

Net cash used in financing activities amounted to Rmb 866.2 million (US\$118.7 million) in 2007, as compared to net cash used in financing activities of Rmb 1,035.7 million in 2006. This decrease in cash used in financing activities is primarily attributable to Rmb 880.0 million in notes payable in 2007 (US\$120.6 million) compared to Rmb 1,002.5 million in 2006, a net cash outflow of Rmb 169.0 million in respect of the redemption of old convertible bonds and issue of new convertible bonds in 2006 but not in 2007, and receipt of government grants of Rmb 112.1 million in 2007 (US\$15.4 million) compared to Rmb 30.0 million in 2006. The decrease in cash used in financing activities was partially offset by a smaller increase in amounts due to affiliated companies to Rmb 30.0 million in 2007 (US\$4.1 million) from Rmb 102.5 million in

**Table of Contents**

2006, and an increase in net repayment of bank loans of Rmb 130.0 million in 2007 (US\$17.8 million) from Rmb 3.5 million in 2006.

*Debt Changes*

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 1,460.8 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) 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. As of December 31, 2007, none of the bonds had been repurchased, redeemed or converted into ordinary shares of Brilliance China Automotive.

Pursuant to the terms of the convertible bonds, the initial conversion price of HK\$1.93 was adjusted to HK\$1.53, or approximately 79.3% of the initial conversion price, with effect from March 10, 2008. Apart from this adjustment, no change was made to the terms of the convertible bonds. Following this adjustment, the maximum number of ordinary shares that may be issued by Brilliance China Automotive upon full conversion of the convertible bonds based on the adjusted conversion price of HK\$1.53 will be 925,484,964 ordinary shares.

In 2007, Brilliance China Automotive continued to maintain credit facilities with banks to finance its working capital needs. As of December 31, 2007, the total amount of credit facilities available to Brilliance China Automotive was Rmb 3,500 million. As of December 31, 2007, direct bank borrowings and bank notes payable decreased by 27.1% to Rmb 3,406.1 million (US\$466.9 million), a decrease of Rmb 0.7 million from Rmb 2,679.2 million as of December 31, 2006. 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 utilizes such form of short-term financing as it currently offers more attractive interest rates than longer term bank loans. 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 308.4 million (US\$ 42.3 million) in 2007, an increase of Rmb 4.3 million from Rmb 304.2 million in 2006. Major items of expenditure

**Table of Contents**

included costs of building and expanding production facilities, costs of purchasing production equipment for the Junjie FRV, Hiase and new version of the Junjie sedan, and of building the stamping facilities.

**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 3,000.0 million, US\$15.0 million and Euro 500.0 million to purchase imported equipment and components from Toyota of Japan, BMW of Germany and other overseas suppliers for its minibuses and sedans in 2008. This estimate is based upon the 2008 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 2008. Brilliance China Automotive believes that it will be able to obtain adequate amounts of foreign currency to meet its planned requirements for 2008. In 2007, Brilliance China Automotive received approximately Rmb 341.4 million from its sale of products to the Middle East, Russia and Europe. Under 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.

Exchange rate fluctuations may have a material effect on the financial performance of BMW Brilliance. BMW Brilliance has entered into hedging transactions through exchange contracts for a majority of its Euro-denominated requirements in order to minimize foreign exchange risks.

**Research and Development, Patents and Licenses, etc.**

During 2005, 2006 and 2007, Brilliance China Automotive spent Rmb 235.2 million, Rmb 214.0 million and Rmb 402.8 million, respectively, on research and development activities. In 2005, these amounts were primarily used for the development of the new Zhonghua sedan, Junjie and the new 1.8-liter turbo engine. In 2006, these amounts were primarily used for the research and development of new engines and new Hiase minibus projects. In 2007, these amounts were primarily used for research and development of new engines, and the Junjie FRV, Kubao coupe and other models that we may consider producing.

**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

**Table of Contents**

favorable impact on Brilliance China Automotive's sales volume for both minibuses and sedans.

*Competition.* As a result of China's accession to the WTO, domestic production of automobiles (including minibuses and sedans) is expected to continue increasing, 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. Any decline in vehicle prices will likely have an adverse effect on Brilliance China Automotive's sales revenue and profits.

*Growth, Consolidation and Development.* On June 2, 2004, the NDRC issued a new automotive policy for China to encourage 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 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. 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. On December 26, 2006, the NDRC issued a circular to assess the current PRC automobile industry and developments since the 2004 policy. Consistent with the 2004 policy, the NDRC continues to stress the importance of stable growth and preventing overcapacity in the automobile industry, and to encourage industry consolidation and reorganization among sectors, in particular the components sector. The NDRC also encouraged more research and development be focused on new products, such as environmental friendly models, in order to enhance and upgrade domestic products. The NDRC also imposed, among other things, a requirement that annual sales of automobile manufacturers in China must reach certain levels in order for them to build new manufacturing plants. Given the high capacity utilization rates already achieved at its production plants, Brilliance China Automotive does not expect this policy to restrict its capacity expansion plans 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.

**Table of Contents**

*Rising Fuel Prices.* China's fuel prices reached historical heights in June 2008 and may continue to increase. Any further increases in fuel prices will likely have a negative influence on Brilliance China Automotive's sales volume.

**Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on financial condition, changes in financial condition, revenues or expenses results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**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 received by customers and there is evidence of a final arrangement, there are no uncertainties surrounding acceptance, collectibility of the sales is reasonably assured and the price has been fixed. At the point of receipt of goods, the significant

**Table of Contents**

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, which includes the Zunchi, Junjie, Kubao coupe and Junjie FRV models, 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.

*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. 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.

*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.



**Table of Contents**

*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 July 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes . FIN 48 prescribes a two-step approach for recognizing and measuring tax positions taken or expected to be taken in a tax return. Prior to recognizing the benefit of a tax position in the financial statements, the tax position must be more-likely-than-not of being sustained based solely on its technical merits. Once this recognition threshold has been met, tax positions are recognized at the largest amount that is more-likely-than-not to be sustained. The adoption of FIN 48 did not impact Brilliance China Automotive's financial position and net earnings.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. This statement simplifies and codifies fair value related guidance previously issued and is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of the statement has no material impact on Brilliance China Automotive's financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115 ( SFAS 159 ), which permits companies to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of the statement has no material impact on Brilliance China Automotive's financial statements.

**Table of Contents**

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements ( SFAS 160 ). SFAS 160 requires all entities to report non-controlling (minority) interests in subsidiaries as equity in the consolidated financial statements. SFAS 160 requires that transactions between an entity and non-controlling interests are treated as equity transactions. SFAS 160 is effective for fiscal years beginning after December 15, 2008. Brilliance China Automotive is currently evaluating the effect of SFAS 160 on its consolidated financial statements and results of operation and is currently not yet in a position to determine such effects.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ( SFAS 141R ), to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement applies to all transactions or other events in which an entity obtains control of one or more businesses, and combinations achieved without the transfer of consideration. SFAS 141R applies prospectively to business combinations with an acquisition date on or after December 15, 2008. An earlier adoption is not permitted. Brilliance China Automotive is still considering the impact of SFAS 141R, if any, which will depend on the nature and size of business combinations Brilliance China Automotive consummates after the effective date to its financial statements.

**PART III**

**ITEM 18. FINANCIAL STATEMENTS**

**(a) Financial Statements and Supplemental Data**

See pages F-1 to F-56 of this Amendment No.1.

**(b) Financial Statement Schedules**

*Schedule II Valuation and Qualifying Accounts*

Schedule II should be read in conjunction with the consolidated financial statements and related notes thereto set forth under Item 18 of this Annual Report on Form 20-F.

**ITEM 19. EXHIBITS**

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

- 1.1 Amended and Restated Bye-Laws of Brilliance China Automotive dated November 16, 2007.\*
- 1.2 Amendments to Bye-Laws of Brilliance China Automotive dated June 20, 2008.\*

**Table of Contents**

- 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 Form of Service Agreement for Executive Director.\*\*
- 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, 2007.\*
- 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 27, 2008.

\*\* Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on June 26, 2006.

**Table of Contents**

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A 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: November 17, 2008

22

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**Table of Contents**

**INDEX TO FINANCIAL STATEMENTS  
BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED AND SUBSIDIARIES**

	Page
<u>Report of Independent Registered Public Accounting Firm of Grant Thornton dated June 27, 2008</u>	F-2
<u>Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2007, 2006 and 2005</u>	F-4
<u>Consolidated Balance Sheets as of December 31, 2007 and 2006</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005</u>	F-7
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005</u>	F-10
<u>Notes to Consolidated Financial Statements for the years ended December 31, 2007, 2006 and 2005</u>	F-11
F-1	

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**Table of Contents**

**Report of Independent Registered Public Accounting Firm  
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, 2007, and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2007. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and the results of its operations and cash flows for the years ended December 31, 2007, in conformity with United States generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedule II is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

As described in Note 3 to the consolidated financial statements the Company has adopted FASB Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*, effective as of January 1, 2007. In 2006, and as described in Note 3 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Brilliance China Automotive Holdings Limited and its subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 27, 2008 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

**/s/ Grant Thornton**

Hong Kong,  
June 27, 2008

**Table of Contents**

**Report of Independent Registered Public Accounting Firm  
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, 2006 and 2005, and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2006, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years ended December 31, 2006, 2005 and 2004, in conformity with United States generally accepted accounting principles.

