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Brilliance Auto

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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)

**CONNECTED AND MAJOR TRANSACTION
DISPOSAL OF ZHONGHUA BUSINESS OF
SHENYANG BRILLIANCE JINBEI AUTOMOBILE CO., LTD.*
AND
RESUMPTION OF TRADING**

Financial Adviser to the Company

 **ROTHSCHILD**

The Business Transfer Agreement

On 28th October, 2009, Shenyang Automotive, a 51% subsidiary of the Company, entered into the Business Transfer Agreement with Huachen pursuant to which Shenyang Automotive agreed to sell, and Huachen agreed to acquire the Zhonghua Business at the Base Value of RMB494,490,168 (equivalent to approximately HK\$561,246,341), subject to adjustments. On 29th October, 2009, Shenyang Automotive and Huachen entered into a supplemental agreement pursuant to which the parties agreed that the Consideration (after taking into account the adjustments) for the Zhonghua Business shall be no more than RMB550.0 million (equivalent to approximately HK\$624.3 million).

The disappointing financial performance of the Zhonghua Business has adversely influenced and suppressed the true potential value of the Group. The Directors believe that the disposal of the Zhonghua Business would provide immediate earnings enhancement to the Group, uplift the profile of the Company and unlock the true intrinsic value of the Group so that the value of the Group's remaining businesses in minibuses and the BMW joint venture, which are both profitable, could be fully recognised by the market and better reflected in the Company's share price. It would also enable the Company to refocus its management and financial resources on the development of its existing profitable businesses and potential new ventures.

As at the date of this announcement, Huachen is interested in 2,760,074,988 Shares (representing approximately 55.38% of the entire issued share capital of the Company). Accordingly, Huachen is a connected person of the Company under Chapter 14A of the Listing Rules. The Disposal constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal exceed 25% but are below 75%, the Disposal also constitutes a major transaction for the Company under the Listing Rules. The Disposal is therefore conditional on the approval by the Independent Shareholders by way of a poll at the SGM.

Huachen and its associates will abstain from voting on all resolutions with respect to the Disposal at the SGM.

The Company has established the Independent Board Committee, comprising all of the independent non-executive Directors, to advise the Independent Shareholders in respect of the Disposal. An independent financial advisor will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal.

A circular containing, among other things, (i) further information about the Disposal, (ii) the respective letters of advice from the Independent Board Committee and the independent financial advisor, and (iii) a notice convening the SGM will be despatched to the Shareholders in accordance with the requirements of the Listing Rules as soon as practicable.

Resumption of Trading

Dealings in the Shares on the Stock Exchange have been suspended at the request of the Company with effect from 2:30 p.m. on 28th October, 2009 pending release of this announcement. Application has been made by the Company for the resumption of dealings in the Shares on the Stock Exchange on 30th October, 2009 at 9:30 a.m.

THE BUSINESS TRANSFER AGREEMENT DATED 28TH OCTOBER, 2009

Parties:

Vendor: Shenyang Automotive, particulars of which are set out in the paragraph headed “Information on the Group and Shenyang Automotive” of this announcement.

Purchaser: Huachen, particulars of which are set out in the paragraph headed “Information on Huachen” of this announcement.

Assets to be disposed of:

The Transferred Assets, the Transferred Liabilities, certain employees and certain business contracts comprised in the Zhonghua Business.

Further particulars of the Zhonghua Business are set out in the paragraph headed “Information on the Zhonghua Business” of this announcement.

Consideration:

The Consideration for the Zhonghua Business shall be the Base Value of RMB494,490,168 (equivalent to approximately HK\$561,246,341) subject to adjustments set out in the sub-paragraph headed “Adjustments” below for which the total shall be no more than RMB550.0 million (equivalent to approximately HK\$624.3 million). The Consideration shall be settled by way of the Promissory Note to be issued by Huachen in favour of Shenyang Automotive.

The Consideration was arrived at after arm’s length negotiations between the parties with reference to various major factors including (i) the appraised valuation on the Zhonghua Business as at 30th June, 2009 in the amount of RMB494,490,168 (equivalent to approximately HK\$561,246,341) contained in the Valuation Report prepared by an independent professional valuer based on 成本法 (cost method*); (ii) the long-term growth prospects, future earnings potentials, current financial losses and future investment needs in respect of the Zhonghua Business; and (iii) valuation ascribed to recent merger and acquisition transactions of similar businesses.

