BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

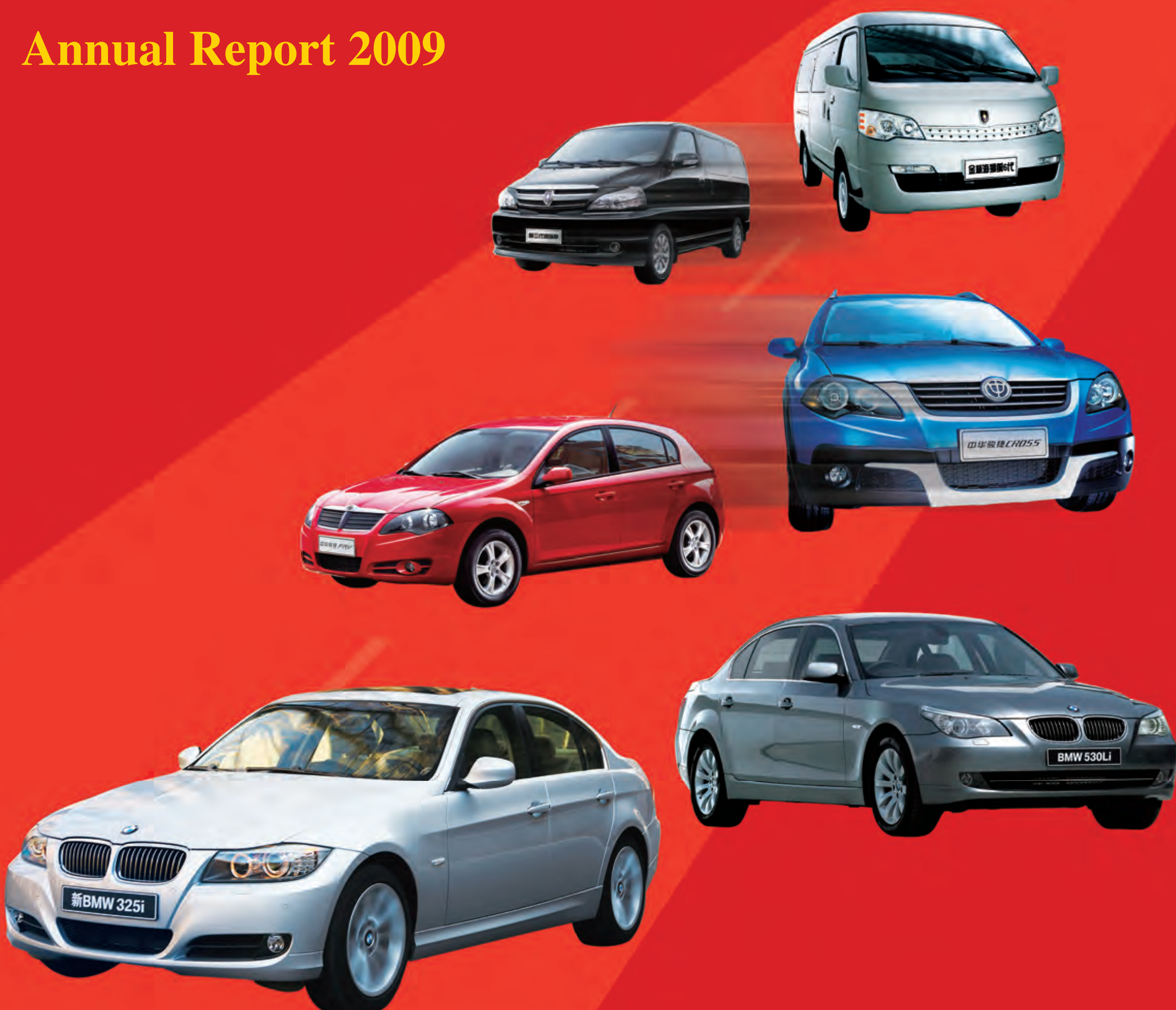
(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

Stock Code : 1114

Brilliance Auto
华晨汽车

Annual Report 2009



**for identification purposes only*

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Corporate Information

BOARD OF DIRECTORS

Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(Chairman)*
Mr. Qi Yumin *(Chief Executive Officer)*
Mr. He Guohua
Mr. Wang Shiping
Mr. Lei Xiaoyang#
Mr. Xu Bingjin*
Mr. Song Jian*
Mr. Jiang Bo*

non-executive director
* *independent non-executive director*

AUTHORISED REPRESENTATIVES

Mr. Wu Xiao An
Mr. Lei Xiaoyang

CHIEF FINANCIAL OFFICER

Mr. Qian Zuming

COMPANY SECRETARY

Ms. Lam Yee Wah Eva

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 1602–05
Chater House
8 Connaught Road Central
Hong Kong

AUDITORS

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited,
Hong Kong Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–16
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISORS TO THE COMPANY

Appleby
Troutman Sanders

INVESTOR RELATIONS

Weber Shandwick
10th Floor, Oxford House
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Financial Highlights

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

	Year Ended and as at 31st December,				
	2009	**2008**	**2007**	**2006**	**2005**
	RMB	RMB	RMB	RMB	RMB
	(Note)	(Amounts in thousands except earnings/loss per share)			
Income Statement Data:					
Turnover	12,389,585	11,189,162	14,149,149	10,484,754	5,468,990
(Loss) Profit before taxation	(2,703,203)	(259,044)	211,567	(656,764)	(1,156,445)
Taxation	(40,989)	(55,267)	(45,208)	(47,879)	(89,097)
(Loss) Profit for the year	(2,744,192)	(314,311)	166,359	(704,643)	(1,245,542)
Less: Non-controlling interests	(1,104,357)	(395,240)	69,273	(306,221)	(595,934)
(Loss) Profit attributable to equity holders of the Company	(1,639,835)	80,929	97,086	(398,422)	(649,608)
Basic (Loss) Earnings per Share	RMB(0.3660)	RMB0.02205	RMB0.02646	RMB(0.1086)	RMB(0.1771)
Diluted (Loss) Earnings per Share	N/A	RMB0.02203	RMB0.02639	RMB(0.1086)	RMB(0.1771)
Balance Sheet Data:					
Non-current Assets	4,894,177	8,083,978	7,264,454	7,100,894	7,705,700
Current Assets	6,570,873	9,231,062	9,605,473	7,762,297	7,101,246
Current Liabilities	(7,311,781)	(11,049,167)	(8,642,968)	(7,101,773)	(8,009,894)
Non-current Liabilities	(424,688)	(398,618)	(1,967,560)	(1,736,278)	(79,602)
Non-controlling interest	1,293,432	186,467	(209,736)	(140,147)	(446,368)
Shareholders' Equity	5,022,013	6,053,722	6,049,663	5,884,993	6,271,082

Note:

The figures for the year ended 31st December, 2009 included the continuing operations and discontinued operations of the Company and its subsidiaries.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual results of Brilliance China Automotive Holdings Limited for the year ended 31st December, 2009.

The year 2009 had been an extraordinary one for China. Although many developed countries still experienced the economic slowdown caused by the global financial crisis, China's economy was able to rebound sharply and ending the year with an impressive GDP growth rate of 8.7% as a result of the various policies and stimulus packages introduced by the Chinese government to boost domestic consumption. The Chinese auto industry had also benefited and recovered strongly from the deceleration of 2008, and reaching a recording-breaking sales level of 13.6 million units for the year, an increase of 46.1% from the previous year. China has become the largest auto market globally. In 2009, sales of passenger vehicles had also surpassed the 10 million mark for the first time, representing an increase of 52.9% from the previous year.

During the year, the Group had undergone tremendous transformation. The disappointing performance of the Zhonghua sedan business in the past had adversely influenced and suppressed the true intrinsic value of the Group. Therefore, during the year management decided to exit the Zhonghua business via a disposal to the Huachen Group, the Group's major shareholder. The disposal will not only provide an immediate earnings enhancement but will also enable the Group to refocus its management and financial resources on the development of its existing profitable businesses and potential new ventures. The transfer had taken effect on 31st December, 2009, and the significant losses recorded for 2009 was primarily a result of the operating losses incurred by the Zhonghua business during the year, as well as writedowns and losses associated with the sale of the Zhonghua operation.

With respect to our minibus business, despite a competitive operating environment, the Group continued to maintain its market leading position in 2009. A total of 78,968 minibuses were sold in 2009, representing an increase of 6.9% from the 73,863 units sold in 2008. The deluxe minibuses had shown a particularly impressive sales volume increase of 21.3% during the year, primarily driven by the new Granse model which has been very well received by the market since its launch in 4Q2009.

The BMW Brilliance joint venture registered sales of 44,888 units in 2009, an increase of 28.0% over that of 2008. The joint venture's cost cutting effort has continued to show results, as demonstrated by the 39.0% increase in profit contribution to the Group from the joint venture in 2009 compared to that of the previous year.

Looking into 2010, despite the strong industry rebound experienced in 2009 and a good start for the first quarter of this year in terms of sales volume, there remains risks from both a macroeconomic correction and an overall industry slowdown standpoint.

Chairman's Statement

The Group has entered 2010 after a year of profound changes, and is now operating on two profitable businesses and a new corporate vision. There will be no more losses associated with the Zhonghua sedan business starting in 2010. Going forward, the Group will focus on our core businesses of minibus and the BMW joint venture. With its long history, established track record and strong brand recognition, we expect our minibus business to continue to be a stable profit contributor to the Group. We will pursue growth of our existing products, while at the same time expand our horizon via new product introduction as well as potential new ventures by working with our long-time partner Toyota or other major strategic players in the segment.

As for our joint venture with BMW, we were delighted to announce recently details of our Phase II expansion plan to build a brand new facility with designed capacity of up to 300,000 units. This new plant will commence production in year 2012 on a stepwise basis to complement our existing facility, and will allow for the introduction of new BMW products for domestic production in China in addition to the current 3 and 5 series ones. Based on 2009 sales volume, China has already become BMW's fourth largest market worldwide. We continue to have great confidence in the growth potential of the premium auto segment in China, and with the introduction of our brand new 5-series long version sedan in the second half of this year, we expect to see good volume growth for the year. At the same time the joint venture will continue to implement cost cutting measures in an effort to further improve margins. The BMW joint venture is also expected to enter the auto finance arena in the second half of the year, once regulatory approval is granted to commence operation. With the major expansion of our joint venture's production capacity, its two shareholders, the Group and BMW AG, are more committed than ever and we are exploring with our partner BMW on other potential means to further tighten our cooperation.

Last but not least, I would like to take this opportunity to express my sincere appreciation to our shareholders, business partners, management team and all other employees for their continued support and dedication to the Group.

Xiaoan Wu

Wu Xiao An
(also known as Ng Siu On)
Chairman
16th April, 2010

Management's Discussion & Analysis

BUSINESS REVIEW

In an effort to improve the overall performance of the Company and its subsidiaries (the "**Group**"), the Group had disposed of its Zhonghua sedan business during the year and transferred all related assets and liabilities on 31st December, 2009.

The consolidated net sales from continuing operations (which represent primarily those derived from the minibus business) of the Group, including Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**"), Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**"), Ningbo Yuming Machinery Industrial Co., Ltd. ("**Ningbo Yuming**"), Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("**Ningbo Ruixing**"), Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**"), Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("**Dongxing Automotive**"), Shenyang ChenFa Automobile Component Co., Ltd. ("**Shenyang ChenFa**"), Shenyang Jindong Development Co., Ltd. ("**Shenyang Jindong**") and Shanghai Hidea Auto Design Co., Ltd. ("**Shanghai Hidea**") for the year ended 31st December, 2009 was RMB6.149 billion, representing a 12.4% increase from RMB5.473 billion for the year ended 31st December, 2008. The increase in sales was primarily due to an increase in the unit sales of Shenyang Automotive's minibuses in 2009.

Shenyang Automotive sold 78,968 minibuses in 2009, representing a 6.9% increase from 73,863 minibuses sold in 2008. Of these minibuses sold, 63,371 were mid-priced minibuses, representing a 3.9% increase from 61,001 units sold in 2008. Unit sales of deluxe minibuses also increased by 21.3% from 12,862 units in 2008 to 15,597 units in 2009, driven by the new Granse model which has been well received by the market since its launch in 4Q2009.

Cost of sales from continuing operations increased by 10.6% from RMB4.786 billion in 2008 to RMB5.294 billion in 2009. The increase is in line with the corresponding increase in unit sales of minibuses. The impact on the overall gross profit margin from continuing operations of the Group was an improvement from 12.5% in 2008 to 13.9% in 2009.

Other revenue from continuing operations increased by 52.1% from RMB101.6 million in 2008 to RMB154.5 million in 2009. The increase was primarily due to an increase in the sales of raw and scrap materials in 2009.

Interest income from continuing operations decreased by 18.8% from RMB38.3 million in 2008 to RMB31.1 million in 2009. The decrease was due to decreases in cash and cash equivalents, short-term and pledged deposits and a general reduction in bank interest rates.

Selling expenses from continuing operations increased by 73.3% from RMB178.9 million in 2008 to RMB310.0 million in 2009. The increase was primarily due to additional resources spent on advertising and promotion of the Group's minibuses, in particular the launch of the new Granse model. The Group also assumed certain costs of transportation for delivery of the minibuses to dealerships. Selling expenses as a percentage of turnover from continuing operations has increased to 5.0% in 2009 as compared to 3.3% in 2008.

General and administrative expenses from continuing operations increased by 17.0% from RMB282.9 million in 2008 to RMB331.0 million in 2009, mainly due to increases in amortisation of intangible assets in relation to development costs of minibuses resulted from the launch of new models of minibuses, and higher employee costs.

Net finance costs from continuing operations decreased slightly by 6.3% from RMB100.5 million in 2008 to RMB94.2 million in 2009 as the interest from bank financing decreased.

The Group's share of operating results of associates and jointly controlled entities from continuing operations increased by 31.9% from RMB285.3 million in 2008 to RMB376.3 million in 2009. This was mainly attributable to the increased profits contributed by BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), the Group's 50% indirectly owned jointly controlled entity.

Net profits contributed to the Group by BMW Brilliance increased by 39.0% from RMB255.7 million in 2008 to RMB355.3 million in 2009. The BMW joint venture achieved sales of 44,888 BMW sedans in 2009, an increase of 28.0% as compared to 35,068 BMW sedans in 2008.

Non-recurring impairment losses from continuing operations increased by 1,168.1% from RMB50.8 million for 2008 to RMB644.2 million for 2009. The increase was primarily related to impairment losses on goodwill in subsidiaries and receivable balances of RMB295.5 million and RMB333.8 million, respectively.

The Group recorded a loss before taxation from continuing operations of RMB5.0 million in 2009 versus a profit before taxation from continuing operations of RMB739.1 million in 2008. This was primarily due to the higher impairment losses recorded for the year. Income tax decreased by 25.9% from RMB55.3 million in 2008 to RMB41.0 million in 2009, resulting mainly from more loss-making subsidiaries during 2009 compared to the previous year.

The consolidated net sales from discontinued operations (which represent those derived from the Zhonghua business) of the Group for the year ended 31st December, 2009 was RMB6.241 billion, representing a 9.2% increase from RMB5.716 billion for the year ended 31st December, 2008. The increase in sales was primarily due to an increase in the unit sales of Shenyang Automotive's Zhonghua sedans in 2009.

Shenyang Automotive sold 119,138 Zhonghua sedans in 2009, representing a 30.4% increase from 91,356 sedans sold in 2008. 11,059 units, 25,946 units and 400 units of the Zunchi, Junjie and Kubao models were sold in 2009, respectively, representing decreases of 36.5%, 49.9% and 70.3% from 2008, respectively. The Junjie FRV, Cross and FSV models under the new A-class platform, with the latter two being new models introduced in 2009, recorded total sales of 81,733 units for 2009 compared to 20,764 units for 2008. Despite the increase in sales volume of the A-class platform vehicles, the unfavorable margins on these products had led to a negative gross margin for the Zhonghua products for the year overall.

Interest income from discontinued operations decreased by 30.4% from RMB49.7 million in 2008 to RMB34.6 million in 2009. The decrease was due to decreases in cash and cash equivalents, short-term and pledged deposits and a general decrease in bank interest rate.

Other revenue from discontinued operations decreased by 52.7% from RMB373.3 million in 2008 to RMB176.7 million in 2009. The decrease was primarily due to a decrease in the subsidies provided by the government in 2009.

Selling expenses from discontinued operations increased by 146.7% from RMB316.6 million in 2008 to RMB781.1 million in 2009. The increase was primarily due to increases in advertising expense and transportation costs in 2009. Selling expenses as a percentage of turnover from discontinued operations has increased to 12.5% in 2009 as compared to 5.5% in 2008.

General and administrative expenses from discontinued operations increased by 79.5% from RMB175.2 million in 2008 to RMB314.5 million in 2009, mainly as a result of increases in research and development expenses as well as employee costs in 2009.

Impairment losses from discontinued operations increased by 77.9% from RMB185.4 million in 2008 to RMB329.9 million in 2009. The increase was related to the impairment of certain intangible assets of the Zhonghua sedan due to shrinkage in the sales volume of certain models during the year.

Net finance costs from discontinued operations increased by 37.9% from RMB96.1 million in 2008 to RMB132.5 million in 2009 as a result of higher level of borrowing acquired in 2009.

The Group recorded a loss before taxation from discontinued operation, namely the Zhonghua sedan business, of RMB2.698 billion in 2009, which represents a 170.3% increase from the loss before taxation of RMB998.2 million recorded in 2008. The transfer of the Zhonghua business had taken effect on 31st December, 2009, and the significant losses recorded for 2009 was primarily a result of the operating losses incurred by the Zhonghua business during the year, as well as the losses associated with the sale of the Zhonghua operations.

The loss from continuing and discontinued operations attributable to equity holders of the Company was RMB1.640 billion for 2009, compared to a profit attributable to equity holders of RMB80.9 million for 2008. Basic loss per share from continuing and discontinued operations in 2009 amounted to RMB0.03588 and RMB0.33015, respectively, compared to basic earnings per share of RMB0.16174 from continuing operations and basic loss per share from discontinued operation of RMB0.13969 in 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2009, the Group had RMB1,608.9 million in cash and cash equivalents, RMB213.3 million in short-term bank deposits and RMB1,056.1 million in pledged short-term bank deposits. The Group had notes payable of RMB1,205.1 million and outstanding short-term bank borrowings of RMB723.0 million, but had no long-term bank borrowings outstanding as at 31st December, 2009.