**Moores Rowland Mazars**

*Chartered Accountants*

*Certified Public Accountants*

Hong Kong,

April 20, 2007

F-3

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**Table of Contents****Brilliance China Automotive Holdings Limited**  
**Consolidated Statements of Income and Comprehensive Income**

For the years ended December 31, 2007, 2006 and 2005

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>
	(except for share and ADS data)		
Net sales to third parties	<b>10,994,675</b>	9,067,505	3,859,151
Net sales to affiliated companies	<b>3,154,474</b>	1,417,249	1,609,839
Total sales	<b>14,149,149</b>	10,484,754	5,468,990
Cost of sales (including purchase of goods and subcontracting charges from affiliated companies) (2007: RMB3,620,835,000, 2006:RMB2,317,393,000, 2005: RMB1,174,732,000)	<b>(13,049,107)</b>	(9,960,587)	(5,011,955)
Gross profit	<b>1,100,042</b>	524,167	457,035
Selling, general and administrative expenses	<b>(1,535,695)</b>	(1,384,718)	(1,195,336)
Interest expenses	<b>(203,263)</b>	(177,001)	(182,354)
Interest income	<b>125,470</b>	90,738	60,189
Equity in earnings of associated companies and jointly controlled entities, net	<b>192,261</b>	149,320	48,995
Subsidy income	<b>140,081</b>	50,176	3,139
Other income, net	<b>179,706</b>	106,150	43,650
Impairment loss on intangible assets			(173,000)
Impairment loss on goodwill		(73,343)	(257,720)
Loss before taxation and minority interests	<b>(1,398)</b>	(714,511)	(1,195,402)
Provision for income taxes	<b>(45,208)</b>	(47,879)	(101,884)
Minority interests	<b>130,332</b>	376,282	625,997
Net income (loss)	<b>83,726</b>	(386,108)	(671,289)
Other comprehensive income (loss)			
Fair value adjustment for securities available-for-sale	<b>2,393</b>	1,052	(27,227)
Share of a jointly controlled entity's fair value adjustment for hedging derivative	<b>31,275</b>		
Comprehensive income (loss)	<b>117,394</b>	(385,056)	(698,516)
Basic earnings (loss) per share	<b>RMB0.0228</b>	RMB(0.1053)	RMB(0.1830)
Basic earnings (loss) per ADS	<b>RMB2.28</b>	RMB(10.53)	RMB(18.30)
Diluted earnings (loss) per share	<b>RMB0.0227</b>	RMB(0.1053)	RMB(0.1830)
Diluted earnings (loss) per ADS	<b>RMB2.27</b>	RMB(10.53)	RMB(18.30)
Weighted average number of shares outstanding	<b>3,669,022,064</b>	3,668,390,900	3,668,390,900
Weighted average number of ADSs outstanding	<b>36,690,221</b>	36,683,909	36,683,909
Net income (loss) adjusted for the dilutive effect of convertible bonds	<b>83,726</b>	(386,108)	(671,289)
Weighted average number of shares outstanding adjusted for dilutive effect of stock options and convertible bonds	<b>3,679,572,569</b>	3,668,390,900	3,668,390,900
	<b>36,795,726</b>	36,683,909	36,683,909



Weighted average number of ADSs outstanding  
adjusted for dilutive effect of stock options and  
convertible bonds

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

F-4

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**Table of Contents****Brilliance China Automotive Holdings Limited  
Consolidated Balance Sheets**

As of December 31, 2007 and 2006

	As of December 31,	
	2007	2006
	RMB 000	RMB 000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,373,416	1,468,075
Short-term bank deposits	518,000	616,787
Pledged short-term bank deposits, restricted	1,971,665	1,625,149
Deferred expenses – current portion	6,283	6,283
Notes receivable	416,495	197,668
Notes receivable from affiliated companies	260,155	81,477
Accounts receivable, net	805,187	632,158
Due from affiliated companies	684,221	953,637
Dividend receivable from affiliated companies	97,173	97,173
Inventories, net	2,469,033	1,346,843
Other receivables	491,237	423,017
Prepayments and other current assets	273,828	143,583
Income tax recoverable	18,482	815
Other taxes recoverable	125,179	117,830
Advances to affiliated companies	101,402	58,085
<b>Total current assets</b>	<b>9,611,756</b>	<b>7,768,580</b>
Property, plant and equipment, net	3,569,137	3,865,210
Intangible assets, net	266,416	420,978
Interests in associated companies and jointly controlled entities	1,615,917	1,413,135
Investment securities	26,129	23,736
Goodwill	339,710	339,710
Prepayment for a long-term investment	600,000	600,000
Deferred expenses, net – non-current portion	15,183	21,466
Long-term land lease prepayments, net	118,720	120,099
Other long-term assets	9,343	7,450
<b>Total assets</b>	<b>16,172,311</b>	<b>14,580,364</b>

F-5

**Table of Contents****Brilliance China Automotive Holdings Limited  
Consolidated Balance Sheets**

As of December 31, 2007 and 2006

	As of December 31,	
	2007	2006
	RMB 000	RMB 000
<b>Liabilities and shareholders equity</b>		
<b>Current liabilities</b>		
Short-term bank loans	370,000	500,000
Notes payable	2,828,373	2,141,947
Notes payable to affiliated companies	207,774	37,288
Accounts payable	3,421,891	2,299,267
Due to affiliated companies	952,847	983,293
Customer advances	150,354	425,778
Other payables	419,710	403,040
Dividends payable	3,087	3,299
Accrued expenses and other current liabilities	152,150	159,222
Income tax payable	9,555	11,411
Other taxes payable	71,095	81,841
Advances from affiliated companies	56,134	55,389
<b>Total current liabilities</b>	<b>8,642,970</b>	<b>7,101,775</b>
Convertible bonds	1,489,907	1,486,568
Deferred income	81,555	109,502
Advances from affiliated companies	133,772	79,706
<b>Total liabilities</b>	<b>10,348,204</b>	<b>8,777,551</b>
<b>Minority interests</b>	<b>(93,116)</b>	<b>36,900</b>
<b>Shareholders equity</b>		
Capital stock		
Common stock (8,000,000,000 and 5,000,000,000 shares of US\$0.01 each authorized as of December 31, 2007 and 2006, respectively, and 3,669,765,900 and 3,668,390,900 shares of US\$0.01 each issued and outstanding as of December 31, 2007 and 2006, respectively)	303,488	303,388
Additional paid-in capital	2,327,697	2,325,690
Accumulated other comprehensive income	75,140	41,472
Dedicated capital	193,356	184,193
Capital reserve	120,000	120,000
Share option reserve	43,090	11,281
Retained earnings	2,854,452	2,779,889
<b>Total shareholders equity</b>	<b>5,917,223</b>	<b>5,765,913</b>
<b>Total liabilities and shareholders equity</b>	<b>16,172,311</b>	<b>14,580,364</b>

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

**Table of Contents****Brilliance China Automotive Holdings Limited  
Consolidated Statements of Cash Flows**

For the years ended December 31, 2007, 2006 and 2005

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
	<b>RMB 000</b>	RMB 000	RMB 000
<b>Cash flows from operating activities:</b>			
Net income (loss)	<b>83,726</b>	(386,108)	(671,289)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income tax			114,005
Depreciation of property, plant and equipment	<b>593,263</b>	601,045	399,744
Amortization of long-term land lease prepayments	<b>3,439</b>	4,058	3,886
Amortization of intangible assets	<b>161,219</b>	181,444	204,009
Amortization of deferred expenses	<b>6,283</b>	24,962	8,920
Minority interests in net loss of consolidated subsidiaries	<b>(130,332)</b>	(376,282)	(625,998)
Provision for doubtful debts and write off of bad debts	<b>5,269</b>	28,196	48,244
Provision for impairment of intangible assets			173,000
Provision for impairment of property, plant and equipment	<b>836</b>	29,160	48,299
Provision for impairment of investment in a jointly controlled entity		73,343	179,030
Provision for impairment of goodwill in a subsidiary			78,690
Provision for inventories, net	<b>(130,185)</b>	21,264	65,827
Gain on disposal of property, plant and equipment	<b>(2,428)</b>	(3,055)	(341)
Gain on disposal of land lease prepayment	<b>(1,399)</b>		
Write off of property, plant and equipment	<b>4,198</b>	8,251	
Gain on disposal of a jointly controlled entity			(2,098)
Government grant recognized	<b>(140,081)</b>	(1,850)	(941)
Unrealized exchange gain	<b>(100,043)</b>	(69,259)	(40,829)
Equity in earnings of associated companies and jointly controlled entities, net	<b>(192,261)</b>	(149,320)	(48,995)
Amortisation of finance costs of convertible bonds	<b>103,170</b>	68,419	12,419
Write off of other non-current assets		1,798	
Share option costs	<b>32,243</b>	11,281	
Gain on disposal of an associate		(384)	
Loss on disposal of an associate		709	
Gain on buy back of convertible bonds due 2008		(10,733)	

F-7

**Table of Contents****Brilliance China Automotive Holdings Limited  
Consolidated Statements of Cash Flows**

For the years ended December 31, 2007, 2006 and 2005

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
	<b>RMB 000</b>	RMB 000	RMB 000
(Increase) decrease in operating assets:			
Accounts receivable	<b>(173,094)</b>	(521,656)	(69,974)
Notes receivable	<b>(218,827)</b>	179,837	243,394
Notes receivable from affiliated companies	<b>(178,678)</b>	257,493	306,173
Due from affiliated companies	<b>886,193</b>	(191,724)	(79,804)
Inventories	<b>(991,935)</b>	(321,608)	464,059
Other receivables	<b>(73,424)</b>	75,113	7,278
Prepayments and other current assets	<b>(130,245)</b>	(85,876)	69,374
Increase (decrease) in operating liabilities:			
Notes and accounts payable	<b>2,689,050</b>	1,487,870	(333,250)
Due to affiliated companies	<b>(622,386)</b>	363,459	171,871
Notes payable to affiliated companies	<b>170,486</b>	(36,804)	(47,070)
Customer advances	<b>(275,424)</b>	106,800	53,486
Other payables	<b>4,442</b>	25,566	43,423
Accrued expenses and other current liabilities	<b>(7,072)</b>	(106,686)	(8,277)
Import tariff and taxes payable	<b>(37,618)</b>	(143,155)	117,152
Net cash provided by operating activities	<b>1,338,385</b>	1,145,568	883,417
<b>Cash flows from investing activities:</b>			
Capital expenditures	<b>(308,425)</b>	(304,152)	(558,028)
Proceeds from disposal of property, plant and equipment	<b>6,921</b>	3,314	9,487
Proceeds from disposal of land lease prepayment	<b>6,618</b>		
Decrease (Increase) in short-term bank deposits	<b>98,787</b>	437,045	(45,230)
Decrease(Increase) in pledged short-term bank deposits, restricted	<b>(346,516)</b>	307,500	844,542
(Increase) in advances to affiliated companies	<b>(43,317)</b>	(12,944)	(8,729)
(Increase) Decrease in other non-current assets	<b>(1,893)</b>	1,719	12,866
Decrease in interests in associated companies and jointly controlled entities			11,517
Dividends received from associated companies and jointly controlled entities	<b>21,000</b>	81,000	72,000
Proceeds received from disposal of investment in associated companies		1,350	
Net cash (used in) provided by investing activities	<b>(566,825)</b>	514,832	338,425

