

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 2011



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, 2011. 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,	
		2011	2010
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	4	3,167,327	5,119,368
Cost of sales		(2,710,864)	(4,516,923)
Gross profit		456,463	602,445
Other net income	4	5,948	73,727
Selling expenses		(173,755)	(207,355)
General and administrative expenses		(137,247)	(120,476)
Interest income	4	32,884	34,325
Finance costs, net	6	(95,471)	(90,266)
Share of results of:			
Associates		51,437	46,297
Jointly controlled entities		897,851	325,576
Profit before income tax expense	5	1,038,110	664,273
Income tax expense	8	(10,662)	(28,478)
Profit for the period		1,027,448	635,795

CONDENSED CONSOLIDATED INCOME STATEMENT (Cont'd)

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

		(Unaudited)	
		For the six months	
		ended 30th June,	
		2011	2010
	<i>Note</i>	RMB'000	RMB'000
Attributable to:			
Equity holders of the Company		941,256	509,497
Non-controlling interests		86,192	126,298
		<hr/>	<hr/>
		1,027,448	635,795
		<hr/>	<hr/>
Dividends	9	–	–
		<hr/>	<hr/>
Earnings per share	10		
– Basic		0.18846	0.10205
– Diluted		0.18665	0.10119
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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	1,027,448	635,795
Other comprehensive income (loss)		
Change in fair value of available-for-sale financial assets	(5,679)	4,798
Share of comprehensive income (loss) of a jointly controlled entity	287,905	(212,770)
Other comprehensive income (loss), net of tax	282,226	(207,972)
Total comprehensive income for the period	1,309,674	427,823
Total comprehensive income, net of tax, attributable to:		
Equity holders of the Company	1,223,482	301,525
Non-controlling interests	86,192	126,298
	1,309,674	427,823

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) As at 30th June, 2011	(Audited) As at 31st December, 2010
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Intangible assets	11	187,501	185,279
Property, plant and equipment	11	1,361,679	1,376,759
Construction-in-progress	11	250,985	208,059
Land lease prepayments	11	65,237	66,506
Interests in associates	12	553,481	544,044
Interests in jointly controlled entities	13	3,548,170	2,562,407
Prepayments for a long-term investment	14	600,000	600,000
Available-for-sale financial assets	15	23,099	28,778
Receivable for disposal of discontinued operations	26(h)	453,297	440,094
Deferred tax assets		98,085	99,000
Other non-current assets		11,942	11,010
Total non-current assets		7,153,476	6,121,936
Current assets			
Cash and cash equivalents	16	698,151	427,789
Short-term bank deposits		88,986	120,946
Pledged short-term bank deposits	17	1,461,722	2,075,801
Inventories		888,004	790,838
Accounts receivable	18	124,063	120,400
Accounts receivable from affiliated companies	26(d)	1,070,495	1,352,273
Notes receivable	19	321,411	430,043
Notes receivable from affiliated companies	26(e)	243,075	542,302
Other receivables	20	636,894	573,084
Dividends receivable from affiliated companies	26(f)	118,173	128,673
Prepayments and other current assets		220,887	251,597
Income tax recoverable		178	178
Other taxes recoverable		21,854	37,964
Amounts due from affiliated companies	26(g)	341,585	246,304
Total current assets		6,235,478	7,098,192

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

		(Unaudited) As at 30th June, 2011	(Audited) As at 31st December, 2010
	Note	RMB'000	RMB'000
Current liabilities			
Accounts payable	21	1,595,806	1,585,882
Accounts payable to affiliated companies	26(i)	1,176,393	1,201,965
Notes payable		1,840,782	3,272,484
Notes payable to affiliated companies	26(j)	78,647	155,135
Customer advances		118,356	270,955
Other payables		729,647	767,866
Dividends payable		2,726	2,788
Accrued expenses and other current liabilities		37,352	95,667
Short-term bank borrowings	22	982,000	165,000
Income tax payable		35,079	34,158
Other taxes payable		135,079	126,274
Amounts due to affiliated companies	26(k)	84,484	283,443
Total current liabilities		6,816,351	7,961,617
Net current liabilities		(580,873)	(863,425)
Total assets less current liabilities		6,572,603	5,258,511
Non-current liabilities			
Deferred government grants		2,000	2,000
Net assets		6,570,603	5,256,511
Capital and reserves			
Share capital	23	394,038	393,857
Reserves		7,159,188	5,931,469
Total equity attributable to equity holders of the Company		7,553,226	6,325,326
Non-controlling interests		(982,623)	(1,068,815)
Total equity		6,570,603	5,256,511

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30th June, 2010 (Unaudited)

	Attributable to equity holders of the Company							Total equity attributable to the equity holders of the Company RMB'000	Non-controlling 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 RMB'000				Capital reserve RMB'000	Retained earnings RMB'000
As at 1st January, 2010	383,283	27,427	2,445,542	22,067	39,179	213,338	9,475	120,000	1,751,702	5,022,013	(1,293,432)	3,728,581
<i>Transactions with equity holders of the Company</i>												
Cancellation of share options	-	-	-	-	-	-	(307)	-	307	-	-	-
Acquisition of additional interests in a subsidiary	-	277	-	-	-	-	-	-	-	277	(23,267)	(22,990)
Issue of new shares by exercise of share options	574	-	3,978	-	-	-	(1,325)	-	-	3,227	-	3,227
	574	277	3,978	-	-	-	(1,632)	-	307	3,504	(23,267)	(19,763)
Transfer to dedicated capital	-	-	-	-	-	2,327	-	-	(2,327)	-	-	-
<i>Total comprehensive (loss) income</i>												
Profit for the period	-	-	-	-	-	-	-	-	509,497	509,497	126,298	635,795
Share of other comprehensive loss of a jointly controlled entity	-	(212,770)	-	-	-	-	-	-	-	(212,770)	-	(212,770)
Change in fair value of available-for-sale financial assets	-	-	-	4,798	-	-	-	-	-	4,798	-	4,798
	-	(212,770)	-	4,798	-	-	-	-	509,497	301,525	126,298	427,823
As at 30th June, 2010	383,857	(185,066)	2,449,520	26,865	39,179	215,665	7,843	120,000	2,259,179	5,327,042	(1,190,401)	4,136,641