On 7th June, 2006, the Company, through its wholly owned subsidiary, Brilliance China Finance Limited (“**Brilliance Finance**”), issued the zero coupon guaranteed convertible bonds due 2011 (the “**Convertible Bonds**”) with a principal amount of US$182,678,000. None of the Convertible Bonds were converted into ordinary shares with a par value of US$0.01 each of the Company (the “**Shares**”). As of 31st December, 2009, all the Convertible Bonds have been repurchased or redeemed by Brilliance Finance. Total consideration for the repurchase and redemption amounted to approximately US$218.6 million. The Convertible Bonds have been cancelled and were delisted from The Singapore Exchange Securities Trading Limited on 14th July, 2009.

CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in Note 41 to the financial statements.

GEARING RATIO

As at 31st December, 2009, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 1.54 (31st December, 2008: 1.89). The decrease in the gearing ratio was primarily due to the repurchase and redemption of the Convertible Bonds as well as the transfer of certain liabilities to Huachen Automotive Group Holdings Company Limited (“**Huachen**”) as part of the disposal of the Zhonghua sedan business in 2009.

FOREIGN EXCHANGE RISKS

The Group considers that exchange rate fluctuations may have a material effect on the overall financial performance of the Group in the future, and may consider entering into hedging transactions through exchange contracts in order to minimise foreign exchange risks, if and when necessary. There were no outstanding hedging transactions as at 31st December, 2009.

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 6,360 employees for continuing operations as at 31st December, 2009 (31st December, 2008: approximately 12,250 for the operations prior to the disposal of Zhonghua sedan business). Employee costs for continuing operations amounted to approximately RMB423.2 million for the year ended 31st December, 2009 (2008: approximately RMB533.0 million for the operations prior to the disposal of Zhonghua sedan business). 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. More details in respect of the Company’s emolument policy and the basis for determining the emolument payable to the Company’s directors are set out in Note 12(b) to the financial statements.

Directors, Senior Management and Company Secretary

EXECUTIVE DIRECTORS

Mr. Wu Xiao An (also known as Mr. Ng Siu On), age 48, has been the Chairman of the board of directors (the "**Board**") of the Company since June 2002, and an executive director since 1994. He is responsible for the overall management and strategy of the Company. He was the Vice Chairman and the Chief Financial Officer of the Company from 1994 to June 2002. Currently, Mr. Wu is a director of Huachen and Shenyang Automotive. Mr. Wu holds a Bachelor of Arts Degree from Beijing Foreign Languages Institute and a Master of Business Administration Degree from Fordham University in New York. He was the Deputy Manager of the Bank of China, New York Branch from 1988 to 1993.

Mr. Qi Yumin, age 50, has been an executive director, the President and the Chief Executive Officer of the Company since January 2006. He is a senior engineer. Mr. Qi is currently the Chairman and President of Huachen. He is also a director and the Chairman of Shenyang Automotive, Shenyang JinBei Automotive Co., Ltd. ("**JinBei**", an A-share listed company in the People's Republic of China (the "**PRC**")) and Shanghai Shenhua Holdings Co., Ltd. ("**Shanghai Shenhua**", an A-share listed company in the PRC). Prior to joining Huachen, Mr. Qi has held offices as the Chairman and the general manager of Dalian Heavy Industries Co., Ltd. and as the Chairman and the President of DHI • DCW Group Co., Ltd. Mr. Qi was the Vice Mayor of Dalian Municipal Government from October 2004 to December 2005. Mr. Qi is currently a member of the Dalian Committee of the National People's Congress of the PRC and a member of the Liaoning Provincial Committee of the Chinese People's Political Consultative Conference. Mr. Qi holds a Bachelor's Degree in Engineering Science from Xi'an University of Technology and a Master's Degree in Business Administration from Dalian University of Technology.

Mr. He Guohua, age 59, has been an executive director of the Company since September 2005. Mr. He is currently a director and the Vice President of Huachen and the Vice Chairman and a director of Shenyang Automotive. He is also a director of JinBei. Mr. He previously worked as an engineer of Shenyang First Machine Tools Factory and was a Director of Shenyang Planning & Economic Commission, a Director of Shenyang Economic & Trade Commission, a Deputy Director of Shenyang Automotive Development Office and the Chairman and General Manager of Shenyang Automotive Assets Operation Corporation. Mr. He is a Senior Engineer in electrical engineering. He graduated from Hefei University of Technology, majoring in Micro Computer Science in 1984.

Mr. Wang Shiping, age 53, has been an executive director of the Company since September 2005. Mr. Wang is currently a director of Shenyang Automotive and Shanghai Shenhua. Mr. Wang was previously the Deputy Head Engineer of Radiator Branch Company of China First Automobile Group Corporation, the General Manager of FAW-ZEXEL Air-Condition Branch Company, the Deputy General Manager and Director of Strategic Planning of Fawer Automobile Part Co., Ltd. Mr. Wang is a Senior Engineer (Researcher) in corporate management. He graduated from Anshan Iron & Steel University in 1982 with a Bachelor of Engineering Degree. He also received a Master of Business Economics Degree from the Graduate School of the Chinese Academy of Social Sciences in 1998.

NON-EXECUTIVE DIRECTOR

Mr. Lei Xiaoyang, age 53, has been a non-executive director of the Company since July 2008. Mr. Lei was a non-executive director of the Company from June 2003 to June 2005, an executive director of the Company from June 2005 to June 2008 and the Chief Financial Officer of the Company from October 2006 to June 2008. Mr. Lei is currently a director of Shenyang Automotive. Mr. Lei has been a director of Shanghai Shenhua since June 2006 and the Deputy Chief Economist as well as the General Manager of the Department of Asset Operations in Huachen since January 2003. Mr. Lei was the Assistant President of Liaoning International Trust and Investment Corporation from June 1996 to September 2002, and was in charge of the Financing Department, the Accounting Department, the Strategic Planning Department and the Securities Department. Mr. Lei holds a Bachelor of Engineering Degree from the Shenyang Polytechnic University and a Master of Finance Degree from Liaoning University as well as a Master of Business Administration Degree from Roosevelt University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Bingjin, age 70, has been an independent non-executive director of the Company since June 2003. Mr. Xu is currently the President of The Association of Sino-European Economic and Technical Cooperation. He was formerly an Assistant Minister of The Ministry of Foreign Economic and Trade Cooperation, the Deputy Director of the Office of National Mechanic and Electronic Products Importation and Exportation and the Vice President of the World Trade Organization Research Association. Mr. Xu received a Bachelor of Science Degree in Engineering Economics from Jilin University of Technology in 1964 and holds the title of Senior Engineer. Currently, Mr. Xu is also an independent non-executive director of Qingling Motors Co. Ltd., a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Mr. Song Jian, age 53, has been an independent non-executive director of the Company since September 2004. Mr. Song is currently the Executive Vice President of the Tsinghua Automotive Engineering Institute, the Vice Director of the National Laboratory in Automotive Safety and Energy and an expert consultant to the Beijing Government. Mr. Song was formerly the Deputy Dean of the Automotive Engineering Department at Tsinghua University. In 1998, Mr. Song received the Award for Outstanding Science and Technology Persons in the China Automotive Industry. In 2005, he was ranked first in the Class One China Automotive Industry and Technology Advancement Award. In 2006, Mr. Song was named jointly by The China Association of Automotive Industry, The China Society of Automotive Engineering and The China Automotive News as the best chief designer of the automobile industry in the PRC. In 2008, Mr. Song was awarded "The Outstanding People of the China Automotive Industry: Commemorating the 30th Anniversary of China's Reform and Opening-up". In 2009, Mr. Song won "China Academic Award for Creative Talents of Automotive Industry — First Prize" from the State Ministry of Education. Mr. Song holds a Bachelor's Degree and a Doctorate, both in Engineering Science, from Tsinghua University. He is currently a professor of the Automotive Engineering Department at Tsinghua University.

Mr. Jiang Bo, age 50, has been an independent non-executive director of the Company since September 2004. Mr. Jiang is a certified public accountant and a certified public valuer in the PRC. He has been the general manager of Liaoning Reanda Certified Public Accountants in the PRC since 1999 and was a director of Dandong Zhongpeng Accounting Firm from 1993 to 1999. Mr. Jiang has over 10 years of experience in auditing financial statements of companies listed on the PRC stock exchanges. Mr. Jiang has been a certified public valuer since 1998 and has been involved in asset appraisals of companies in preparation for listing in the PRC. He has participated in various listing projects of state-owned enterprises in the PRC and overseas and has gained experience in reviewing and analyzing the audited financial statements of companies listed in the PRC. Mr. Jiang has worked with one of the "Big-4" international accounting firms in the auditing of a state-owned enterprise. Mr. Jiang holds a Bachelor of Science Degree in Mathematics from Liaoning University and a diploma in Accounting from the Central Finance and Economics University. Currently, Mr. Jiang is also an independent non-executive director of China HealthCare Holdings Limited, a company listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Qian Zuming, age 47, has been the Chief Financial Officer of the Company since July 2008. Mr. Qian is currently a director and the Deputy General Manager of Shenyang Automotive. Mr. Qian is an associate member of the Institute of Financial Accountants of the United Kingdom. He holds a Master of Finance Degree from the Graduate School, The Chinese Academy of Social Sciences and a Master of Business Administration Degree from The Wisconsin International University (USA), Ukraine.

COMPANY SECRETARY

Ms. Lam Yee Wah Eva has been the Company Secretary of the Company since June 2005. Ms. Lam is an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Institute of Chartered Secretaries and Administrators. Ms. Lam graduated from The City University of Hong Kong with a Bachelor of Arts (Honours) Degree in Public and Social Administration. She was also awarded a Postgraduate Diploma in Corporate Administration in The City University of Hong Kong. Prior to joining the Group, Ms. Lam has five years' experience in an international accounting and auditing firm in Hong Kong and has worked for two companies listed in Hong Kong.

Report of Directors

The directors of the Company present this report together with the audited financial statements of the Group for the year ended 31st December, 2009.

PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of its subsidiaries are set out in Note 19 to the financial statements. Prior to the completion of the disposal of its Zhonghua sedan business to Huachen in December 2009, the operating businesses of the Group were divided primarily into the manufacture and sale of minibuses, sedans and automotive components.

Prior to May 1998, the Company's sole operating asset was its interests in Shenyang Automotive. As a result, the Company's historical results of operations had been primarily driven by the sales price, sales volume and cost of production of Shenyang Automotive's minibuses. With a view to maintain quality, ensure a stable supply of certain key components and develop new businesses and products, the Company has acquired interests in various suppliers of components and established joint ventures in the PRC since May 1998. With additional investments and joint ventures, the Company's income base has since been broadened and its financial performance has been diversified from that of Shenyang Automotive.

In May 1998, the Company acquired indirect interests in two components suppliers: a 51% equity interest in Ningbo Yuming, a wholly foreign-owned PRC enterprise primarily engaged in the production of automobile window molding, stripping and other auto components; and a 50% equity interest in Mianyang Xinchen Engine Co. Ltd. ("**Mianyang Xinchen**"), a Sino-foreign equity joint venture manufacturer of gasoline engines for use in passenger vehicles and light duty trucks. In October 1998, June 2000 and July 2000, the Company established Xing Yuan Dong, Ningbo Ruixing and Mianyang Ruian, respectively, as its wholly owned subsidiaries to centralize and consolidate the sourcing of auto parts and components for Shenyang Automotive. In 2001, in order to maintain their eligibility for preferential tax treatment from the PRC government, all three companies began manufacturing automotive components as well. Subsequently in 2004, the Company acquired the remaining 49% equity interest in Ningbo Yuming which became a wholly owned subsidiary of the Company on 25th November, 2004.

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

On 18th April, 2002, Shenyang Jindong was established for the purpose of trading automotive components in the PRC. It is indirectly beneficially owned as to 75.5% by the Company.

In May 2002, Shenyang Automotive obtained the approval from the Chinese Government to produce and sell its Zhonghua sedans in the PRC. The Zhonghua sedans were launched in August 2002.

On 27th March, 2003, the Company, through its indirect subsidiary, Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("**SJAI**"), entered into a joint venture contract with BMW Holding BV to produce and sell BMW-designed and branded sedans in the PRC. The registered capital and total investment cost of the joint venture is Euro 150 million and Euro 450 million, respectively. At that time, the Company's effective interests in SJAI and the joint venture with BMW were 81.0% and 40.5%, respectively. On 28th April, 2003, the Company increased its effective interests in SJAI from 81.0% to 89.1% and thereby increased its effective interests in the BMW joint venture from 40.5% to 44.55%. On 16th December, 2003, the Company further increased its effective interests in SJAI from 89.1% to 99.0% and thereby increased its effective interests in the BMW joint venture from 44.55% to 49.5%. Subsequently on 26th January, 2010, the Company entered into an agreement to increase its effective interests in SJAI from 99.0% to 100.0%. Upon completion of the proposed acquisition, the Company's effective interests in the BMW joint venture will officially increase to 50.0%.

In June 2003, the Company established Shenyang ChenFa, a wholly foreign-owned enterprise in the PRC, for the development, manufacture and sale of engine components in China.

On 29th December, 2003, the Company entered into agreements in relation to the proposed acquisition of an indirect 40.1% interest in JinBei, the joint venture partner of Shenyang Automotive and a supplier of automotive components for the Group's minibuses and sedans. JinBei is an A-share company listed on the Shanghai Stock Exchange. As a result of JinBei's share reform, which took place in August 2006, all issued shares of JinBei were converted into tradable shares on the Shanghai Stock Exchange. Taking this into account and upon completion of the abovementioned proposed acquisition of 1% effective interest in SJAI, the Company's prospective 40.1% interest in JinBei will reduce to 33.35%.

On 16th April, 2004, Shanghai Hidea was established for the design of automobiles. It is beneficially owned as to 63.25% indirectly by the Company.

On 13th December, 2004, the Company, together with Shenyang Automotive, established Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**") which principally engages in the manufacture and sale of power trains in China. In October 2009, Shenyang Automotive agreed to transfer its entire interests in Shenyang Brilliance Power to Huachen. As a result, the Company's beneficially interests in Shenyang Brilliance Power decreased from 75.01% to 49.0%.

On 7th August, 2006, the Company, through its wholly owned subsidiary, Southern State Investment Limited, entered into an agreement for the disposal of a 3.5% equity interest in Mianyang Xinchen by Southern State Investment Limited to an independent third party. Upon obtaining the approvals from the relevant government authorities and completion of the proposed transfer, the Company's effective interests in Mianyang Xinchen will decrease from 50.0% to 46.5%.

On 28th October, 2009, Shenyang Automotive entered into a business transfer agreement with Huachen pursuant to which Huachen agreed to acquire from Shenyang Automotive certain assets, liabilities, employees and business contracts in relation to the businesses of manufacture and sale of Zhonghua sedans operated by Shenyang Automotive. Completion of the disposal of the Zhonghua sedan business took place on 31st December, 2009. Subsequent to the completion of the disposal, the Group no longer has any interests in the Zhonghua sedan business. Starting from January 2010, the core operating business of the Group is the manufacture and sale of minibuses and automotive components.

TURNOVER AND CONTRIBUTION

The Group's turnover and contribution to loss from operations for the year ended 31st December, 2009, analysed by product category, are as follows:

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sales of BMW sedans RMB'000	Reconciliation to the Group's income statement RMB'000	Total RMB'000
Continuing operations				
Segment sales to external customers	6,148,962	14,674,370	(14,674,370)	6,148,962
Segment results	380,328	751,106	(751,106)	380,328
Impairment losses on assets	(644,243)		—	(644,243)
Unallocated costs net of unallocated income				(54,276)
Interest income				31,107
Finance costs, net				(94,183)
Share of results of:				
Associates	22,004		—	22,004
Jointly controlled entities	(1,015)		355,291	354,276
Loss before income tax expense from continuing operations				(4,987)
Income tax expense				(40,989)
Loss for the year from continuing operations				(45,976)
Discontinued operations				
Loss for the year from discontinued operations				(2,698,216)
Loss for the year				(2,744,192)

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2009 are set out in the financial statements of the Group on pages 37 and 38.

CASH FLOW POSITION

The cash flow position of the Group for the year ended 31st December, 2009 is set out and analysed in the consolidated cash flow statement on pages 43 and 44 and in Note 39 to the financial statements.

DIVIDEND

The directors did not recommend the payment of any dividend in respect of the year ended 31st December, 2009 (2008: nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's forthcoming annual general meeting will be held on Friday, 28th May, 2010 at 9:00 a.m. The Company will also hold a special general meeting on Friday, 28th May, 2010 at 9:30 a.m. (or immediately after the closing of the said annual general meeting to be held on the same date at 9:00 a.m.) for the purposes of approving the revision of the annual caps for certain existing continuing connected transactions as detailed in the circular of the Company sent to the shareholders together with this annual report.

The Hong Kong branch register of members of the Company will be closed from Wednesday, 26th May, 2010 to Friday, 28th May, 2010, both days inclusive, during which period no transfer of Shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on Friday, 28th May, 2010 or their proxies or duly authorised corporate representatives are entitled to attend the said annual general meeting and/or special general meeting of the Company to be held on Friday, 28th May, 2010. In order to qualify for attending the said annual general meeting and/or special general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 25th May, 2010.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 3.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31st December, 2009 are set out in Note 37 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31st December, 2009 are set out in Note 16 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the subsidiaries, associates and jointly controlled entities are set out in Notes 19, 20 and 21, respectively to the financial statements.

SHARE CAPITAL

Details of the Company's share capital as of 31st December, 2009 are set out in Note 36(a) to the financial statements.

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.

Pursuant to the 1999 Share Option Scheme, the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company and/or any of its subsidiaries, to take up options to subscribe for Shares of the Company.

A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

The maximum number of Shares in respect of which options may be granted under the 1999 Share Option Scheme (and any other share option scheme of the Company and its subsidiaries) shall not exceed 10% of the issued share capital of the Company from time to time, excluding any Shares allotted and issued on exercise of options granted pursuant to the 1999 Share Option Scheme.

No option shall be granted to any one person if, together with such option exercised in full, the total number of Shares already issued and issuable to him/her under all the options previously granted to him/her would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the 1999 Share Option Scheme.

The subscription price per Share in respect of any option granted under the 1999 Share Option Scheme shall be determined by the directors at their absolute discretion, but in any event shall not be less than the higher of (a) 80% of the average closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange for the five trading days immediately preceding the relevant offer date; and (b) the nominal value of a Share of the Company.

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.

Details of the share options outstanding as at 31st December, 2009 under the 1999 Share Option Scheme are set out below:

		Number of share options							
Category and name of participant	**Date of grant**	**Outstanding as at 1st January, 2009**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Cancelled during the year**	**Outstanding as at 31st December, 2009**	**Option period**	**Subscription price per Share (HK$)**
Director									
Wu Xiao An	2 June 2001 *(Note 1)*	2,800,000	—	—	—	—	2,800,000	2 June 2001– 1 June 2011	1.896
Total		2,800,000	—	— *(Note 2)*	—	—	2,800,000		

Notes:

1. The share options were granted on 2nd June, 2001 and vested immediately upon the grant and are exercisable within a period of 10 years.