F-8

**Table of Contents****Brilliance China Automotive Holdings Limited  
Consolidated Statements of Cash Flows**

For the years ended December 31, 2007, 2006 and 2005

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
	<b>RMB 000</b>	RMB 000	RMB 000
<b>Cash flows from financing activities:</b>			
Proceeds from short-term bank loans	<b>430,000</b>	650,000	501,202
Repayment of short-term bank loans	<b>(560,000)</b>	(646,500)	(4,702)
Issuance of notes payable	<b>2,420,000</b>	4,530,000	7,934,900
Repayment of notes payable	<b>(3,300,000)</b>	(5,532,500)	(10,106,000)
Increase (decrease) in advances from affiliated companies	<b>29,974</b>	102,480	(9,434)
Dividends paid			(19,450)
Proceeds from issuance of convertible bonds due 2011		1,460,779	
Payment of direct expenses incurred in connection with the issuance of convertible bonds due 2011		(31,414)	
Buy back and redemption of convertible bonds due 2008		(1,598,320)	
Issue of share capital by exercise of share options	<b>1,673</b>		
Receipts of government grants	<b>112,134</b>	29,750	80,543
Net cash used in financing activities	<b>(866,219)</b>	(1,035,725)	(1,622,941)
Net (decrease) increase in cash and cash equivalents	<b>(94,659)</b>	624,675	(401,099)
Cash and cash equivalents, beginning of year	<b>1,468,075</b>	843,400	1,244,499
Cash and cash equivalents, end of year	<b>1,373,416</b>	1,468,075	843,400

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

F-9

**Table of Contents****Brilliance China Automotive Holdings Limited**  
**Consolidated Statements of Changes in Shareholders' Equity**

For the years ended December 31, 2007, 2006 and 2005

	Common stock		Additional paid-in capital	Dedicated capital	Share option reserve	Accumulated other		Retained earnings	Total
	Number of shares issued	Amount				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, 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)	
Net unrealized loss on marketable equity securities							(27,227)		(27,227)
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
Net loss								(386,108)	(386,108)
Share option costs					11,281				11,281
Transfer to dedicated capital				16,562				(16,562)	
Net unrealized gain on marketable equity securities							1,052		1,052
Balance as of December 31, 2006	3,668,390,900	303,388	2,325,690	184,193	11,281	120,000	41,472	2,779,889	5,765,913
Net income								83,726	83,726
Transfer to dedicated capital				9,163				(9,163)	
Issue of share capital	1,375,000	100	1,602 405		(434)				1,702 (29)

Premium arising from exercise of employee share option										
Share option costs						32,243				32,243
Net unrealized gain on marketable equity securities								2,393		2,393
Share of a jointly controlled entity's fair value adjustment for hedging derivative								31,275		31,275
Balance as of December 31, 2007	3,669,765,900	303,488	2,327,697	193,356	43,090	120,000	75,140	2,854,452		5,917,223

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

F-10



**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**1. ORGANIZATION, PRINCIPAL ACTIVITIES AND OPERATING ENVIRONMENT**

Brilliance China Automotive Holdings Limited (the Company) was incorporated in Bermuda on 9th June, 1992 with limited liability. The Company's shares are traded on The Stock Exchange of Hong Kong Limited (the SEHK). The Company's American depository shares (ADSs) were delisted from The New York Stock Exchange Inc. on 26th July, 2007 and are currently traded on the over-the-counter markets in the United States of America.

The Company is an investment holding company. The principal activities of the Company's subsidiaries (together with the Company referred to as the Group) are the manufacture and sale of minibuses, sedans and automotive components in the People's Republic of China (the PRC).

Details of the Company's principal subsidiaries as of December 31, 2007 are as follows:

Name	Place of establishment/ incorporation	Percentage of effective 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
Shenyang Jindong Development Co., Ltd.	Shenyang, the PRC		75.5%	Trading of automotive components
Brilliance China Finance Limited	British Virgin Islands	100%		Financing
Shenyang ChenFa Automobile Component Co., Ltd.	Shenyang, the PRC	100%		Development, manufacture and sale of engines components



**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**1. ORGANIZATION, PRINCIPAL ACTIVITIES AND OPERATING ENVIRONMENT (CONTINUED)**

Name	Place of establishment/ incorporation	Percentage of effective equity interest/voting right attributable to the Company		Principal activities
		Directly	Indirectly	
Brilliance China Automotive Finance Limited	British Virgin Islands	100%		Inactive
Shenyang XinJinBei Investment and Development Co., Ltd. ( SXID )	Shenyang, the PRC		100%	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd. ( SJAI )	Shenyang, the PRC		99%	Investment holding
Shanghai Hidea Auto Design Co., Ltd	Shenyang, the PRC		63.25%	Design of automotive
Shenyang Brilliance Power Train Machinery Co., Ltd	Shenyang, the PRC	49%	26.01%	Manufacture and sale of power train

Details of the Group's interests in associated companies and jointly controlled entities are included in Note 13. For the years ended December 31, 2007, 2006 and 2005, approximately 7%, 8% and 26% 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;  
F-12

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**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**2. BASIS OF PRESENTATION (CONTINUED)**

Write-off of certain research and development expenditures which are recognised as intangible assets in the statutory financial statements; 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 2005, 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 ( 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 the adoption of FIN 46R, the Group has identified a supplier created before 31 December, 2003 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.

Except the above, the adoption of FIN 46R did not have a material impact on the Group's financial position or results of operations.

**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(a) Basis of consolidation (Continued)**

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. Minority shareholders have an obligation to fund the shortfall.

**(b) Sales**

Sales represent the invoiced value of goods, net of consumption tax, discounts and returns, and are recognized when goods are received by the customers and the significant risks and rewards of ownership of the goods have been transferred to customers, provided that there is evidence of a final arrangement, there are no uncertainties surrounding acceptance, collectibility of such sales is reasonably assured and the price is fixed. 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 for the year ended December 31, 2007, 2006 and 2005 amounted to Rmb276.3 million, Rmb229.8 million and Rmb120.8 million, respectively, and are included in the selling, general and administrative expenses on the income statement for all periods presented. The Group does not bill its customers for shipping and handling costs incurred.

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

**(c) Account receivables**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable. The Company maintains an allowance for potentially uncollectible accounts receivable based upon its assessment of the collectibility of accounts receivable.

**(d) 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.

**(e) 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 method, 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.

**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**(f) 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.

Depreciation is calculated on a straight-line basis (after taking into account respective estimated residual values). At the following annual rates:

F-15

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**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Property, plant and equipment and long-term land lease prepayments (Continued)**

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 are amortized on a straight-line basis over the term of lease.

**(g) 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.

**(h) 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.

**(i) 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**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Goodwill (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.

**(j) 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.

**(k) 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 SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, 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 assesses 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 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.

**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(I) 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.

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, 2007, 2006 and 2005.

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, 2007, 2006 and 2005.

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 rate for Xing Yuan Dong and Dongxing Automotive was 18%, 16.5% and 16.5% for the years ended December 31, 2007, 2006 and 2005.

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. In 2001, Mianyang Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. In 2005, Mianyang Ruian was also designated as an encouraged industries under Catalogue for the Guidance of Foreign Investment Industries and located in the Western area of the PRC. Pursuant to the relevant income tax laws in the PRC, from 2004 to 2010, the applicable state income tax rate for Mianyang Ruian is 15%. 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 five-year period. As a result, the effective tax rates for Mianyang Ruian were 18%, 18% and 7.5% for the years ended December 31, 2007, 2006 and 2005, respectively.

F-18

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**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(l) Taxation (Continued)**

*Income Tax (Continued)*

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 2006, 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 2005 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 7.5%, 7.5% and 0% for the year ended December 2007, 2006 and 2005, respectively.

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. On January 1, 2007 the Company adopted Interpretation 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standard ( SFAS ) No. 109, Accounting for Income Taxes . FIN 48 prescribes a two step approach for recognizing and measuring tax positions taken or expected to be taken in a tax return. Prior to recognizing the benefit of a tax position in the financial statements, the tax position must be more-likely-than-not of being sustained based solely on its technical merits. Once this recognition threshold has been met, tax positions are recognized at the largest amount that is more-likely-than-not to be sustained. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The adoption of this pronouncement had no effect on the Group's overall financial position or results of operations.

*Value Added Tax ( VAT ) and Consumption Tax*

All sales of goods in China, or the PRC, attract value added tax (VAT). The general VAT rate applicable to the Company's sales and purchases of minibuses, sedans and automotive components in China is 17%. The Company separately calculates VAT output tax and VAT input tax arising from the sales of goods and purchases of raw materials arising during the year, respectively. VAT is excluded from the Company's revenue and costs. According to the PRC tax rules, VAT output tax can be set off against VAT input tax, and the difference is accounted for as VAT payable in the balance sheet. The Company settles the VAT payable by cash. Because of its nature, no VAT paid and payable are included in the income statement for all periods presented.