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

Six months ended 30th June, 2011 (Unaudited)

	Attributable to equity holders of the Company											
	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 RMB'000	Capital reserve RMB'000	Retained earnings RMB'000	Total equity attributable to the equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1st January, 2011	393,857	65,509	2,449,520	13,145	39,179	222,289	7,843	120,000	3,013,984	6,325,326	(1,068,815)	5,256,511
Transactions with equity holders of the Company												
Issue of new shares by exercise of share options	181	-	4,237	-	-	-	-	-	-	4,418	-	4,418
Transfer to dedicated capital	-	-	-	-	-	1,419	-	-	(1,419)	-	-	-
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	941,256	941,256	86,192	1,027,448
Profit for the period	-	-	-	-	-	-	-	-	287,905	287,905	-	287,905
Share of other comprehensive loss of a jointly controlled entity	-	287,905	-	-	-	-	-	-	-	-	-	-
Change in fair value of available-for-sale financial assets	-	-	-	(5,679)	-	-	-	-	-	(5,679)	-	(5,679)
	-	287,905	-	(5,679)	-	-	-	-	941,256	1,223,482	86,192	1,309,674
As at 30th June, 2011	394,038	353,414	2,453,757	7,466	39,179	223,708	7,843	120,000	3,953,821	7,553,226	(962,623)	6,570,603

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	For the six months	
	ended 30th June,	
	2011	2010
	RMB'000	RMB'000
Net cash generated from operating activities	17,794	655,711
Net cash generated from (used in) investing activities	538,138	(1,376,339)
Net cash used in financing activities	(285,570)	(453,845)
Increase (Decrease) in cash and cash equivalents	270,362	(1,174,473)
Cash and cash equivalents as at 1st January	427,789	1,608,911
Cash and cash equivalents as at 30th June	698,151	434,438

NOTES TO CONDENSED CONSOLIDATED 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 principal activities of the Group are set out in note 4 to these condensed consolidated financial statements.

The directors consider that Huachen Automotive Group Holdings Company Limited ("**Huachen**") is the ultimate holding company of the Company during the whole period and as at 30th June, 2011.

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**").

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31st December, 2010, except for the adoption of the new and revised HKFRS (which include individual HKFRSs, HKASs and interpretations) as disclosed in note 3 to these condensed consolidated 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 as at 30th June, 2011. As the results of the Group continue to improve as shown in the condensed consolidated income statement, management is confident that the Group will continue to generate profits and positive cash flows from its operating activities. Together with the continuing support from the Group's bankers, the Group will have sufficient funds for the needs of working capital, investing and financing activities. Accordingly, it is appropriate to prepare these financial statements on a going concern basis.

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, 2010.

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, 2011:

HKFRSs (Amendments)	Improvements to HKFRS issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKAS 1 and HKAS 28
HKAS 24 (as Revised in 2009)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

For HKAS 24 (as Revised in 2009), the directors of the Company have decided not to take the exemption granted under this HKAS to government-related entities, like the Group, for simplifying the disclosure of related party disclosures. The adoption of the other new and revised HKFRSs has had no material effect on these interim financial statements.

The Group has not early adopted the following new/revised standards and interpretations that have been issued but not yet effective:

HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ²
HKFRS 9	Financial Instruments ³

¹ Effective for annual periods beginning on or after 1st January, 2012

² Effective for annual periods beginning on or after 1st July, 2011

³ Effective for annual periods beginning on or after 1st January, 2013

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

4. Turnover, revenue and segment information

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of minibuses and automotive components in the People's Republic of China (the "PRC"). The Group is also engaged in the manufacture and sale of BMW sedans through its major jointly controlled entity, BMW Brilliance Automotive Ltd. ("BMW Brilliance").

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

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	RMB'000	RMB'000
Turnover		
Sale of minibuses and automotive components	3,167,327	5,119,368
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Other revenue		
Interest income	32,884	34,325
Other net income	5,948	73,727
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	38,832	108,052
	<hr/>	<hr/>
	3,206,159	5,227,420
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The Group has identified the following reportable segments:

- Manufacture and sale of minibuses and automotive components
- Manufacture and sale of BMW sedans

Each of these operating segments is managed separately as each of these product lines requires different resources as well as marketing approaches.

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, income tax and impairment losses on assets, etc.)

Segment assets include all assets except listed available-for-sale financial assets, prepayments for a long-term investment, advance to a shareholder of a related party and corporate assets which are not directly attributable to the business activities of any operating segment.

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

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

Revenue, results by reportable segments and reconciliation of segment results to profit before income tax expenses for the period – for the six months ended 30th June, 2011

	(Unaudited)			
	Manufacture and sale of minibuses and automotive components	Manufacture and sale of BMW sedans	Reconciliation to the Group's condensed income statements	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment sales	3,167,327	17,772,216	(17,772,216)	3,167,327
Segment results	208,692	1,732,131	(1,732,131)	208,692
Unallocated costs net of unallocated revenue				(25,090)
Impairment losses on assets				(32,193)
Interest income				32,884
Finance costs, net				(95,471)
Share of results of:				
Associates	51,437	–	–	51,437
Jointly controlled entities	65,574	832,277	–	897,851
Profit before income tax expense				1,038,110

Revenue, results by reportable segments and reconciliation of segment results to profit before income tax expense for the period – for the six months ended 30th June, 2010

