

BRILLIANCE
CHINA AUTOMOTIVE
HOLDINGS LIMITED

(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

Stock Code : 1114

Brilliance Auto
華 晨 汽 車

Interim Report 2009



*for identification purposes only

RESULTS

The board of directors (the “Board”) of Brilliance China Automotive Holdings Limited (the “Company”) announces the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June, 2009. The unaudited consolidated interim financial statements have been reviewed by the Audit Committee of the Board.

CONDENSED CONSOLIDATED INCOME STATEMENT

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

		(Unaudited) For the six months ended 30th June,	
		2009	2008
	Note	RMB'000	RMB'000
Turnover	4	5,398,166	5,210,123
Cost of sales		<u>(5,319,356)</u>	<u>(4,920,828)</u>
Gross profit		78,810	289,295
Other revenue	4	138,023	105,267
Interest income	4	43,791	50,886
Selling expenses		(309,274)	(226,711)
General and administrative expenses		(352,151)	(202,344)
Staff share option costs		—	(856)
Impairment loss on intangible assets		(302,450)	—
Other operating expenses		(48,002)	(68,567)
Finance costs, net	6	(128,931)	(46,872)
Share of results of:			
Associates		(906)	14,217
Jointly controlled entities		123,873	114,940
Gain on fair value of embedded derivative components of convertible bonds		<u>—</u>	<u>215,035</u>
(Loss) Profit before taxation	5	(757,217)	244,290
Taxation	8	<u>(29,923)</u>	<u>(24,609)</u>
(Loss) Profit for the period		<u>(787,140)</u>	<u>219,681</u>
(Loss) Profit for the period attributable to:			
Equity holders of the Company		(386,008)	282,943
Minority interests		<u>(401,132)</u>	<u>(63,262)</u>
		<u>(787,140)</u>	<u>219,681</u>
Dividends	9	<u>—</u>	<u>—</u>
Basis (loss) earnings per share	10	<u>RMB(0.09729)</u>	<u>RMB0.07710</u>
Diluted earnings per share	10	<u>N/A</u>	<u>RMB0.07704</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	For the six months ended 30th June,	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
(Loss) Profit for the period	<u>(787,140)</u>	<u>219,681</u>
Other comprehensive income, net of tax		
Available-for-sale financial assets	15,093	4,126
Share of comprehensive income of a jointly controlled entity	<u>61,220</u>	<u>33,702</u>
Other comprehensive income, net of tax	<u>76,313</u>	<u>37,828</u>
Total comprehensive (loss) income for the period	<u><u>(710,827)</u></u>	<u><u>257,509</u></u>
Total comprehensive (loss) income attributable to:		
Equity holders of the Company	(310,307)	320,436
Minority interests	<u>(400,520)</u>	<u>(62,927)</u>
	<u><u>(710,827)</u></u>	<u><u>257,509</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited)	(Audited)
		As at	As at
		30th June,	31st December,
		2009	2008
	Note	RMB'000	RMB'000
Non-current assets			
Intangible assets	11	804,676	1,075,393
Goodwill	11	295,529	295,529
Property, plant and equipment	11	3,887,442	3,881,856
Construction-in-progress	11	210,187	264,482
Land lease prepayments	11	171,144	115,104
Interests in associates	12	391,899	393,052
Interests in jointly controlled entities	13	1,488,947	1,381,024
Prepayments for a long-term investment	14	600,000	600,000
Available-for-sale financial assets	15	30,726	15,633
Advances to an affiliated company	27(f)	46,942	51,470
Other non-current assets		<u>10,017</u>	<u>10,435</u>
Total non-current assets		<u>7,937,509</u>	<u>8,083,978</u>
Current assets			
Cash and cash equivalents	16	964,165	1,243,861
Short-term bank deposits		761,907	692,000
Pledged short-term bank deposits	17	3,298,149	2,456,095
Inventories		1,861,504	1,869,202
Accounts receivable	18	888,730	671,680
Accounts receivable from affiliated companies	27(c)	543,114	259,208
Notes receivable	19	585,195	707,363
Notes receivable from affiliated companies	27(d)	14,710	205,199
Other receivables	20	569,176	465,397
Dividend receivable from affiliated companies	27(e)	165,137	86,673
Prepayments and other current assets		306,483	373,944
Income tax recoverable		24	—
Other taxes recoverable		21,735	27,693
Advances to affiliated companies	27(f)	<u>130,761</u>	<u>172,747</u>
Total current assets		<u>10,110,790</u>	<u>9,231,062</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

		(Unaudited) As at 30th June, 2009 RMB'000	(Audited) As at 31st December, 2008 RMB'000
	<i>Note</i>		
Current liabilities			
Accounts payable	21	3,120,849	2,323,702
Accounts payable to affiliated companies	27(g)	1,235,144	603,416
Notes payable		5,079,794	4,803,364
Notes payable to affiliated companies	27(h)	3,577	43,863
Customer advances		363,898	354,768
Other payables		859,684	773,232
Dividends payable		2,882	2,882
Accrued expenses and other current liabilities		57,093	57,381
Short-term bank borrowings	22	866,000	499,781
Income tax payable		36,289	25,867
Other taxes payable		91,102	84,540
Advances from affiliated companies	27(i)	70,796	73,123
Convertible bonds	23	11,164	1,403,248
Total current liabilities		<u>11,798,272</u>	<u>11,049,167</u>
Net current liabilities		<u>(1,687,482)</u>	<u>(1,818,105)</u>
Total assets less current liabilities		<u>6,250,027</u>	<u>6,265,873</u>
Non-current liabilities			
Deferred government grants		77,811	79,460
Advances and loans from affiliated companies	27(i)	521,783	319,158
Total non-current liabilities		<u>599,594</u>	<u>398,618</u>
Net assets		<u>5,650,433</u>	<u>5,867,255</u>
Capital and reserves			
Share capital	24	393,176	303,488
Share premium		2,444,747	2,040,430
Reserves		3,399,497	3,709,804
Total equity attributable to equity holders of the Company		<u>6,237,420</u>	<u>6,053,722</u>
Minority interests		(586,987)	(186,467)
Total equity		<u>5,650,433</u>	<u>5,867,255</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months ended 30th June, 2009 (Unaudited)

	Attributable to equity holders of the Company										Total equity attributable to the equity holders of the Company	
	Issued capital	Hedging reserve	Share premium	Investment revaluation reserve	Cumulative translation adjustments	Dedicated capital	Share options reserve	Capital reserve	Retained earnings	Minority interests		Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1st January, 2009	303,488	(64,032)	2,040,430	—	39,179	205,462	10,065	120,000	3,399,130	—	6,053,722	5,867,255
Cancellation of share options	—	—	—	—	—	—	(54)	—	54	—	—	—
Issue of new shares by subscription	89,671	—	404,238	—	—	—	—	—	—	—	483,909	483,909
Issue of new shares by exercise of share options	17	—	79	—	—	—	—	—	—	—	96	96
Transfer to dedicated capital	—	—	—	—	—	4,335	—	—	(4,335)	—	—	—
Transactions with equity holders of the Company	89,688	—	404,317	—	—	4,335	(54)	—	(4,281)	—	494,005	494,005
Loss for the period	—	—	—	—	—	—	—	—	(386,008)	(401,132)	(386,008)	(787,140)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—
Share of jointly controlled entity's gain recognized directly in equity	—	60,608	—	—	—	—	—	—	—	—	60,608	612
Change in fair value of available-for-sale financial assets	—	—	—	15,093	—	—	—	—	—	—	15,093	—
Total comprehensive income for the period	—	60,608	—	15,093	—	—	—	—	—	—	75,701	612
As at 30th June, 2009	393,176	(3,424)	2,444,747	15,093	39,179	209,797	10,011	120,000	3,008,841	6,237,420	6,237,420	5,650,433

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont'd)

Six months ended 30th June, 2008 (Unaudited)