Sale of minibuses and sedans is also subject to consumption tax at standard rates of 5% to 12%.

**(m) 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.

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(n) 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.

**(o) 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 (2006 and 2005: same) first-to-occur limited warranty. The Zhonghua sedans, Junjie sedans and Kubao coupes are sold with a 36-month or 60,000 kilometers (2006 and 2005: same) first-to-occur limited warranty. Zunchi sedans are sold with a 10-year or 200,000 kilometres (2006 and 2005: same) 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:

	<b>2007</b>	2006
	<b>RMB 000</b>	RMB 000
Balance as of January 1,	<b>27,348</b>	22,460
Accrual for warranties issued during the year	<b>73,832</b>	42,102
Settlement made during the year	<b>(72,690)</b>	(37,214)
Balance as of December 31,	<b>28,490</b>	27,348

**(p) Advertising expenses**

Advertising expenses are expensed as incurred. For the years ended December 31, 2007, 2006 and 2005, advertising expenses of approximately RMB152.2 million, RMB250.1 million and RMB177.0 million, respectively, have been charged to selling, general and administrative expenses.

**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(q) Research and development expenses**

Research and development expenses are expensed as incurred. For the years ended December 31, 2007, 2006 and 2005, research and development expenses of approximately RMB402.8 million, RMB214.0 million and RMB235.2 million, respectively, have been charged to selling, general and administrative expenses.

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

**(s) Stock-based compensation**

The Company sponsors several stock-based compensation plans pursuant to which non-qualified stock options and restricted stock awards are granted to eligible employees. These plans are described more fully in Note 23.

Through the year ended December 31, 2005, the Company followed the disclosure-only provisions of SFAS No. 123,

Accounting for Stock-Based Compensation, (SFAS 123), and, accordingly, accounted for awards under these plans pursuant to the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related Interpretations, as permitted by SFAS 123. Under APB 25, compensation expense was recognized in the financial statements relating to awards of stock. However, no compensation expense was recorded in the financial statements for stock option grants, as all options have been granted with an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective from January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R,

Share-Based Payments, (SFAS 123R) using the modified prospective transition method. SFAS 123R revises SFAS 123, supersedes APB 25 and amends SFAS No. 95, Statement of Cash Flows. Under the modified prospective transition method, compensation expense is recognized in the financial statements on a prospective basis for (a) all share-based payments granted prior to, but not vested as of January 1, 2006, based upon the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) share-based payments granted on or subsequent to January 1, 2006, based upon the grant-date fair value estimated in accordance with the provisions of SFAS 123R. The grant-date fair value of awards expected to vest is expensed on a straight-line basis over the vesting period of the related awards. Under the modified prospective transition method, results for prior periods are not restated.

Details of share options granted by the Company and their fair value are set out in Note 23.

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(t) Earnings (Loss) per share and earnings (loss) 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 earnings (loss) per share is based on the net income (loss) 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 the calculation of basic and diluted (loss) earnings per share/ADS is as follows:

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
	<b>RMB 000</b>	RMB 000	RMB 000
Net income (loss) during the year	<b>83,726</b>	(386,108)	(671,289)

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:

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
Weighted average number of shares of common stock used in calculation of basic earnings (loss) per share	<b>3,669,022,065</b>	3,668,390,900	3,668,390,900
Dilutive effect of stock options	<b>10,550,504</b>		
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	<b>3,679,572,569</b>	3,668,390,900	3,668,390,900

The diluted earnings per share/ADS calculation for the year ended December 31, 2007 is based on weighted average number of common stocks/ADSs outstanding plus the weighted average number of 10,550,504 shares/ADSs deemed to be issued as if all outstanding share options granted had been exercised.

For the year ended December 2007, 733,674,599 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.

As the Company was in loss position for 2006, 733,674,599 and 38,550,000 potentially dilutive stocks for the year ended December 31, 2006 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.

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(t) Earnings (Loss) per share and earnings (loss) per ADS (Continued)**

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, 2005 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 2005, 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.

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

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
Weighted average number of ADSs used in calculation of basic earnings (loss) per ADS	<b>36,690,221</b>	36,683,909	36,683,909
Dilutive effect of stock options	<b>105,505</b>		
Weighted average number of ADSs adjusted for dilutive effect of stock options and convertible bonds used in calculation of diluted earnings (loss) per ADS	<b>36,795,726</b>	36,683,909	36,683,909

**(u) 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.

**(v) 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 the Group's share of the hedging reserve of a jointly controlled entity resulting from the changes in the fair value of the effective derivative financial instruments designated as cash flow hedge.

The Group has disclosed comprehensive income, which encompasses net income (loss) in the statement of income and comprehensive income.

**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(w) Convertible bonds**

Convertible bonds issued at par are stated in the balance sheet at face value plus accreted redemption premium which is calculated based on the outstanding principal of the convertible bonds using effective interest method so that the carrying value of the bonds equals to the redemption price on redemption date. 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.

**(x) 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 FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 also contains disclosure provisions surrounding existing guarantees. As of December 31, 2007 and 2006, the fair values of the guarantees the Group have entered into are not material to the Group's financial position. Please refer to Notes 3(o) and 21(c) for details.

**(y) 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.

**(z) 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 and notes receivable, intercompany receivables and payables and other payables, approximate their carrying values in the financial statements.

**(aa) Use of estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at 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.

**(ab) Other new accounting pronouncements**

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a two step approach for recognizing and measuring tax positions taken or expected to be taken in a tax return. Prior to recognizing the benefit of a tax position in the financial statements, the tax position must be more-likely-than-not of being sustained based solely on its technical merits. Once this recognition threshold has been met, tax positions are recognized at the largest amount that is more-likely-than-not to be sustained. FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. FIN 48 also revises disclosure requirements and introduces a prescriptive, annual, tabular roll-forward of the unrecognized tax benefits. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not impact the Company's financial position and net earnings.





**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(ab) Other new accounting pronouncements (Continued)**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. This statement simplifies and codifies fair value related guidance previously issued and is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of the statement has no material impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115*, which permits companies to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of the statement has no material impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 requires all entities to report non-controlling (minority) interests in subsidiaries as equity in the consolidated financial statements. SFAS 160 requires that transactions between an entity and non-controlling interests are treated as equity transactions. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the effect of SFAS 160 on its consolidated financial statements and results of operation and is currently not yet in a position to determine such effects.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, (SFAS 141R) to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement applies to all transactions or other events in which an entity obtains control of one or more businesses, and combinations achieved without the transfer of consideration. SFAS No. 141 (revised 2007) is effective for prospectively to business combinations for which the acquisition date is in on or after December 15, 2008. An earlier adoption is not permitted. The Company is still considering that impact of SFAS 141R, if any, will depend on the nature and size or business combinations the Company consummates after the effective date to its financial statements.

**4. SUBSIDY INCOME**

During the year, the Group was granted government subsidies of RMB112,134,000. All of the approved subsidies were received by the Group during the year. For the year ended December 31, 2007, 2006 and 2005, the government subsidies of RMB140,081,000, RMB50,176,000 and RMB3,139,000 were recorded as income respectively.

**5. INCOME TAXES**

For the years ended December 31, 2007, 2006 and 2005, 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).

F-25

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**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**5. INCOME TAXES (CONTINUED)**

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

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
	<b>RMB 000</b>	RMB 000	RMB 000
Current taxation	<b>(45,208)</b>	(47,879)	12,121
Deferred taxation			(114,005)
	<b>(45,208)</b>	(47,879)	(101,884)

The reconciliation of the Group's effective income tax rate, based on income (loss) before taxes and minority interests, to its statutory income tax rate for years ended December 31, 2007, 2006 and 2005 is as follows:

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
	<b>%</b>	%	%
Average statutory tax rate (including state and local income tax)	<b>(5,650.24)</b>	5.17	10.25
Effect of statutory tax holiday	<b>4,048.63</b>	5.87	3.07
Effect of non-deductible expenses	<b>(2,111.20)</b>	(7.02)	(2.62)
Effect of valuation allowances	<b>1,378.32</b>	(8.77)	(22.93)
Others, not individually significant	<b>(909.32)</b>	(1.95)	3.71
Effective tax rate	<b>(3,243.81)</b>	(6.70)	(8.52)

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 income (loss) before taxes and the applicable statutory tax rate of each subsidiary.

Components of deferred tax assets were as follows:

	<b>As of December 31,</b>	
	<b>2007</b>	2006
	<b>RMB 000</b>	RMB 000
Deferred tax asset:		
Research and development costs	<b>88,814</b>	62,008
Provisions and accruals	<b>37,065</b>	56,893
Provision for impairment of property, plant and equipment	<b>3,023</b>	7,541
Amortization and provision for impairment of intangible assets	<b>118,378</b>	116,737
Tax losses carry forward	<b>127,248</b>	144,671

Valuation allowance ( <i>Note</i> )	<b>374,528</b> <b>(374,528)</b>	387,850 (387,850)
Net deferred tax assets		

F-26

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**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**5. INCOME TAXES (CONTINUED)**

*Note:* At December 31, 2007, valuation allowances of approximately RMB127.2 million (2006: RMB144.7 million) and RMB247.3 million (2006: RMB243.2 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 not be realized in the foreseeable future. The temporary differences do not expire under current legislation but the unrecognized tax losses of RMB238.1 million (2006: RMB354.2 million), RMB610.2 million (2006: RMB610.2 million) will expire in 2009 and 2010 respectively.

**6. PLEDGED SHORT-TERM BANK DEPOSITS, RESTRICTED**

As of December 31, 2007 and 2006, approximately RMB1,971.7 million and RMB1,625.1 million, respectively, of the short-term bank deposits were pledged as security for banking facilities, corporate guarantees for bank loans given to affiliated companies and bank guaranteed notes issued (Notes 19 and 21).