2. As none of the share options had been exercised during the year ended 31st December, 2009, the weighted average closing price of the Shares immediately before the dates on which the share options were exercised is not disclosed herein.

New Share Option Scheme

At a general meeting held on 11th November, 2008, shareholders of the Company adopted a new share option scheme (the "**New Share Option Scheme**"). The New Share Option Scheme came into effect on 14th November, 2008.

Pursuant to the New Share Option Scheme, the directors of the Company may, at their absolute discretion, invite the following persons to take up options to subscribe for Shares of the Company: (a) any eligible employee as defined in the New Share Option Scheme; (b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any entity in which the Group holds any equity interest (the "**Invested Entity**"); (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of the Group or any Invested Entity; (e) any person or entity acting in their capacities as advisers or consultants that provides research, development or other technological support to the Group or any Invested Entity; (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and (g) any other group or classes of participants from time to time determined by the directors of the Company as having contributed or may contribute to the development and growth of the Group and any Invested Entity.

A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

The maximum number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the New Share Option Scheme and any other share option scheme of the Company) to be granted under the New Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the New Share Option Scheme (i.e. 366,976,590 Shares, representing 7.35% of the total number of Shares in issue as at the date of this annual report).

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Share Option Scheme and any other share option scheme of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting.

The subscription price per Share in respect of any option granted under the New Share Option Scheme shall be a price determined by the directors, but shall not be lower than the higher of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (c) the nominal value of a Share of the Company.

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

Details of the share options outstanding as at 31st December, 2009 under the New Share Option Scheme are set out below:

Category and name of participants	Date of grant	Number of share options: Outstanding as at 1st January, 2009	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31st December, 2009	Option period	Subscription price per Share (HK$)
Directors									
Wu Xiao An	22 December 2008 *(Note 1)*	10,000,000	—	—	—	—	10,000,000	22 December 2008 – 21 December 2018	0.438
Qi Yumin	22 December 2008 *(Note 1)*	9,000,000	—	—	—	—	9,000,000	22 December 2008 – 21 December 2018	0.438
He Guohua	22 December 2008 *(Note 1)*	3,000,000	—	—	—	—	3,000,000	22 December 2008 – 21 December 2018	0.438
Wang Shiping	22 December 2008 *(Note 1)*	3,000,000	—	—	—	—	3,000,000	22 December 2008 – 21 December 2018	0.438
Lei Xiaoyang	22 December 2008 *(Note 1)*	3,000,000	—	—	—	—	3,000,000	22 December 2008 – 21 December 2018	0.438
Employees (in aggregate)	22 December 2008 *(Note 1)*	32,100,000	—	1,300,000	1,850,000	—	28,950,000	22 December 2008 – 21 December 2018	0.438
Others (in aggregate)	22 December 2008 *(Note 1)*	4,000,000	—	500,000	—	—	3,500,000	22 December 2008 – 21 December 2018	0.438
Total		64,100,000	—	1,800,000 *(Note 2)*	1,850,000	—	60,450,000		

Notes:

1. 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 granted is HK$0.445 per Share.

2. The weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK$2.177 per Share.

As no share options have been granted by the Company under the New Share Option Scheme for the year ended 31st December, 2009, no expenses were recognised by the Group for 2009. The Group recognised total expenses of RMB10,065,000 for the year ended 31st December, 2008 in relation to share options granted by the Company in 2008 under the New Share Option Scheme.

DIRECTORS

The directors of the Company who held office during the year ended 31st December, 2009 and up to the date of this annual report are:

Executive directors:

Mr. Wu Xiao An *(Chairman)*
Mr. Qi Yumin *(Chief Executive Officer)*
Mr. He Guohua
Mr. Wang Shiping

Non-executive director:

Mr. Lei Xiaoyang

Independent non-executive directors:

Mr. Xu Bingjin
Mr. Song Jian
Mr. Jiang Bo

Pursuant to bye-law 99 of the bye-laws of the Company, Mr. He Guohua and Mr. Wang Shiping will retire by rotation at the forthcoming annual general meeting of the Company to be held on 28th May, 2010.

Each of Mr. He Guohua and Mr. Wang Shiping, being eligible, will offer himself for re-election and the Board has recommended them for election at the forthcoming annual general meeting of the Company.

Details of the directors standing for re-election at the forthcoming annual general meeting are set out in the circular sent to the shareholders together with this annual report.

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

As at 31st December, 2009, so far as is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "**SFO**"):

	Number of Shares held/ Approximate shareholding percentage			
Name of shareholders	**Long position**	**%**	**Short position**	**%**
Huachen *(Notes 1 & 4)*	2,260,074,988	45.35	—	—
Templeton Asset Management Ltd. *(Notes 2 & 4)*	800,995,632	16.07	—	—
Blackrock, Inc. *(Notes 3 & 4)*	213,640,786	5.82	—	—

Notes:

1. The 2,260,074,988 Shares in long position are held in the capacity as beneficial owner. So far as is known to the directors or chief executives of the Company, Huachen holds 2,260,074,988 Shares in long position of the Company, representing approximately 45.26% of the issued share capital of the Company, as at the date of this annual report.

2. The 800,995,632 Shares in long position are held in the capacity as investment manager. So far as is known to the directors or chief executives of the Company, Templeton Asset Management Ltd. holds 800,995,632 Shares in long position of the Company, representing approximately 16.04 % of the issued share capital of the Company, as at the date of this annual report.

3. The 213,640,786 Shares in long position are held as corporation interest. Among these Shares, 212,780,786 Shares in long position represent underlying interests in physically settled derivatives listed or traded on a stock exchange or traded on a futures exchange. So far as is known to the directors or chief executives of the Company, Blackrock, Inc. holds 213,640,786 Shares in long position of the Company, representing approximately 4.28 % of the issued share capital of the Company, as at the date of this annual report.

4. The information set out in the above table is derived from the disclosure of interest notifications filed by the relevant substantial shareholders with the Company as at 31st December, 2009. The percentage holdings of the substantial shareholders as set out in notes 1 to 3 above represent the percentage of the Shares recorded in the disclosure of interest notifications to the issued share capital of the Company as at the date of this annual report.

Save as disclosed herein, as at 31st December, 2009, there was no other person so far known to the directors or chief executives of the Company, other than a director or chief executive of the Company as having an interest or a short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2009, the interests and short positions of each director, chief executive and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, are set out below:

Name of directors	Type of interests	Number of Shares held		Approximate shareholding percentage	Number of share options granted
		Long position	Short position	%	
Wu Xiao An	Personal	—	—	—	2,800,000 *(Note 1)*
	Personal	—	—	—	10,000,000 *(Note 2)*
Qi Yumin	Personal	—	—	—	9,000,000 *(Note 2)*
He Guohua	Personal	—	—	—	3,000,000 *(Note 2)*
Wang Shiping	Personal	—	—	—	3,000,000 *(Note 2)*
Lei Xiaoyang	Personal	—	—	—	3,000,000 *(Note 2)*

Notes:

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

2. 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 31st December, 2009, none of the directors, chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31st December, 2009 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or associates was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Wu Xiao An and Mr. Qi Yumin, both of whom are executive directors of the Company, has entered into a service agreement with the Company dated 1st January, 2009 for a term of three years commencing from 1st January, 2009.

Saved as disclosed herein, no director of the Company proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with members of the Group that is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

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

During the year ended 31st December, 2009, Brilliance Finance repurchased the Convertible Bonds in an aggregate principal amount of US$46,325,000 via private arrangements. The consideration for the repurchase amounted to approximately US$54,734,000. The repurchases have been financed by the Company through its internal resources.

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

All of the repurchased/redeemed Convertible Bonds have been cancelled. As at 31st December, 2009, no Convertible Bonds remained outstanding.

Saved as disclosed above, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's securities in 2009.

ANALYSIS OF INTEREST CAPITALISED

Details of interest capitalised are set out in Note 8 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During 2009, the aggregate sales attributable to the Group's five largest customers, excluding the Group's associates and jointly controlled entities, represented approximately 22.9% of the Group's turnover while the sales attributable to the Group's largest customer was approximately 11.6% of the Group's consolidated turnover. The aggregate purchases attributable to the Group's five largest suppliers, excluding the Group's associates and jointly controlled entities, during the year represented approximately 26.6% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 9.4% of the Group's total purchases.

None of the directors, their associates or any shareholders that, to the knowledge of the directors own more than 5% of the Company's issued share capital, has any interests in the share capital of any of the five largest customers or suppliers of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this annual report, the Company maintains the prescribed percentage of public float under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

CONNECTED TRANSACTIONS

Continuing Connected Transactions for 2009

Currently, the Group is engaged in the manufacture and sale of minibuses and automotive components. Prior to completion of the disposal of the Zhonghua sedan business on 31st December 2009, the Group was also engaged in the manufacture and sale of Zhonghua sedans.

On 19th November, 2008, members of the Group entered into certain framework agreements with JinBei and/or Liaoning Zheng Guo Investment Development Company Limited ("**Liaoning Zheng Guo**") for the purchase and/or sale of automobiles, materials and/or automotive components for a period of three financial years ending 31st December, 2011. Each of JinBei, its subsidiaries and associated companies (other than Shenyang Automotive) and Liaoning Zheng Guo is a connected person of the Company within the meaning of the Listing Rules.

At a special general meeting held on 30th December, 2008 (the "**2008 SGM**"), shareholders of the Company approved, among other things, the entering into of the said continuing connected transactions (the "**Continuing Connected Transactions**") pursuant to Chapter 14A of the Listing Rules and the annual caps of the Continuing Connected Transactions for the three financial years ending 31st December, 2011.

Details of the Continuing Connected Transactions were set out in the circular of the Company dated 10th December, 2008. The actual monetary value of the Continuing Connected Transactions for the financial year ended 31st December, 2009 is set out below:

Continuing Connected Transactions	Major type of products	Actual monetary value for the financial year ended 31st December, 2009 RMB'000
A. Purchases of materials and automotive components by members of the Group (including Shenyang Automotive) from JinBei and its subsidiaries and associated companies (other than Shenyang Automotive)		
1. Purchases of materials and automotive components by Shenyang Automotive from JinBei and its subsidiaries and associated companies (other than Shenyang Automotive)	Seats, steering systems, fuel pumps and driving shafts	948,753
2. Purchases of materials and automotive components by Xing Yuan Dong from JinBei and its subsidiaries and associated companies (other than Shenyang Automotive)	Torsion bars, gear box assembly, seats and rubber products	92,184
3. Purchases of materials and automotive components by Dongxing Automotive from JinBei and its subsidiaries and associated companies (other than Shenyang Automotive)	Sealing sticks, main decelerators, seat assembly, interior display board	14,524
4. Purchases of materials and automotive components by Ningbo Yuming from JinBei and its subsidiaries and associated companies (other than Shenyang Automotive)	Side windows and luggage racks	—
B. Sale of automobiles, materials and automotive components by members of the Group to JinBei and its subsidiaries and associated companies (other than Shenyang Automotive)		
1. Sale of automobiles and automotive components by Shenyang Automotive to JinBei and its subsidiaries and associated companies (other than Shenyang Automotive)	Steels, steel panels and moulding	114,219
2. Sale of materials and automotive components by Shenyang Jindong to JinBei and its subsidiaries and associated companies (other than Shenyang Automotive)	Matching components, including reinforcement panel of right hand side front wheel mudguard wing	728
C. Others		
— Sale of automobiles by Shenyang Automotive to Liaoning Zheng Guo who acts as a regional agent for Shenyang Automotive in certain regions	A whole range of automobiles manufactured by Shenyang Automotive in certain regions	195,391

The independent non-executive directors of the Company have reviewed and confirmed that the Continuing Connected Transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the Continuing Connected Transactions and confirmed to the directors that the Continuing Connected Transactions:

1. have received the approval of the directors;

2. are in accordance with the pricing policies of the Group;

3. have been entered into in accordance with the relevant agreements governing the transactions; and

4. have not exceeded the 2009 annual caps as approved by the shareholders at the 2008 SGM.

Financial assistance for 2009

On 19th November, 2008, Xing Yuan Dong and JinBei entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB500 million for a term of one year commencing from 1st January, 2009 to 31st December, 2009. JinBei is regarded as a connected person of the Company under the Listing Rules.

At the 2008 SGM, shareholders of the Company approved the provision of the above cross guarantees for a term of one year commencing from 1st January, 2009 to 31st December, 2009.

In 2009, Xing Yuan Dong provided a guarantee in respect of JinBei's banking facilities in the amount of RMB200 million.

Subsequent events

New continuing connected transactions for the two financial years ending 31st December, 2011

On 29th October, 2009, the Company announced its intention to dispose of its Zhonghua sedan business to Huachen. It was contemplated that upon completion of the disposal of the Zhonghua sedan business, certain transactions will be entered into between members of the Group and Huachen and/or its subsidiaries and/or its associates so as to enable Huachen to continue to carry on the Zhonghua sedan business. Huachen is regarded as a connected person of the Company within the meaning of the Listing Rules.

At a special general meeting held on 17th December, 2009 (the "**2009 SGM**"), shareholders of the Company approved, among other things, the entering into of the said continuing connected transactions (the "**New Continuing Connected Transactions**") pursuant to Chapter 14A of the Listing Rules and the annual caps for a period from the date of completion of the disposal of the Zhonghua sedan business up to 31st December, 2011:

- Sale of materials and automotive components by members of the Group to Huachen and/or its subsidiaries and/or associates;

- Purchases of materials and automotive components by members of the Group from Huachen and/or its subsidiaries and/or associates;

- Provision of services by members of the Group to Huachen and/or its subsidiaries and/or associates; and

- Purchases of services by members of the Group from Huachen and/or its subsidiaries and/or associates.

Details of the New Continuing Connected Transactions were set out in the circular of the Company dated 1st December, 2009.

Financial assistance for 2010

— *The First Cross Guarantee*

On 9th November, 2009, Xing Yuan Dong and JinBei entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB600 million for a term of one year commencing from 1st January, 2010 to 31st December, 2010 (the "**First Cross Guarantee**"). The Company has obtained a written approval from Huachen (who was holding more than 50% of the then issued share capital of the Company) on 6th November, 2009 in respect of the provision of the First Cross Guarantee and has obtained a waiver from the Stock Exchange on 10th November, 2009 from strict compliance with the requirement to hold a special general meeting for the independent shareholders' approval for the First Cross Guarantee pursuant to Rule 14A.43 of the Listing Rules. Details of the First Cross Guarantee were set out in the circular of the Company dated 1st December, 2009.

— *The Second Cross Guarantee*

On 19th November, 2009, Xing Yuan Dong and Huachen entered into an agreement for the provision of cross guarantees in respect of each other's banking facilities in the maximum amount of RMB1,500 million for a period commencing from the date of completion of the disposal of the Zhonghua sedan business up to 31st December, 2010 (the "**Second Cross Guarantee**"). At the 2009 SGM, shareholders of the Company approved the provision of the Second Cross Guarantee for a period commencing from the date of completion of the disposal of the Zhonghua sedan business up to 31st December, 2010.

Save as disclosed above, in the opinion of the directors, the transactions disclosed as related party transactions in Note 38 to the financial statements do not constitute connected transactions as defined under the Listing Rules in force at the timing of the entering into of the relevant transactions.

AUDITORS

Moores Rowland Mazars were first appointed as auditors of the Company on 20th December, 2004. On 1st June, 2007, Moores Rowland Mazars changed its name to Moores Rowland. On the same day, Moores Rowland combined its business with Grant Thornton. In this connection, the Board has appointed Grant Thornton as auditors of the Company since 24th September, 2007.

Grant Thornton will retire and be eligible to offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting to authorise the Board to appoint auditors and to fix their remuneration.

By order of the Board

Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong,
16th April, 2010

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its shareholders, and consistent with the "Code on Corporate Governance Practices" (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The Group has considered the CG Code and has put in place corporate governance practices to meet the code provisions. The corporate governance principles of the Company emphasize a quality board, sound internal controls, and transparency and accountability to all shareholders.

Throughout the accounting year ended 31st December, 2009, except for deviations from code provision A.4.1 which is explained in paragraph A.4 below, the Group has complied with all code provisions.

A. DIRECTORS

A.1 The Board

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our directors are collectively responsible for promoting the success of the Company by developing the strategic direction of the Group and directing and supervising the affairs of the Company.

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in its annual and interim reports, other price-sensitive announcements, other financial disclosures as required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements. The Board is also required to approve acquisitions or disposals that require shareholder notification or approval under the Listing Rules.

The Board has a fiduciary duty and statutory responsibility towards the Group and is directly accountable to the shareholders. Other responsibilities and matters reserved to the Board are set out in paragraph D.1 below.

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three-month intervals and additional meetings would be arranged if and when necessary. The dates of regular Board meetings for each year are normally made available to all directors at the beginning of the year to provide sufficient notice to give all directors an opportunity to attend. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a conflict of interest or material interests would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-executive directors who have no material interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his interest therein in accordance with the bye-laws of the Company, shall abstain from voting on the resolution and shall not be counted in the quorum present at such Board meeting. Such declaration of interests will be duly noted in the minutes of the relevant Board meeting.

Notices are given to all the directors for attending regular Board meetings approximately fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given.

Board meetings involve the active participation, either in person or through other electronic means of communication, by all of the directors. The company secretary assists the Chairman in preparing the meeting agenda, and each director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular meetings of the Board.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the meeting to all directors for their review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the company secretary and are available for inspection by the directors during normal office hours.

Participation of individual directors at Board meetings in 2009 is as follows:

Number of meetings	5
Executive directors:	
Mr. Wu Xiao An	5/5 (100%)
Mr. Qi Yumin	5/5 (100%)
Mr. He Guohua	4/5 (80%)
Mr. Wang Shiping	5/5 (100%)
Non-executive director:	
Mr. Lei Xiaoyang	4/5 (80%)
Independent non-executive directors:	
Mr. Xu Bingjin	5/5 (100%)
Mr. Song Jian	5/5 (100%)
Mr. Jiang Bo	5/5 (100%)
Average attendance rate	95%

During 2009, apart from the five meetings of the Board, consent/approval from the Board had also been obtained via circulation of written resolutions on a number of issues.

The Company believes it has taken out appropriate insurance cover for its directors in respect of legal actions taken against directors and officers. The Board reviews the extent of the insurance coverage every year.