Adjustments:

Shenyang Automotive undertook that upon execution of the Business Transfer Agreement, it shall prepare the management accounts recording the changes in the book value and scope of the assets and liabilities comprised in the Zhonghua Business during the period from 1st July, 2009 to the date of Completion.

No later than the sixtieth day immediately after the date of Completion, Shenyang Automotive shall deliver to Huachen the Completion Audited Accounts.

On the tenth Working Day after the receipt of the Completion Audited Accounts, Huachen shall confirm with Shenyang Automotive the Consideration by reference to the following formula:

Consideration = the Base Value (+ the increase) or (- the decrease) in the net book value of the assets and liabilities of the Zhonghua Business as recorded in the Valuation Report and the net asset value as shown in the Completion Audited Accounts.

The parties agreed that if the difference between the Base Value and the Consideration derived from the above formula is less than 5%, no adjustment shall be made to the Base Value. In that event, the Base Value shall be used as the Consideration.

Huachen shall, on the third Working Day immediately after having agreed on the Consideration, issue and deliver to Shenyang Automotive the Promissory Note in the principal amount of the Consideration.

Terms of the Promissory Note:

The Promissory Note shall be in the principal amount of the Consideration to be executed by Huachen in favour of Shenyang Automotive maturing on the third anniversary of the date of issue of the Promissory Note. The Promissory Note shall not bear any interests and shall not be transferable without prior written consent of the other party. The outstanding principal amount of the Promissory Note could be repaid in full or in part at any time before maturity.

Conditions Precedent:

Completion of the Disposal is conditional upon the fulfillment or waiver of the following conditions precedent on or before the Long Stop Date:

- (1) the obtaining of the approval for the Business Transfer Agreement by Liaoning Provincial Government of the PRC;
- (2) the obtaining of the approval for Huachen's restructuring of the Zhonghua Business by National Development and Reform Commission of the PRC;
- (3) the completion of all necessary procedures for and the obtaining of the approval for the expansion of scope of business of Huachen by competent business registration authorities in the PRC;
- (4) the obtaining of the approval for Huachen to be the manufacturer of Zhonghua sedans by the Ministry of Industry and Information Technology of the PRC and the completion of necessary notification procedures in relation to enterprise engaging in the manufacture of and product of road mechanic vehicles;
- (5) the obtaining of all consents from creditors (including but not limited to banks and guarantors) of Shenyang Automotive with respect to the transfer of the Transferred Liabilities;
- (6) the issue of written notice to debtors of Shenyang Automotive with regard to the transfer of all liabilities owed to Shenyang Automotive in the Zhonghua Business;

- (7) the obtaining of all consents from all parties (if necessary) to the underlying business contracts with regard to the Zhonghua Business, pursuant to which the parties agree that Huachen shall inherit and perform all obligations of Shenyang Automotive and enjoy all rights and benefits of Shenyang Automotive under the relevant business contracts;
- (8) the completion of transfer to Huachen of the equity interests in the PRC Companies owned by Shenyang Automotive;
- (9) the completion of all necessary legal procedures for the change in title of the Transferred Assets and the Transferred Liabilities so that Huachen shall become the legal owner of the Transferred Assets and the debtor of the Transferred Liabilities; and
- (10) the passing at one or more special general meetings of the Company by Independent Shareholders of resolutions to approve (i) the transfer of the Zhonghua Business under the Business Transfer Agreement in accordance with the Listing Rules; and (ii) any continuing connected transactions (as defined in the Listing Rules) to be entered into between the Company and/or its subsidiaries and Huachen and/or its subsidiaries and/or its associates after the date of Completion.

Huachen shall not waive conditions (1), (2), (3), (4) and (10). In the event that any of the conditions are not satisfied or, where permitted, waived on or before the Long Stop Date, the Business Transfer Agreement shall become null and void and with no legal effect and the parties shall not be bound to proceed with the Disposal.

It is contemplated that upon Completion, certain transactions to be entered into between the Company and/or its subsidiaries and Huachen and/or its subsidiaries and/or its associates will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Further announcement(s) shall be made by the Company in this regard in accordance with the requirements under the Listing Rules.

Delivery of the Updated List:

Shenyang Automotive shall, within five Working Days from the date of written confirmation from both parties on the fulfillment, or where permitted, waiver of the conditions precedent set out above, issue the Updated List.

Date of Completion:

The parties shall further agree in writing the date of Completion within five Working Days upon the issue of the Updated List by Shenyang Automotive.