**7. ACCOUNTS RECEIVABLE, NET**

Accounts receivable consist of:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Accounts receivable	<b>868,075</b>	694,981
Less: Allowance for doubtful debts	<b>(62,888)</b>	(62,823)
	<b>805,187</b>	632,158

Movements of allowance for doubtful debts during the years ended December 31, 2007 and 2006 were:

	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Balance as of January 1,	<b>62,823</b>	48,367
Additional provision	<b>83</b>	14,456
Write-back of provision	<b>(18)</b>	
Balance as of December 31,	<b>62,888</b>	62,823

The Company derived operating revenue from the following major customers, which accounted for over 10% of operating revenue.

	<b>Percentage of total sales for the year</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Customer A	<b>23%</b>	7%	Nil
Customer B	<b>7%</b>	8%	26%



**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

Details of the amounts receivable from the above major customers as of December 31, 2007 and 2006 are as follows:

	<b>Percentage of accounts receivable</b>		
	<b>December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Major customers receivable balances	<b>42%</b>	42%	30%

**8. NOTES RECEIVABLE**

Notes receivable are primarily notes received from customers for settlement of accounts receivable balances. As of December 31, 2007 and 2006, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months. The fair value of the notes receivable approximated their carrying value. Approximately RMB223 million (2006: RMB233 million) of the notes receivable were pledged for the issuance of bank guaranteed notes (Note 19).

**9. OTHER RECEIVABLES**

Included in other receivables as of December 31, 2007 and 2006 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.

**10. INVENTORIES, NET**

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Inventories consist of:		
Raw materials	<b>806,580</b>	598,970
Work-in-progress	<b>226,476</b>	174,328
Finished goods	<b>1,435,977</b>	573,545
	<b>2,469,033</b>	1,346,843

Allowance for obsolete of inventories as of 31 December, 2007 and 2006 are approximately RMB70,091,000 and RMB200,276,000 respectively. During the years ended December 31, 2007, 2006 and 2005, the Company made a net provision of inventories, amounting to (RMB130,185,000), RMB21,264,000 and 65,827,000 respectively.

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**11. PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment consist of:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Buildings	<b>1,262,157</b>	1,238,713
Machineries and equipment	<b>4,578,375</b>	4,439,080
Motor vehicles	<b>122,355</b>	116,133
Furniture, fixtures and office equipment	<b>435,372</b>	423,321
Construction-in-progress	<b>257,017</b>	233,104
	<b>6,655,276</b>	6,450,351
Less: Accumulated provision for impairment losses	<b>(94,907)</b>	(125,028)
	<b>6,560,369</b>	6,325,323
Less: Accumulated depreciation	<b>(2,991,232)</b>	(2,460,113)
Net book value	<b>3,569,137</b>	3,865,210

- (a) During the years ended December 31, 2007, 2006 and 2005, capitalized interest expense amounted to approximately RMB5.5 million, RMB6.8 million and RMB23.9 million, respectively.
- (b) 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. Up to December 31, 2007, BMW Brilliance has not required Shenyang Automotive to purchase back such machineries and equipments. 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. The service fees of approximately RMB257,937, RMB254,479 and RMB112,160,000 were incurred for 2007, 2006 and 2005, respectively.
- (c) 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, 2007 and 2006, the net book value of the



buildings, amounting to approximately RMB126,140,000 and RMB134,348,000, 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, 2007, amounting to approximately RMB174,373,000 (2006: RMB113,343,000), was treated as financing and will be partially offset against the lease rental payable in future years.

F-29

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**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

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

- (d) As a result of the retirement from use and/or 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 RMB0.8 million, RMB29.1 million and RMB48.3 million for the years ended December 31, 2007, 2006 and 2005 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.

F-30

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**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**12. INTANGIBLE ASSETS, NET**

	<b>2007</b>	2006
	<b>RMB 000</b>	RMB 000
<b>Cost</b>		
Balance as of January 1	<b>1,539,333</b>	1,521,722
Additions	<b>6,657</b>	17,611
Balance as of December 31	<b>1,545,990</b>	1,539,333
<b>Accumulated amortization</b>		
Balance as of January 1	<b>(895,355)</b>	(713,911)
Amortization for the year	<b>(161,219)</b>	(181,444)
Balance as of December 31	<b>(1,056,574)</b>	(895,355)
<b>Accumulated impairment</b>		
Balance as of January 1 and December 31	<b>(223,000)</b>	(223,000)
<b>Net book value</b>		
Balance as of December 31	<b>266,416</b>	420,978
Balance as of January 1	<b>420,978</b>	584,811

There is a group of intangible assets included in our intangible asset, including sedan design rights with a net book value of RMB102 million (2006: RMB178 million); components and parts technology rights with a net book value of RMB135 million (2006: RMB217 million); and others with a net book value of RMB29 million (2006: RMB26 million), that are similar in their use in the operations of the Group as they relate 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 this group of intangible assets are 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 JinBei, a joint venture partner, as capital into Shenyang Brilliance JinBei Automobile Co. Ltd., a subsidiary of the Company in 2003.

Since the operations in the manufacture and sale of Zhonghua sedans had just made a profit in 2007 but cumulated losses in previous years, 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, no impairment loss for these intangible assets was considered necessary for the years ended December 31, 2007 and 2006 (2005: impairment loss of RMB173 million was provided).

For each of the five years ending December 31, 2012, the estimated amortization expense of the intangible assets in existence as of December 31, 2007 will be approximately RMB161 million, 105 million, Nil, Nil and Nil.

F-31

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**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**13. INTERESTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES**

Interests in associated companies and jointly controlled entities as of December 31, 2007 consist of:

<b>Name of company</b>	<b>Place of establishment</b>	<b>Percentage of effective equity interest held indirectly by the Company</b>	<b>Principal activities</b>
<b>Associated companies:</b>			
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ( Shenyang Aerospace ) (Note 1)	Shenyang, the PRC	12.77%	Manufacture and sale of automotive engines
Shenyang JinBei Vehicle Dies Manufacturing Co., Ltd. ( Shenyang JinBei Vehicle )	Shenyang, the PRC	48%	Manufacture and sale of automotive components
<b>Jointly controlled entities:</b>			
Mianyang Xincheng Engine Co., Ltd. ( Mianyang Xincheng ) (Note 2)	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	49.5%	Manufacture and sale of BMW sedans

*Notse:*

- (1) The Group has effective equity interest of 12.77% in Shenyang Aerospace through 21% equity interest jointly held by Xin Yuan Dong and Shenyang

Automotive. On 29th September, 2005, the Group entered into an agreement with a shareholder of Shenyang Aerospace to dispose of 2% of the Group's interest in Shenyang Aerospace for a cash consideration of RMB50 million. The disposal is yet to be completed as at the date of these financial statements upon the approval of respective local government.

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

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**13. INTERESTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES  
(CONTINUED)**

The carrying values of interests in associated companies and jointly controlled entities are:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Interests in associated companies:		
Shenyang Aerospace	<b>374,919</b>	357,893
Shenyang JinBei Vehicle	<b>13,840</b>	14,087
	<b>388,759</b>	371,980
Interests in jointly controlled entities:		
Mianyang Xinchun	<b>309,984</b>	304,462
Xinguang Brilliance	<b>35,187</b>	28,523
BMW Brilliance	<b>881,987</b>	708,170
	<b>1,227,158</b>	1,041,155
	<b>1,615,917</b>	1,413,135

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:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Shenyang Aerospace	<b>31,983</b>	31,983
Mianyang Xinchun	<b>91,410</b>	91,410
	<b>123,393</b>	123,393

The Group recorded an impairment charge of RMB73.3 million and RMB179.0 million for 2006 and 2005, respectively, 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. No such impairment is required for 2007.





**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**13. INTERESTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES  
(CONTINUED)**

The equity shares in the income (loss) of the associated companies and jointly controlled entities for the years ended December 31, 2007, 2006 and 2005 are as follows:

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>
Associated companies:			
Shenyang Aerospace	37,863	50,183	28,386
Shenyang JinBei Vehicle	(246)	(265)	
Chongqing FuHua Automotive Sales Service Co., Ltd.			192
Chongqing Baosheng Automotive Sales Service Co., Ltd.			477
	37,617	49,918	29,055
Jointly controlled entities:			
Mianyang Xinchun	5,885	(414)	1,978
Xinguang Brilliance	6,532	(6,876)	(13,296)
BMW Brilliance	142,227	106,692	31,582
Shanghai Kowin Automobile Co., Ltd			(324)
	154,644	99,402	19,940
	192,261	149,320	48,995

Combined financial information of the associated companies is summarized as follows:

	<b>Year ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Revenue	<b>2,225,332</b>	2,113,735
Profit before taxation, net	<b>206,390</b>	209,438
Net income	<b>180,563</b>	187,388

<b>As of December 31,</b>	
<b>2007</b>	<b>2006</b>
<b>RMB 000</b>	<b>RMB 000</b>

Current assets	<b>838,123</b>	889,889
Non-current assets	<b>1,796,883</b>	1,906,025
Total assets	<b>2,635,006</b>	2,795,914
Current liabilities	<b>(433,145)</b>	(634,616)
Long-term liabilities	<b>(540,000)</b>	(580,000)
Total liabilities	<b>(973,145)</b>	(1,214,616)
Total shareholders' equity	<b>1,661,861</b>	1,581,298

F-34

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**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**13. INTERESTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES  
(CONTINUED)**

Combined financial information of the jointly controlled entities is summarized as follows:

	<b>Year ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Revenue	<b>13,343,555</b>	8,953,086
Profit before taxation, net	<b>315,823</b>	159,091
Net income	<b>296,356</b>	197,063
	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Current assets	<b>6,366,424</b>	6,051,057
Non-current assets	<b>2,812,837</b>	2,101,276
Total assets	<b>9,179,261</b>	8,152,333
Current liabilities	<b>(6,049,432)</b>	(5,530,655)
Long-term liabilities	<b>(871,478)</b>	(700,979)
Total liabilities	<b>(6,920,910)</b>	(6,231,634)
Total shareholders' equity	<b>2,258,351</b>	1,920,699

**14. INVESTMENT SECURITIES**

The aggregate cost, gross unrealized gain and fair value pertaining to available-for-sale securities are as follows:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Available-for-sale securities at cost	<b>17,305</b>	17,305
Gross unrealized gain	<b>4,686</b>	2,293
Unlisted securities at cost	<b>21,991</b>	19,598
	<b>4,138</b>	4,138

**26,129** 23,736

Available-for-sale securities represent a marketable security. The change in net unrealized gain reported as a separate component of accumulated other comprehensive income was RMB2.4 million and RMB1.1 million as of December 31, 2007 and 2006, respectively.