A.2 Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has segregated the roles of Chairman of the Board and Chief Executive Officer. Mr. Wu Xiao An is the Chairman of the Board and Mr. Qi Yumin is the Chief Executive Officer. On 20th June, 2005, the Board adopted a set of clear guidelines regarding the power and duties of each of the Chairman and the Chief Executive Officer. No change has been made to the guidelines during the year ended 31st December, 2009.

A.3 Board composition

Currently, the Board comprises eight directors: four executive directors, one non-executive director and three independent non-executive directors. The current composition of the Board is as follows:

	Membership of Board Committee(s)
Executive directors:	
Mr. Wu Xiao An *(Chairman)*	Member of the Remuneration Committee
Mr. Qi Yumin *(Chief Executive Officer)*	Member of the Remuneration Committee
Mr. He Guohua	—
Mr. Wang Shiping	—
Non-executive director:	
Mr. Lei Xiaoyang	—
Independent non-executive directors:	
Mr. Xu Bingjin	Chairman of the Audit Committee Chairman of the Remuneration Committee
Mr. Song Jian	Member of the Audit Committee Member of the Remuneration Committee
Mr. Jiang Bo	Member of the Audit Committee Member of the Remuneration Committee

The Listing Rules require every listed issuer to have at least three independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. Jiang Bo is a certified public accountant and a certified public valuer in the PRC. Mr. Jiang has over ten years of experience in auditing financial statements of companies listed on the stock exchanges of the PRC, has participated in various listing projects of state-owned enterprises in the PRC and overseas and has experience in reviewing and analyzing the audited financial statements of companies listed in the PRC.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the independent non-executive directors and is satisfied of their independence.

The Board members do not have any family, financial or business relations with each other.

The biographies of our directors are set out on pages 9 and 10 of this annual report.

The list of directors is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

A.4 Appointment, re-election and removal of directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

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

A director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting. A director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

The Board has not established a Nomination Committee for reviewing new appointments of directors and senior executives and management succession plans for executive directors and senior executives. The Board follows a formal, considered and transparent procedure for the appointment of new directors to the Board. The appointment of a new director is a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director must also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

To comply with the code provision A.4.2 which states that every director of the Company should be subject to the rotation requirement at least once every three years and in accordance with bye-law 99, Mr. He Guohua and Mr. Wang Shiping will retire by rotation at the forthcoming annual general meeting of the Company to be held on 28th May, 2010 and have offered themselves for re-election at that annual general meeting.

A.5 Responsibilities of directors

Each newly appointed director is provided with a package of orientation materials setting out the required duties and responsibilities of directors under the Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a director's duties and obligations under the Listing Rules and relevant legislations will be arranged for all newly appointed directors. Our directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our directors will also be updated from time to time on the business development and operation plans of the Company. All our directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, Listing Rules and corporate governance practices.

The functions of non-executive directors include the functions as specified in code provision A.5.2(a) to (d) of the CG Code.

Every director is aware that he should give sufficient time and attention to the affairs of the Company.

The Company has adopted the standard set out in Appendix 10 - Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") of the Listing Rules, in relation to the dealings in securities of the Company by the directors.

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 year ended 31st December, 2009.

The Company has also established on 17th June, 2005 written guidelines on no less exacting terms than the Model Code (the "**Code for Securities Transactions by Employees**") for securities transactions by employees of the Company, its subsidiaries and its holding company (including directors of the Company's holding company and its subsidiaries), who because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities. The guidelines were revised during the year ended 2009 to incorporate amendments to the Model Code set out in Appendix 10 to the Listing Rules which came into effect on 1st April, 2009.

No incident of non-compliance of the Code for Securities Transactions by Employees by the employees during the year was noted by the Company.

A.6 Supply of and access to information

With respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner as permitted under the circumstances. Notices are given to all the directors for attending regular Board meetings fourteen (14) days before the meetings. For other Board meetings, reasonable notices are generally given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each director have separate and independent access to the Group's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level of remuneration and disclosure

The Remuneration Committee was established on 17th June, 2005 in accordance with the CG Code. During 2009, the Remuneration Committee has met once which was attended by all its members. The existing members of the Remuneration Committee include Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Wu Xiao An and Mr. Qi Yumin, both of whom are executive directors, are also members of the Remuneration Committee. Mr. Xu Bingjin is the chairman of the Remuneration Committee. The Terms of Reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in code provision B.1.3(a) to (f) of the CG Code.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of directors and senior management. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive directors and other persons to attend its meetings. The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary.

The work performed by the Remuneration Committee during 2009 included:

— conducting a review on the "Policy and Guidelines of The Remuneration Committee"; and

— reviewing and approving the remuneration package of the directors (including the three independent non-executive directors) and the senior management of the Company.

During the process of consideration, no individual director will be involved in decisions relating to his own remuneration.

Full minutes of the Remuneration Committee meeting are kept by the company secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval.

The Remuneration Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval.

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing financial statements for each financial period, that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31st December, 2009, the directors have:

— approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

— selected and applied consistently appropriate accounting policies;

— made judgments and estimates that are prudent and reasonable; and

— prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the directors' responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, reports to regulators, and information required to be disclosed pursuant to statutory requirements.

Financial results of the Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rule 13.49(1) and (6) of the Listing Rules.

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31st December, 2009.

Currently, the Group's external auditors are Grant Thornton (the "**Auditors**").

For the year ended 31st December, 2009, the remuneration of the Auditors paid or payable in respect of audit and non-audit services provided by the Auditors to the Group amounted to approximately HK$2,250,000 and HK$850,000, respectively. The non-audit services mainly included conducting agreed-upon procedures on the 2009 interim consolidated financial statements, conducting agreed-upon procedures on the continuing connected transactions and issue of comfort letters in relation to the disposal of Zhonghua sedan business.

The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 35 and 36 of this annual report.

C.2 Internal controls

The Board is entrusted with an overall responsibility of devising the Company's system of internal controls and conducting an annual review of its effectiveness. This ensures that the Board oversees and monitors the Group's overall financial position so that the interests of the shareholders are well protected and covered. The system of internal controls covers the areas of financial, operational, compliance and risk management of the Group's business.

The Company has established an internal audit department and adopted an Internal Audit Charter for the internal audit department. The Group has conducted a general review of and has monitored the Group's internal management and operation during the year.

In addition, the Board and the Audit Committee have reviewed the effectiveness of the internal control systems on all major operations of the Group and noted that recommendations on certain areas of improvement identified in previous years have been properly followed up and implemented. The Board and the Audit Committee will continue to improve the effectiveness of the internal control systems of the Group and to monitor the systems and the progress of improvements. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented and the Group has fully complied with the CG Code provisions regarding internal control system generally.

C.3 Audit Committee

The Audit Committee was established on 20th December, 1999 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. The Terms of Reference of the Audit Committee was revised on 27th September, 2004 and 17th June, 2005, respectively. A revised Terms of Reference of the Audit Committee was adopted during the year 2009 for incorporation of the amendments to the CG Code set out in Appendix 14 to the Listing Rules on 1st January, 2009. The Terms of Reference of the Audit Committee have included the duties set out in code provision C.3.3(a) to (n) of the CG Code. The existing members of the Audit Committee comprise 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. The Audit Committee does not have as a member a former partner of the Group's existing audit firm.

During 2009, the Audit Committee met on two (2) occasions and discharged its responsibilities. Attendance of individual members at Audit Committee meetings in 2009 is as follows:

Number of meetings	2
Mr. Xu Bingjin	2/2 (100%)
Mr. Song Jian	2/2 (100%)
Mr. Jiang Bo	2/2 (100%)
Average attendance rate	100%

During 2009, apart from the two meetings of the Audit Committee, consent/ approval from the members of the Audit Committee has also been obtained via circulation of written resolutions on a number of issues.

The principal duties of the Audit Committee included reviewing the Company's financial controls, internal control and risk management system, annual report and accounts and half-yearly report.

The following is a summary of the work performed by the Audit Committee during 2009:

— reviewing the Auditor's management letter and management's response;

— reviewing and considering the recently issued accounting standards, the adoption of new accounting standards and the change in significant accounting policies;

— reviewing the audited financial statements and final results announcement for the year ended 31st December, 2008;

— reviewing the interim report and the interim results announcement for the six months ended 30th June, 2009;

— meeting with the Auditors to go through any significant audit issues or key findings noted during the audit of the Group's 2008 final results;

— meeting with the Auditors to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's 2009 unaudited interim results; and

— reviewing the continuing connected transactions and financial assistance for 2008.

All issues raised by the Audit Committee have been addressed by the management. The work and findings of the Audit Committee have been reported to the Board. During 2009, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in this annual report.

Full minutes of the Audit Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval.

The Audit Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

This annual report has been reviewed by the Audit Committee.

D. DELEGATION BY THE BOARD

D.1 Management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The reserved power of the Board was set out in the annual report of the Company for the year ended 31st December, 2005 and there has been no change to the power of the Board during the year 2009.

D.2 Board committees

Apart from the Audit Committee (as described under paragraph C.3) and the Remuneration Committee (as described under paragraph B.1), the Board has not established any other committee of the Board.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

The Company attaches great importance to communications with shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

In line with the practice of the Company, in respect of each issue to be considered at the annual general meetings and special general meetings, including the re-election of directors, a separate resolution will be proposed by the Chairman.

In accordance with the code provision E.1.2 set out in the CG Code, Mr. Wu Xiao An, the Chairman of the Board, and Mr. Xu Bingjin, the chairman of both the Audit Committee and Remuneration Committee, have attended the 2009 annual general meeting. Mr. Song Jian, a member of an independent board committee, represented other members of the independent board committee to attend the special general meeting held on 13th January, 2009 at which approval was sought from the shareholders in relation to the subscription of shares by a connected person of the Company, and to answer questions raised by the shareholders. Mr. Xu Bingjin, a member of an independent board committee, represented other members of the independent board committee to attend the special general meeting held on 17th December, 2009 in relation to the approval of the disposal of the Zhonghua sedan business, certain continuing connected transactions and financial assistance, and to answer questions raised by the shareholders at the meeting.

The Chairman of the Board, the chairman of the Audit Committee and the chairman of the Remuneration Committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the forthcoming annual general meeting and special general meeting to answer questions of shareholders.

E.2 Voting by poll

At the annual general meeting and special general meetings held in 2009, the Chairman had provided an explanation of the procedures for conducting a poll at the commencement of each of the meetings. Poll results were posted on the website of the Stock Exchange (as well as on the website of the Company) on the day of the holding of each of the shareholders' meetings.

Independent Auditors' Report

Grant Thornton
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Member of Grant Thornton International Ltd

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Brilliance China Automotive Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 37 to 120, which comprise the consolidated and company statements of financial position as at 31st December, 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

GrantThornton
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Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31st December, 2009, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong,

16th April, 2010

Consolidated Income Statement

For the year ended 31st December, 2009
(Expressed in thousands of RMB except for per share amounts)

	Note	2009 RMB'000	2008 RMB'000 (Restated)
Continuing operations			
Turnover	6	**6,148,962**	5,472,738
Cost of sales		**(5,293,719)**	(4,785,977)
Gross profit		**855,243**	686,761
Other revenue	6	**154,467**	101,635
Interest income	6	**31,107**	38,267
Selling expenses		**(310,046)**	(178,924)
General and administrative expenses		**(331,016)**	(282,945)
Staff share option costs		**—**	(9,205)
Other operating expenses		**(42,596)**	(40,227)
Finance costs, net	8	**(94,183)**	(100,488)
Share of results of:			
Associates		**22,004**	20,262
Jointly controlled entities		**354,276**	265,056
Impairment losses on assets	7	**(644,243)**	(50,758)
Fair value gain on embedded derivative components of convertible bonds	33	**—**	289,700
(Loss) Profit before income tax expense from continuing operations	7	**(4,987)**	739,134
Income tax expense	9	**(40,989)**	(55,267)
(Loss) Profit for the year from continuing operations		**(45,976)**	683,867
Discontinued operations			
Loss for the year from discontinued operations	10	**(2,698,216)**	(998,178)
Loss for the year		**(2,744,192)**	(314,311)
Attributable to:			
Equity holders of the Company	11	**(1,639,835)**	80,929
Non-controlling interests		**(1,104,357)**	(395,240)
		(2,744,192)	(314,311)
(Loss) Earnings per share	13		
Continuing and discontinued operations			
— Basic		**RMB(0.36603)**	RMB0.02205
— Diluted		**N/A**	RMB0.02203
Continuing operations			
— Basic		**RMB(0.03588)**	RMB0.16174
— Diluted		**N/A**	RMB0.16160
Discontinued operations			
— Basic		**RMB(0.33015)**	RMB(0.13969)
— Diluted		**N/A**	RMB(0.13957)

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2009

	2009 RMB'000	2008 RMB'000
Loss for the year	**(2,744,192)**	(314,311)
Other comprehensive income, net of tax		
Change in fair value of available-for-sale financial assets	**22,067**	(10,496)
Share of other comprehensive income of a jointly controlled entity	**92,383**	(96,270)
Transfer to profit or loss on impairment losses on available-for-sale financial assets	**—**	18,868
	114,450	(87,898)
Total comprehensive income for the year	**(2,629,742)**	(402,209)
Attributable to:		
Equity holders of the Company	**(1,526,309)**	(6,006)
Non-controlling interests	**(1,103,433)**	(396,203)
	(2,629,742)	(402,209)

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2009

The Group	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Dedicated capital RMB'000	Share options reserve 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, 2008	303,488	31,275	2,040,430	(8,372)	39,179	193,356	43,090	120,000	3,287,217	6,049,663	209,736	6,259,399
Share option cost	—	—	—	—	—	—	10,065	—	—	10,065	—	10,065
Cancellation of share options	—	—	—	—	—	—	(43,090)	—	43,090	—	—	—
Transactions with equity holders of the Company	—	—	—	—	—	—	(33,025)	—	43,090	10,065	—	10,065
Transfer to dedicated capital	—	—	—	—	—	12,106	—	—	(12,106)	—	—	—
Profit (Loss) for the year	—	—	—	—	—	—	—	—	80,929	80,929	(395,240)	(314,311)
Other comprehensive income												
Share of other comprehensive income of a jointly controlled entity	—	(95,307)	—	—	—	—	—	—	—	(95,307)	(963)	(96,270)
Change in fair value of available-for-sale financial assets	—	—	—	(10,496)	—	—	—	—	—	(10,496)	—	(10,496)
Transfer to profit or loss on impairment losses on available-for-sale financial assets	—	—	—	18,868	—	—	—	—	—	18,868	—	18,868
Total other comprehensive income	—	(95,307)	—	8,372	—	—	—	—	—	(86,935)	(963)	(87,898)
As at 31st December, 2008	303,488	(64,032)	2,040,430	—	39,179	205,462	10,065	120,000	3,399,130	6,053,722	(186,467)	5,867,255

Consolidated Statement of Changes in Equity (Cont'd)

For the year ended 31st December, 2009

The Group	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Dedicated capital RMB'000	Share options reserve 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, 2009	303,488	(64,032)	2,040,430	—	39,179	205,462	10,065	120,000	3,399,130	6,053,722	(186,467)	5,867,255
Cancellation of share options	—	—	—	—	—	—	(283)	—	283	—	—	—
Issue of new shares by subscriptions	89,671	—	404,238	—	—	—	—	—	—	493,909	—	493,909
Issue of new shares by exercise of share options	124	—	874	—	—	—	(307)	—	—	691	—	691
Disposal of discontinued operations	—	—	—	—	—	—	—	—	—	—	(3,532)	(3,532)
Transactions with equity holders of the Company	89,795	—	405,112	—	—	—	(590)	—	283	494,600	(3,532)	491,068
Transfer to dedicated capital	—	—	—	—	—	7,876	—	—	(7,876)	—	—	—
Loss for the year	—	—	—	—	—	—	—	—	(1,639,835)	(1,639,835)	(1,104,357)	(2,744,192)
Other comprehensive income												
Share of other comprehensive income of a jointly controlled entity	—	91,459	—	—	—	—	—	—	—	91,459	924	92,383
Change in fair value of available-for-sale financial assets	—	—	—	22,067	—	—	—	—	—	22,067	—	22,067
Total other comprehensive income	—	91,459	—	22,067	—	—	—	—	—	113,526	924	114,450
As at 31st December, 2009	393,283	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

Statements of Financial Position

As at 31st December, 2009

		Consolidated		Company	
		2009	2008	**2009**	2008
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Non-current assets					
Intangible assets	14	**163,743**	1,075,393	**—**	159,700
Goodwill	15	**—**	295,529	**—**	—
Property, plant and equipment	16	**1,263,040**	3,881,856	**1,097**	310
Construction-in-progress	17	**79,092**	264,482	**—**	—
Land lease prepayments	18	**69,044**	115,104	**—**	—
Interests in subsidiaries	19	**—**	—	**4,892,142**	6,442,691
Interests in associates	20	**504,106**	393,052	**121,310**	—
Interests in jointly controlled entities	21	**1,751,854**	1,381,024	**—**	—
Prepayments for a long-term investment	23	**600,000**	600,000	**—**	—
Available-for-sale financial assets	24	**37,700**	15,633	**33,562**	11,495
Advances to an affiliated company	38(f)	**—**	51,470	**—**	—
Receivable for disposal of discontinued operations	38(g)	**415,183**	—	**—**	—
Other non-current assets		**10,415**	10,435	**—**	—
Total non-current assets		**4,894,177**	8,083,978	**5,048,111**	6,614,196
Current assets					
Cash and cash equivalents		**1,608,911**	1,243,861	**971,191**	5,930
Short-term bank deposits		**213,341**	692,000	**—**	—
Pledged short-term bank deposits	25	**1,056,071**	2,456,095	**—**	—
Inventories	26	**1,350,299**	1,869,202	**—**	—
Accounts receivable	27	**95,132**	671,680	**—**	—
Accounts receivable from affiliated companies	38(c)	**832,341**	259,208	**—**	—
Notes receivable	28	**305,511**	707,363	**—**	—
Notes receivable from affiliated companies	38(d)	**28,450**	205,199	**—**	—
Other receivables	29	**622,294**	465,397	**2,089**	12,242
Dividends receivable from affiliated companies	38(e)	**94,968**	86,673	**—**	—
Prepayments and other current assets		**241,665**	373,944	**1,285**	607
Income tax recoverable		**25**	—	**—**	—
Other taxes recoverable		**18,677**	27,693	**—**	—
Advances to affiliated companies	38(f)	**103,188**	172,747	**26,365**	26,365
Total current assets		**6,570,873**	9,231,062	**1,000,930**	45,144

Statements of Financial Position (Cont'd)