	(Unaudited)			
	Manufacture and sale of minibuses and automotive components	Manufacture and sale of BMW sedans	Reconciliation to the Group's condensed income statements	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment sales	5,119,368	8,725,110	(8,725,110)	5,119,368
Segment results	373,729	653,648	(653,648)	373,729
Unallocated costs net of unallocated revenue				(19,278)
Impairment losses on assets				(6,110)
Interest income				34,325
Finance costs, net				(90,266)
Share of results of:				
Associates	46,297	–	–	46,297
Jointly controlled entities	38,680	286,896	–	325,576
Profit before income tax expense				664,273

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

The assets and liabilities by reportable segments as at 30th June, 2011

(Unaudited)				
	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's condensed statements of financial position RMB'000	Total RMB'000
Segment assets	7,884,327	17,609,413	(17,609,413)	7,884,327
Interests in associates	553,481	-	-	553,481
Interests in jointly controlled entities	483,585	3,064,585	-	3,548,170
Available-for-sale financial assets				23,099
Prepayments for a long-term investment				600,000
Advance to a shareholder of a related party				300,000
Unallocated assets				479,877
Total assets				13,388,954
Segment liabilities	6,809,424	11,480,242	(11,480,242)	6,809,424
Unallocated liabilities				8,927
Total liabilities				6,818,351

The assets and liabilities by reportable segments as at 31st December, 2010

(Audited)				
	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's condensed statements of financial position RMB'000	Total RMB'000
Segment assets	9,078,824	14,668,487	(14,668,487)	9,078,824
Interests in associates	544,044	-	-	544,044
Interests in jointly controlled entities	418,004	2,144,403	-	2,562,407
Available-for-sale financial assets				28,778
Prepayments for a long-term investment				600,000
Advance to a shareholder of a related party				300,000
Unallocated assets				106,075
Total assets				13,220,128
Segment liabilities	7,952,790	10,379,681	(10,379,681)	7,952,790
Unallocated liabilities				10,827
Total liabilities				7,963,617

5. Profit before income tax expense

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

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	RMB'000	RMB'000
Charging:		
Impairment losses on:		
– Inventories	–	3,162
– Other receivables	2,995	2,948
– Amounts due from affiliated companies	29,198	–
Cost of inventories	2,730,345	4,523,036
Amortisation of intangible assets (Note)	14,026	13,485
Depreciation of property, plant and equipment	53,485	50,103
Amortisation of land lease prepayments	1,269	1,269
Staff costs (including directors' emoluments) (Note 7)	181,892	139,869
Research and development costs (Note)	2,328	1,548
Provision for warranty	19,201	21,763
Operating lease charges for land and buildings	12,065	11,019
	<hr/>	<hr/>
Crediting:		
Gain on disposal of property, plant and equipment	1,072	468
Write back of provision for inventories sold	13,210	9,275
Write back of provision for doubtful debts:		
– Accounts receivable	2,027	–
– Amounts due from affiliated companies	1,209	2,387
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Note: included in general and administrative expenses

6. Finance costs, net

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	RMB'000	RMB'000
Interest expense on:		
Bank loans wholly repayable within one year	18,997	22,965
Discounted bank guaranteed notes	74,210	57,327
An advance from a jointly controlled entity	5,877	10,918
	<hr/>	<hr/>
	99,084	91,210
Less: Interest expense capitalised in intangible assets and construction-in-progress at the rate of 6.6% (2010: 3.3%) per annum	(3,613)	(944)
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	95,471	90,266
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7. **Staff costs (including directors' emoluments)**

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	RMB'000	RMB'000
Wages, salaries and performance related bonuses	136,983	115,294
Pension costs – defined contribution plans	18,055	7,919
Staff welfare costs	26,854	16,656
	<hr/>	
	181,892	139,869
	<hr/>	

8. **Income tax expense**

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	RMB'000	RMB'000
Current tax	9,747	28,478
Deferred tax in respect of tax losses	915	–
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	10,662	28,478
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Current tax represents PRC enterprise income tax on the estimated taxable profits of the subsidiaries in the PRC during the period.

The (credit) charge of deferred tax in respect of the Group's tax losses during the period are as follows:

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	RMB'000	RMB'000
Recognition of previously unrecognised tax losses	(33,090)	–
Utilisation of tax losses	34,005	–
	<hr/>	
	915	–
	<hr/>	

9. **Dividends**

The directors do not recommend the payment of an interim dividend at the board meeting held on 24th August, 2011 (2010: No interim dividend declared).

10. Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares as follows:

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	'000	'000
<i>Weighted average number of shares</i>		
Issued shares outstanding	4,993,969	4,985,519
Effect of share options exercised	588	7,190
	4,994,557	4,992,709
Weighted average number of ordinary shares for calculating basic earnings per share		
Weighted average number of ordinary shares deemed issued under the Company's share option schemes	48,417	42,316
	5,042,974	5,035,025

11. Capital expenditures

	(Unaudited)			
	Intangible assets	Property, plant and equipment	Construction- in-progress	Land lease prepayments
	RMB'000	RMB'000	RMB'000	RMB'000
Net book value as at 1st January, 2011	185,279	1,376,759	208,059	66,506
Additions	15,589	28,957	53,856	-
Transfer and reclassification	659	10,271	(10,930)	-
Write-off/Disposals	-	(823)	-	-
Amortisation/Depreciation	(14,026)	(53,485)	-	(1,269)
	187,501	1,361,679	250,985	65,237

12. Interests in associates

Details of interests in associates are as follows:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	RMB'000	RMB'000
Share of net assets other than goodwill	526,827	517,390
Goodwill, net of accumulated amortisation	26,654	26,654
	553,481	544,044

13. Interests in jointly controlled entities

Details of interests in jointly controlled entities are as follows:

	(Unaudited) As at 30th June, 2011 RMB'000	(Audited) As at 31st December, 2010 RMB'000
Share of net assets other than goodwill	3,473,899	2,488,136
Goodwill	326,644	326,644
Accumulated impairment loss	(252,373)	(252,373)
	74,271	74,271
	3,548,170	2,562,407

14. Prepayments for a long-term investment

On 29th December, 2003, Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("SJAI") (currently an indirectly wholly-owned subsidiary of the Company) and Shenyang XinJinBei Investment and Development Co., Ltd. ("SXID") (currently an indirectly wholly-owned subsidiary of the Company) entered into agreements 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"). As at 30th June, 2011, SAIAM owned 24.38% while SXI owned 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 by 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 the State-Owned Assets Supervision and Administration Commission of the State Council, the transfers of the entire interests of SAIAM and SXI are 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. If completed, the Group will be effectively interested in an aggregate of approximately 33.35% of the issued share capital of JinBei.