F-35

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**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**14. INVESTMENT SECURITIES (CONTINUED)**

Unlisted securities at cost of RMB4.1 million (2006: RMB 4.1 million) represents carrying amount of the unlisted equity investment. (a) It is not practicable for the Group to estimate the fair value of the investment for which a quoted market price is not available 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 the investment.

**15. GOODWILL**

The carrying amount of goodwill of RMB339,710,000 (2006: RMB339,710,000) was associated with the manufacture and sale of minibuses and automotive components operations.

During the years ended December 31, 2007 and 2006, no impairment loss was recognized in respect of goodwill.

During the year ended December 31, 2005, the Group recorded an impairment charge of RMB79 million 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 I (a 99% indirectly-owned subsidiary of the Company) and SXID (an indirect wholly-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 has 24.38% and SXI has 8.97% of the equity interest in 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 acquisitions have been 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 I 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 effectively has an aggregate of approximately 33.05% of the equity interests of JinBei.

As at December 31, 2007 and 2006, the consideration of RMB600 million paid to the shareholders of SAIAM and SXI 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 recoverability of the prepayments is supported by the underlying shares of JinBei.

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**17. DEFERRED EXPENSES, NET**

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Direct expenses incurred in connection with the issuance of convertible bonds due 2011 (Note 18)	<b>31,414</b>	31,414
Amortization	<b>(9,948)</b>	(3,665)
	<b>21,466</b>	27,749
Non-current portion	<b>15,183</b>	21,466
Current portion	<b>6,283</b>	6,283
	<b>21,466</b>	27,749

**18. CONVERTIBLE BONDS**

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Convertible bonds issued at par	<b>1,460,779</b>	1,460,779
Accreted redemption premium	<b>162,327</b>	59,157
Exchange gain	<b>(133,199)</b>	(33,368)
	<b>1,489,907</b>	1,486,568

On June 7, 2007, the Group, through a wholly-owned subsidiary, Brilliance China Finance Limited, issued zero coupon guaranteed convertible bonds with principal amount of US\$182,678,000 (equivalent to approximately RMB1,461 million at the time of issue). The convertible bonds are listed on the Singapore Exchange Securities Trading Limited.

The convertible bonds are convertible into fully paid ordinary shares of US\$0.01 each of the Company at an initial conversion price of HK\$1.93 per share, subject to adjustment in certain events, at any time on or after July 6, 2007, and up to and including May 8, 2011, unless the convertible bonds have previously been redeemed.

*Conversion price reset*

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

such adjustment to the conversion price in no event shall be less than 68% (for the March 10, 2007 reset date) and 75% (for the March 10, 2008 reset date) of the conversion price prevailing on the applicable reset date and that the conversion price shall not be reduced below the then par value of the shares unless under applicable law then in effect the convertible bonds due 2011 could not be converted at such reduced conversion price into legally issued, fully-paid and non-assessable shares. Since the average market price was HK\$1.53 prior to the 10th March 2008 reset date, the conversion price was adjusted from HK\$1.93 to HK\$1.53.

F-37

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**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

Due to the adjustment to the conversion price, the total number of conversion shares will increase from 733,674,599 shares at a conversion price of HK\$1.93 to 925,484,964 shares at conversion price of HK\$1.53.

An ordinary resolution was proposed in an EGM held on 21st April 2008 to grant the directors a specific mandate to issue, allot and deal with the additional conversion shares.

**18. CONVERTIBLE BONDS (CONTINUED)**

*Redemption*

The convertible bonds will mature on June 7, 2011. All but not some of the aggregate outstanding principal amount of the convertible bonds due 2011 is redeemable at the option of Brilliance China Finance Limited at the early redemption amount (calculated at principal amount of the convertible bonds plus a yield at 7% per annum, compounded semi-annually):

- (i) on or at any time after June 7, 2008 and prior to June 7, 2009, if the closing price of the shares of the Company on the SEHK for each of the last 30 consecutive trading days has been at least 145% of the applicable early redemption amount divided by the conversion ratio (principal amount of the convertible bonds divided by the conversion price);
- (ii) on or at any time after June 7, 2009 and prior to May 8, 2011, if the closing price of the shares of the Company on the SEHK for each of the last 30 consecutive trading days has been at least 130% of the applicable early redemption amount divided by the conversion ratio; or
- (iii) at any time, if more than 90% in principal amount of the convertible bonds has been converted, redeemed or purchased and cancelled.

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

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

As of December 31, 2007, none of the convertible bonds had been converted into common stock of the Company.

**19. NOTES PAYABLE**

As of December 31, 2007, approximately RMB820 million (2006: RMB1,700 million) of notes payable had effective interest rates of 3% to 4%, the remaining RMB2,008 million (2006: RMB442 million) of notes payable were interest free. All notes payable approximate fair value because of the short maturity. All notes payable were guaranteed by banks, repayable within one year, secured by pledged short-term bank deposits of approximately RMB1,758 million (2006: RMB1,207 million) and bank guaranteed notes received from third parties and affiliated companies of approximately RMB223 million (2006: RMB233 million).



**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**20. TAXES PAYABLE**

Taxes payable consist of:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Income tax payable	<b>9,554</b>	11,411
VAT payable	<b>12,674</b>	10,651
Consumption tax payable	<b>44,967</b>	54,727
Others	<b>13,454</b>	16,463
Other taxes payable	<b>71,095</b>	81,841
	<b>80,649</b>	93,252

**21. COMMITMENTS AND CONTINGENCIES****(a) Commitments**

As of December 31, 2007, the Group had approximately RMB1,728.1 million in outstanding capital and purchases commitments of which certain items are denominated in 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 RMB718.7 million and authorized but not contracted for capital commitment amounting to approximately RMB1,009.4 million.

The Company leases premises under various operating leases which do not contain any escalation clauses. As of December 31, 2007, the future aggregate minimum lease payments under non-cancellable operating leases are detailed as follows:

	<b>Operating lease RMB 000</b>
Within one year	<b>16,367</b>
One to two years	<b>6,201</b>
Two to three years	<b>4,263</b>
Three to four years	<b>4,263</b>
Four to five years	<b>4,129</b>
Over five years	<b>31,296</b>
Total minimum lease payments	<b>66,519</b>



**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**21. COMMITMENTS AND CONTINGENCIES (CONTINUED)****(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 in operating leases was RMB4.4 million and RMB4.4 million for the years ended December 31, 2007 and 2006, respectively.

Investments in operating leases are as follows:

	<b>As of December 31, 2007 RMB 000</b>
Buildings	<b>97,358</b>
Accumulated depreciation	<b>(19,542)</b>
Net investment in operating leases	<b>77,816</b>

Future minimum rental payments to be received on non-cancellable operating leases are contractually due as follows:

	<b>As of December 31, 2007 RMB 000</b>
Within one year	<b>19,884</b>
One to two years	<b>14,174</b>
Two to three years	<b>14,174</b>
Three to four years	<b>14,174</b>
Four to five years	<b>14,174</b>
Over five years	<b>76,778</b>
Total	<b>153,358</b>

There were no contingent rentals under the respective lease contracts.

**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**21. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**(c) Contingent liabilities**

(i) As of December 31, 2007, the Group had provided the following guarantees:

- (1) Corporate guarantees of approximately RMB60 million (2006: RMB120 million) for revolving bank loans and notes drawn by affiliated companies of 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, 2007, the guarantee provided for the bank loans and notes drawn by affiliated companies of Shanghai Shenhua was approximately RMB60 million (2006: RMB120 million), which is also the maximum potential amount of future payments under the guarantee as of December 31, 2007. 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, 2007.

- (2) Corporate guarantees of bank loans amounting to RMB200 million (2006: RMB295 million), which is also the maximum potential amount of future payments under the guarantee as of December 31, 2007, drawn by JinBei. Bank deposits of RMB213 million (2006: RMB312 million) were pledged as 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, 2007.

(ii) On or about 25th October, 2002, the Company was served with a claim lodged by Mr. Yang Rong ( Mr. Yang ) in the Labour Tribunal in Hong Kong against the Company for alleged wrongful repudiation and/or breach of his employment contract. The claim was for approximately US\$4.3 million (equivalent to approximately RMB31.5 million) with respect to loss of salary. In addition, Mr. Yang claimed unspecified damages in respect of bonuses and share options. The claim was dismissed by the Labour Tribunal in Hong Kong on 28th January, 2003. Mr. Yang subsequently applied for a review of this decision. At the review hearing on 4th July, 2003, the Labour Tribunal ordered the case to be transferred to the High Court in Hong Kong. The claim has therefore been transferred to the High Court and registered as High Court Action No.2701 of 2003 (the Action ).

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

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**21. COMMITMENTS AND CONTINGENCIES (CONTINUED)****(c) Contingent liabilities (Continued)**

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

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

On August 17, 2006, in compliance with its continuing discovery obligations, the Company filed and served a Supplemental List of Documents. Subsequently, on September 5, 2006, Mr. Yang also filed and served a Supplemental List of Documents.