As at 31st December, 2009

	Note	Consolidated 2009 RMB'000	Consolidated 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Current liabilities					
Accounts payable	30	**1,486,750**	2,323,702	**—**	—
Accounts payable to affiliated companies	38(h)	**854,629**	603,416	**—**	—
Notes payable		**1,092,676**	4,803,364	**—**	—
Notes payable to affiliated companies	38(i)	**112,385**	43,863	**—**	—
Customer advances		**922,080**	354,768	**—**	—
Other payables		**815,453**	773,232	**—**	—
Dividends payable		**2,879**	2,882	**2,879**	2,882
Accrued expenses and other current liabilities		**131,955**	57,381	**4,547**	8,408
Short-term bank borrowings	31	**723,000**	499,781	**—**	—
Income tax payable		**37,822**	25,867	**—**	—
Other taxes payable		**41,971**	84,540	**—**	—
Advances from affiliated companies	38(j)	**1,090,181**	73,123	**970,027**	6,111
Advances from a subsidiary	32	**—**	—	**—**	1,163,718
Convertible bonds	33	**—**	1,403,248	**—**	—
Total current liabilities		**7,311,781**	11,049,167	**977,453**	1,181,119
Net current (liabilities) assets		**(740,908)**	(1,818,105)	**23,477**	(1,135,975)
Total assets less current liabilities		**4,153,269**	6,265,873	**5,071,588**	5,478,221
Non-current liabilities					
Deferred government grants		**24,688**	79,460	**—**	—
Advances from affiliated companies	38(j)	**400,000**	319,158	**—**	—
Total non-current liabilities		**424,688**	398,618	**—**	—
NET ASSETS		**3,728,581**	5,867,255	**5,071,588**	5,478,221
Capital and reserves					
Share capital	36(a)	**393,283**	303,488	**393,283**	303,488
Reserves	37	**4,628,730**	5,750,234	**4,678,305**	5,174,733
Total equity attributable to equity holders of the Company		**5,022,013**	6,053,722	**5,071,588**	5,478,221
Non-controlling interests		**(1,293,432)**	(186,467)	**—**	—
TOTAL EQUITY		**3,728,581**	5,867,255	**5,071,588**	5,478,221

Wu Xiao An
(also known as Ng Siu On)
Director

Qi Yumin
Director

Consolidated Cash Flow Statement

For the year ended 31st December, 2009

	Note	**2009** **RMB'000**	2008 RMB'000
Operating activities			
Cash generated from (used in) operations	39(a)	**961,743**	(842,318)
Interest received		**76,625**	83,982
Enterprise income tax paid		**(29,059)**	(20,473)
Net cash generated from (used in) operating activities		**1,009,309**	(778,809)
Investing activities			
Payments for acquisition of property, plant and equipment and construction-in-progress		**(630,656)**	(483,573)
Payments for acquisition of intangible assets		**(332,120)**	(335,876)
Decrease/(Increase) in short-term and pledged bank deposits		**115,707**	(658,430)
Dividend received from an associate		**20,999**	21,000
Dividend received from a jointly controlled entity		**78,464**	—
Payments for land lease prepayments		**(62,470)**	—
Proceeds from disposal of property, plant and equipment		**753**	5,407
Increase in other long-term assets		**(18,349)**	(1,092)
Increase in advances to affiliated companies		**(326,184)**	(54,893)
Net cash outflow from disposal of discontinued operations		**(151,661)**	—
Net cash used in investing activities		**(1,305,517)**	(1,507,457)
Net cash outflow before financing activities		**(296,208)**	(2,286,266)

Consolidated Cash Flow Statement (Cont'd)

For the year ended 31st December, 2009

	2009 RMB'000	2008 RMB'000
Financing activities		
Increase in advances from affiliated companies	**1,383,966**	9,217
Issue of notes payable	**260,000**	2,750,800
Repayments of notes payable	**(370,800)**	(820,000)
Payment for redemption of convertible bonds	**(1,434,484)**	(57,736)
Proceeds from short-term bank loans	**1,223,000**	599,781
Payments of short-term bank loans	**(879,781)**	(470,000)
Issue of share capital	**494,600**	—
Interest paid	**(160,896)**	(184,284)
Receipts of government grants	**145,653**	328,933
Net cash generated from financing activities	**661,258**	2,156,711
Increase (Decrease) in cash and cash equivalents	**365,050**	(129,555)
Cash and cash equivalents, as at 1st January,	**1,243,861**	1,373,416
Cash and cash equivalents, as at 31st December,	**1,608,911**	1,243,861

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 9th June, 1992 with limited liability. The Company's shares are traded on The Stock Exchange of Hong Kong Limited (the "**SEHK**").

The Company's American depositary shares ("**ADSs**") were delisted from The New York Stock Exchange Inc. on 26th July, 2007 and the ordinary shares underlying its ADSs were also de-registered under the United States Securities Exchange Act of 1934, as amended, on 1st June, 2009.

The decision to de-register was reached in view of low trading volume of the Company's ADSs and the increase in administrative costs and human resources required to comply with the US reporting and registration obligations. The Company's ordinary shares continue to be listed and traded on the main board of the SEHK after the de-registration.

The Company is an investment holding company. Prior to the completion of the disposal of the Zhonghua sedan business on 31st December, 2009, the principal activities of the Company's subsidiaries are the manufacture and sale of minibuses, sedans and automotive components in the People's Republic of China (the "**PRC**").

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), collective terms of which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**").

These financial statements have been prepared on the basis consistent with the accounting policies adopted in the 2008 financial statements, except for the adoption for the first time the following new HKFRSs, amendments to HKFRSs and interpretations:

HKFRSs (Amendments)	Annual improvements to HKFRSs 2008
HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based Payment — Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKAS 39 (Amendments)	Financial Instruments — "Recognition and Measurement" — Embedded Derivatives

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(a) Statement of compliance (Cont'd)

In addition, the Group also elects to early adopt the following HKFRSs, which are to be effective for financial periods beginning on or after 1st July, 2009, in the preparation of financial statements for the year:

HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 38 (Amendment)	Intangible Assets

The adoption of these new HKFRSs, amendments to HKFRSs and interpretations had no material effect on the results and financial position of the Group for the current or prior years, except for the Group's recognition of a deficit balance on the non-controlling interests as at 31st December, 2009, in accordance with HKAS 27 (Revised).

HKAS 1 (Revised 2007) Presentation of Financial Statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income, for example change in fair value of available-for-sale financial assets. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting policies on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or the Company's statement of financial position at 1 January 2008 and accordingly this statement is not presented.

HKFRS 7 (Amendments) Improving Disclosures about Financial Instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierachy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKAS 23 (Revised) Borrowing Costs

The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs was removed. Since the Group currently applies a policy of capitalising borrowing costs, it is not expected to have any material impact on the Group's or Company's financial statements.

HKFRS 8 Operating Segments

HKFRS 8 replaces HKAS 14 "Segment reporting". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the operating decision maker.

The adoption of HKFRS 8 does not have significant impact on the Group's financial statements except that certain income statement items and assets and liabilities in the segment of manufacture and sale of Zhonghua sedans in prior years are now grouped under the manufacture and sale of minibuses and automotive components based on the existing internal reporting to the Company's board of directors.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(a) Statement of compliance (Cont'd)

HKFRS 3 (Revised) Business Combinations and HKFRS 27 (Revised) Consolidated and Separate Financial Statements

HKFRS 3 (Revised) was early adopted by the Group in 2009 and applied prospectively from 1st January, 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The adoption of HKFRS 3(Revised) has no impact on the Group's financial statements.

As the Group has early adopted HKFRS 3 (Revised) in 2009, it is required to early adopt HKAS 27 (Revised) at the same time. HKAS 27 (Revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. As a result of early adoption of HKAS 27 (Revised), the Group recognised a deficit balance on the non-controlling interests of RMB1,293,432,000 at 31 December 2009.

HKAS 38 (Amendments) Intangible Assets

The Group and the Company early adopted HKAS 38 (Amendments) from the date HKFRS 3 (Revised) has been adopted since 1st January, 2009. HKAS 38 (Amendments) clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or Company's financial statements as there was no business combination during the year.

HKFRSs (Amendments) Annual Improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first Annual improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. Of these, the amendment to HKAS 28 Investments in Associates has changed the Group's accounting policies on allocation of impairment losses but did not have any impact of the current year results and financial position.

The amendments clarify that an investment in associate accounted for under the equity method is a single asset for the purposes of impairment testing. Any impairment loss recognised by the investor after applying the equity method is not allocated to individual assets including goodwill included in the investment balance. Accordingly, any reversal of such impairment losses in a subsequent period is recognised to the extent that the recoverable amount of the associate has increased.

In prior years, the Group allocated the impairment loss initially to goodwill included as part of the investment balance. According to the Group's accounting policies on goodwill, no reversals of impairment losses attributed to the carrying amount of goodwill would have been recognised in subsequent periods.

The new policy also applies to the Group's investment in the jointly controlled entity, which is accounted for under the equity method in the consolidated financial statements.

For the current period, there were no impairment losses recognised and no reversals of impairment losses recognised in prior periods on investments in associates and jointly controlled entities. The adoption of this new policy has no impact on the current period results and financial position therefore. The new accounting policy has been applied prospectively as permitted by the amendment and comparatives have not been restated.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Basis of measurement

The measurement basis used in the preparation of the financial statements is historical cost, except for available-for-sale financial assets and derivative financial instruments, which are measured at fair value as explained in Note 2(i)(i) and (iv) below.

(c) Preparation of financial statements

At 31st December, 2009, the Group had net current liabilities of approximately RMB741 million. Notwithstanding the net loss of RMB2,744 million (which included loss from discontinued operations of RMB2,698 million) incurred for the year and the Group's current liabilities exceeding its current assets at 31st December, 2009, in preparing these financial statements, the directors have given careful consideration to current and future liquidity of the Group and its ability to provide working capital for its operations.

As set out in note 10, the Group had disposed of the loss-making Zhonghua sedan business during the year. After the disposal, the Group will refocus on the minibus operation and the BMW Brilliance joint venture. The management believes the Group will start generating profit and positive cash flows from operating activities so that the Group will be able to operate as a going concern.

At the year end date, the Group had short-term bank borrowings of RMB723 million which are renewable on a yearly basis. Management is confident that these borrowings can be renewed on their expiry and to date has secured the renewal of approximately RMB40 million of these borrowings as well as new bank borrowings of RMB80 million.

In addition, Huachen Automotive Group Holdings Company Limited ("**Huachen**"), the ultimate holding company of the Company, has also agreed to provide adequate funds to the Group, if necessary, to meet its liabilities as they fall due. The directors consider that the Group will have sufficient cash resources to satisfy its future working capital needs and other financing requirements. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

(d) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(i) *Subsidiaries* (Cont'd)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) *Transactions with non-controlling interests*

The Group treats transactions with non-controlling interest as transactions with equity holders of the company. For purchases from non-controlling interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) *Associates and jointly controlled entities*

An associate is an entity, not being a subsidiary or a joint venture, in which an equity interest is held for long-term and the Group or Company has significant influence over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activities of the entity and none of the participating parties has unilateral control over the economic activities.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year.

Unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity. Where unrealised losses on assets sales between the Group and its associates or jointly controlled entities are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate or jointly controlled entity uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate or jointly controlled entity's accounting policies to those of the Group when the associate or jointly controlled entity's financial statements are used by the Group in applying the equity method.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Basis of consolidation (Cont'd)

(iii) *Associates and jointly controlled entities* (Cont'd)

When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interest in the associate or jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or jointly controlled entity. For this purpose, the Group's interest in the associate or jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or jointly controlled entity.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates or jointly controlled entity. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate or jointly controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate or jointly controlled entity and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate or jointly controlled entity, including cash flows arising from the operations of the associate or jointly controlled entity and the proceeds on ultimate disposal of the investment.

In the Company's statement of financial position, investments in associates and jointly controlled entities are stated at cost less accumulated impairment losses unless they are held for sale or included in a disposal group. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. Results of associates and jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable. All dividends whether received out of the associate's or jointly controlled entity's pre or post-acquisition profits are recognised in the Company's income statement.

(iv) *Translation of foreign currencies*

Items included in the financial statements of each of the Group entities, including the Company, subsidiaries, associates and jointly controlled entities, are all measured using Renminbi ("**RMB**") which is the currency of the primary economic environment in which the entity operates ("**the functional currency**").

Transactions in currencies other than the functional currencies are translated into functional currencies at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in other currencies at the reporting date are re-translated into functional currencies at rates of exchange ruling at the reporting date. Exchange differences arising in these cases are dealt with in the income statement.

(e) Intangibles

(i) *Goodwill*

Goodwill arising on acquisition of a subsidiary, an associate or a jointly controlled entity prior to 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangibles (Cont'd)

(i) *Goodwill* (Cont'd)

Goodwill arising on acquisition of a subsidiary, an associate or a jointly controlled entity on and after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For goodwill capitalised prior to 1st January, 2005, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill and goodwill arising on and after 1st January, 2005, if any, are tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired. An impairment loss on goodwill is not reversed in subsequent periods.

Capitalised goodwill arising on acquisition of a subsidiary is presented separately in the consolidated statement of financial position. Capitalised goodwill arising on acquisition of an associate or a jointly controlled entity is included in the cost of the investment of the relevant associate or jointly controlled entity.

On disposal of a cash generating unit of a subsidiary, an associate or a jointly controlled entity, any attributable amount of purchased goodwill is included in the calculation of gain or loss on disposal.

(ii) *Research and development costs*

Research costs are charged to the income statement as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are capitalised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so; and costs are identifiable and there is an ability to sell or use the asset for generating future economic benefits. Such development costs include the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable, and are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over a period which reflects the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are charged to the income statement as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

(iii) *Acquired intangible assets*

Acquired intangible assets with finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over the estimated useful lives of 7 to 20 years.

(f) Property, plant and equipment

Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Property, plant and equipment (Cont'd)

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction-in-progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values of 10%, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Buildings	20–30 years
Machinery and equipment (excluding special tools and moulds)	10–20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years
Special tools and moulds	20,000–420,000 times of usage

(g) Construction-in-progress

Construction-in-progress represents factories and office buildings for which construction work has not been completed and machinery pending installation and which, upon completion, management intends to hold for production or own use. Construction-in-progress is carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less accumulated impairment losses. On completion, the construction-in-progress is transferred to property, plant and equipment at cost less accumulated impairment losses. Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

(h) Land lease prepayments

Land lease prepayments represent amounts paid for land use rights. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to income statement from the date of initial recognition on a straight-line basis over the respective periods of the rights.

(i) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

The Group's financial assets other than investments in subsidiaries, associates and jointly controlled entities are classified into available-for-sale financial assets and loans and receivables.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(i) *Available-for-sale financial assets*

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially recognised at fair value. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(iii) *Impairment of financial assets*

At each reporting date, the Group assesses for indicators of impairment on financial assets. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered an objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2009

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(iii) *Impairment of financial assets* (Cont'd)

whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial assets' original effective interest rate.

Loans and receivable

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Impairment loss is recognised in income statement for the period in which the impairment occurs.

For financial assets other than accounts receivable, other receivables and receivables from related parties that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. For accounts receivable, other receivables and receivables from related parties, when the recovery of these financial assets is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of these receivables is remote, the amount considered irrecoverable is written off against these receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in income statement.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the income statement. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances is recognised in income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(iii) *Impairment of financial assets* (Cont'd)

Available-for-sale financial assets (Cont'd)

Impairment losses recognised in an interim period in respect of available for sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of an available for sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

(iv) *Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value. At each reporting date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in income statement, except when the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(v) *Convertible bonds*

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible band are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in profit or loss.

(vi) *Other financial liabilities*

The Group's other financial liabilities include accounts and notes payables and other payables, bank loans and other borrowings. These financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, except for interest- free payable and advances to related parties or the effect of discounting being insignificant. In such cases, they are stated at cost.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Financial instruments (Cont'd)

(vii) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available. Otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the reporting date.

(j) Impairment of other assets

At each reporting date, the Group reviews internal and external sources of information to determine whether its tangible and intangible assets (other than goodwill), investments in subsidiaries, associates and jointly controlled entities and prepayments have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

(k) Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realisable value. Costs comprise all costs of purchase, direct labour, and an appropriate proportion of all production overhead and other costs incurred in bringing the inventories to their present location and condition. Costs are calculated on the moving weighted-average basis, except for costs of work-in-progress and finished goods of sedans and minibuses which are calculated by the specific identification basis. Net realisable value is determined on the basis of anticipated sales proceeds in the ordinary course of business less the estimated costs of completion and the estimated selling expenses.

(l) Cash and cash equivalents and short-term deposits

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Deposits with banks or other financial institutions with maturity more than three months and within one year at acquisition are classified as short-term deposits.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Provisions

Provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditure for which a provision has been recognised is charged against the related provision in the year in which the expenditure is incurred. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision is to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for repairs or replacement of products still under warranty at the reporting date. Minibuses are sold with 24-month or 50,000 kilometres (2008: Same) first-to-occur limited warranty. Zhonghua sedans, Junjie sedans and Kubao are sold with 36-month or 60,000 kilometres (2008: Same) first-to-occur limited warranty. Zunchi sedans are sold with 10-year or 200,000 kilometres (2008: Same) first-to-occur limited warranty. During the warranty period, the Group pays service stations for parts and labour costs covered by the warranty, except that the disposal of the Zhonghua sedan business, the obligations to provide the respective warranty were also transferred to Huachen from 31st December, 2009.

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

Movements in the provision for warranty during the year are as follows:

	2009	2008
	RMB'000	RMB'000
As at 1st January,	**10,908**	28,490
Accrual for warranties during the year	**89,158**	31,615
Settlements during the year	**(89,158)**	(49,197)
As at 31st December,	**10,908**	10,908

(n) Government grants

Conditional government grant is recognised in the statement of financial position initially as deferred government grants when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attached. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the costs of construction-in-progress, development of new or improved products, property, plant and equipment and land lease prepayments are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Unconditional grant is recognised in the income statement as revenue when the grant becomes receivable.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the income statement on a straight-line basis over the lease periods.

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease terms.

(p) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Bonus plans*

Bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Pension obligations*

The Group's contributions to defined contribution retirement plans administered by the government of the PRC are recognised as an expense in the income statement. The assets of the schemes are held separately from those of the Group in independently administered funds. Further information is set out in Note 35.

Contributions made to the Mandatory Provident Fund Scheme for the Group's employees in Hong Kong are charged to the income statement when incurred.