	Attributable to equity holders of the Company							Total equity attributable to the equity holders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000		
	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments RMB'000	Dedicated capital RMB'000	Share options reserve RMB'000				Capital reserve RMB'000	Retained earnings RMB'000
As at 1st January, 2008	303,488	31,275	2,040,430	(8,372)	39,179	193,356	43,090	120,000	3,287,217	6,049,663	209,736	6,259,399
Share option cost	—	—	—	—	—	—	856	—	—	856	—	856
Transfer to dedicated capital	—	—	—	—	—	1,482	—	—	(1,482)	—	—	—
Transactions with equity holders of the Company	—	—	—	—	—	1,482	856	—	(1,482)	856	—	856
Profit for the period	—	—	—	—	—	—	—	282,943	282,943	282,943	(63,262)	219,681
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—
Share of jointly controlled entity's gain recognized directly in equity	—	33,367	—	—	—	—	—	—	—	33,367	335	33,702
Change in fair value of available-for-sale financial assets	—	—	—	4,126	—	—	—	—	—	4,126	—	4,126
Total comprehensive income for the period	—	33,367	—	4,126	—	—	—	—	—	37,493	335	37,828
As at 30th June, 2008	303,488	64,642	2,040,430	(4,246)	39,179	194,838	43,946	120,000	3,568,678	6,370,955	146,809	6,517,764

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2009	2008
	RMB'000	RMB'000
Net cash from operating activities	1,035,123	218,286
Net cash used in investing activities	(1,343,467)	(590,199)
Net cash from (used in) financing activities	<u>28,648</u>	<u>(7,023)</u>
Decrease in cash and cash equivalents	(279,696)	(378,936)
Cash and cash equivalents as at 1st January	<u>1,243,861</u>	<u>1,373,416</u>
Cash and cash equivalents as at 30th June	<u><u>964,165</u></u>	<u><u>994,480</u></u>

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Organisation and operations

The Company was incorporated in Bermuda on 9th June, 1992 as an exempted company with limited liability. The Company's shares are traded on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's American depository shares ("ADSs") were delisted from The New York Stock Exchange Inc. in 2007 and the ordinary shares underlying its ADSs were de-registered under the United States Securities Exchange Act of 1934, as amended, on 1st June, 2009.

2. Statement of compliance and accounting policies

These interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31st December, 2008, except for the adoption of the new and revised HKFRSs (which include individual Hong Kong Financial Reporting Standards, HKASs and interpretations) as disclosed in note 3 to these interim financial statements.

These interim financial statements are prepared on the basis that the Group is a going concern in view of the net current liabilities position at 30 June, 2009. The Company's controlling shareholder, Huachen Automotive Group Holdings Company Limited ("Huachen"), agrees to provide adequate financial support to the Group if necessary. Together with the revolving bank loan facilities from the support of the Group's bankers in China, the directors consider that the Group will have sufficient cash resources to satisfy its future working capital needs and other funding requirements, and therefore going concern basis is appropriate for the preparation of these interim financial statements.

These interim financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31st December, 2008.

3. Adoption of new or amended HKFRSs

In the current period, the Group has applied for the first time the following new and revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on or after 1st January, 2009:

- HKAS 1 (Revised) Presentation of financial statements
- HKAS 23 (Revised) Borrowing costs
- HKFRS 1 and HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate
- HKFRS 7 (Amendments) Financial instruments: Disclosures

3. Adoption of new or amended HKFRSs (Cont'd)

- HKFRS 2 (Amendments) Share-based payment — Vesting conditions and cancellations
- HKFRS 8 Operating segments
- HKAS 32 Financial instruments: Presentation and HKAS 1 Puttable financial instruments and obligations arising on liquidation
- HK(IFRIC)–Int 9 and HKAS 39 Embedded derivatives (Amendments)
- HK(IFRIC)–Int 13 Customer Loyalty Programmes
- HK(IFRIC)–Int 15 Agreements for the construction of real estate
- HK(IFRIC)–Int 16 Hedges of a net investment in a foreign operation
- Improvements to HKFRSs 2008

Other than as set out below, the adoption of these new and revised HKFRSs has had no material effect on these interim financial statements.

HKAS 1 (Revised) Presentation of financial statements

The adoption of HKAS 1 (Revised) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognized directly in equity are now recognized in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with this revised standard.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information are now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives are restated on a consistent basis with this new standard.

3. Adoption of new or amended HKFRSs (Cont'd)

Annual improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first annual improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. The adoption of these improvements has no material impact to the Group's financial statements.

The Group has not early adopted the following new/revised standards and interpretations that have been issued but not yet effective for the accounting period ending 31st December, 2009. The Group is in the process of assessing the impact of these new/revised standards and interpretations to the Group's results of operations and financial position in the period of initial application.

HKFRSs (Amendments)	Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 27 (Revised)	Consolidated and separate financial statements ³
HKAS 39 (Amendments)	Eligible hedged items ³
HKFRS 1 (Revised)	First-time adoption of HKFRSs ³
HKFRS 3 (Revised)	Business combinations ³
HK(IFRIC)–Int 17	Distribution of non-cash assets to owners ³
HK(IFRIC)–Int 18	Transfer of assets from customers ⁴

¹ Amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009

² Effective for annual periods beginning on or after 1st July, 2009 or 1st January, 2010 as appropriate

³ Effective for annual periods beginning on or after 1st July, 2009

⁴ Effective for transfers of assets from customers received on or after 1st July, 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other revised standards, amendments and interpretations will have no material impact on how the results and financial position of the Group are prepared and presented.

4. Turnover, other revenue and segment information

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of (1) minibuses and automotive components; and (2) Zhonghua sedans in the People's Republic of China (the "PRC").

An analysis of the Group's turnover and revenue is as follows:

	(Unaudited)	
	For the six months ended 30th June,	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover		
Sale of minibuses and automotive components	2,775,533	2,605,053
Sale of Zhonghua sedans	<u>2,622,633</u>	<u>2,605,070</u>
	<u>5,398,166</u>	<u>5,210,123</u>
Other revenue		
Subsidy income	39,768	34,589
Exchange gain	14,829	—
Others	<u>83,426</u>	<u>70,678</u>
	<u>138,023</u>	<u>105,267</u>
Interest income	<u>43,791</u>	<u>50,886</u>
Total revenue	<u><u>5,579,980</u></u>	<u><u>5,366,276</u></u>

4. Turnover, other revenue and segment information (Cont'd)

On adoption of HKFRS 8 Operating segments, the Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. The business components in the internal reporting to the executive directors are determined following the Group's major product lines. The Group has identified the following reportable segments:

- Manufacture and sale of minibuses and automotive components

- Manufacture and sale of Zhonghua sedans

- Manufacture and sale of BMW sedans through BMW Brilliance Automotive Ltd. ("BMW Brilliance"), a jointly controlled entity of the Group

Each of these operating segments is managed separately as each of these product lines requires different resources as well as marketing approaches. The adoption of HKFRS 8 has not changed the identified operating segments for the Group.

The measurement policies the Group adopts for segment reporting under HKFRS 8 are the same as those used in its HKFRS financial statements, except that certain items are not included in arriving at the operating results of the operating segments (eg., interest income, finance costs, fair value gain on embedded derivative components of convertible bonds and taxation, etc.)

Segment assets include all assets except listed available-for-sale assets and corporate assets which are not directly attributable to the business activities of any operating segment.

Segment liabilities include all liabilities except convertible bonds and corporate liabilities which are not directly attributable to the business activities of any operating segment.