There has been no material progress 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**

	2007		As of December 31,			
	Number of shares 000	Amount 000	2006		2005	
			Number of shares 000	Amount 000	Number of shares 000	Amount 000
Authorized:						
Common stock of US\$0.01 each (Note 1)	8,000,000	US\$80,000	5,000,000	US\$50,000	5,000,000	US\$50,000
Issued and fully paid:						
Common stock of US\$0.01 each (Note 2)	3,669,766	RMB303,488	3,668,391	RMB303,388	3,668,391	RMB303,388

*Note 1:* At a special general meeting held on February 12, 2007, shareholders of the Company approved the increase of the

authorized share  
capital of the  
Company from  
US\$50,000,000  
to  
US\$80,000,000  
by the creation  
of an additional  
3,000,000,000  
shares of par  
value of  
US\$0.01 each.

*Note 2:* 1,125,000 and  
250,000  
ordinary shares  
were issued on  
16th July, 2007  
and 24th July,  
2007,  
respectively, as  
a result of an  
exercise of  
share option on  
16<sup>th</sup> July, 2007,  
at an aggregate  
consideration of  
RMB1,702,000  
(or  
HK\$1,815,000)  
of which  
RMB1,602,000  
was credited to  
the share  
premium  
account.

F-42

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**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**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) 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
- (b) 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.

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 statement 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 increased by approximately RMB194,000 and RMB4,507,000, respectively. No option was granted under this scheme from 2005 to 2007.

**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 came 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 under the original share option scheme in 2001 will not be affected. On June 28, 2006 and December 31, 2007, share options were granted to certain directors and employees of the Group, entitling them to subscribe for a total of 35,750,000 and 59,500,000 shares of the Company's common stock at HK\$1.320 and HK\$1.746 per share respectively. The exercisable period of these options is from December 28, 2006 to December 27, 2016 and from December 31, 2007 to December 30, 2017 respectively. 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.

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**23. STOCK OPTIONS (CONTINUED)**

Details of Movements of share options granted under both 1999 and 2002 Schemes during the year are as follows:

	No. of share options	Exercise prices (the weighted average exercise price in parenthesis)	Aggregate intrinsic value
Outstanding as of January 1, 2005	14,490,000	HK\$1.896	
Cancelled/lapsed	(11,690,000)	HK\$1.896	
Outstanding as of December 31, 2005 and January 1, 2006	2,800,000	HK\$1.896	
Granted	35,750,000	HK\$1.320	
Outstanding as of December 31, 2006 and January 1, 2007	38,550,000	HK\$1.896, HK\$1.320 (HK\$1.362)	
Granted	59,500,000	HK\$1.746	
Exercised	(1,375,000)	HK\$1.320	
Outstanding as of December 31, 2007	96,675,000	HK\$1.320, HK\$1.746 and HK\$1.896 (HK\$1.599)	HK\$14,437,000
Exercisable as of December 31, 2007	96,675,000	HK\$1.320 and HK\$1.746 (HK\$1.599)	HK\$14,437,000

Share options outstanding at December 31, 2007 under both 1999 and 2002 Schemes are summarized as follows:

	No. of share options outstanding	Weighted average remaining contractual life	Weighted average exercise price
<b>Range of Exercise Prices</b> HK\$1.320-HK\$1.896	96,675,000	9.45 years	HK\$1.599

The weighted average remaining contractual life of the share options outstanding as at December 31, 2007 was approximately 9.45 years (2006: 9.59 years)



The Compensation expenses associated with these grants was fully vested and charged to income statement in 2007. The exercise of 1,375,000 shares option during 2007 increased common stock and additional paid in capital by approximately RMB100,000 and RMB1,602,000, respectively.

F-44

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**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

The fair value of the share options granted during the year is approximately RMB32,243,000 (2006: approximately RMB11,281,000), which was calculated using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural consideration. Due to the restriction on the transferability of the share options, the option holders tend to early exercise the options on hand. Therefore, management considers it is appropriate to assume that the option holders will exercise their options earlier as it is the only way for them to realise their option value. Such expected time of exercise constitutes the expected tenors of the options, which are adopted in the calculation of the fair value of the options. The expected tenors for options held by the directors and other employees are two years and one year respectively. Expected volatility is based on the historical price volatility over the past 260 days.

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

	<b>2007</b>	2006
Fair value at measurement date	<b>HK\$0.5549</b>	HK\$0.3139
Expected volatility	<b>48.44%</b>	42.64%
Option life	<b>2 - 3 years</b>	1 - 2 years
Expected dividends	<b>Nil</b>	Nil
Risk-free interest rate	<b>2.58%-2.79%</b>	3.48%-3.509%

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

**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 non-distributable discretionary dedicated capital RMB193 million (2006: RMB184 million), 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, 2007, 2006 and 2005, the subsidiaries of the Company appropriated approximately RMB9.2 million, RMB16.6 million and RMB9.3 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, 2007, 2006 and 2005. The undistributed earnings retained share by the Group's in the associated companies and jointly controlled entities amounted to approximately RMB382.3 million and RMB159.50 million as of December 31, 2007 and 2006, respectively.

No dividend was declared by the Company during 2007 and 2006. On April 21, 2008 the directors of the Company did not recommend the payment of any dividend for the year 2007.

**25. RELATED PARTY TRANSACTIONS**

(a) Name and relationship

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

F-45

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

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

Save as disclosed elsewhere in the financial statements, 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:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Due from related parties:		
Shanghai Shenhua and its affiliated companies	<b>368,499</b>	431,310
Affiliated companies of JinBei	<b>91,347</b>	93,446
An affiliated company of BHL	<b>94,095</b>	55,040
A subsidiary of the substantial shareholder of the Company	<b>61,455</b>	
BMW Brilliance		
Accounts receivables	<b>98,224</b>	247,564
Consideration receivable arising from the disposal of machinery and equipment (note (i))		134,527
Other jointly controlled entities	<b>321</b>	21,470
Less: Provision for doubtful debts	<b>(29,720)</b>	(29,720)
	<b>684,221</b>	953,637

(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.

F-46

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**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**25. RELATED PARTY TRANSACTIONS (CONTINUED)**

(c) Notes receivable from affiliated companies arising from trading activities consisted of the following:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Notes receivable from related parties:		
Affiliated companies of JinBei	<b>3,050</b>	16,620
Shanghai Shenhua	<b>143,276</b>	63,750
Associated companies and jointly controlled entities		1,107
A subsidiary of the substantial shareholders of the Company	<b>113,829</b>	
	<b>260,155</b>	81,477

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.

(d) Dividends receivable from affiliated companies consisted of:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Dividend receivable from a jointly controlled entity	<b>76,173</b>	76,173
Dividend receivable from an associate	<b>21,000</b>	21,000
	<b>97,173</b>	97,173

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

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Due to related parties:		
Associated companies and jointly controlled entities	<b>584,971</b>	680,943
Affiliated companies of Shanghai Shenhua	<b>1,870</b>	10,719
Affiliated companies of JinBei	<b>365,275</b>	281,721
Other affiliated companies	<b>731</b>	9,910
	<b>952,847</b>	983,293

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

**Table of Contents**

**Brilliance China Automotive Holdings Limited**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**25. RELATED PARTY TRANSACTIONS (CONTINUED)**

(f) Notes payable to affiliated companies arising from trading activities consisted of the following:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Notes payable to related parties:		
Affiliated companies of BHL	<b>60,686</b>	
An affiliated companies of JinBei	<b>51,167</b>	7,249
Associated companies and jointly controlled entities	<b>95,921</b>	30,039
	<b>207,774</b>	37,288

F-48

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**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**25. RELATED PARTY TRANSACTIONS (CONTINUED)**

(g) Save as disclosed elsewhere in the financial statements, significant transactions with affiliated companies consisted of the following:

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
	<b>RMB 000</b>	RMB 000	RMB 000
<b>Sales of goods:</b>			
JinBei and its affiliated companies	<b>452,933</b>	178,414	69,432
Shanghai Shenhua and its affiliated companies	<b>1,394,130</b>	1,052,689	1,469,402
A subsidiary of the substantial shareholders of the Company	<b>1,119,096</b>		
Associated companies and jointly controlled entities	<b>188,315</b>	186,146	71,005
	<b>3,154,474</b>	1,417,249	1,609,839
<b>Purchase of goods:</b>			
Affiliated companies of JinBei	<b>1,477,018</b>	895,457	383,808
Affiliated companies of Shanghai Shenhua	<b>102,785</b>	16,668	85,354
Affiliated companies of BHL	<b>115,223</b>	117,336	66,441
Associated companies and jointly controlled entities	<b>1,004,303</b>	942,878	524,221
Affiliated companies of the joint venture partner of Xinguang			
Brilliance	<b>147</b>	68	761
Shareholders of Shenyang Aerospace	<b>63,227</b>	90,505	1,987
Subcontracting charges to a jointly controlled entity	<b>257,937</b>	254,479	112,160
	<b>3,020,640</b>	2,317,391	1,174,732
<b>Purchase of intangible asset from an affiliated company of the joint venture partner of Ningbo Yuming</b>			
Finance charge to a jointly controlled entity	<b>16,100</b>	16,748	17,329
<b>Operating lease rental on land and buildings charged by:</b>			
A jointly controlled entity	<b>3,430</b>	908	2,206
Shanghai Shenhua and its affiliated companies	<b>592</b>	1,148	
Affiliated companies of JinBei		60	
Mould testing income from a jointly controlled entity	<b>1,776</b>	4,320	
Operating lease rental from a jointly controlled entity	<b>14,384</b>	34,863	15,078
Proceeds from sale of property, plant and equipment a jointly controlled entity		80,332	263
Service income from a jointly controlled entity	<b>18,560</b>	35,067	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. Other significant transactions with affiliated companies consisted of:





**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**25. RELATED PARTY TRANSACTIONS (CONTINUED)****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) (i) for details of the guarantees provided to affiliated companies.