(iv) *Share-based payments*

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of equity instrument at grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share options reserve within equity. The fair value is determined using the Black-Scholes option pricing model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the share options reserve within equity.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Income and other taxes

Income tax

Income tax in the income statement comprises current and deferred taxes. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the reporting date are used to determine deferred taxation.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

Deferred taxation is provided on temporary differences arising from investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

*Value Added Tax ("**VAT**")* and Consumption Tax

The general VAT rate applicable to sales and purchases of minibuses, sedans and automotive components in the PRC is 17% (2008: 17%).

Sale of minibuses and sedans is also subject to consumption tax at standard rates of 3% to 12% in 2009 (2008: 3% to 12%).

(r) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably and on the following bases:

(i) *Sale of goods*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title is passed.

(ii) *Interest income*

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

(iii) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(iv) *Subsidy income*

Accounting policy for recognition of subsidy income is set out in Note 2(n) to the financial statements.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is ceased when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

(u) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the directors for their decisions about resources allocation to the Group's business components, which are determined by the Group's different brands of vehicles, and review of their performance.

The Group has identified the following reportable segments:

(1) the manufacture and sale of minibuses and automotive components;

(2) the manufacture and sale of BMW sedans

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(u) Segment reporting (Cont'd)

The measurement policies the Group adopts for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that the following items are not included in arriving at the operating results of the operating segments.

— expenses related to share-based payments;

— share of results of associates and jointly controlled entities;

— interest income;

— finance costs;

— impairment losses on construction-in-progress and property, plant and equipment;

— impairment losses on intangible assets;

— impairment losses on available-for-sale financial assets;

— impairment losses on receivables;

— fair value gain on embedded derivative components of convertible bonds; and

— corporate income and expenses which are not directly attributable to the business activities of any operating segment; and

— income tax expense

In addition, the operating results of the operating segments include completed segment results of the manufacture and sale of BMW sedans, which are currently reported on the basis of the Group's share of equity interests in the Group's financial statements prepared under HKFRS.

Segment assets include all assets but interests in associates (Note 20), interests in jointly controlled entities except BMW Brilliance (Note 21), available-for-sale financial assets of listed equity securities (Note 24), prepayments for a long-term investment (Note 23), advance to SAIAM (Note 29). In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Segment liabilities include all liabilities but convertible bonds. In addition, corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

In addition, segment assets and segment liabilities include completed assets and liabilities of the manufacture and sale of BMW sedans segment, which are currently reported on the basis of the Group's share of equity interests in the Group's financial statements prepared under HKFRS.

(v) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(v) Related parties (Cont'd)

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

3. FUTURE CHANGES IN HKFRSs

At the date of authorisation of these financial statements, the HKICPA has issued the following standards and interpretations that are not yet effective. The directors anticipate that the adoption of these new HKFRSs in the further periods will have no material impact on the results of the Company.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKFRS 5 (Amendments)	Measurement of Non-current Assets (or Disposal Groups) Classified as Held for Sale
HKAS 24 (Amendments)	Related Party Disclosure[8]
HKAS 32 (Amendments)	Classification of Right Issues[7]
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement — Eligible Hedge Items[4]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[4]
HKFRS 1 (Amendments)	Amendment to HKFRS 1 — First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First–time Adopters[10]
HKFRS 2 (Amendment)	Share-based Payment — Group Cash-settled Share-based Payment Transactions[3]
HKFRS 9	Financial Instruments[9]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[8]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[4]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[10]

1 Already effective for current financial year except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009
2 Although some are already effective for current financial year, some are effective for financial periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate
3 Effective for financial periods beginning on or after 1st January, 2010
4 Effective for financial periods beginning on or after 1st July, 2009
5 Effective for financial periods beginning on or after 1st January, 2009
6 Effective for financial periods beginning on or after 1st October, 2008
7 Effective for financial periods beginning on or after 1st February, 2010
8 Effective for financial periods beginning on or after 1st January, 2011
9 Effective for financial periods beginning on or after 1st January, 2013
10 Effective for financial periods beginning on or after 1st July, 2010

Among these new standards and interpretations, the following standards are expected to be relevant to the Group's financial statements.

3. FUTURE CHANGES IN HKFRSs (Cont'd)

HKFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1st January, 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The Directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKFRS 5 (Amendments) Measurement of Non-current Assets (or Disposal Groups) Classified as Held for Sale

The amendments provide clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. This is not currently relevant to the Group as it doesn't hold any of such assets.

Annual Improvements 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1st January, 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1st January, 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The Directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

HK(IFRIC) 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. This is not currently applicable to the Group, as it has not distributed any non-cash assets to shareholders.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the accounting policies set out in Note 2, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Depreciation and amortisation

The net book value of the Group's property, plant and equipment and intangible assets as at 31st December, 2009 was approximately RMB1,263 million (2008: RMB3,882 million) and RMB164 million (2008: RMB1,075 million) respectively. The Group depreciates its property, plant and equipment on a straight line basis, after taking into account their estimated residual value, over 5 to 30 years for properties, plant and equipment other than special tools and moulds and over 20,000 times to 420,000 times of usage for special tools and moulds.

The intangible assets are amortised on a straight-line basis over their estimated useful lives of 5 to 20 years. The estimated useful lives reflect the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets.

(ii) Impairment test of assets

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Details of the basis and assumptions used in estimating the recoverable amounts of the Group's intangible assets, property, plant and equipment, and goodwill in subsidiaries, associates and jointly controlled entities are set out in Note 14(b), Note 16 and Note 22.

(iii) Allowances for inventories

The Group's management reviews inventory aging analysis at each reporting date and makes allowance for obsolete and slow-moving items of inventories that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in-progress based principally on the selling prices of the respective finished goods and current market conditions. The management carries out an inventory review on a product-by-product basis at each reporting date and makes allowance for obsolete items.

The amount being reversed is limited to the extent that it does not result in the carrying amount of the inventory that exceeding what the cost would have been had the provision not been recognised at the date the provision reversed.

The policy for allowance for the Group's bad and doubtful debts is based on the evaluation of collectability and aging analysis of accounts. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and debtor. If the financial conditions of customers or debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

(iv) Warranty provisions

The Group makes provisions under the warranties it gives on sale of its minibuses, sedans and related parts taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the past claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years. Details of provisions are set out in Note 2(m).

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group's major financial instruments include accounts and notes receivables, other receivables, accounts and notes payables, other payables, convertible bonds and interest-bearing borrowings. Details of the policies on how to mitigate the risks from these financial instruments are set out below. The Group's management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The Group's credit risk primarily consists of accounts receivable, notes receivable and other receivables from a variety of customers and debtors including state and local agencies, municipalities and private industries and its affiliated companies, bank balances and deposits and guarantee for loans drawn by its affiliated companies.

In order to minimise credit risk, 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 follow-up collection with customers. Customers considered to be high risk are traded on cash basis or when bank guaranteed notes are received.

The Group reviews regularly the recoverable amount of each individual receivable and adequate provision is made for balance determined to be unrecoverable.

The Group has no significant concentration of credit risk at 31st December, 2009 except that about 88% of accounts receivable were due from the ultimate holding company as a result of the disposal of discontinued operations. This account receivable was originally an intercompany balance within the Group which was eliminated on consolidation but has become a receivable from the ultimate holding company after the disposal. The Group will closely monitor the balance and ensure it will be recovered. The largest two accounts and notes receivable at 31st December, 2008 constituted 18% and 11% of total accounts and notes receivables.

The credit risk on liquid funds with banks is limited because these banks are authorised banks in the PRC with high credit ratings.

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(b) Liquidity risk

In managing liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations, expected expansion and product developments. The Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of borrowings and ensures compliance with loan covenants. In view of excess of current liabilities over current assets of both the Group and Company, the management has taken necessary measures to maintain the Group's and Company's liquidity as set out in Note 2(c).

As at 31st December, 2009 and 31st December, 2008, the remaining contractual maturities of the Group's financial liabilities, based on undiscounted cash flows, are summarised below:

	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
As at 31st December, 2009					
Accounts payable	**1,486,750**	**1,486,750**	—	—	—
Accounts payable to affiliated companies	**854,629**	**854,629**	—	—	—
Notes payable	**1,092,676**	**1,092,676**	—	—	—
Notes payable to affiliated companies	**112,385**	**112,385**	—	—	—
Other payables	**815,453**	**815,453**	—	—	—
Dividends payable	**2,879**	**2,879**	—	—	—
Accrued expenses and other current liabilities	**131,955**	**131,955**	—	—	—
Short-term bank borrowings	**723,000**	**723,000**	—	—	—
Advances from affiliated companies	**1,490,181**	**1,090,181**	**443,200**	—	—
	6,709,908	**6,309,908**	**443,200**	—	—

Financial guarantee contract	Guaranteed Amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
As at 31st December, 2009					
— Shanghai Shenhua Holdings Co., Ltd. ("**Shanghai Shenhua**")	**60,000,000**	**60,000,000**	—	—	—
— Shenyang JinBei Automotive Co., Ltd. ("**JinBei**")	**200,000,000**	**200,000,000**	—	—	—
— Huachen	**750,000,000**	**750,000,000**	—	—	—
	1,010,000,000	**1,010,000,000**	—	—	—

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(b) Liquidity risk (Cont'd)

	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
As at 31st December, 2008					
Accounts payable	2,323,702	2,323,702	—	—	—
Accounts payable to affiliated companies	603,416	603,416	—	—	—
Notes payable	4,803,364	4,803,364	—	—	—
Notes payable to affiliated companies	43,863	43,863	—	—	—
Other payables	773,232	773,232	—	—	—
Dividends payable	2,882	2,882	—	—	—
Accrued expenses and other current liabilities	57,381	57,381	—	—	—
Short-term bank borrowings	499,781	499,781	—	—	—
Advances from affiliated companies	392,281	73,123	215,498	67,020	111,698
Convertible bonds	1,403,248	1,664,769	—	—	—
	10,903,150	10,845,513	215,498	67,020	111,698

Financial guarantee contract	Guaranteed amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
As at 31st December, 2008					
— Shanghai Shenhua	60,000,000	60,000,000	—	—	—
— JinBei	200,000,000	200,000,000	—	—	—
	260,000,000	260,000,000	—	—	—

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(c) Currency risk

Since all operating subsidiaries, associates and jointly controlled entities of the Group operate in the PRC, receivables are largely denominated in Renminbi. Although certain payables are denominated in foreign currencies such as Japanese Yen, U.S. Dollar and Euro for purchases of equipment and components from overseas, the amounts are not considered significant to the total payables. The recent appreciating trend of Renminbi versus the Japanese Yen, U.S. Dollar or Euro made purchases of foreign-produced components and payments denominated in foreign currencies less expensive to the Group, thereby marginally improving its results of operations.

On the other hand, as the management intends to expand the Group's overseas sales which are denominated in other currencies, mainly U.S. Dollar, the strengthening RMB will have a negative impact to the Group in the future. The management is considering all possible measures to minimise currency risk in relation to overseas sales in the future, including hedging.

(d) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing bank loans and discounted bank guaranteed notes.

Funds not required by the Group in the short-term are kept as temporary demand or time deposits in commercial banks and the Group does not hold any market risk-sensitive instruments for speculative purposes.

Interest rate risk from borrowings is generally lowered by the issue of long-term convertible bonds with fixed coupon rate for long-term funding requirements as compared with bank borrowings with floating interest rate.

Assuming the cash and cash equivalents, short-term deposits, pledged short-term bank deposits, short- term bank borrowings and notes payable for financing as outstanding at 31st December, 2009 were outstanding for the whole year, a 50 basis point increase or decrease would increase or decrease the loss after tax of the Group for the year by approximately RMB9 million (2008: increase or decrease the loss after tax by approximately RMB5 million). The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2008.

5. **FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS** (Cont'd)

(e) **Summary of financial instruments by category**

The carrying amounts of the Group's financial assets and liabilities are categorised as follows:

	Loans and receivables RMB'000	**Available-for-sale RMB'000**	**Total RMB'000**
Financial assets at 31st December, 2009			
Available-for-sale financial assets	**—**	**37,700**	**37,700**
Cash and cash equivalents	**1,608,911**	**—**	**1,608,911**
Short-term bank deposits	**213,341**	**—**	**213,341**
Pledged short-term bank deposits	**1,056,071**	**—**	**1,056,071**
Accounts receivable	**95,132**	**—**	**95,132**
Accounts receivable from affiliated companies	**832,341**	**—**	**832,341**
Notes receivable	**305,511**	**—**	**305,511**
Notes receivable from affiliated companies	**28,450**	**—**	**28,450**
Other receivables	**622,294**	**—**	**622,294**
Dividends receivable from affiliated companies	**94,968**	**—**	**94,968**
Advances to affiliated companies	**103,188**	**—**	**103,188**
Receivable for disposal of discontinued operations	**415,183**	**—**	**415,183**
	5,375,390	**37,700**	**5,413,090**

	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
Financial assets at 31st December, 2008			
Available-for-sale financial assets	—	15,633	15,633
Cash and cash equivalents	1,243,861	—	1,243,861
Short-term bank deposits	692,000	—	692,000
Pledged short-term bank deposits	2,456,095	—	2,456,095
Accounts receivable	671,680	—	671,680
Accounts receivable from affiliated companies	259,208	—	259,208
Notes receivable	707,363	—	707,363
Notes receivable from affiliated companies	205,199	—	205,199
Other receivables	465,397	—	465,397
Dividends receivable from affiliated companies	86,673	—	86,673
Advances to affiliated companies	224,217	—	224,217
	7,011,693	15,633	7,027,326

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Cont'd)

(e) Summary of financial instruments by category (Cont'd)

	Liabilities at fair value through profit or loss RMB'000	Financial liabilities measured at amortised costs RMB'000	Total RMB'000
Financial liabilities at 31st December, 2009			
Accounts payable	**—**	**1,486,750**	**1,486,750**
Accounts payable to affiliated companies	**—**	**854,629**	**854,629**
Notes payable	**—**	**1,092,676**	**1,092,676**
Notes payable to affiliated companies	**—**	**112,385**	**112,385**
Other payables	**—**	**815,453**	**815,453**
Dividends payable	**—**	**2,879**	**2,879**
Short-term bank borrowings	**—**	**723,000**	**723,000**
Advances from affiliated companies	**—**	**1,490,181**	**1,490,181**
	—	**6,577,953**	**6,577,953**

	Liabilities at fair value through profit or loss RMB'000	Financial liabilities measured at amortised costs RMB'000	Total RMB'000
Financial liabilities at 31st December, 2008			
Accounts payable	—	2,323,702	2,323,702
Accounts payable to affiliated companies	—	603,416	603,416
Notes payable	—	4,803,364	4,803,364
Notes payable to affiliated companies	—	43,863	43,863
Other payables	—	773,232	773,232
Dividends payable	—	2,882	2,882
Short-term bank borrowings	—	499,781	499,781
Advances from affiliated companies	—	392,281	392,281
Convertible bonds	10,939	1,392,309	1,403,248
	10,939	10,834,830	10,845,769

(f) Fair value measurements recognized in the statement of financial position

The Group adopted the amendments to HKFRS 7 *Improving Disclosures about Financial Instruments* effective from 1 January 2009. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements. The Group has taken advantage of the transitional provisions in the amendments to HKFRS 7 and accordingly, no comparatives for the hierarchy for fair value measurement disclosures have been presented.

5. **FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS** (Cont'd)

(f) **Fair value measurements recognized in the statement of financial position** (Cont'd)

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

— Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

— Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived form prices); and

— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	2009-Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets				
Available-for-sale financial assets				
— Listed	**33,562**	—	—	**33,562**

There have been no transfers between levels 1, 2 and 3 in the reporting years.

The listed equity securities are denominated in Hong Kong dollars. Fair value has been determined by reference to the quoted bid price at the reporting date and has been translated using the spot foreign currency rate at the end of the reporting year where appropriate.

6. TURNOVER, REVENUE AND SEGMENT INFORMATION

Turnover represents the invoiced value of goods, net of consumption tax, discounts and returns. Turnover and revenue recognised by category are as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover						
Sale of minibuses and automotive components	**6,148,962**	5,472,738	**—**	—	**6,148,962**	5,472,738
Sale of sedans	**—**	—	**6,240,623**	5,716,424	**6,240,623**	5,716,424
	6,148,962	5,472,738	**6,240,623**	5,716,424	**12,389,585**	11,189,162
Other revenue						
Subsidy income	**70,980**	82,473	**74,984**	248,555	**145,964**	331,028
Others	**83,487**	19,162	**101,686**	124,729	**185,173**	143,891
	154,467	101,635	**176,670**	373,284	**331,137**	474,919
Interest income	**31,107**	38,267	**34,558**	49,737	**65,665**	88,004
	6,334,536	5,612,640	**6,451,851**	6,139,445	**12,786,387**	11,752,085

During 2009, RMB1,434,794,000 or 12% (2008: RMB1,606,958,000 or 14%) of the Group's consolidated revenue depended on a single customer from discontinued operations of Zhonghua sedan business.

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

The directors identify the Group's operating segments as detailed in note 2(u).