4. Turnover, other revenue and segment information (Cont'd)

Revenue and loss by reportable segments and reconciliation of segment results to loss for the period — for the six months ended 30th June, 2009

	(Unaudited)			
	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of Zhonghua sedans <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Total <i>RMB'000</i>
Segment sales	2,887,328	2,734,771	—	5,622,099
Inter-segment sales	<u>(111,795)</u>	<u>(112,138)</u>	<u>—</u>	<u>(223,933)</u>
Segment sales to external customers	<u>2,775,533</u>	<u>2,622,633</u>	<u>—</u>	<u>5,398,166</u>
Segment results	<u>161,299</u>	<u>(934,772)</u>	<u>116,106</u>	(657,367)
Unallocated costs net of unallocated revenue				(14,710)
Interest income				43,791
Finance costs, net				<u>(128,931)</u>
Loss before taxation				(757,217)
Taxation				<u>(29,923)</u>
Loss for the period				<u><u>(787,140)</u></u>

4. Turnover, other revenue and segment information (Cont'd)

Revenue and profit by reportable segments and reconciliation of segment results to profit for the period — for the six months ended 30th June, 2008

	(Unaudited)			
	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of Zhonghua sedans <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Total <i>RMB'000</i>
Segment sales	2,678,721	2,605,070	—	5,283,791
Inter-segment sales	<u>(73,668)</u>	<u>—</u>	<u>—</u>	<u>(73,668)</u>
Segment sales to external customers	<u>2,605,053</u>	<u>2,605,070</u>	<u>—</u>	<u>5,210,123</u>
Segment results	<u>162,412</u>	<u>(226,180)</u>	<u>109,604</u>	45,836
Unallocated costs net of unallocated revenue				(20,595)
Interest income				50,886
Finance costs, net				(46,872)
Gain on fair value of embedded derivative components of convertible bonds				<u>215,035</u>
Profit before taxation				244,290
Taxation				<u>(24,609)</u>
Profit for the period				<u><u>219,681</u></u>

4. Turnover, other revenue and segment information (Cont'd)

The assets and liabilities by reportable segments at 30th June, 2009

(Unaudited)				
	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of Zhonghua sedans <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Total <i>RMB'000</i>
Assets by reportable segments	<u>7,213,364</u>	<u>8,644,128</u>	<u>1,140,261</u>	16,997,753
Unallocated assets				<u>1,050,546</u>
Total assets of the Group				<u><u>18,048,299</u></u>
Liabilities by reportable segments	<u>6,032,872</u>	<u>6,342,056</u>	<u>—</u>	12,374,928
Unallocated liabilities				<u>22,938</u>
Total liabilities of the Group				<u><u>12,397,866</u></u>

The assets and liabilities by reportable segments at 31st December, 2008

(Audited)				
	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of Zhonghua sedans <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Total <i>RMB'000</i>
Assets by reportable segments	<u>6,570,502</u>	<u>8,670,016</u>	<u>1,041,398</u>	16,281,916
Unallocated assets				<u>1,033,124</u>
Total assets of the Group				<u><u>17,315,040</u></u>
Liabilities by reportable segments	<u>4,414,398</u>	<u>5,612,737</u>	<u>—</u>	10,027,135
Unallocated liabilities				<u>1,420,650</u>
Total liabilities of the Group				<u><u>11,447,785</u></u>

5. **(Loss) Profit before taxation**

(Loss) Profit before taxation is stated after charging and crediting the following:

	(Unaudited)	
	For the six months ended 30th June,	
	2009	2008
	RMB '000	RMB '000
<u>Charging:</u>		
Cost of inventories	5,348,529	4,939,246
Amortisation of intangible assets (a)	80,116	74,561
Depreciation of property, plant and equipment	150,380	136,153
Amortisation of land lease prepayments	3,590	1,828
Provision for inventories	—	1,084
Staff costs (including directors' emoluments) (Note 7)	277,606	253,109
Provision for doubtful debts	85,592	4,117
Research and development costs (b)	61,930	7,052
Provision for warranty	—	25,862
Operating lease charges in respect of:		
— land and buildings	5,751	7,470
— machinery and equipment	259	43
Exchange loss, net (c)	—	20,529
Loss on disposal of property, plant and equipment	516	1,361
	<u>5,348,529</u>	<u>4,939,246</u>
<u>Crediting:</u>		
Write back of provision for inventories sold	29,173	19,502
Write back of provision for doubtful debts	—	4,499
	<u>29,173</u>	<u>19,502</u>

- (a) amortisation of intangible assets in relation to production was included in cost of sales; amortisation of intangible assets for others was included in general and administrative expenses
- (b) included in general and administrative expenses
- (c) included in other operating expenses

6. Finance costs, net

	(Unaudited)	
	For the six months ended 30th June,	
	2009	2008
	RMB'000	RMB'000
Interest expenses on		
Bank loans wholly repayable within one year	20,814	18,499
Discounted bank guaranteed notes	78,817	79,044
Amortised redemption premium on convertible bonds	53,429	67,524
Sale and lease back arrangement	<u>7,390</u>	<u>7,783</u>
	160,450	172,850
Less: Interest expense capitalised in intangible assets and construction-in-progress at the rate of 5% (2008: 7%) per annum	<u>(9,327)</u>	<u>(24,205)</u>
	151,123	148,645
Less: Exchange gain derived from convertible bonds	(1,219)	(101,773)
Gain on redemption of convertible bonds	<u>(20,973)</u>	<u>—</u>
	<u><u>128,931</u></u>	<u><u>46,872</u></u>

7. Staff costs (including directors' emoluments)

	(Unaudited)	
	For the six months ended 30th June,	
	2009	2008
	RMB'000	RMB'000
Wages, salaries and performance related bonuses	210,405	203,495
Pension costs — defined contribution plans	26,502	18,150
Staff welfare costs	40,699	30,608
Share-based payments	<u>—</u>	<u>856</u>
	<u><u>277,606</u></u>	<u><u>253,109</u></u>

8. Taxation

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

The amount of taxation charged to the condensed consolidated income statement represents PRC enterprise income tax.

9. Dividends

The directors do not recommend the payment of an interim dividend at the board meeting held on 18th September, 2009 (2008: *No interim dividend declared*).

10. (Loss) Earnings per share

The calculation of basic loss per share for the six months ended 30th June, 2009 is based on the loss attributable to equity holders of the Company of approximately RMB386,008,000 (2008: *profit of approximately RMB282,943,000*), divided by the weighted average of 3,967,505,000 (2008: *3,669,766,000*) ordinary shares outstanding during the period.

Diluted earnings per share for the six months ended 30th June, 2008 is based on the same profit attributable to equity holders of the Company as used in calculating basic earnings per share and weighted average number of ordinary shares of 3,672,603,000 which is the same weighted average number of ordinary shares in calculating basic earnings per share plus weighted average number of 2,837,000 shares deemed issued under the Company's share option scheme. The effect of deemed conversion of convertible bonds is not considered in the calculation of diluted earnings per share as the effect is anti-dilutive.

Diluted earnings per share for the six months ended 30th June, 2009 is not considered as the effect of both deemed conversion of convertible bonds and deemed issue of the potential ordinary shares from exercising the Company's share option is anti-dilutive.

11. Capital expenditures

	(Unaudited)				
	Intangible assets <i>RMB '000</i>	Goodwill <i>RMB '000</i>	Property, plant and equipment <i>RMB '000</i>	Construction- in-progress <i>RMB '000</i>	Land lease prepayments <i>RMB '000</i>
Net book value as at 1st January, 2009	1,075,393	295,529	3,881,856	264,482	115,104
Additions	111,849	—	103,812	58,246	—
Transfer and reclassification	—	—	52,911	(112,541)	59,630
Disposals	—	—	(757)	—	—
Impairment loss	(302,450)	—	—	—	—
Depreciation/Amortisation	(80,116)	—	(150,380)	—	(3,590)
Net book value as at 30th June, 2009	804,676	295,529	3,887,442	210,187	171,144

12. Interests in associates

Details of interests in associates are as follows:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Share of net assets other than goodwill	365,245	366,398
Goodwill, net of accumulated amortisation	<u>26,654</u>	<u>26,654</u>
	<u><u>391,899</u></u>	<u><u>393,052</u></u>

13. Interests in jointly controlled entities

Details of interests in jointly controlled entities are as follows:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Share of net assets other than goodwill	<u>1,414,676</u>	<u>1,306,753</u>
Goodwill, net of accumulated amortisation	326,644	326,644
Accumulated impairment loss	<u>(252,373)</u>	<u>(252,373)</u>
	<u>74,271</u>	<u>74,271</u>
	<u><u>1,488,947</u></u>	<u><u>1,381,024</u></u>

14. Prepayments for a long-term investment

On 29th December, 2003, Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("SJAI") (a 99.0% indirectly-owned subsidiary of the Company) and Shenyang XinJinBei Investment and Development Co., Ltd. ("SXID") (an indirect wholly-owned subsidiary of the Company) entered into agreements with the sellers in relation to the acquisition of the entire equity interests of Shenyang Automobile Industry Asset Management Company Limited ("SAIAM") and Shenyang XinJinBei Investment Co., Ltd. ("SXI"), respectively (the "Acquisitions"). SAIAM owns 24.38% while SXI owns 8.97% of the equity interest in Shenyang JinBei Automotive Company Limited ("JinBei"), a company listed on the Shanghai Stock Exchange. The consideration for the Acquisitions was RMB600 million, which was determined after arm's length negotiations between the parties taking into account the respective financial positions of SAIAM and SXI.