Completion and Post-Completion Matters:

On the date of Completion, Huachen shall takeover the Zhonghua Business set out in the Updated List. Unless otherwise agreed by Huachen, Shenyang Automotive shall cease to operate all activities relevant to the Zhonghua Business on the date of Completion and shall assist Huachen in taking over the Zhonghua Business.

Shenyang Automotive shall try its best endeavours to complete all necessary legal procedures that have yet to complete for transferring all rights in the assets, liabilities, contracts and employees comprised in the Zhonghua Business contained in the Updated List as soon as practicable upon Completion.

Shenyang Automotive further undertook that after Completion but before completion of all necessary legal procedures for transferring the rights in all assets, liabilities, contracts and employees comprised in the Zhonghua Business contained in the Updated List, it shall hold on trust for Huachen the part of the Zhonghua Business with respect of which all necessary legal procedures for transferring the rights have not been completed. Any interests or losses derived or accrued from such part of the Zhonghua Business shall be enjoyed or borne by Huachen.

INFORMATION ON THE GROUP AND SHENYANG AUTOMOTIVE

The Group is principally engaged in the manufacture and sale of minibuses and automotive components and sedans.

Shenyang Automotive is a sino-foreign equity joint venture established in the PRC on 19th July, 1991 and a subsidiary of the Company whose equity interests are owned as to 51% by the Company. The principal activities of Shenyang Automotive are the manufacture, assembly and sale of minibuses and Zhonghua sedans as well as automotive components in the PRC.

INFORMATION ON HUACHEN

Huachen is a state-owned limited liability company which was established under the laws of the PRC on 16th September, 2002 and is wholly beneficially owned by the Liaoning Provincial Government of the PRC. The principal activity of Huachen is investment holding. As at the date of this announcement, Huachen is interested in 2,760,074,988 Shares (representing approximately 55.38% of the entire issued share capital of the Company) and is a connected person of the Company under Chapter 14A of the Listing Rules.

INFORMATION ON THE ZHONGHUA BUSINESS

The Transferred Assets are assets owned by Shenyang Automotive in relation to the businesses of Zhonghua sedan brand. They include interests in real properties, equity interests in the PRC Companies, projects under construction, inventories, accounts receivables, cash, other current assets and other intangible assets.

The Transferred Liabilities are liabilities incurred in the normal course of business of Zhonghua by Shenyang Automotive comprising short-term loan and accounts payables and other payables.

As disclosed in the Company's annual and interim reports, the audited segment results of the Zhonghua business for the financial year ended 31st December, 2007 was RMB135,000, and the audited and unaudited segment loss of the Zhonghua business for the financial year ended 31st December, 2008 and the six months period ended 30th June, 2009 were RMB729.5 million and RMB934.8 million, respectively.

According to the books and records of Shenyang Automotive which were prepared in accordance with the generally accepted accounting principles in the PRC, the book value of the Transferred Assets was approximately RMB8,980.3 million (equivalent to approximately HK\$10,192.6 million) as at 30th June, 2009 and the amount of the Transferred Liabilities was approximately RMB7,003.1 million (equivalent to approximately HK\$7,948.5 million) as at 30th June, 2009. Subsequent to 30th June, 2009 but before Completion, provisions in the amount of approximately RMB1,642.8 million (equivalent to approximately HK\$1,864.6 million) had been made to the Transferred Assets and the value of which was reduced to approximately RMB7,337.5 million (equivalent to approximately HK\$8,328.1 million).

REASONS AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the manufacture and sale of minibuses and automotive components and sedans. The Group's Zhonghua sedan brand is a domestically developed one, which has consumed substantial resources in terms of its brand building and product development. The high upfront development costs coupled with the relatively low sales volume of Zhonghua sedans in the past had resulted in substantial losses generated from this business segment in four out of the last five financial years. Although there remains to be long-term potential for the business to become profitable when sales volume eventually becomes more robust, the Company believes that further development of this business will require significant additional investment thus putting considerable financial burden on the Company in the short to medium term.

The disappointing financial performance of the Zhonghua Business in the past, and the long lead time expected for the business to breakeven in the future, have adversely affected the overall financial results and the stock price performance of the Company. The Directors are of the view that the poor performance of the business has adversely influenced and suppressed the true potential value of the Group. Thus, the Directors believe that the Disposal would provide immediate earnings enhancement to the Group, uplift the profile of the Company and unlock the true intrinsic value of the Group so that the value of the Group's remaining businesses in minibuses and the BMW joint venture, which are both profitable, could be fully recognised by the market and better reflected in the Company's share price.