Business segments — 2009

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's income statement RMB'000	Total RMB'000
Continuing operations				
Segment sales to external customers	6,148,962	14,674,370	(14,674,370)	6,148,962
Segment results	380,328	751,106	(751,106)	380,328
Impairment losses on assets	(644,243)		—	(644,243)
Unallocated costs net of unallocated income				(54,276)
Interest income				31,107
Finance costs, net				(94,183)
Share of results of:				
Associates	22,004		—	22,004
Jointly controlled entities	(1,015)		355,291	354,276
Loss before income tax expenses from continuing operations				(4,987)

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Business segments — 2008

	Manufacture and sale of minibuses and automotive components RMB'000 (Restated)	Manufacture and sale of BMW sedans RMB'000 (Restated)	Reconciliation to the Group's income statement RMB'000 (Restated)	Total RMB'000 (Restated)
Continuing operations				
Segment sales to external customers	5,472,738	12,376,440	(12,376,440)	5,472,738
Segment results	344,443	461,300	(461,300)	344,443
Impairment losses on assets	(50,758)		—	(50,758)
Staff share option costs				(9,205)
Unallocated costs net of unallocated income				(58,143)
Interest income				38,267
Finance costs, net				(100,488)
Share of results of:				
Associates	20,262		—	20,262
Jointly controlled entities	9,375		255,681	265,056
Fair value gain on embedded derivative components of convertible bonds				289,700
Profit before income tax expense from continuing operations				739,134

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Business segments — 2009 (Cont'd)

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's statement of financial position RMB'000	Total RMB'000
Continuing operations				
Segment assets	7,197,328	9,153,754	(9,153,754)	7,197,328
Interests in associates	504,106	—	—	504,106
Interests in jointly controlled entities	341,246	—	1,410,608	1,751,854
Unallocated assets				2,011,762
Total assets				11,465,050
Segment liabilities	6,759,016	6,332,538	(6,332,538)	6,759,016
Unallocated liabilities				977,453
Total liabilities				7,736,469
Other disclosures:				
Capital expenditure	252,581	1,243,548	(1,243,548)	252,581
Depreciation of property, plant and equipment	175,508	337,000	(337,000)	175,508
Amortisation of land lease prepayments	3,703	—	—	3,703
Amortisation of intangible assets	26,084	29,807	(29,807)	26,084
Provision of inventories	48,222	13,490	(13,490)	48,222
Write-back of provision for inventories sold	(2,246)	(17,059)	17,059	(2,246)
Write-back of provision for doubtful debts	(8,798)	—	—	(8,798)

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

Business segments — 2008 (Cont'd)

	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's statement of financial position RMB'000	Total RMB'000
Continuing operations				
Segment assets	6,217,539	6,257,312	(6,257,312)	6,217,539
Interests in associates	393,052	—	—	393,052
Interests in jointly controlled entities	339,626	—	1,041,398	1,381,024
Unallocated assets				1,033,124
Total assets of continuing operations				9,024,739
Total assets of discontinued operations				8,290,301
Total assets				17,315,040
Segment liabilities	4,414,398	4,159,790	(4,159,790)	4,414,398
Unallocated liabilities				1,420,650
Total liabilities of continuing operations				5,835,048
Total liabilities of discontinued operations				5,612,737
Total liabilities				11,447,785
Other disclosures:				
Capital expenditure	366,233	365,522	(365,522)	366,233
Depreciation of property, plant and equipment	154,104	150,267	(150,267)	154,104
Amortisation of land lease prepayments	1,290	—	—	1,290
Amortisation of intangible assets	10,591	43,870	(43,870)	10,591
Provision of inventories	1,539	13,908	(13,908)	1,539
Write-back of provision for inventories sold	(28,497)	(9,710)	9,710	(28,497)

7. (LOSS) PROFIT BEFORE INCOME TAX EXPENSE

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

		Continuing operations		Discontinued operations		Consolidated	
		2009	2008	**2009**	2008	**2009**	2008
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Charging:							
Staff costs	12(a)	**423,222**	338,905	**225,988**	194,075	**649,210**	532,980
Amortisation of intangible assets (a)	14	**26,084**	10,591	**104,824**	155,957	**130,908**	166,548
Amortisation of land lease prepayments	18	**3,703**	1,290	**2,326**	2,326	**6,029**	3,616
Depreciation of property, plant and equipment	16	**175,508**	154,104	**148,740**	120,863	**324,248**	274,967
Cost of inventories		**5,247,743**	4,812,935	**6,644,130**	6,264,209	**11,891,873**	11,077,144
Provision for inventories		**48,222**	1,539	**108,748**	42,579	**156,970**	44,118
Write-off of advances to an affiliated company		**—**	—	**27,606**	—	**27,606**	—
Impairment losses on:							
— Goodwill		**295,529**	—	**—**	—	**295,529**	—
— Intangible assets	14	**481**	—	**303,019**	184,288	**303,500**	184,288
— Construction-in-progress	17	**6,628**	—	**7,853**	—	**14,481**	—
— Property, plant and equipment	16	**7,845**	—	**19,002**	—	**26,847**	—
— Available-for-sale financial assets	24	**—**	18,868	**—**	—	**—**	18,868
— Accounts receivable	27	**9,399**	—	**—**	—	**9,399**	—
— Accounts receivable from affiliated companies	38(c)	**17,957**	—	**—**	—	**17,957**	—
— Advances to affiliated companies	38(f)	**294,088**	—	**—**	—	**294,088**	—
— Other receivables	29	**12,316**	31,890	**—**	1,135	**12,316**	33,025
Auditors' remuneration		**2,346**	4,031	**970**	874	**3,316**	4,905
Research and development costs (b)		**27,969**	5,331	**90,175**	3,781	**118,144**	9,112
Training expenses		**870**	1,045	**446**	462	**1,316**	1,507
Operating lease charges in respect of:							
— Land and buildings		**17,730**	15,987	**1,540**	6,331	**19,270**	22,318
— Machinery and equipment		**705**	372	**—**	—	**705**	372
Exchange loss, net (c)		**—**	21,990	**—**	—	**—**	21,990
Loss on disposal and write-off of property, plant and equipment		**495**	2,053	**2**	243	**497**	2,296
Crediting:							
Gross rental income from land and buildings		**36**	—	**14,174**	14,187	**14,210**	14,187
Write-back of provision for inventories sold		**2,246**	28,497	**48,227**	7,371	**50,473**	35,868
Gain on disposal of property, plant and equipment		**—**	—	**—**	328	**—**	328
Exchange gain, net (c)		**1,319**	—	**6,299**	2,173	**7,618**	2,173
Write-back of provision for doubtful debts:							
— Accounts receivable	27	**7,275**	—	**—**	670	**7,275**	670
— Accounts receivable from affiliated companies	38(c)	**—**	—	**—**	240	**—**	240
— Other receivables	29	**1,523**	315	**—**	3,339	**1,523**	3,654

(a) amortisation of intangible assets in relation to production was included in cost of sales; amortisation of intangible assets for other purposes was included in general and administrative expenses.

(b) included in general and administrative expenses.

(c) Included in other operating expenses.

8. FINANCE COSTS, NET

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Interest expenses on:						
— bank loans wholly repayable within one year	**16,256**	11,074	**25,078**	28,142	**41,334**	39,216
— discounted bank guaranteed notes	**31,708**	65,729	**102,251**	93,264	**133,959**	158,993
— amortised redemption premium on convertible bonds	**53,446**	135,707	**—**	—	**53,446**	135,707
— imputed interest on advance to an affiliated company	**—**	26,983	**—**	—	**—**	26,983
— an advance from an affiliated company	**15,840**	—	**—**	—	**15,840**	—
— sale and lease back arrangement	**—**	—	**14,568**	15,376	**14,568**	15,376
	117,250	239,493	**141,897**	136,782	**259,147**	376,275
Less: interest expense capitalized in intangible assets and construction-in-progress at a rate of 2.8% (2008: 5.6%) p.a.	**(857)**	(2,244)	**(9,400)**	(40,706)	**(10,257)**	(42,950)
	116,393	237,249	**132,497**	96,076	**248,890**	333,325
Less: exchange gain derived from convertible bonds	**(1,222)**	(111,954)	**—**	—	**(1,222)**	(111,954)
Gain on redemption of convertible bonds	**(20,988)**	(24,807)	**—**	—	**(20,988)**	(24,807)
	94,183	100,488	**132,497**	96,076	**226,680**	196,564

9. INCOME TAX EXPENSE

Income tax expense on profits arising in the PRC has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the areas in which the Group operates.

The taxation charged to the consolidated income statement represents:

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current tax						
PRC enterprise income tax						
Current year	**22,016**	44,109	**—**	—	**22,016**	44,109
Under provision in prior year	**18,973**	11,158	**—**	—	**18,973**	11,158
Total income tax expense	**40,989**	55,267	**—**	—	**40,989**	55,267

Notes to the Financial Statements (Cont'd)

For the year ended 31st December, 2009

9. INCOME TAX EXPENSE (Cont'd)

Reconciliation between tax expense and accounting loss using the weighted average taxation rate of the companies within the Group is as follows:

	2009 RMB'000	2008 RMB'000
Loss before income tax expense	**(2,703,203)**	(259,044)
Calculated at a weighted average statutory taxation rate in the PRC of 19.87% (2008: 21.67%)	**(537,040)**	(56,124)
Effect of tax holiday	**109,415**	(3,078)
Non-taxable income net of expenses not deductible for taxation purpose	**(70,060)**	(55,534)
Unrecognised temporary differences	**(175,675)**	39,076
Unrecognised tax loss	**695,417**	119,769
Utilisation of previously unrecognised tax losses	**(41)**	—
Under provision in prior years	**18,973**	11,158
Tax expense for the year	**40,989**	55,267

Income Tax

The Company was incorporated under the laws of Bermuda and has received an undertaking from the Ministry of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, which exempts the Company and its shareholders, other than shareholders ordinarily residing in Bermuda, from any Bermuda taxes computed on profit, income or any capital asset gain or appreciation, or any tax in the nature of estate duty or inheritance tax, at least until year 2016.

No provision for Hong Kong profits tax has been made to the Company as the Company has no estimated assessable profits for the year.

The subsidiaries are subject to state and local enterprise income taxes in the PRC at their respective tax rates, based on the taxable income reported in their statutory financial statements in accordance with the relevant state and local enterprise income tax laws applicable.

All principal subsidiaries operating in the PRC are subject to the enterprise income tax in the PRC at the standard rate of 25% except the following tax concessions and holidays for the following subsidiaries.

For Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**"), Ningbo Yuming Machinery Industrial Co., Ltd. ("**Ningbo Yuming**"), Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("**Ningbo Ruixing**"), a transition period of tax concessions are granted since the standard tax rate of 25% was effective in 2008. The applicable tax rates applicable to these subsidiaries are 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and finally 25% from 2012 onward.

9. INCOME TAX EXPENSE (Cont'd)

Income Tax (Cont'd)

Shenyang ChenFa Automobile Component Co., Ltd. ("**Shenyang ChenFa**") is subject to the same tax concession in the transition period except that it was the last year of receiving further 50% reduction in income tax rate in 2008 to 9% as it was officially designated by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. In 2009 Shenyang ChenFa was subject to 20% rate and in 2010 onward, it will be subject to the tax rate of 25%.

Although Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("**Mianyang Ruian**") is subject to the enterprise income tax in the PRC at standard rates of 25%, Mianyang Ruian received official designation by the local tax authority as a foreign- invested enterprise engaged in manufacturing activities in 2001. In 2004, Mianyang Ruian was also designated as an "encouraged industries under Catalogue for the Guidance of Foreign Investment Industries" and located in the Western area of the PRC. Pursuant to the relevant income tax laws in the PRC, from 2004 to 2010, the applicable state income tax rate for Mianyang Ruian is 15%. And due to the earthquake which occurred in Sichuan in 2008, the income tax for the current year was exempted according to related policy which was issued by the State Council (2008: Nil).

With effect since 1st January, 2008, all profits of the PRC subsidiaries arising since that date distributed and remitted as dividend to the overseas parents are subject to 10% withholding tax on the amount remitted. No deferred tax is recognised in respect of this withholding tax on profits of the Group's PRC subsidiaries as it is the intention of the management that the Group would reinvest these profits in the respective subsidiaries and therefore the withholding tax would not be applicable to the Group. Unremitted earnings totaled RMB210,043,000 at 31st December, 2009 (2008: RMB124,301,000).

10. DISCONTINUED OPERATIONS

On 28th October, 2009, the Group entered into a business transfer agreement with Huachen to dispose of certain assets, liabilities, employees and business contracts in relation to the Zhonghua sedan business. The disposal was completed on 31st December, 2009 at a final consideration of RMB494,490,168 (equivalent to approximately HK$561,246,341), which was determined with reference to, among others, a professional valuation on the Zhonghua sedan business.

Although there remains to be long-term potential for the self-developed Zhonghua sedan brand to become profitable when sales volume eventually becomes more robust, further development of this business will require significant additional investment which had resulted in substantial losses in this business in the past. The significant funding requirement also affects the Company's flexibility in making other investments. The disposal of the Zhonghua sedan business would now enable the Company to refocus its management and financial resources on its existing profitable businesses in minibus and the BMW Brilliance joint venture, as well as to develop other potential new ventures.

10. DISCONTINUED OPERATIONS (Cont'd)

An analysis of results and cash flows of the discontinued operations included in the consolidated income statement and consolidated statement of cash flows is as follows:

	Note	2009 RMB'000	2008 RMB'000
Turnover		**6,240,623**	5,716,424
Cost of sales		**(6,704,651)**	(6,299,417)
Gross loss		**(464,028)**	(582,993)
Interest income		**34,558**	49,737
Other revenue		**176,670**	373,284
Selling expenses		**(781,138)**	(316,647)
General and administrative expenses		**(314,521)**	(175,208)
Impairment losses on assets		**(329,874)**	(185,423)
Other operating expenses		**(56,675)**	(64,852)
Finance costs, net		**(132,497)**	(96,076)
		(1,867,505)	(998,178)
Loss on disposal of discontinued operations		**(830,711)**	—
Loss before income tax expense	7	**(2,698,216)**	(998,178)
Income tax expense		**—**	—
		(2,698,216)	(998,178)
Attributable to:			
Equity holders of the Company		**(1,479,080)**	(512,613)
Non-controlling interests		**(1,219,136)**	(485,565)
		(2,698,216)	(998,178)

	2009 RMB'000	2008 RMB'000
Total net cash flows of the discontinued operations:		
Net cash used in operating activities	**(460,697)**	(394,278)
Net cash used in investing activities	**(234,462)**	(532,910)
Net cash generated from financing activities	**675,411**	965,165
Total net cash (outflow) inflows	**(19,748)**	37,977

The total assets and liabilities of the discontinued operations disposed of during the year are set out in note 39(c).

11. (LOSS) PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to the equity holders of the Company for the year (2008: consolidated profit attributable to the equity holders) includes a loss of approximately RMB923,300,000 (2008: 567,533,000) which has been dealt with in the financial statements of the Company.

12. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Staff costs

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Wages, salaries and performance related bonus	**311,234**	235,752	**172,102**	142,230	**483,336**	377,982
Pension costs — defined contribution plans	**43,485**	35,354	**19,092**	18,311	**62,577**	53,665
Staff welfare costs	**68,503**	58,594	**34,794**	33,534	**103,297**	92,128
Share-based payments	**—**	9,205	**—**	—	**—**	9,205
	423,222	338,905	**225,988**	194,075	**649,210**	532,980

(b) Executive directors' and non-executive directors' emoluments

The amounts of emoluments paid and payable to the directors of the Company during 2009 are as follows:

	Fee RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2009				
Executive directors				
Mr. Wu Xiao An	—	6,147	10	6,157
Mr. Qi Yumin	—	3,984	—	3,984
Mr. He Guohua	—	1,444	—	1,444
Mr. Wang Shiping	—	1,152	—	1,152
	—	12,727	10	12,737
Non-executive directors				
Mr. Lei Xiaoyang	—	438	—	438
Mr. Xu Bingjin	131	—	—	131
Mr. Song Jian	131	—	—	131
Mr. Jiang Bo	131	—	—	131
	393	438	—	831
	393	13,165	10	13,568

During the year, no share option was granted to any of the directors.

12. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Executive directors' and non-executive directors' emoluments (Cont'd)

The aggregate amounts of emoluments paid and payable to the directors of the Company during 2008 are as follows:

	Fee RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2008				
Executive directors				
Mr. Wu Xiao An	—	4,701	11	4,712
Mr. Qi Yumin	—	3,652	—	3,652
Mr. He Guohua	—	1,789	—	1,789
Mr. Wang Shiping	—	1,603	—	1,603
Mr. Lei Xiaoyang*	—	935	—	935
	—	12,680	11	12,691
Non-executive directors				
Mr. Lei Xiaoyang*	—	—	—	—
Mr. Xu Bingjin	88	—	—	88
Mr. Song Jian	88	—	—	88
Mr. Jiang Bo	88	—	—	88
	264	—	—	264
	264	12,680	11	12,955

* Mr. Lei Xiaoyang was re-designated as a non-executive director of the Company on 1st July, 2008.

In addition, during 2008, the details of the share options granted by the Company to its executive directors which form part of their emoluments are as follows:

Name of director	Number of share options	Fair value of share options RMB'000
Mr. Wu Xiao An	10,000,000	1,532
Mr. Qi Yumin	9,000,000	1,379
Mr. He Guohua	3,000,000	459
Mr. Wang Shiping	3,000,000	459
Mr. Lei Xiaoyang	3,000,000	459
	28,000,000	4,288

During the year, no emoluments were paid to the directors as inducement to join or upon joining the Group or as compensation for loss of office (2008: Same).

12. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(b) Executive directors' and non-executive directors' emoluments (Cont'd)

No directors waived their emoluments during the year (2008: Same).

The ultimate objective of the Group's emolument policy is to ensure that the pay levels of its employees are in line with industry practices and prevailing market conditions so as to enable the Group to attract and retain persons of high quality and experience which is essential to the success of the Group.

In determining the level of fees and other emoluments paid to directors of the Company, market rates and factors such as each director's workload and required commitment are taken into account:

— Remuneration of executive directors comprises basic remuneration determined with reference to their qualifications, industry experience and responsibilities within the Group and a performance- based remuneration. In determining the performance-based remuneration of executive directors, regard is given to the Company's corporate goals and objectives set by the board from time to time and the performance and contribution of the individual to the Group's overall performance.

— Non-executive director is compensated with reference to his qualifications, expertise and experience and the amount of time allocated to the affairs of the Group.

— Independent non-executive directors are compensated with reference to the level of compensation awarded to independent non-executive directors by other companies listed on the SEHK; the responsibilities assumed by such independent non-executive directors; complexity of the automobile industry and the business of the Group; goodwill and reputational value brought to the Group by the relevant independent non-executive director.

During the process of consideration, no individual director is involved in decisions relating to his own remuneration.

(c) Five highest paid individuals

The five highest paid individuals in the Group during the year included three directors (2008: five directors), details of whose emoluments have been disclosed in note (b) above. The emoluments paid to the remaining two individuals for the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	**2,092**	—
Performance related bonus	**1,414**	—
Contributions to pension schemes	**10**	—
Share-based payments	**—**	—
	3,516	—

The number of the remaining highest paid individual whose emoluments fell within the following band is as follows:

	2009	2008
HK$1,000,000 to HK$2,000,000	**1**	—
HK$2,000,001 to HK$3,000,000	**1**	—

12. STAFF COSTS AND DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(c) Five highest paid individuals (Cont'd)

The emoluments represent the amounts paid to or receivable by the individuals in the respective financial year, which include the benefits derived from the share options granted (Note 36(c)).

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office (2008: Same).

13. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share for the year is based on the following information:

(a) For continuing and discontinued operations

(Loss) Profit attributable to equity holders of the Company	**2009 RMB'000**	2008 RMB'000
From continuing operations	**(160,755)**	593,542
From discontinued operations	**(1,479,080)**	(512,613)
	(1,639,835)	80,929

	Number of shares	
Weighted average number of ordinary shares	**2009 '000**	2008 '000
Issued ordinary shares	**3,669,766**	3,669,766
Effect of allotment of shares	**809,971**	—
Effect of share options exercised	**296**	—
Weighted average number of ordinary shares for calculating basic earnings per share	**4,480,033**	3,669,766
Weighted average number of ordinary shares deemed issued under the Company's share option scheme	**36,090**	3,201
Weighted average number of ordinary shares for calculating diluted earnings per share	**4,516,123**	3,672,967

13. (LOSS) EARNINGS PER SHARE (Cont'd)

(a) For continuing and discontinued operation (Cont'd)

In calculating the weighted average number of ordinary shares for calculating diluted earnings per share, the effect of deemed conversion of convertible bonds is not considered as the effect is anti-dilutive (2008: Same).