14. **Prepayments for a long-term investment (Cont'd)**

Although the Acquisitions have been approved by State-owned Assets Supervision and Administration Commission of Liaoning Provincial Government and the State-Owned Assets Supervision and Administration Commission of the State Council, the transfer of the entire interest of SAIAM and SXI is still subject to the granting of a waiver to SXID and SJAI from making an offer for all of the shares of JinBei under Regulation on Acquisitions of Listed Companies by the China Securities Regulatory Commission. Upon completion of the Acquisitions, the Group will be effectively interested in an aggregate of approximately 33.05% of the issued share capital of JinBei.

As at 30th June, 2009 and 31st December, 2008, the consideration of RMB600 million paid to the shareholders of SAIAM and SXI was recorded as prepayments for a long-term investment. The directors have assessed the fair value of the underlying shares of JinBei and are satisfied that the recoverability of the prepayments is supported by the underlying shares of JinBei.

15. **Available-for-sale financial assets**

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Equity investments		
Unlisted, at cost	4,138	4,138
Listed in Hong Kong, at fair value	26,588	11,495
	30,726	15,633

16. **Cash and cash equivalents**

For condensed consolidated balance sheet classification, cash and cash equivalents represent assets similar in nature to cash, which are not restricted as to use. For the purposes of condensed consolidated cash flow statement, cash and 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, net of bank overdrafts and short-term bank borrowings with original maturities less than three months.

17. **Pledged short-term bank deposits**

Pledged short-term bank deposits as at 30th June, 2009 were pledged for the following purposes:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Issue of bank guaranteed notes to trade creditors (Note)	2,863,945	2,157,821
Bank loans granted to JinBei (Note 25)	213,680	228,274
Bank loans granted	<u>220,524</u>	<u>70,000</u>
	<u>3,298,149</u>	<u>2,456,095</u>

Note: In addition to short-term bank deposits, as at 30th June, 2009, the Group also pledged bank guaranteed notes receivable from third parties and affiliated companies of approximately RMB67 million (At 31st December, 2008: RMB140 million) for issue of bank guaranteed notes.

18. **Accounts receivable**

An aging analysis of accounts receivable is set out below:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Less than six months	697,717	588,350
Between six months to one year	166,914	49,132
Above one year but less than two years	18,914	29,450
Over two years	<u>67,081</u>	<u>66,636</u>
	950,626	733,568
Less : Provision for doubtful debts	<u>(61,896)</u>	<u>(61,888)</u>
	<u>888,730</u>	<u>671,680</u>

The Group's credit policy is to offer credit to customers following a financial assessment and an established payment record. Credit history and background of new customers and debtors are checked and security deposits are usually obtained from major customers. Credit limits with credit terms of 30 days to 90 days are set for customers and designated staff monitors accounts receivable and follows up collection with customers. Customers considered to be high risk are traded on cash basis or when bank guaranteed notes are received.

19. **Notes receivable**

All notes receivable are denominated in Renminbi and are primarily notes received from customers for settlement of accounts receivable balances. As at 30th June, 2009, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 30th June, 2009 (As at 31st December, 2008: Same). As at 30th June, 2009, notes receivable from third parties and affiliated companies of approximately RMB67 million have been pledged for the issue of notes payable (As at 31st December, 2008: RMB140 million).

20. **Other receivables**

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Advance to SAIAM (Note)	300,000	300,000
Receivable from a jointly controlled entity	33,084	6,123
Others	<u>348,861</u>	<u>276,282</u>
	681,945	582,405
Less : Provision for doubtful debts	<u>(112,769)</u>	<u>(117,008)</u>
	<u><u>569,176</u></u>	<u><u>465,397</u></u>

Note: As at 30th June, 2009, an amount of RMB300 million (As at 31st December, 2008: RMB300 million) was advanced to SAIAM which will become a subsidiary of the Group after the completion of the Acquisitions as detailed in note 14.

21. **Accounts payable**

An aging analysis of accounts payable is set out below:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Less than six months	2,982,115	2,207,738
Between six months to one year	76,159	39,378
Above one year but less than two years	26,188	46,975
Over two years	<u>36,387</u>	<u>29,611</u>
	<u><u>3,120,849</u></u>	<u><u>2,323,702</u></u>

22. Short-term bank borrowings

All short-term bank borrowings at 30th June, 2009 are unsecured (At 31st December, 2008: Same), interest-bearing at rates ranging from 4.860% to 8.217% per annum (At 31st December, 2008: 5.54% to 8.217% per annum) and repayable from 3rd July, 2009 to 30th June, 2010 (At 31st December, 2008: repayable from 2nd January, 2009 to 30th June 2009).

23. Convertible bonds

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Liability component		
At beginning of period/year	1,392,309	1,435,657
Redemption during the period/year	(1,433,356)	(82,543)
Amortisation	53,429	135,707
Gain on foreign currency translation	(1,218)	(96,512)
	<u>11,164</u>	<u>1,392,309</u>
At balance sheet date		
Fair value of embedded derivative components		
At beginning of period/year	10,939	316,576
Redemption during the period/year	(10,938)	(495)
Changes in fair value	—	(289,700)
Gain on foreign currency translation	(1)	(15,442)
	<u>—</u>	<u>10,939</u>
At balance sheet date		
Carrying value at balance sheet date	<u><u>11,164</u></u>	<u><u>1,403,248</u></u>

On 7th June, 2006, the Group, through a wholly-owned subsidiary, Brilliance China Finance Limited ("Brilliance Finance"), issued zero coupon guaranteed convertible bonds with principal amount of US\$182,678,000 (equivalent to approximately RMB1,461 million based on the applicable exchange rate 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 at par value of US\$0.01 each of the Company at an initial conversion price of HK\$1.93 per share which was subsequently revised to HK\$1.53 on 10th March, 2008 for the reason set out below.

23. Convertible bonds (Cont'd)

Conversion price reset

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 10th March, 2007 and 10th March, 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:

- (i) the adjusted conversion price in no event shall be less than 68% (for the 10th March, 2007 reset date) and 75% (for the 10th March, 2008 reset date) of the conversion price prevailing on the applicable reset date; and
- (ii) 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 could be converted at such reduced conversion price into legally issued, fully-paid and non-assessable shares.

Pursuant to the terms of the convertible bonds, the initial conversion price of HK\$1.93 was adjusted to HK\$1.53 with effect from 10th March, 2008. Due to the adjustment to the conversion price, the total number of conversion shares increased from 733,674,599 shares at a conversion price of HK\$1.93 to 925,484,964 shares at a conversion price of HK\$1.53. At a special general meeting held on 21st April, 2008, the shareholders of the Company approved, by way of an ordinary resolution, the grant of a specific mandate to the directors to issue, allot and deal with the additional conversion shares.

Redemption/repurchase

The convertible bonds will mature on 7th June, 2011. All but not some of the aggregate outstanding principal amount of the convertible bonds is redeemable at the option of Brilliance Finance 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 7th June, 2008 and prior to 7th June, 2009, if the closing price of the shares of the Company on the Stock Exchange 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 7th June, 2009 and prior to 8th May, 2011, if the closing price of the shares of the Company on the Stock Exchange 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 7th June, 2011.