As at 30th June, 2011 and 31st December, 2010, 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.

The directors constantly evaluate market situation and consider potential options for this investment, in light of the Group's latest strategy and future plans.

15. Available-for-sale financial assets

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	RMB'000	RMB'000
Equity investments:		
– Unlisted, at cost	4,138	4,138
– Listed in Hong Kong, at fair value	18,961	24,640
	<hr/>	<hr/>
	23,099	28,778
	<hr/>	<hr/>

16. Cash and cash equivalents

For condensed consolidated statement of financial position 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 3 months.

17. Pledged short-term bank deposits

Short-term bank deposits were pledged for the following purposes:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	RMB'000	RMB'000
Issue of bank guaranteed notes to trade creditors	1,248,042	1,862,121
Bank loans granted to JinBei (Note 26(b)(i))	213,680	213,680
	<hr/>	<hr/>
	1,461,722	2,075,801
	<hr/>	<hr/>

18. Accounts receivable

An aging analysis of accounts receivable is set out below:

	(Unaudited) As at 30th June, 2011 RMB'000	(Audited) As at 31st December, 2010 RMB'000
Less than six months	99,741	93,363
Six months to one year	1,671	14,680
Above one year but less than two years	16,951	12,651
Two years or above	18,801	14,834
	<hr/>	<hr/>
	137,164	135,528
Less : Provision for doubtful debts	(13,101)	(15,128)
	<hr/>	<hr/>
	124,063	120,400
	<hr/>	<hr/>

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, 2011, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 30th June, 2011 (As at 31st December, 2010: Same). As at 30th June, 2011, notes receivable from third parties and affiliated companies of approximately RMB73 million have been pledged for the issue of bank guaranteed notes payable to trade creditors (As at 31st December, 2010: RMB220 million).

20. Other receivables

	(Unaudited) As at 30th June, 2011 RMB'000	(Audited) As at 31st December, 2010 RMB'000
Advance to SAIAM (Note)	300,000	300,000
Others	410,681	343,876
	<hr/>	<hr/>
	710,681	643,876
Less : Provision for doubtful debts	(73,787)	(70,792)
	<hr/>	<hr/>
	636,894	573,084
	<hr/>	<hr/>

Note: As at 30th June, 2011, an amount of RMB300 million (As at 31st December, 2010: 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 to these condensed consolidated financial statements. The amount will be settled upon the completion of the acquisition. In view of the substantial assets in JinBei possessed by SAIAM, the management considers the credit risk in recovering the amount as minimal.

21. **Accounts payable**

An aging analysis of accounts payable is set out below:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Less than six months	1,375,751	1,413,364
Six months to one year	123,299	113,237
Above one year but less than two years	60,860	26,524
Two years or above	35,896	32,757
	<hr/>	<hr/>
	1,595,806	1,585,882
	<hr/>	<hr/>

22. **Short-term bank borrowings**

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank borrowings	37,000	30,000
Unsecured bank borrowings	945,000	135,000
	<hr/>	<hr/>
	982,000	165,000
	<hr/>	<hr/>

All short-term bank borrowings as at 30th June, 2011 are interest-bearing at rates ranging from 5.84% to 7.07% per annum (As at 31st December, 2010: 5.31% to 6.12% per annum) and repayable from 7th July, 2011 to 7th June, 2012 (As at 31st December, 2010: repayable from 10th May, 2011 to 30th September, 2011).

23. **Share capital**

	(Unaudited)	
	As at 30th June, 2011	
	Number of shares	Amount
	'000	US\$'000
Authorised:		
Ordinary shares at par value of US\$0.01 each	8,000,000	80,000

	(Unaudited)	
	As at 30th June, 2011	
	Number of shares	Amount
	'000	RMB'000
Issued and fully paid:		
Ordinary shares at par value of US\$0.01 each		
As at 1st January, 2011	4,993,969	393,857
Issue of new shares by exercising share options	2,800	181
As at 30th June, 2011	4,996,769	394,038

During the period, a total of 2,800,000 ordinary shares with a par value of US\$0.01 each were issued as a result of an exercise of share options at an aggregate consideration of approximately RMB4,418,000 of which RMB4,237,000 was credited to the share premium account.

24. **Contingencies**

In addition to the disclosure in note 26(b) to these condensed consolidated financial statements, as at 30th June, 2011, the Group had also provided corporate guarantees of approximately RMB60 million (*As at 31st December, 2010: RMB60 million*) and RMB15 million (*As at 31st December, 2010: RMB15 million*) for revolving bank loans and bank guaranteed notes drawn by affiliated companies of Shanghai Shenhua Holdings Co., Ltd. ("**Shanghai Shenhua**") and Shenyang Xinguang Brilliance Automobile Engine Co., Ltd., respectively.