Further, the Disposal would enable the Company to refocus its management and financial resources on its existing profitable businesses in minibus and the BMW joint venture, as well as to develop other new downstream service-related auto aftermarket businesses. The BMW joint venture has exhibited impressive growth momentum, and the Company has been working actively with its partner BMW to finalise details of the joint venture's new expansion plan which includes capacity increase, new product

introduction, export and other potential means to increase the sales and market share of the joint venture. The Company is also working closely with Toyota to explore ways of deepening their cooperation in the minibus segment in China so as to leverage on and strengthen the Group's longstanding market leading position in this market segment.

In view of the abovementioned renewed strategies and business direction, the Directors are of the view that the terms of the Business Transfer Agreement and the Disposal contemplated thereunder are fair and reasonable and in the interests of the Company and Shareholders as a whole.

A loss of approximately RMB720.0 million (equivalent to approximately HK\$817.2 million) is expected to be recognised by the Group (representing loss of approximately RMB443.4 million (equivalent to approximately HK\$503.3 million) and loss of approximately RMB276.6 million (equivalent to approximately HK\$313.9 million) attributable to equity holders of the Company and minority interests respectively) for the year ending 31st December, 2009 following Completion of the Disposal. The loss is calculated based on the difference between the Consideration for the Disposal and the unaudited carrying amounts of the Transferred Assets and the Transferred Liabilities included in the unaudited consolidated financial statements of the Group as at 30th June, 2009 prepared in accordance with generally accepted accounting principles in Hong Kong. For the purpose of calculating the loss of the Disposal, the entire amount of the provision on the Transferred Assets made by Shenyang Automotive as referred to under the paragraph headed "Information on the Zhonghua Business" has been taken into account. Part of such provision has been made by the Group in the past financial years in accordance with the generally accepted accounting principles in Hong Kong.

USE OF PROCEEDS

Assuming no adjustment is to be made to the Base Value, the net proceeds from the Disposal (after deducting therefrom the expenses) are expected to be approximately RMB485 million (equivalent to approximately HK\$550.5 million) and will be applied to fund the general working capital requirements of the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Huachen is interested in 2,760,074,988 Shares (representing approximately 55.38% of the entire issued share capital of the Company). Accordingly, Huachen is a connected person of the Company under Chapter 14A of the Listing Rules. The Disposal constitutes a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal exceed 25% but are below 75%, the Disposal also constitutes a major transaction for the Company under the Listing Rules. The Disposal is therefore conditional on the approval by the Independent Shareholders by way of a poll at the SGM.

Huachen and its associates will abstain from voting on all resolutions with respect to the Disposal at the SGM.

GENERAL

The Company has established the Independent Board Committee, comprising all of the independent non-executive Directors, to advise the Independent Shareholders in respect of the Disposal. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal.

A circular containing, among other things, (i) further information about the Disposal, (ii) the respective letters of advice from the Independent Board Committee and the independent financial adviser, and (iii) a notice convening the SGM will be despatched to the Shareholders in accordance with the requirements of the Listing Rules as soon as practicable.

RESUMPTION OF TRADING

Dealings in the Shares on the Stock Exchange have been suspended at the request of the Company with effect from 2:30 p.m. on 28th October, 2009 pending release of this announcement. Application has been made by the Company for the resumption of dealings in the Shares on the Stock Exchange on 30th October, 2009 at 9:30 a.m.

DEFINITIONS

In this announcement, unless otherwise defined, terms used herein shall have the following meanings:

“associates”	has the meaning ascribed thereto in the Listing Rules;
“Base Value”	RMB494,490,168;
“Board”	the board of Directors;
“Business Transfer Agreement”	the business transfer agreement dated 28th October, 2009 entered into between Shenyang Automotive and Huachen in relation to the Disposal, where the context requires, as supplemented by a supplemental agreement dated 29th October, 2009;
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Company”	Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), an exempted company incorporated in Bermuda with limited liability, whose securities are listed on the Stock Exchange;
“Completion”	completion of the Disposal under the Business Transfer Agreement;