The convertible bonds may be redeemed in whole but not in part at the option of the relevant holders on 7th June, 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 in the Stock Exchange.

The Group may at any time and from time to time purchase the convertible bonds at any price in the open market or otherwise.

The convertible bonds contain a liability component and an embedded conversion option, which are required to be accounted for separately in accordance with HKAS 39.

23. Convertible bonds (Cont'd)

Redemption/repurchase (Cont'd)

At initial recognition, the liability component is measured at its fair value by using the discounted cash flow method. The embedded conversion option is measured at its fair value provided by professional valuers using the Black-Scholes option pricing model.

The liability component is subsequently carried at amortised cost by using the effective interest method. The embedded conversion option is measured at fair value at balance sheet date and changes in fair value are recognized in the income statement.

During the period, convertible bonds with par value and carrying value of US\$171,357,000 has been repurchased and redeemed by the Group at a consideration of approximately US\$208,431,000 (equivalent to approximately RMB1,423,321,000). As a result of the repurchase and redemption, the Group recorded a gain of approximately RMB21 million (2008: Nil).

Subsequently on 8th July, 2009, the outstanding convertible bonds with par value and carrying value of US\$1,321,000 was redeemed.

The fair value of the liability component as at 30th June, 2009 was approximately US\$1,633,000, equivalent to approximately RMB11,164,000 (At 31st December, 2008: US\$211,227,000, equivalent to approximately RMB1,443,653,000).

24. Share capital

	(Unaudited)		(Audited)	
	As at 30th June, 2009		As at 31st December, 2008	
	Number	Amount	Number	Amount
	of shares	'000	of shares	'000
Authorised:				
Ordinary shares at par value of US\$0.01 each	<u>8,000,000</u>	<u>US\$80,000</u>	<u>8,000,000</u>	<u>US\$80,000</u>
Issued and fully paid:				
Ordinary shares at par value of US\$0.01 each	3,669,766	RMB303,488	3,669,766	RMB303,488
Issue of new shares	<u>1,314,203</u>	<u>RMB89,688</u>	—	—
	<u>4,983,969</u>	<u>RMB393,176</u>	<u>3,669,766</u>	<u>RMB303,488</u>

On 17th April, 2009, 250,000 ordinary shares with a par value of US\$0.01 each were issued as a result of an exercise of share options at a consideration of approximately RMB96,000 (equivalent to approximately HK\$110,000) of which RMB79,000 was credited to the share premium account.

By an ordinary resolution passed by the Company's independent shareholders on 13th January, 2009, the number of issued share capital increased to 4,983,969,388 shares on 21st May, 2009 resulted from a subscription of 1,313,953,488 new shares of the Company with a par value of US\$0.01 each by Huachen at the price of HK\$0.43 each for a total net consideration of approximately RMB493,909,000 of which approximately RMB404,238,000 was credited to the share premium account. After the subscription, Huachen and its parties acting in concert hold approximately 55.38% of the Company's enlarged issued share capital.

25. Contingencies

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Corporate guarantees for revolving bank loans and bank guaranteed notes drawn by affiliated companies of Shanghai Shenhua (<i>Note</i>)	—	60,000
Corporate guarantees for bank loans drawn by JinBei. Bank deposits of RMB214 million (<i>At 31st December, 2008: RMB228 million</i>) was pledged as collateral for the corporate guarantee (<i>Note 17</i>)	<u>200,000</u>	<u>200,000</u>

Note: Shanghai Shenhua is defined in note 27(a) to the condensed financial statements.

26. Commitments

(a) *Capital commitments*

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Contracted but not provided for:		
— Construction projects	72,864	39,505
— Acquisition of plant and machinery	256,121	259,104
— Others	<u>37,891</u>	<u>16,027</u>
	<u>366,876</u>	<u>314,636</u>
Authorised but not contracted for:		
— Construction projects and acquisition of plant and machinery	<u>1,454,370</u>	<u>974,229</u>

26. **Commitments (Cont'd)**

(b) *Operating lease commitments*

As at 30th June, 2009, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Within one year	19,215	12,788
In the second to fifth years inclusive	46,373	33,734
Over five years	<u>43,643</u>	<u>48,750</u>
	<u>109,231</u>	<u>95,272</u>

(c) *Future operating lease arrangements*

As at 30th June, 2009, the Group had future aggregate minimum lease receivable under non-cancellable operating leases as follows:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Within one year	14,214	20,458
In the second to fifth years inclusive	56,697	56,697
Over five years	<u>55,516</u>	<u>62,603</u>
	<u>126,427</u>	<u>139,758</u>

27. **Related party transactions**

(a) Name and relationship

Name	Relationship
JinBei	A shareholder of Shenyang Brilliance JinBei Automobile Co., Ltd. ("Shenyang Automotive"), a subsidiary of the Company
Shanghai Shenhua Holdings Co., Ltd. ("Shanghai Shenhua")	Common directorship of certain directors of the Company
Brilliance Holdings Limited ("BHL")	Common directorship of certain directors of the Company

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

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

27. Related party transactions (Cont'd)

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

	(Unaudited)	
	For the six months ended 30th June,	
	2009	2008
	RMB'000	RMB'000
Sales of goods:		
— Affiliated companies of JinBei	62,895	72,681
— Shanghai Shenhua and its affiliated companies	372,555	571,050
— An affiliated company of BHL	3,123	—
— Jointly controlled entities	33,495	24,673
— Associates	46,354	41,429
— A subsidiary of the substantial shareholder of the Company	348,851	1,227,532
Purchases of goods:		
— Affiliated companies of JinBei	504,992	470,017
— Affiliated companies of BHL	63,889	51,960
— Jointly controlled entities	326,642	322,006
— Associates	66,153	94,110
— An affiliated company of a joint venture partner of Shenyang Xinguang Brilliance Automobile Engine Co., Ltd.	30	23
— A shareholder of Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd.	9,337	13,263
Purchase of property, plant and equipment from an associate	2,105	—
Operating lease rental on land and buildings charged by a jointly controlled entity	1,430	1,430
Operating lease rental on land and buildings charged by Shanghai Shenhua	296	296
Operating lease rental from a jointly controlled entity	7,087	7,087
Subcontracting charge to a jointly controlled entity	60,152	106,839
Interest to a jointly controlled entity	7,390	7,783
Service income from affiliated companies of Shanghai Shenhua	1,686	567

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

27. Related party transactions (Cont'd)

(c) As at 30th June, 2009, accounts receivable from affiliated companies consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Accounts receivable from related parties:		
— Shanghai Shenhua and its affiliated companies	77,176	78,059
— Affiliated companies of JinBei	46,984	53,189
— An affiliated company of BHL	3,654	—
— A subsidiary of the substantial shareholder of the Company	299,814	99,939
— A shareholder of Shengyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd.	3,548	—
— An associate	1,467	28
— Jointly controlled entities		
— BMW Brilliance	139,285	57,451
— Other jointly controlled entities	666	22
	<u>572,594</u>	<u>288,688</u>
Less : Provision for doubtful debts	<u>(29,480)</u>	<u>(29,480)</u>
	<u><u>543,114</u></u>	<u><u>259,208</u></u>

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

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

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Less than six months	464,036	241,819
Between six months to one year	65,447	1,640
Above one year but less than two years	610	21,610
Over two years	42,501	23,619
	<u>572,594</u>	<u>288,688</u>

27. Related party transactions (Cont'd)

(d) As at 30th June, 2009, notes receivable from affiliated companies arising from trading activities consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Notes receivable from related parties:		
— Affiliated companies of JinBei	606	15,956
— Shanghai Shenhua and its affiliated companies	8,213	183,010
— An associate	—	133
— A subsidiary of the substantial shareholder of the Company	<u>5,891</u>	<u>6,100</u>
	<u>14,710</u>	<u>205,199</u>

All notes receivable from affiliated companies are guaranteed by banks in the PRC and have maturities of six months or less from 30th June, 2009 (At 31st December, 2008: Same).