25. **Commitments**

(a) Capital commitments

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:		
– Construction projects	365	34,067
– Acquisition of plant and machinery	39,604	114,284
– Others	14,740	32,320
	<hr/>	<hr/>
	54,709	180,671
	<hr/>	<hr/>
Authorised but not contracted for:		
– Construction projects and acquisition of plant and machinery	100,337	509,512
	<hr/>	<hr/>

(b) Operating lease commitments

As at 30th June, 2011, 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, 2011	31st December, 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	9,886	9,031
In the second to fifth years inclusive	4,509	7,045
	<hr/>	<hr/>
	14,395	16,076
	<hr/>	<hr/>

26. **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	Common directorship of certain directors of the Company
Brilliance Holdings Limited ("BHL")	Common directorship of certain directors of the Company
Huachen	Ultimate holding company 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 condensed consolidated 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.

(b) The related party transactions in respect of items listed below also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	RMB'000	RMB'000
Sales of goods:		
– Affiliated companies of JinBei	3,003	1,167
– Huachen and its affiliated companies	232,701	1,679,244
	<hr/>	<hr/>
Purchases of goods:		
– Affiliated companies of JinBei	290,623	269,394
– Huachen and its affiliated companies	360,166	458,178
	<hr/>	<hr/>
Sub-contracting charges to:		
– Huachen and its affiliated company	21,846	93,252
	<hr/>	<hr/>
Operating lease rental on land and buildings charged by:		
– Huachen	1,000	1,000
	<hr/>	<hr/>
Operating lease rental from:		
– Huachen	1,150	1,150
	<hr/>	<hr/>

26. Related party transactions (Cont'd)

(b) (Cont'd)

- (i) During the period and as at 30th June, 2011, a member of the Group and JinBei, pursuant to an agreement, have agreed to provide cross guarantees in respect of each other's banking facilities in the maximum amount of RMB600 million (*As at 31st December, 2010: RMB600 million*). As at 30th June, 2011, RMB326.5 million (*As at 31st December, 2010: RMB366.5 million*) of these guarantees was drawn by JinBei for its revolving bank loans together with the support of the pledge of the Group's bank deposits of RMB214 million (*As at 31st December 2010: RMB214 million*).
- (ii) During the period and as at 30th June, 2011, a member of the Group and Huachen, pursuant to an agreement, have agreed to provide cross guarantees in respect of each other's banking facilities in the maximum amount of RMB1,500 million (*As at 31st December, 2010: RMB1,500 million*). As at 30th June, 2011, RMB470 million (*As at 31st December, 2010: RMB1,001 million*) of these guarantees was drawn by Huachen for its revolving bank loans.

(c) In addition to the above, the Group also had the following material related party transactions which were not considered as continuing connected transactions/connected transactions under the Listing Rules. Details of such transactions are set out below:

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	RMB'000	RMB'000
Sales of goods:		
– Shanghai Shenhua and its affiliated companies	457,512	672,272
– Jointly controlled entities	27,667	21,741
– Associates	46,255	110,351
Purchases of goods:		
– Affiliated companies of BHL	–	76,176
– Jointly controlled entities	379,098	605,220
– Associates	65,422	220,002
– Shanghai Shenhua and its affiliated companies	1,548	–
– A shareholder of Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd.	–	2,079
Operating lease rental on land and buildings charged by Shanghai Shenhua	300	296
Interest to a jointly controlled entity for advance to the Group	5,877	10,918
Imputed interest income from Huachen for receivable of disposal of discontinued operations	13,203	12,274
	13,203	12,274

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.

26. Related party transactions (Cont'd)

(d) As at 30th June, 2011, accounts receivable from affiliated companies consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	RMB'000	RMB'000
Accounts receivable from related parties:		
– Shanghai Shenhua and its affiliated companies	153,984	10,416
– Affiliated companies of JinBei	22,983	27,836
– Huachen	835,095	1,321,991
– Associates	72,830	19,690
– Jointly controlled entities	13,280	17
	<hr/>	<hr/>
	1,098,172	1,379,950
Less : Provision for doubtful debts	(27,677)	(27,677)
	<hr/>	<hr/>
	1,070,495	1,352,273
	<hr/>	<hr/>

The Group's credit policy is to offer credit 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 accounts receivable from affiliated companies is as follows:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	RMB'000	RMB'000
Less than six months	507,328	1,296,105
Six months to one year	517,930	51,577
Above one year but less than two years	45,841	6,754
Two years or above	27,073	25,514
	<hr/>	<hr/>
	1,098,172	1,379,950
	<hr/>	<hr/>

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

(e) As at 30th June, 2011, notes receivable from affiliated companies arising from trading activities consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivable from related parties:		
– Affiliated companies of JinBei	688	43,066
– Shanghai Shenhua and its affiliated companies	222,039	343,009
– An associate	14,099	137
– Huachen	6,249	156,090
	<hr/>	<hr/>
	243,075	542,302
	<hr/>	<hr/>

All notes receivable from affiliated companies are guaranteed by established banks in the PRC and have maturities of six months or less from 30th June, 2011 (As at 31st December, 2010: Same).

(f) As at 30th June, 2011, the dividends receivable from affiliated companies consisted of:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Dividend receivable from related parties:		
– A jointly controlled entity	76,173	76,173
– An associate	42,000	52,500
	<hr/>	<hr/>
	118,173	128,673
	<hr/>	<hr/>

26. Related party transactions (Cont'd)

(g) As at 30th June, 2011, amounts due from affiliated companies consisted of:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	RMB'000	RMB'000
Amounts due from related parties:		
– A jointly controlled entity	26,365	26,365
– Affiliated companies of BHL	310,606	282,616
– Shanghai Shenhua	14,046	14,012
– Huachen	146,344	99,942
– BMW Brilliance	104,880	62,097
– JinBei and its affiliated companies	72,551	66,490
	<hr/>	<hr/>
	674,792	551,522
Less: provision for doubtful debts	(333,207)	(305,218)
	<hr/>	<hr/>
	341,585	246,304
	<hr/>	<hr/>

Amounts due from affiliated companies are unsecured, interest-free and repayable on demand.

(h) Receivable for disposal of discontinued operations represents the present value as at 30th June, 2011 of the consideration payable by Huachen in 2013 for the purchase of Zhonghua sedan business.