(g) Advances to affiliated companies consisted of the following:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Advances to related parties:		
Associated companies and jointly controlled entities	<b>26,364</b>	6,553
Affiliated companies of BHL	<b>51,134</b>	15,273
Shanghai Shenhua and its affiliated companies	<b>14,044</b>	14,044
JinBei and its affiliated companies	<b>12,062</b>	23,740
Other affiliated companies	<b>12</b>	689
	<b>103,616</b>	60,299
Less: provision for doubtful debts	<b>(2,214)</b>	(2,214)
	<b>101,402</b>	58,085

Advances to affiliated companies are unsecured, non-interest bearing and with no fixed repayment term (2006: Same)

(h) Advances from affiliated companies consisted of the following:

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Advances from related parties:		
Associated companies and jointly controlled entities	<b>1,282</b>	1,279
BHL and its affiliated companies	<b>12,086</b>	12,728
Affiliated companies of Shanghai Shenhua	<b>1,430</b>	820
JinBei and its affiliated companies	<b>735</b>	6,925
Current portion of financing received from BMW Brilliance (Note 11(d))	<b>40,601</b>	33,367
	<b>56,134</b>	55,389

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**25. RELATED PARTY TRANSACTIONS (CONTINUED)**

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

	<b>As of December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB 000</b>	<b>RMB 000</b>
Within 1 year	<b>40,601</b>	33,637
More than 1 year but less than 2 years	<b>7,772</b>	13,204
More than 2 years but less than 5 years	<b>29,154</b>	26,124
More than 5 years	<b>96,846</b>	40,378
	<b>174,373</b>	113,343
Less: non-current portion	<b>(133,772)</b>	(79,706)
	<b>40,601</b>	33,637

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.

**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 19% to 23% of the basic salary costs of their staff for 2007 (2006: 19%-23%; 2005: 20%) payable to Labor and Social Security Bureaus of the PRC government. The retirement plan contributions payable for the years ended December 31, 2007, 2006 and 2005 were approximately RMB75.6 million, RMB36.1 million and RMB33.1 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 RMB68.6 million, RMB32.7 million and RMB29.6 million for the years ended December 31, 2007, 2006 and 2005, respectively, were calculated at a certain percentage (approximately 15.4% to 25.4% in 2007, 15.4% to 25.4% in 2006 and 15.4% to 25.4% in 2005) 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, 2007, 2006 and 2005, contributions amounting to approximately HK\$81,000, HK\$89,000 and HK\$122,000, 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, 2007, 2006 and 2005, no performance bonus was allocated.



**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**28. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
	<b>RMB 000</b>	RMB 000	RMB 000
Cash paid for:			
Interest (net of amount capitalized: 2007: RMB5,533,000; 2006: RMB6,766,000; 2005: RMB23,875,000)	<b>106,924</b>	92,744	111,303
Income taxes	<b>65,858</b>	39,240	33,975

During the years ended December 31, 2007, 2006 and 2005, major non-cash transactions included:

During the year ended December 31, 2007, the Group entered into an agreement with affiliated companies to offset receivable balances due from the affiliated companies with the Group's payable balances to that affiliated companies of approximately RMB617 million (2006: RMB86 million).

**29. OTHER SUPPLEMENTAL INFORMATION**

The following items are charged (credited) to the consolidated statements of income and comprehensive income:

	<b>Year ended December 31,</b>		
	<b>2007</b>	2006	2005
	<b>RMB 000</b>	RMB 000	RMB 000
Import tariffs	<b>29,680</b>	31,616	15,224
Research and development costs	<b>402,826</b>	214,021	235,177
Foreign exchange gains, net	<b>80,040</b>	32,955	21,487
Provision for impairments of property, plant and equipment		29,160	48,299
Provision for doubtful debts and write off of bad debts	<b>5,566</b>	28,272	55,703

**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.

**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

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 reviews its accounts receivable and provides estimates of allowances as deemed necessary.

**Business segments 2007**

	<b>Manufacture and sale of minibuses and automotive components RMB 000</b>	<b>Manufacture and sale of Zhonghua sedans RMB 000</b>	<b>Manufacture and sale of BMW sedans RMB 000</b>	<b>Total RMB 000</b>
Total revenues from reportable segments	5,729,289	8,754,847		14,484,136
Elimination of intersegment revenues	(334,987)			(334,987)
Revenues from external customers	5,394,302	8,754,847		14,149,149
Segment (loss) income before taxation and minority interests	194,986	(286,223)	142,227	50,990
Unallocated amounts				
corporate income net of corporate expenses				25,405
interest income less interest expenses				(77,793)
Loss before taxation and minority interests				(1,398)
Segment assets as of December 31, 2007	7,115,643	8,038,601	881,987	16,036,231
Unallocated amounts – corporate assets				136,081
Total assets as of December 31, 2007				16,172,312
Other disclosures:				
Depreciation of fixed assets	207,216	386,047		593,263
Amortization of long-term land lease prepayments	2,254	1,185		3,439
Amortization on intangible assets	9,548	151,671		161,219
Impairment of equity method goodwill (Note 13)				
Capital expenditure	41,810	278,843		320,653
Equity in earnings of associated companies and jointly controlled entities	12,171	37,863	142,227	192,261
Equity method goodwill (Note 13)	91,410	31,983		123,393
Goodwill (Note 15)	339,710			339,710



**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**Business segments 2006**

	Manufacture and sale of minibuses and automotive components RMB 000	Manufacture and sale of Zhonghua sedans RMB 000	Manufacture and sale of BMW sedans RMB 000	Total RMB 000
Total revenues from reportable segments	5,533,953	5,190,129		10,724,082
Elimination of intersegment revenues	(239,328)			(239,328)
Revenues from external customers	5,294,625	5,190,129		10,484,754
Segment (loss) income before taxation and minority interests	145,602	(830,404)	106,692	(578,110)
Unallocated amounts				
corporate expenses net of corporate income				(50,138)
interest income less interest expenses				(86,263)
Income before taxation and minority interests				(714,511)
Segment assets as of December 31, 2006	6,237,217	5,274,223	708,170	12,219,610
Unallocated amounts    corporate assets				2,360,754
Total assets as of December 31, 2006				14,580,364
Other disclosures:				
Depreciation of fixed assets	223,233	377,812		601,045
Amortization of long-term land lease prepayments	2,485	1,573		4,058
Amortization on intangible assets	2,603	178,841		181,444
Impairment of equity method goodwill (Note 13)	73,343			73,343
Impairment of goodwill in a subsidiary (Note 15)				
Capital expenditure	106,130	144,935		251,065
Equity in earnings of associated companies and jointly controlled entities	(7,556)	50,184	106,692	149,320

Equity method goodwill (Note 13)	91,410	31,983		123,393
Goodwill (Note 15)	339,710			339,710
<b>Business segments 2005</b>				
	<b>Manufacture and sale of minibuses and automotive components</b>	<b>Manufacture and sale of Zhonghua sedans</b>	<b>Manufacture and sale of BMW sedans</b>	<b>Total</b>
	RMB 000	RMB 000	RMB 000	RMB 000
	(Restated)	(Restated)		(Restated)
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	(75,047)	(970,603)	32,250	(1,013,400)
Unallocated amounts				
corporate expenses net of corporate income				(59,837)
interest income less interest expenses				(122,165)
Income before taxation and minority interests				(1,195,402)
Other disclosures:				
Depreciation of fixed assets	245,598	154,146		399,744
Amortization of long-term land lease prepayments	2,848	1,038		3,886
Amortization on intangible assets	4,746	199,263		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
Equity in earnings of associated companies and jointly controlled entities	(11,642)	28,387	32,250	48,995
	F-54			



**Table of Contents****Brilliance China Automotive Holdings Limited****Notes to Consolidated Financial Statements**

For the years ended December 31, 2007, 2006 and 2005

**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 income (loss) 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.

	Share of a jointly controlled entity's fair value adjustment for hedging derivative RMB 000	Unrealized gain (loss) on marketable available-for- sale securities RMB 000	Foreign currency translation adjustments RMB 000	Accumulative other comprehensive income RMB 000
Balance as of January 1, 2006		1,241	39,179	40,420
Current year change		1,052		1,052
Balance as of December 31, 2006		2,293	39,179	41,472
Current year change	31,275	2,393		33,668
<b>Balance as of December 31, 2007</b>	<b>31,275</b>	<b>4,686</b>	<b>39,179</b>	<b>75,140</b>

**32. COMPARATIVE FIGURES**

Certain comparative figures in previous years have been reclassified to conform to the fiscal 2007 presentation.

**33. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on June 27, 2008.

F-55

**Table of Contents**

## Financial Statements Schedules

## Schedule II Valuation and qualifying accounts

Description	Balance at beginning of the year RMB 000	Charged / (credited) to expenses RMB 000	Deductions Note (a) RMB 000	Balance at end of the year RMB 000
Year ended December 31, 2007				
Allowance for doubtful debt of:				
Accounts receivables	62,823	65		62,888
Other receivables	82,725	5,204	(292)	87,637
Due from affiliated companies	29,720			29,720
Advances to affiliated companies	2,214			2,214
Allowance for inventories	200,276	(130,185)		70,091
Year ended December 31, 2006				
Allowance for doubtful debt				
Accounts receivables	48,367	14,456		62,823
Other receivables	78,003	13,740	(9,018)	82,725
Due from affiliated companies	29,720			29,720
Advances to affiliated companies	9,250		(7,036)	2,214
Allowance for inventories	179,012	21,264		200,276
Year ended December 31, 2005				
Allowance for doubtful debt				
Accounts receivables	47,719	648		48,367
Other receivables	42,682	35,321		78,003
Due from affiliated companies	24,720	5,000		29,720
Advances to affiliated companies	1,975	7,275		9,250
Allowance for inventories	113,185	65,827		179,012
Note (a) Bad debts write-offs		F-56		