(e) As at 30th June, 2009, the dividend receivable from affiliated companies consisted of:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Dividend receivable from related parties:		
— Jointly controlled entities		
— BMW Brilliance	78,464	—
— Other jointly controlled entity	76,173	76,173
— An associate	<u>10,500</u>	<u>10,500</u>
	<u>165,137</u>	<u>86,673</u>

27. Related party transactions (Cont'd)

(f) As at 30th June, 2009, advances to affiliated companies consisted of:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Advances to related parties:		
— A jointly controlled entity	26,365	26,365
— Affiliated companies of BHL	157,615	145,185
— Shanghai Shenhua and its affiliated companies	14,046	14,046
— Affiliated companies of JinBei	62,418	39,987
— Other affiliated company	873	848
	<u>261,317</u>	<u>226,431</u>
Less: Provision for doubtful debts	<u>(83,614)</u>	<u>(2,214)</u>
	177,703	224,217
Less: Non-current portion for advances to an affiliated company of BHL	<u>(46,942)</u>	<u>(51,470)</u>
Current portion	<u><u>130,761</u></u>	<u><u>172,747</u></u>

Advances to affiliated companies are unsecured and non-interest bearing. Except for non-current portion which is to be settled within the coming next five years, other advances to affiliated companies are with no fixed repayment term (At 31st December, 2008: Same).

27. Related party transactions (Cont'd)

(g) As at 30th June, 2009, accounts payable to affiliated companies consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Accounts payable to related parties:		
— Associates	25,400	16,915
— Jointly controlled entities	795,224	308,052
— Affiliated companies of Shanghai Shenhua	18,980	7,068
— Affiliated companies of JinBei	392,000	270,030
— Other affiliated companies	3,540	1,351
	<u>1,235,144</u>	<u>603,416</u>

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

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Less than six months	921,261	438,325
Between six months to one year	153,165	108,325
Above one year but less than two years	132,217	28,058
Over two years	28,501	28,708
	<u>1,235,144</u>	<u>603,416</u>

(h) As at 30th June, 2009, notes payable to affiliated companies arising from trading activities consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Notes payable to related parties:		
— An associate	428	—
— Jointly controlled entities	3,149	43,863
	<u>3,577</u>	<u>43,863</u>

27. Related party transactions (Cont'd)

(i) As at 30th June, 2009, advances from affiliated companies consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Advances from related parties classified under current liabilities:		
— An associate	1,183	493
— A jointly controlled entity	1,850	9,204
— Affiliated companies of BHL	11,417	11,531
— Affiliated companies of Shanghai Shenhua	3,020	2,787
— Affiliated companies of JinBei	735	735
— Current portion of financing received from BMW Brilliance (Note)	<u>52,591</u>	<u>48,373</u>
	<u>70,796</u>	<u>73,123</u>
Advances and loans from related parties classified under non-current liabilities:		
— BMW Brilliance (Note)	521,783	126,000
— Other jointly controlled entities	<u>—</u>	<u>193,158</u>
	<u>521,783</u>	<u>319,158</u>
Total advances from affiliated companies	<u><u>592,579</u></u>	<u><u>392,281</u></u>

Note: The advances from BMW Brilliance include a RMB400 million advance during the six months ended 30th June, 2009 and is unsecured, interest bearing at 5.4% per annum and repayable on 31st March, 2011. The aggregate advances from BMW Brilliance are repayable on the following terms:

	(Unaudited)	(Audited)
	As at	As at
	30th June,	31st December,
	2009	2008
	RMB'000	RMB'000
Less than 1 year	52,591	48,373
Between 1 year to 2 years	409,162	8,673
Above 2 years to 5 years	34,372	32,536
Over 5 years	<u>78,249</u>	<u>84,791</u>
	574,374	174,373
Less: Non-current portion	<u>(521,783)</u>	<u>(126,000)</u>
Current portion	<u><u>52,591</u></u>	<u><u>48,373</u></u>

Advances from other affiliated companies are unsecured, non-interest bearing and repayable on demand.

27. **Related party transactions (Cont'd)**

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

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

	(Unaudited)	
	For the six months ended 30th June,	
	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	<u><u>7,993</u></u>	<u><u>7,119</u></u>

MANAGEMENT'S DISCUSSION & ANALYSIS

Business Review

Unaudited consolidated net sales of the Company and its subsidiaries (the "Group"), including Shenyang Brilliance JinBei Automobile Co., Ltd. ("Shenyang Automotive"), Shenyang XingYuanDong Automobile Component Co., Ltd., Ningbo Yuming Machinery Industrial Co., Ltd., Ningbo Brilliance Ruixing Auto Components Co., Ltd., Mianyang Brilliance Ruian Automotive Components Co., Ltd., Shenyang Brilliance Dongxing Automotive Component Co., Ltd., Shenyang ChenFa Automobile Component Co., Ltd., Shenyang Jindong Development Co., Ltd., Shanghai Hidea Auto Design Co., Ltd. and Shenyang Brilliance Power Train Machinery Co., Ltd. for the first six months of 2009 were RMB5,398.2 million, representing a slight increase of 3.6% from RMB5,210.1 million for the same period in 2008. The increase in turnover was primarily due to an increase in the unit sales of Shenyang Automotive's minibuses and Zhonghua sedans during the period.

Shenyang Automotive sold 35,873 minibuses in the first half of 2009, representing a 7.0% increase from the 33,520 units sold during the same period in 2008. Of these vehicles sold, 29,914 were mid-priced minibuses, representing a 11.5% increase from 26,828 units sold during the first six months of 2008. On the other hand, unit sales of deluxe minibuses decreased by 11.0% from 6,692 units in the first half of 2008 to 5,959 units for the corresponding period in 2009. Shenyang Automotive recorded sale of 47,913 Zhonghua sedans in the first half of 2009, representing a 44.2% increase from 33,221 units sold during the corresponding period last year. The Zhonghua Zunchi and Junjie models recorded sales of 4,773 and 13,771 units, respectively, in the first six months of 2009, compared to 7,063 and 24,689 units sold, respectively, during the same period in 2008. The sales volume of Zunchi and Junjie had decreased by 32.4% and 44.2%, respectively, in the first six months of 2009 as compared to the same period last year. The Kubao model recorded sales of 180 units in the first six months of 2009, an 83.1% decrease compared to the 1,063 units sold during the same period in 2008. The Junjie FRV model, which was launched in June 2008, recorded sales of 406 units in the first half of 2008, compared to 28,196 units sold in the first six months of 2009. The new Junjie Cross and FSV models were introduced in the first half of the year, and recorded sales of 465 and 528 units, respectively, during the period.

Unaudited cost of sales increased by 8.1% from RMB4,920.8 million in the first six months of 2008 to RMB5,319.4 million for the same period in 2009. The increase was primarily due to the increase in unit sales of Zhonghua sedans.

The unaudited gross profit margin of the Group decreased to 1.5% for the first half of 2009 from 5.6% in the same period in 2008. Despite an increase in the sales volume of Zhonghua sedans in the first half of 2009, there was a change in product mix as over 60% of the units sold were products from the new but yet to be profitable Junjie FRV platform.

Unaudited other revenue increased by 31.1% from RMB105.3 million in the first six months of 2008 to RMB138.0 million for the same period in 2009. The increase was primarily due to the increase in scrap metal sales and subsidy income, and an exchange gain of RMB14.8 million recognized during the period.

Unaudited selling expenses increased by 36.4% from RMB226.7 million in the first half of 2008 to RMB309.3 million for the same period in 2009. The increase was mainly due to the increase in advertising expense as well as transportation costs for finished products resulting from the increase in sales volume of Zhonghua sedans during the period under review. Selling expenses as a percentage of turnover increased from 4.4% in the first half of 2008 to 5.7% for the same period in 2009 as a result of increased promotional expenses for the Junjie FRV platform products in the first half of 2009.

Unaudited general and administrative expenses increased by 74.1% from RMB202.3 million in the first six months of 2008 to RMB352.2 million for the same period in 2009, mainly as a result of higher R&D expenses and provision for certain doubtful receivables in 2009.