(i) As at 30th June, 2011, accounts payable to affiliated companies consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	RMB'000	RMB'000
Accounts payable to related parties:		
– Associates	40,256	107,478
– Jointly controlled entities	602,783	479,035
– Huachen	191,931	109,158
– An affiliated company of BHL	41,270	67,963
– Shanghai Shenhua and its affiliated companies	4,140	79,079
– Affiliated companies of JinBei	296,001	359,240
– Other affiliated companies	12	12
	<hr/>	<hr/>
	1,176,393	1,201,965
	<hr/>	<hr/>

26. Related party transactions (Cont'd)

(i) (Cont'd)

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

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Less than six months	911,960	998,636
Six months to one year	91,845	196,294
Above one year but less than two years	170,175	4,308
Two years or above	2,413	2,727
	<hr/>	<hr/>
	1,176,393	1,201,965
	<hr/>	<hr/>

(j) As at 30th June, 2011, notes payable to affiliated companies arising from trading activities consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Notes payable to related parties:		
– An affiliated company of BHL	42,448	73,839
– Affiliated companies of JinBei	32,242	31,296
– An associate	2,957	–
– A jointly controlled entity	1,000	50,000
	<hr/>	<hr/>
	78,647	155,135
	<hr/>	<hr/>

26. Related party transactions (Cont'd)

(k) As at 30th June, 2011, amounts due to affiliated companies consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2011	31st December, 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due to related parties:		
– Associates	5,604	4,064
– A jointly controlled entity	6,402	5,679
– Huachen	57,797	58,263
– Affiliated companies of BHL	10,840	10,965
– BMW Brilliance	–	200,000
– Affiliated companies of Shanghai Shenhua	2,919	3,114
– JinBei and its affiliated companies	922	1,358
	<hr/>	<hr/>
	84,484	283,443
	<hr/>	<hr/>

The amount due to BMW Brilliance of RMB200 million, which was unsecured, interest-bearing at 5.4% per annum, was settled during the period by offsetting the dividend receivable of the same amount from BMW Brilliance. All other amounts due to related parties are unsecured, interest-free and repayable on demand.

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

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

	(Unaudited)	
	For the six months ended 30th June,	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	14,416	10,986
	<hr/>	<hr/>

MANAGEMENT'S DISCUSSION & ANALYSIS

Business Review

The unaudited consolidated net sales of the Companies 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. (“**Chenfa**”), Shenyang Jindong Development Co., Ltd. and Shanghai Hidea Auto Design Co., Ltd. for the first six months of 2011 were RMB3,167.3 million, representing a decrease of 38.1% from RMB5,119.4 million for the same period in 2010. The decrease in turnover was primarily due to a change in the business model of Chenfa which provides value added services to auto components for the Zhonghua sedans operated by the Group’s major shareholder Huachen Automotive Group Holdings Company Limited (“**Huachen**”). Chenfa used to record in its revenue the value of these components together with the revenue from provision of its value added services on these components. However, starting from 2011, Chenfa only records the revenue generated from its value added services as these components are considered directly sold to Huachen. As a result, the revenue of Chenfa for the first half of 2011 decreased by 96.3% to RMB39.0 million from RMB1,049.3 million recorded in the same period last year. In addition to the decrease in revenue of Chenfa, the decrease in the Group’s turnover for the first half of 2011 was also due to a drop in minibus sales.

Shenyang Automotive sold 43,424 minibuses in the first half of 2011, representing a 10.8% decrease from the 48,688 units sold during the same period in 2010. Of these minibuses sold, 33,840 were mid-price minibuses, representing a 13.6% decrease from 39,152 units sold during the first six months of 2010. Unit sales of deluxe minibuses increased by 0.5% from 9,536 units for the first half of 2010 to 9,584 units for the corresponding period in 2011. The decrease in minibus sales volume was due to a slowdown of the light passenger vehicle sector caused by the removal of tax incentives for car purchases as well as the imposition of new registration restriction in certain areas of the People’s Republic of China (the “**PRC**”) in December 2010.

Unaudited cost of sales decreased by 40.0% from RMB4,516.9 million in the first six months of 2010 to RMB2,710.9 million for the same period in 2011. The decrease was in line with the reduction in turnover during the period.

Unaudited gross profit margin increased to 14.4% for the first half of 2011 from 11.8% in the same period in 2010. The improvement in gross margin was primarily due to the decrease in revenue from the lower margin Chenfa business.

Unaudited other net income decreased by 92.0% from RMB73.7 million in the first six months of 2010 to RMB5.9 million for the same period in 2011. The decrease was primarily due to a decrease in scrap material sales.

Unaudited selling expenses decreased by 16.2% from RMB207.4 million in the first half of 2010 to RMB173.8 million for the same period in 2011. The decrease was mainly due to the decrease in the sale of minibuses during the period. Selling expenses as a percentage of turnover had increased to 5.5% during the first half of 2011 as compared to 4.1% for the same period last year due to the lower overall turnover for the first half of 2011 as a result of the decrease in revenue generated by Chenfa.

Unaudited general and administrative expenses increased by 13.9% from RMB120.5 million in the first six months of 2010 to RMB137.2 million for the same period in 2011, mainly due to a provision made for amounts due from affiliated companies.

Unaudited interest income decreased by 4.1% from RMB34.3 million in the first six months of 2010 to RMB32.9 million for the same period in 2011 due to a decrease of short-term bank deposits and pledged bank deposits.

Unaudited net finance costs increased by 5.8% from RMB90.3 million in the first six months of 2010 to RMB95.5 million for the same period in 2011, resulting mainly from an increase in borrowing interest rates during the period.

The Group's unaudited share of operating results of associates and jointly controlled entities increased by 155.3% from RMB371.9 million in the first half of 2010 to RMB949.3 million for the same period in 2011. This was primarily attributable to the increase in contribution by BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), the Group's 50% indirectly-owned jointly controlled entity, in the first half of 2011.