“Completion Audited Accounts”	the audited accounts in respect of the Zhonghua Business contained in the Updated List for the period from 1st July, 2009 to the date of Completion prepared in accordance with the generally accepted accounting principles in the PRC;
“connected person”	has the meaning ascribed thereto in the Listing Rules;
“Consideration”	consideration for the Zhonghua Business, being the Base Value after adjustments (if any), which shall be no more than RMB550,000,000;
“Directors”	the directors of the Company;
“Disposal”	the disposal of the Zhonghua Business by Shenyang Automotive as contemplated under the Business Transfer Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Huachen”	Huachen Automotive Group Holdings Company Limited, the controlling shareholder of the Company which as at the date of this announcement is interested in approximately 55.38% of the issued share capital of the Company;
“Independent Board Committee”	the independent committee of Board, comprising Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to the Disposal;
“Independent Shareholders”	Shareholders other than Huachen and its associates;
“JinBei”	金杯汽車股份有限公司 (Shenyang JinBei Automotive Company Limited*), a company incorporated in the PRC on 14th May, 1984 whose shares are listed on the Shanghai Stock Exchange and holder of the 39.1% equity interests in Shenyang Automotive;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	any date within 6 months from the date of the Business Transfer Agreement (or any later date as agreed by the parties);
“PRC”	The People’s Republic of China and for the sole purpose of this announcement shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;

“PRC Companies”	瀋陽華晨動力機械有限公司 (Shenyang Brilliance Power Train Machinery Co., Ltd.*), 金杯汽車股份有限公司教育中心 (Educational Center of JinBei Automotive Co., Ltd.*) and 瀋陽華晨金杯汽車銷售有限公司 (Shenyang Brilliance JinBei Automobile Sales Co., Ltd.*), all of which are established under the laws of the PRC;
“Promissory Note”	a non-interest bearing promissory note in the principal amount of the Consideration to be executed by Huachen in favour of Shenyang Automotive maturing on the third anniversary of the date of issue of the Promissory Note;
“RMB”	renminbi, the lawful currency of the PRC;
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council of the PRC;
“SGM”	the special general meeting of the Company to be convened for the purpose of approving the Business Transfer Agreement and the Disposal contemplated thereunder by the Independent Shareholders;
“Shareholder(s)”	holder(s) of Shares;
“Shares”	shares at par value of US\$0.01 each in the share capital of the Company;
“Shenyang Automotive”	瀋陽華晨金杯汽車有限公司 (Shenyang Brilliance JinBei Automobile Co., Ltd.*), a sino-foreign equity joint venture established in the PRC on 19th July, 1991 and a subsidiary of the Company whose equity interests are owned as to 51% by the Company and as to 39.1% by JinBei. The principal activities of Shenyang Automotive are the manufacture, assembly and sale of minibuses and Zhonghua sedans as well as automotive components in the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the meaning ascribed thereto under the Companies Ordinance;
“Transferred Assets”	certain assets in relation to the businesses of manufacture and sale of Zhonghua sedans owned by Shenyang Automotive which are subject to the Disposal, particulars of which are set out in the paragraph headed “Information on the Zhonghua Business” of this announcement;
“Transferred Liabilities”	certain liabilities in relation to the businesses of manufacture and sale of Zhonghua sedans owed by Shenyang Automotive which are subject to the Disposal, particulars of which are set out in the paragraph headed “Information on the Zhonghua Business” of this announcement;

“Updated List”	a updated list of the Transferred Assets, the Transferred Liabilities, certain employees and the business contracts comprised in the Zhonghua Business showing all changes since 1st July, 2009;
“US\$”	United States dollars, the lawful currency of the United States of America;
“Valuation Report”	the valuation report on the Zhonghua Business as at 30th June, 2009 prepared by an independent professional valuer and to be with SASAC of Liaoning Provincial Government of the PRC;
“Working Day”	any day other than Saturday, Sunday and public holiday in the PRC; and
“Zhonghua Business”	the Transferred Assets, the Transferred Liabilities, certain employees and the business contracts in relation to the businesses of manufacture and sale of Zhonghua sedans operated by Shenyang Automotive which are subject to the Disposal, particulars of which are set out in the paragraph headed “Information on the Zhonghua Business” of this announcement.

In this announcement, all amounts in RMB are converted into HK\$ at the exchange rate of RMB1.00: HK\$1.135. The conversion rate is for the purpose of illustration only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at the aforementioned or any other rates.

*Certain English translations of Chinese names or words marked with * in this announcement are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words.*

By Order of the Board
Brilliance China Automotive Holdings Limited
Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong, 29th October, 2009

As at the date of this announcement, the Board comprises four executive Directors, Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Chairman), Mr. Qi Yumin (Chief Executive Officer), Mr. He Guohua and Mr. Wang Shiping; one non-executive Director, Mr. Lei Xiaoyang; and three independent non-executive Directors, Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo.

* For identification purposes only