Unaudited other operating expenses decreased by 30.0% from RMB68.6 million in the first six months of 2008 to RMB48.0 million for the same period in 2009, resulting mainly from the lack of exchange losses for the first six months of 2009 as compared to a loss of RMB20.5 million recorded in the first half of 2008.

Unaudited impairment loss of RMB302.5 million related to certain intangible assets of the Zhonghua sedans was recognized in the first half of the year as there has been shrinkage in the sales volume of some models during the period.

Unaudited interest income decreased by 13.9% from RMB50.9 million in the first six months of 2008 to RMB43.8 million for the same period in 2009 due to decreases in interest rates on bank deposits. Unaudited finance costs increased by 174.8% from RMB46.9 million in the first six months of 2008 to RMB128.9 million for the same period in 2009, resulting mainly from the lack of exchange gains in relation to the convertible bonds in the first half of 2009, which was recorded in the same period in 2008.

In the first half of 2008, the Group recognized a gain of RMB215.0 million on the change in fair value of the embedded derivative components of the convertible bonds in accordance with Hong Kong Financial Reporting Standards. No such gain was recorded in the first half of 2009 as the Company had repurchased and redeemed almost all of the outstanding convertible bonds during the period.

The Group's unaudited share of operating results of associates and jointly controlled entities decreased by 4.8% from RMB129.2 million in the first half of 2008 to RMB123.0 million for the same period in 2009. This was mainly attributable to the losses incurred by all of the Group's associates and some of its jointly controlled entities other than BMW Brilliance Automotive Ltd. ("BMW Brilliance"), the Group's 49.5% indirectly owned jointly controlled entity, in the first half of 2009.

Unaudited net profits contributed to the Group by BMW Brilliance increased by 5.9% from RMB109.6 million in the first half of 2008 to RMB116.1 million for the same period this year. The BMW joint venture achieved sales of 20,758 BMW sedans in the first six months of 2009, an increase of 25.5% as compared to 16,543 BMW sedans for the same period in 2008. The increased net profits contributed to the Group in the first half of 2009 was mainly a result of the increase in units sold during the period.

The Group recorded an unaudited loss before taxation of RMB757.2 million in the first half of 2009 compared to an unaudited pre-tax profit of RMB244.3 million for the same period in 2008. Unaudited taxation increased by 21.5% from RMB24.6 million in the first half of 2008 to RMB29.9 million for the same period in 2009, resulting mainly from additional taxes paid by some of the Group's subsidiaries after tax rates have been adjusted to the standard 25%.

As a result, the Group recorded an unaudited loss attributable to equity holders of the Company of RMB386.0 million for the first half of 2009 as compared to an unaudited profit of RMB282.9 million for the same period in 2008. Unaudited basic loss per share for the six months ended 30th June, 2009 amounted to RMB0.09729 against an unaudited basic profit per share of RMB0.07710 for the same period in 2008.

Prospects

During the first half of 2009, the Chinese auto market had shown exceptional resilience in terms of maintaining its growth momentum, primarily as a result of the support from the Chinese government via implementation of various market stimulus measures and policies. Although the Group's Junjie FRV had benefited from such policies, sales volume of Zhonghua sedans overall did not reach breakeven level during the period as a result of a change in product mix, since the newly introduced and yet to be profitable Junjie FRV accounted for over 60% of total Zhonghua sales volume. The Group has also decided to write off certain intangible assets relating to the Zhonghua sedans. Furthermore, since the Company had repurchased and redeemed almost all of its outstanding convertible bonds during the period, no gains were realized from the change in fair value of the embedded derivative components as in the same period last year. As a result, the Group recorded a loss for the first half of 2009.

Looking into the second half of the year, the operating environment for the domestic brand sedan segment in particular will be difficult as competitive pressure continues to intensify. The recent launches of additional models and continuous changes in product mix will be challenging for the Group's Zhonghua sedan business to reach sustainable profit in the short run. However, over the longer term, the Group will continue to increase volume of our existing products and introduce new ones, such as upgraded versions of the Zunchi and Junjie models, new products under the smaller FRV platform, as well as next-generation brand new series to broaden our product portfolio. This will allow the Group to enjoy economies of scale and further cost reduction. In addition, the Group has been exploring various ways of streamlining the operations and restructuring the assets of its Zhonghua business, with the ultimate aim to improve the overall performance of the Group.

We will continue to work diligently with our joint venture partner BMW to reduce costs of our BMW vehicles, and to roll out next phase capacity expansion and new product introduction. Similarly, for the minibus business we will continue to explore ways to deepen our cooperation with Toyota in the introduction of new and upgraded models in order to increase sales and maintain our market leading position in this segment. The Group will also continue to seek opportunities for further business diversification beyond the existing automobile and components manufacturing business for its continuing development.

Liquidity and Financial Resources

As at 30th June, 2009, the Group had RMB964.2 million in cash and cash equivalents, RMB761.9 million in short-term bank deposits and RMB3,298.1 million in pledged short-term bank deposits. The Group had notes payable of RMB5,083.4 million and outstanding short-term bank borrowings of RMB866.0 million, but had no long-term bank borrowings outstanding as at 30th June, 2009.

On 7th June, 2006, the Company, through its wholly owned subsidiary, Brilliance China Finance Limited (“Brilliance Finance”), issued the zero coupon guaranteed convertible bonds due 2011 (the “Convertible Bonds”) with a principal amount of US\$182,678,000. None of the Convertible Bonds had been converted into ordinary shares of the Company. As of 8th July, 2009, all the Convertible Bonds have been repurchased or redeemed by Brilliance Finance. Total consideration for the repurchase and redemption amounted to approximately US\$218.6 million. The Convertible Bonds have been cancelled and were delisted from The Singapore Exchange Securities Trading Limited on 14th July, 2009.

Contingent Liabilities

Details of the contingent liabilities are set out in note 25 to the condensed financial statements.

Gearing Ratio

As at 30th June, 2009, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 1.99 (*31st December, 2008: 1.89*). The increase of the ratio was primarily due to the need for more financing from bankers and related parties to finance the development and operation of the new Junjie FRV platform models.

Use of Proceeds

The subscription of 1,313,953,488 new shares of the Company by Huachen Automotive Group Holdings Company Limited (“Huachen”), the controlling shareholder of the Company, at a price of HK\$0.43 per share was completed on 21st May, 2009 (the “Subscription”). The proceeds from the Subscription were approximately RMB500 million. After deducting expenses relating to the Subscription, the net proceeds in the amount of approximately RMB494 million have been applied to fund the redemption of the Convertible Bonds.

Foreign Exchange Risks

The Group considers that exchange rate fluctuations may have a material effect on the overall financial performance of the Group in the future, and may consider entering into hedging transactions through exchange contracts in order to minimise foreign exchange risks, if and when necessary. There were no outstanding hedging transactions as at 30th June, 2009.

Employees and Remuneration Policy

The Group employed approximately 11,800 employees as at 30th June, 2009 (*30th June, 2008: approximately 11,600*). Employee costs amounted to approximately RMB277.6 million for the six months ended 30th June, 2009 (*six months ended 30th June, 2008: approximately RMB253.1 million*). The Group will endeavour to ensure that the salary levels of its employees are in line with industry practices and prevailing market conditions and that employees' remuneration is based on performance. In addition, employees are eligible for share options under the share option scheme adopted by the Company.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30th June, 2009 (*six months ended 30th June, 2008: nil*).

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

As at 30th June, 2009, so far as is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

Name of shareholders	Number of shares held/Approximate shareholding percentage					
	Long		Short		Lending	
	Position	%	Position	%	Pool	%
Huachen (<i>Note 1</i>)	2,760,074,988	55.38	—	—	—	—
Templeton Asset Management Ltd. (<i>Note 2</i>)	648,937,632	13.02	—	—	—	—
Blackrock, Inc. (<i>Note 3</i>)	213,640,786	5.82	—	—	—	—

Notes:

1. The 2,760,074,988 shares in long position are held in the capacity as beneficial owner.
2. The 648,937,632 shares in long position are held in the capacity as investment manager.
3. The 213,640,786 shares in long position are held as corporate interest. Among these shares, 212,780,786 shares in long position represent underlying interest in physically settled derivatives listed or traded on a stock exchange or traded on a futures exchange.