Unaudited net profit contributed to the Group by BMW Brilliance increased by 190.1% from RMB286.9 million in the first half of 2010 to RMB832.3 million for the same period this year. The BMW joint venture achieved sales of 55,012 BMW sedans in the first six months of 2011, an increase of 68.8% as compared to 32,594 BMW sedans for the same period in 2010. The increased net profit contributed to the Group in the first half of 2011 was a result of the increase in units sold, improvement in product mix between the 3 and 5 series, and the achievement of cost reduction from local suppliers during the period.

The Group's unaudited profit before income tax expense increased by 56.3% from RMB664.3 million in the first half of 2010 to RMB1,038.1 million for the same period in 2011. Unaudited income tax expense, however, has decreased from RMB28.5 million for the first half of 2010 to RMB10.7 million for the first half of 2011, as a result of a decrease in profits generated from the sale of automotive components and utilisation of tax losses of Shenyang Automotive during the period.

As a result, the Group recorded an unaudited profit attributable to equity holders of the Company of RMB941.3 million for the first half of 2011 as compared to RMB509.5 million for the same period in 2010, representing an increase of 84.7%. Unaudited basic earnings per share for the six months ended 30th June, 2011 amounted to RMB0.18846 compared to RMB0.10205 for the same period in 2010.

Prospects

For the first half of 2011, the Chinese auto sector had experienced a significant slowdown, registering overall sales volume of 9.3 million vehicles or a year-on-year growth rate of 3.25%, according to the China Association of Automobile Manufacturers. Of these, 7.1 million were passenger vehicles, with growth of 5.7% over the same period last year. Meanwhile, the luxury segment continued to outperform, realising growth of over 30% during this period.

This year, sales momentum of our BMW joint venture's products continues to be strong. The BMW brand is well recognised by consumers in China, and our joint venture's share of the luxury auto market has been increasing. The construction of our new production plant is well underway, with completion expected by early 2012 as planned. This will give the joint venture total production capacity of 300,000 units by 2013 in order to satisfy the rapidly growing demand for our BMW vehicles. With the additional capacity, new products such as the X1 and the new generation 3-series sedan will be introduced in 2012 to expand the joint venture's product offering. In addition, the joint venture will also bring in BMW engines for domestic production, and develop new energy vehicles to comply with the Chinese regulatory requirements.

In addition to expanding our production capacity, we also continue to streamline the joint venture's operation and to take advantage of scale economies for cost reduction in an effort to increase the joint venture's profitability and margins. We are rapidly expanding our distribution network into new geographic areas in order to extend our market reach and coverage. For the medium term, we are also assessing our future product strategy beyond the X1, 3 and 5 series models, as well as preparing for further capacity needs to cater to both the domestic and overseas markets which will be served via export of our vehicles from China.

As for the minibus business, growth of the light vehicle market had slowed in the first half of the year and our minibus sales had been affected as a result. Our existing minibus products are due for an upgrade, and we are teaming up with our strategic partners to formulate a plan to improve the management and product development capability of our minibus company. The goal is to upgrade existing models while developing future new generation products with the technical support of our strategic partners, so as to strengthen our competitiveness and to increase volume and market share over time. We are also concurrently conducting a review of our minibus operation and organisation structure to find ways of improving the business model and overall management of this business.

Aside from the BMW joint venture and the minibus operation, we continue to seek both upstream and downstream expansion opportunities along the auto value chain, in an effort to establish another income source for the Group. Furthermore, we are also contemplating other strategic moves to better position the Group as a strong player in the auto industry in China.

Liquidity and Financial Resources

As at 30th June, 2011, the Group had RMB698.2 million in cash and cash equivalents, RMB89.0 million in short-term bank deposits and RMB1,461.7 million in pledged short-term bank deposits. The Group had notes payable in the amount of RMB1,919.4 million and outstanding short-term bank borrowings of RMB982.0 million, but had no long-term bank borrowings outstanding as at 30th June, 2011.

Contingent Liabilities

Details of the contingent liabilities are set out in note 24 to the condensed consolidated financial statements.

Gearing Ratio

As at 30th June, 2011, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 0.90 (*31st December, 2010: 1.26*). The decrease in the gearing ratio was primarily due to a decrease in short-term financing through notes payable, and a decrease in amounts due to affiliated companies as at 30th June, 2011.

Foreign Exchange Risks

The Group considers that exchange rate fluctuations will only have an insignificant effect on the overall financial performance of the Group in the future. The Group 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, 2011.

Employees and Remuneration Policy

The Group employed approximately 6,400 employees as at 30th June, 2011 (*30th June, 2010: approximately 6,200*). Employee costs amounted to approximately RMB181.9 million for the six months ended 30th June, 2011 (*six months ended 30th June, 2010: approximately RMB139.9 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 of directors (the "**Board**") resolved not to declare any interim dividend for the six months ended 30th June, 2011 (*six months ended 30th June, 2010: nil*).