Save as disclosed herein, as at 30th June, 2009, there was no other person so far known to the directors or chief executives of the Company, other than a director or chief executive of the Company as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th June, 2009, the interests and short positions of each director, chief executive and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, are set out below:

Name of directors	Type of interests	Number of shares held		Approximate shareholding percentage	Number of share options granted
		Long Position	Short Position		
Wu Xiao An (also known as Ng Siu On)	Personal	—	—	—	2,800,000 (Note 1)
	Personal	—	—	—	10,000,000 (Note 2)
Qi Yumin	Personal	—	—	—	9,000,000 (Note 2)
He Guohua	Personal	—	—	—	3,000,000 (Note 2)
Wang Shiping	Personal	—	—	—	3,000,000 (Note 2)
Lei Xiaoyang	Personal	—	—	—	3,000,000 (Note 2)

Notes:

- These options are exercisable at any time during the 10-year period from 2nd June, 2001 at the subscription price of HK\$1.896 per share.
- These options are exercisable at any time during the 10-year period from 22nd December, 2008 at the subscription price of HK\$0.438 per share.

Save as disclosed above, as at 30th June, 2009, none of the directors, chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

1999 Share Option Scheme

With an aim to provide incentives and rewards to eligible participants who contribute to the success of the Group, the Company, with the approval of the shareholders at a general meeting, adopted a share option scheme on 18th September, 1999 (the "1999 Share Option Scheme"). The 1999 Share Option Scheme came into effect on 20th October, 1999.

On 28th June, 2002, the 1999 Share Option Scheme was terminated. Pursuant to clause 13.1 of the 1999 Share Option Scheme, all the share options granted and remained outstanding prior to such termination shall continue to be valid and exercisable in accordance with the terms of the grant and the 1999 Share Option Scheme.

A summary of movements of the share options of the Company under the 1999 Share Option Scheme during the six months ended 30th June, 2009 is set out below:

Category and name of participant	Date of grant	Number of share options					Outstanding as at 30th June, 2009	Option period	Subscription price per share (HK\$)
		Outstanding as at 1st January, 2009	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period			
Director									
Wu Xiao An	2nd June, 2001 (Note 1)	2,800,000	—	—	—	—	2,800,000	2nd June, 2001 – 1st June, 2011	1.896
Total		2,800,000	—	—	—	—	2,800,000		

Notes:

1. The share options were granted on 2nd June, 2001 and vested immediately upon the grant and are exercisable within a period of 10 years.
2. As none of the above share options have been exercised during the six months ended 30th June, 2009, the weighted average closing price of the shares immediately before the dates on which the share options were exercised is not disclosed herein.

New Share Option Scheme

At a general meeting held on 11th November, 2008, shareholders of the Company adopted a new share option scheme (the "New Share Option Scheme").

The New Share Option Scheme came into effect on 14th November, 2008 and will remain in force for a period of 10 years from 14th November, 2008. The period during which an option may be exercised will be determined by the directors in their absolute discretion, save that no option shall be exercised later than 10 years from the date of grant.

A summary of movements of the share options of the Company under the New Share Option Scheme during the six months ended 30th June, 2009 is set out below:

Category and name of participants	Date of grant	Number of share options					Outstanding as at 30th June, 2009	Option period	Subscription price per share (HK\$)
		Outstanding as at 1st January, 2009	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period			
Directors									
Wu Xiao An	22nd December, 2008 (Note 1)	10,000,000	—	—	—	—	10,000,000	22nd December, 2008 – 21st December, 2018	0.438
Qi Yumin	22nd December, 2008 (Note 1)	9,000,000	—	—	—	—	9,000,000	22nd December, 2008 – 21st December, 2018	0.438
He Guohua	22nd December, 2008 (Note 1)	3,000,000	—	—	—	—	3,000,000	22nd December, 2008 – 21st December, 2018	0.438
Wang Shipping	22nd December, 2008 (Note 1)	3,000,000	—	—	—	—	3,000,000	22nd December, 2008 – 21st December, 2018	0.438
Lei Xiaoyang	22nd December, 2008 (Note 1)	3,000,000	—	—	—	—	3,000,000	22nd December, 2008 – 21st December, 2018	0.438
Employees (in aggregate)	22nd December, 2008 (Note 1)	32,100,000	—	250,000	350,000	—	31,500,000	22nd December, 2008 – 21st December, 2018	0.438
Others (in aggregate)	22nd December, 2008 (Note 1)	4,000,000	—	—	—	—	4,000,000	22nd December, 2008 – 21st December, 2018	0.438
Total		64,100,000	—	250,000	350,000	—	63,500,000		

(Note 2)

Notes:

- The share options were granted on 22nd December, 2008 and vested immediately upon the grant and are exercisable within a period of 10 years.
- The closing price of the shares immediately before the date on which the share options were exercised was HK\$0.61.

As no share options have been granted by the Company under the New Share Option Scheme for the six months ended 30th June, 2009, no expenses were recognized by the Group for the period under review. The Group recognized total expenses of RMB856,000 for the six months ended 30th June, 2008 in relation to share options granted by the Company under the old share option scheme which was adopted on 28th June, 2002 and terminated on 11th November, 2008.

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

During the six months ended 30th June, 2009, Brilliance Finance has repurchased the Convertible Bonds in an aggregate principal amount of US\$46,325,000 via private arrangements. The consideration for the repurchase amounted to approximately US\$54,734,000. The repurchases have been financed by the Company through its internal resources.

With regard to redemption, on 7th June, 2009, an aggregate principal amount of US\$125,032,000 of the Convertible Bonds was redeemed by Brilliance Finance at the option of the holders of the Convertible Bonds at a price of approximately US\$153,697,000. Subsequently on 8th July, 2009, Brilliance Finance redeemed all the then outstanding Convertible Bonds in the principal amount of US\$1,321,000 at a price of approximately US\$1,633,000 pursuant to the terms of the Convertible Bonds.

All of the repurchased/redeemed Convertible Bonds have been cancelled. As at the date of this report, no Convertible Bonds remain outstanding.

Saved as disclosed above, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities for the six months ended 30th June, 2009.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Maintaining an effective corporate governance framework is one of the top priorities of the Company. The Company has complied with the code provisions of the "Code on Corporate Governance Practices" (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six months ended 30th June, 2009, except for deviations from code provision A.4.1 that are described below.

Deviation

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. At present, all the non-executive directors (including the independent non-executive directors) of the Company do not have a specific term of appointment. As the appointment of non-executive directors is subject to the retirement by rotation provisions in the bye-laws of the Company, the Board considers that it is not necessary to appoint the non-executive directors for a specific term. At every annual general meeting, one-third of the directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation according to the bye-laws of the Company. All directors, including those appointed for a fixed term, are subject to the retirement by rotation provision in the bye-laws of the Company.

Major updates

There have been no material changes to the information disclosed in the Company's 2008 annual report in respect of our corporate governance practices. Major update since the 2008 annual report is summarised below.

Retirement of directors

Code provision A.4.2 states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. To comply with this code provision and in accordance with bye-law 99, Mr. Wu Xiao An and Mr. Qi Yumin retired by rotation at the annual general meeting of the Company held on 5th June, 2009. At the same meeting, shareholders of the Company approved the re-election of Mr. Wu Xiao An and Mr. Qi Yumin as directors of the Company.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the unaudited consolidated interim financial statements of the Group for the six months ended 30th June, 2009. At present, the Audit Committee comprises Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Xu Bingjin is the chairman of the Audit Committee.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of independent non-executive directors and at least an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise. At present, the Board comprises three independent non-executive directors including one with appropriate accounting expertise.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standards set out in the Model Code during the six months ended 30th June, 2009.

By Order of the Board
Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong, 18th September, 2009