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

As at 30th June, 2011, 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 (Note 1)					
	Long		Short		Lending	
	Position	%	Position	%	Pool	%
Huachen (Note 2)	2,260,074,988	45.23	–	–	–	–
Templeton Asset Management Ltd. (Note 3)	800,995,632	16.03	–	–	–	–
Cheah Cheng Hye (Note 4)	600,038,000	12.01	–	–	–	–
To Hau Yin (Note 4)	600,038,000	12.01	–	–	–	–
Hang Seng Bank Trustee International Limited (Note 4)	600,038,000	12.01	–	–	–	–
Cheah Company Limited (Note 4)	600,038,000	12.01	–	–	–	–
Cheah Capital Management Limited (Note 4)	600,038,000	12.01	–	–	–	–
Value Partners Group Limited (Note 4)	600,038,000	12.01	–	–	–	–
Value Partners Limited (Note 4)	600,038,000	12.01	–	–	–	–

Notes:

- The percentage of shareholding is calculated on the basis of 4,996,769,388 shares in issue as at 30th June, 2011, according to the records of the branch share registrar of the Company.
- The 2,260,074,988 shares in long position were held in the capacity as beneficial owner.
- The 800,995,632 shares in long position were held in the capacity as investment manager.
- The 600,038,000 shares in long position were held by Value Partners Limited in the capacity as investment manager. These shares were interests of a discretionary trust of which Mr. Cheah Cheng Hye is the founder. The trustee of the trust was Hang Seng Bank Trustee International Limited, which held the interests in the Company through its indirect control over Value Partners Limited. Value Partners Limited is 100% controlled by Value Partners Group Limited, which in turn is 28.69% controlled by Cheah Capital Management Limited. Cheah Capital Management Limited is 100% controlled by Cheah Company Limited, which in turn is 100% controlled by Hang Seng Bank Trustee International Limited. Accordingly, Mr. Cheah Cheng Hye, Ms. To Hau Yin (spouse of Mr. Cheah Cheng Hye), Hang Seng Bank Trustee International Limited, Cheah Company Limited, Cheah Capital Management Limited and Value Partners Group Limited were deemed to have interests in the 600,038,000 shares in the Company.

Save as disclosed herein, as at 30th June, 2011, 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, 2011, 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 (Note 1)	Number of share options granted (Percentage of the Company's issued share capital) (Note 2)
		Long Position	Short Position		
Wu Xiao An (also known as Ng Siu On)	Personal	5,000,000	–	0.10%	5,000,000 (0.10%) (Note 3)
Qi Yumin	Personal	–	–	–	9,000,000 (0.18%) (Note 3)
Wang Shiping	Personal	–	–	–	3,000,000 (0.06%) (Note 3)
Lei Xiaoyang	Personal	–	–	–	3,000,000 (0.06%) (Note 3)

Notes:

1. The percentage of shareholding is calculated on the basis of 4,996,769,388 shares of the Company in issue as at 30th June, 2011, according to the records of the branch share registrar of the Company.
2. The percentage represents the number of shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to the share options granted by the Company based on the 4,996,769,388 shares of the Company in issue as at 30th June, 2011.
3. These share options are exercisable at any time during the 10-year period from 22nd December, 2008 at the subscription price of HK\$0.438 per share.

Save as disclosed above, as at 30th June, 2011, 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, 2011 is set out below:

Category and name of participant	Date of grant	Number of share options					Outstanding as at 30th June, 2011	Option period	Subscription price per share (HK\$)
		Outstanding as at 1st January, 2011	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 (Note 2)	-	-	-		

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. The closing price of the shares immediately before the date on which the share options were exercised was HK\$7.41 per share.

All the share options previously granted under the 1999 Share Option Scheme have been exercised, cancelled or lapsed.

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 at 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, 2011 is set out below:

Category and name of participants	Date of grant	Number of share options					Outstanding as at 30th June, 2011	Option period	Subscription price per share (HK\$)
		Outstanding as at 1st January, 2011	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period			
Directors									
Wu Xiao An	22nd December, 2008 (Note 2)	5,000,000	-	-	-	-	5,000,000	22nd December, 2008 – 21st December, 2018	0.438
Qi Yumin	22nd December, 2008 (Note 2)	9,000,000	-	-	-	-	9,000,000	22nd December, 2008 – 21st December, 2018	0.438
He Guohua (Note 1)	22nd December, 2008 (Note 2)	3,000,000	-	3,000,000	-	-	-	22nd December, 2008 – 21st December, 2018	0.438
Wang Shiping	22nd December, 2008 (Note 2)	3,000,000	-	-	-	-	3,000,000	22nd December, 2008 – 21st December, 2018	0.438
Lei Xiaoyang	22nd December, 2008 (Note 2)	3,000,000	-	-	-	-	3,000,000	22nd December, 2008 – 21st December, 2018	0.438
Employees (in aggregate)	22nd December, 2008 (Note 2)	24,000,000	-	-	-	-	24,000,000	22nd December, 2008 – 21st December, 2018	0.438
Others (in aggregate)	22nd December, 2008 (Note 2)	3,000,000	-	-	-	-	3,000,000	22nd December, 2008 – 21st December, 2018	0.438
Total		50,000,000	-	3,000,000 (Note 3)	-	-	47,000,000		

Notes:

- Mr. He Guohua resigned as a director of the Company on 28th June, 2011.
- 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\$8.21 per share.

As no share options have been granted by the Company under the New Share Option Scheme for the six months ended 30th June, 2011, no expenses were recognised by the Group for the period under review (six months ended 30th June, 2010: nil).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2011.

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, 2011, 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. In addition, all directors, including those appointed for a fixed term, are subject to retirement by rotation at least once every three years under code provision A.4.2.

Major update

There have been no material changes to the information disclosed in the Company's 2010 annual report in respect of our corporate governance practices. Major update since the 2010 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. According to bye-law 99, 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. To comply with the code provision A.4.2 and in accordance with bye-law 99, Mr. Lei Xiaoyang, Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo retired by rotation at the annual general meeting of the Company held on 23rd May, 2011 (the "**2011 AGM**").

Bye-law 102(B) states that a director appointed by the Board of the Company as an addition to the Board shall hold office until the next following annual general meeting. To comply with bye-law 102(B), Mr. Tan Chengxu, who was appointed by the Board as an addition to the Board on 10th November, 2010, held office until the 2011 AGM.

At the 2011 AGM, shareholders of the Company approved the re-election of Mr. Lei Xiaoyang, Mr. Xu Bingjin, Mr. Song Jian, Mr. Jiang Bo and Mr. Tan Chengxu 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, 2011. 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 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, 2011.

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

Hong Kong, 24th August, 2011