No diluted loss per share for continuing and discontinued operations for 2009 is presented as the effect of the potential ordinary shares is anti-dilutive.

(b) For continuing operations

The calculation of basic and diluted loss (2008: earnings) per share for continuing operations for 2009 was based on the loss (2008: earnings) and the weighted average number of ordinary shares above in issue during the year. The diluted loss per share is not presented for 2009 as the effect of the potential ordinary shares is anti-dilutive.

(c) For discontinued operations

Basic and diluted loss per share for discontinued operations for the year is based on the loss from discontinued operations and the weighted average number of ordinary shares for calculating basic earnings per share. Diluted loss per share for discontinued operations is not presented for 2009 as the effect of the potential ordinary shares is anti-dilutive.

14. INTANGIBLE ASSETS

The Group

	Minibus development costs RMB'000 (a)	Acquired sedan design & technology rights RMB'000 (b)	Sedan development costs RMB'000 (b)	Engine development costs RMB'000 (c)	Others RMB'000	Total RMB'000
Cost						
As at 1st January, 2008	63,437	1,501,100	565,768	431,919	45,409	2,607,633
Additions	62,410	—	273,510	31,031	4,626	371,577
As at 31st December, 2008	125,847	1,501,100	839,278	462,950	50,035	2,979,210
As at 1st January, 2009	**125,847**	**1,501,100**	**839,278**	**462,950**	**50,035**	**2,979,210**
Additions	**57,251**	**—**	**202,784**	**33,323**	**3,061**	**296,419**
Disposal of discontinued operations	**—**	**(1,501,100)**	**(1,042,062)**	**(496,273)**	**(39,914)**	**(3,079,349)**
As at 31st December, 2009	**183,098**	**—**	**—**	**—**	**13,182**	**196,280**
Accumulated amortisation and impairment losses						
As at 1st January, 2008	747	1,336,786	179,718	19,955	15,775	1,552,981
Amortisation	2,181	115,986	29,787	14,038	4,556	166,548
Impairment losses	—	—	59,340	124,948	—	184,288
As at 31st December, 2008	2,928	1,452,772	268,845	158,941	20,331	1,903,817
As at 1st January, 2009	**2,928**	**1,452,772**	**268,845**	**158,941**	**20,331**	**1,903,817**
Amortisation	**18,702**	**48,328**	**44,406**	**15,055**	**4,417**	**130,908**
Impairment losses	**—**	**—**	**302,060**	**—**	**1,440**	**303,500**
Disposal of discontinued operations	**—**	**(1,501,100)**	**(615,311)**	**(173,996)**	**(15,281)**	**(2,305,688)**
As at 31st December, 2009	**21,630**	**—**	**—**	**—**	**10,907**	**32,537**
Net book value						
As at 31st December, 2009	**161,468**	**—**	**—**	**—**	**2,275**	**163,743**
As at 31st December, 2008	122,919	48,328	570,433	304,009	29,704	1,075,393

Notes:

(a) Minibus development costs represent costs of development of new models of minibuses with estimated useful lives of 5 years.

(b) These intangible assets relate to the acquired sedan design and technology rights and sedan development costs which were all disposed of during the year for the purpose of disposal of Zhonghua sedan business to Huachen, details of which is set out in Note 10.

As the performance of Zhonghua sedans was still disappointing, before a decision was made to dispose of the business, a further impairment loss was made in the interim financial statements based on the basis of value in use calculation. The calculation is based on a cash flow forecast of 5-year period approved by the management. The estimates of expected sale volume and growth rate in the forecast were greatly lower than the estimates used in prior year forecast but at the same discount rate of 9%. Accordingly, an impairment loss of RMB302 million was made.

(c) Engine development costs represent the costs in developing the Group's engines for Zhonghua sedans. This intangible asset was also disposed of for the purpose of disposal of Zhonghua sedan business.

14. INTANGIBLE ASSETS (Cont'd)

The Company

The intangible assets of the Company represent engine design fees and development costs and were also disposed of for the purpose of disposal of Zhonghua sedan business during the year.

15. GOODWILL

	2009 RMB'000	2008 RMB'000
Cost, net of accumulated amortisation		
As at 1st January, and 31st December,	**345,529**	345,529
Accumulated impairment losses		
As at 1st January,	**(50,000)**	(50,000)
Impairment loss	**(295,529)**	—
As at 31st December,	**(345,529)**	(50,000)
Net book value		
As at 1st January, and 31st December,	**—**	295,529

The details of impairment test on goodwill allocated to the respective cash generating units are set out in Note 22.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
As at 1st January, 2008	1,257,484	4,521,777	472,392	122,355	6,374,008
Additions	24,933	460,897	3,581	11,939	501,350
Transfer from construction-in-progress *(Note 17)*	81,653	229,552	41,235	738	353,178
Disposals/write-off	—	(5,336)	(6,718)	(19,959)	(32,013)
As at 31st December, 2008	1,364,070	5,206,890	510,490	115,073	7,196,523
As at 1st January, 2009	**1,364,070**	**5,206,890**	**510,490**	**115,073**	**7,196,523**
Additions	**401**	**164,321**	**20,573**	**7,897**	**193,192**
Transfer from construction-in-progress *(Note 17)*	**63,546**	**89,940**	**10,510**	**578**	**164,574**
Reclassification	**(1,214)**	**1,278**	**(212)**	**148**	**—**
Disposal of discontinued operations	**(875,145)**	**(3,900,729)**	**(280,223)**	**(36,175)**	**(5,092,272)**
Disposals/write off	**(213)**	**(2,824)**	**(2,970)**	**(4,299)**	**(10,306)**
As at 31st December, 2009	**551,445**	**1,558,876**	**258,168**	**83,222**	**2,451,711**

16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The Group (Cont'd)

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Accumulated depreciation and impairment losses					
As at 1st January, 2008	361,781	2,343,052	281,755	77,804	3,064,392
Charge for the year	37,149	168,224	57,565	12,029	274,967
Write-back of impairment loss	—	—	(54)	—	(54)
Eliminated on disposals/write-off	—	(3,633)	(6,012)	(14,993)	(24,638)
As at 31st December, 2008	398,930	2,507,643	333,254	74,840	3,314,667
As at 1st January, 2009	**398,930**	**2,507,643**	**333,254**	**74,840**	**3,314,667**
Charge for the year	**41,398**	**224,753**	**46,481**	**11,616**	**324,248**
Impairment losses	**1**	**17,401**	**9,441**	**4**	**26,847**
Reclassification	**55**	**474**	**(284)**	**(245)**	**—**
Disposal of discontinued operations	**(232,296)**	**(2,013,119)**	**(198,355)**	**(24,265)**	**(2,468,035)**
Eliminated on disposals/write-off	**(67)**	**(2,372)**	**(2,884)**	**(3,733)**	**(9,056)**
As at 31st December, 2009	**208,021**	**734,780**	**187,653**	**58,217**	**1,188,671**
Net book value					
As at 31st December, 2009	**343,424**	**824,096**	**70,515**	**25,005**	**1,263,040**
As at 31st December, 2008	965,140	2,699,247	177,236	40,233	3,881,856

All buildings are situated in the PRC under medium term leases of not more than 50 years.

17. CONSTRUCTION-IN-PROGRESS

	2009 RMB'000	2008 RMB'000
As at 1st January,	**264,482**	257,017
Additions	**153,865**	360,643
Impairment loss	**(14,481)**	—
Transfer to property, plant and equipment *(Note 16)*	**(164,574)**	(353,178)
Disposal of discontinued operations	**(160,200)**	—
As at 31st December,	**79,092**	264,482

18. LAND LEASE PREPAYMENTS

The carrying value of land lease prepayments represents unamortised costs paid for land use rights in the PRC under medium term leases of not more than 50 years. The value to be amortised within the next twelve months after 31st December, 2009 amounts to RMB2,414,000 (2008: RMB3,616,000).

	2009	2008
	RMB'000	RMB'000
Cost		
As at 1st January,	**143,771**	143,771
Additions	**62,470**	—
Disposal of discontinued operations	**(116,322)**	—
As at 31st December,	**89,919**	143,771
Accumulated amortisation		
As at 1st January,	**28,667**	25,051
Charge for the year	**6,029**	3,616
Disposal of discontinued operations	**(13,821)**	—
As at 31st December,	**20,875**	28,667
Net book value		
As at 31st December,	**69,044**	115,104

19. INTERESTS IN SUBSIDIARIES

	2009	2008
	RMB'000	RMB'000
Unlisted investments, at cost	**4,269,502**	4,268,393
Amounts due from subsidiaries:		
— interest bearing *(Note a)*	**603,265**	1,508,701
— non-interest bearing *(Note b)*	**2,059,375**	1,965,597
Accumulated impairment losses	**(2,040,000)**	(1,300,000)
	4,892,142	6,442,691

Notes:

(a) The amounts are interest-bearing at rates ranging from 5% to 7.8125% (2008: 5% to 7.8125%) per annum, unsecured and repayable on demand.

(b) The amounts are unsecured, interest-free and without fixed repayment term.

(c) An impairment loss of RMB740 million was recognised for certain investments in unlisted shares and amounts due from subsidiaries because certain subsidiaries have been loss-making and certain amounts due from subsidiaries are considered to be not recoverable.

19. INTERESTS IN SUBSIDIARIES (Cont'd)

Details of the Company's principal subsidiaries as at 31st December, 2009 were as follows:

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of effective equity interest/voting right attributable to the Company		Principal activities
				Directly	Indirectly	
Shenyang Automotive	Shenyang, the PRC	US$444,160,000	Equity joint venture	51%	—	Manufacture, assembly and sale of minibuses and automotive components
Ningbo Yuming	Ningbo, the PRC	US$22,500,000	Wholly foreign owned enterprise	—	100%	Manufacture and sale of automotive components
Shenyang XingYuanDong Automobile Component Co., Ltd. ("**Xing Yuan Dong**")	Shenyang, the PRC	US$150,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Ningbo Ruixing	Ningbo, the PRC	US$5,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Mianyang Ruian	Mianyang, the PRC	US$5,000,000	Wholly foreign owned enterprise	100%	—	Manufacture and trading of automotive components
Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("**Dongxing Automotive**")	Shenyang, the PRC	RMB12,000,000	Wholly foreign owned enterprise	—	100%	Manufacture and trading of automotive components and remodeling minibuses and sedans
Shenyang Jindong Development Co., Ltd.	Shenyang, the PRC	RMB10,000,000	Equity joint venture	—	75.5%	Trading of automotive components
Shenyang Jianhua Motors Engine Co., Ltd.	Shenyang, the PRC	RMB155,032,500	Equity joint venture	—	60.8%	Investment holding
China Brilliance Automotive Components Group Limited	Bermuda	US$12,000	Company with limited liabilities	100%	—	Investment holding
Southern State Investment Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	—	Investment holding

19. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of company	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Legal structure	Percentage of effective equity interest/voting right attributable to the Company		Principal activities
				Directly	Indirectly	
Beston Asia Investment Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	—	Investment holding
Pure Shine Limited	British Virgin Islands	US$1	Company with limited liabilities	100%	—	Investment holding
Key Choices Group Limited	British Virgin Islands	US$50,000	Company with limited liabilities	100%	—	Investment holding
Brilliance China Automotive Finance Ltd.	British Virgin Islands	US$50,000	Company with limited liabilities	100%	—	Inactive
Brilliance China Finance Limited ("**Brilliance Finance**")	British Virgin Islands	US$50,000	Company with limited liabilities	100%	—	Investment holding
Shenyang ChenFa	Shenyang, the PRC	US$19,000,000	Wholly foreign owned enterprise	100%	—	Development, Manufacture and sale of engines components
Shenyang XinJinBei Investment and Development Co., Ltd. ("**SXID**")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	—	100%	Investment holding
Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("**SJAI**")	Shenyang, the PRC	RMB1,500,000,000	Company with limited liabilities	—	99%	Investment holding
Shanghai Hidea Auto Design Co., Ltd.	Shanghai, the PRC	US$2,000,000	Equity joint venture	—	63.25%	Design of automotive

Except for the subsidiaries incorporated in Bermuda and the British Virgin Islands which principally operate in Hong Kong, all other subsidiaries principally operate in the PRC.

20. INTERESTS IN ASSOCIATES

The Group

	2009	2008
	RMB'000	RMB'000
Share of net assets other than goodwill	**477,452**	366,398
Goodwill, net of accumulated amortisation	**26,654**	26,654
	504,106	393,052

The Company

The Company's interests in associates represent the cost of investment in 49% equity interest in Shenyang Brilliance Power Train Machinery Co., Ltd. ("**Shenyang Brilliance Power**") upon the disposal of its 51% equity interest in the disposal of discontinued operations.

Details of the Group's associates as at 31st December, 2009 were as follows:

Name of company	Place of principal operations and establishment	Registered capital/issued and paid up capital	Legal structure	Percentage of effective equity interest/ voting right held directly	Percentage of effective equity interest/ voting right held indirectly	Principal activities
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("**Shenyang Aerospace**") *(Note 1)*	Shenyang, the PRC	RMB738,250,000	Equity joint venture	—	12.77%	Manufacture and sale of automotive engines
Shenyang JinBei Vehicle Dies Manufacturing Co., Ltd.	Shenyang, the PRC	RMB29,900,000	Equity joint venture	—	48%	Manufacture and sale of automotive components
Shenyang Brilliance Power *(Note 2)*	Shenyang, the PRC	US$29,900,000	Equity joint venture	49%	—	Manufacture and sale of power train

Notes:

(1) The Group has effective equity interest of 12.77% in Shenyang Aerospace through an indirect 21% equity interest jointly held by Xing Yuan Dong and Shenyang Automotive. On 29th September, 2005, the Group entered into an agreement with a shareholder of Shenyang Aerospace to dispose of 2% of the Group's interest in Shenyang Aerospace for a cash consideration of RMB50 million. The disposal is still yet to be completed as at the date of these financial statements upon the approval of respective local government.

(2) Shenyang Brilliance Power was previously a subsidiary of the Company. During the year, the Group disposed of its effective equity interest of 26.01% to Huachen in relation to the disposal of discontinued operations (Note 10), resulting a 49% effective equity interest. Accordingly, Shenyang Brilliance Power has become an associate of the Company.

20. INTERESTS IN ASSOCIATES (Cont'd)

Combined financial information of the associates for the year ended 31st December, 2009 is summarised as follows:

	2009 RMB'000	2008 RMB'000
Non-current assets	**1,811,348**	1,987,822
Current assets	**1,405,022**	638,119
Current liabilities	**(1,134,924)**	(355,671)
Non-current liabilities	**(167,400)**	(561,235)
Net assets	**1,914,046**	1,709,035
Turnover	**1,895,568**	1,558,436
Net profit	**101,829**	97,173
Net profit attributable to the Group	**22,004**	20,262

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2009 RMB'000	2008 RMB'000
Share of net assets other than goodwill	**1,677,583**	1,306,753
Goodwill, net of accumulated amortisation	**326,644**	326,644
Accumulated impairment losses *(Note)*	**(252,373)**	(252,373)
	74,271	74,271
	1,751,854	1,381,024

Note: The amount represents impairment loss on goodwill relating to Shenyang Xinguang Brilliance Automobile Engine Co., Ltd. ("**Xinguang Brilliance**") (Note 22).

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

Details of the Group's jointly controlled entities as at 31st December, 2009 were as follows:

Name of company	Place of principal operations and establishment	Registered capital/ issued and paid up capital	Legal structure	Percentage of effective equity interest/voting right held indirectly	Principal activities
Mianyang Xinchen Engine Co. Ltd. ("**Mianyang Xinchen**") *(Note 1)*	Mianyang, the PRC	US$24,120,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
Xinguang Brilliance	Shenyang, the PRC	US$7,220,000	Equity joint venture	50%	Manufacture and sale of automotive engines for minibuses and light duty trucks
BMW Brilliance Automotive Ltd. ("**BMW Brilliance**") *(Note 2)*	Shenyang, the PRC	US$174,000,000	Equity joint venture	49.50%	Manufacture and sale of BMW sedans

Notes:

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

(2) Upon the completion of the proposed acquisition as stated in the Company's announcement dated 26th January, 2010, the Company's effective interests in BMW Brilliance will be increased to 50.0%.

The Group's share of BMW Brilliance's assets, liabilities, income and expenses are as follows:

	2009 RMB'000	2008 RMB'000
Non-current assets	**1,957,815**	1,152,469
Current assets	**2,619,062**	1,976,187
Current liabilities	**(3,084,788)**	(1,814,895)
Non-current liabilities	**(81,481)**	(265,000)
Net assets	**1,410,608**	1,048,761
Income	**7,337,185**	6,188,220
Expenses	**(6,981,894)**	(5,932,539)
Net profit attributable to the Group	**355,291**	255,681

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

The Group's share of other jointly controlled entities' assets, liabilities, income and expenses are as follows:

	2009	2008
	RMB'000	RMB'000
Non-current assets	**178,990**	166,926
Current assets	**774,443**	581,560
Current liabilities	**(669,339)**	(465,830)
Non-current liabilities	**(17,000)**	(17,500)
Net assets	**267,094**	265,156
Income	**825,960**	538,830
Expenses	**(826,975)**	(529,455)
Net (loss) profit attributable to the Group	**(1,015)**	9,375

22. IMPAIRMENT OF GOODWILL

(a) Subsidiaries

Goodwill in subsidiaries has been allocated to the "Manufacture and sale of automotive components" cash generating unit ("**CGU**").

The recoverable amount is determined by value in use calculation which is based on cash flow projections covering a 5-year period as approved by management.

The cash flow projections are determined on the basis of past performance and management's expectations for market developments. There have been a number of assumptions used in estimating the recoverable amounts of the relevant assets. Key assumptions include an estimated sales volume of automotive components in 2010, and thereafter projected by an average annual growth rate of 14%, as well as a discount rate of 15% to reflect the risks involved. Judgement is required to determine the key assumptions adopted in the cash flow projections and changes in the key assumptions can significantly affect these cash flow projections.

Based on the cash flow projections, an impairment loss on the full carrying value of goodwill of RMB295,529,000 (2008: Nil) is recognised in 2009.

(b) An associate and a jointly controlled entity

Goodwill in the associate and jointly controlled entity is included in the carrying amount of the Group's interests in the associate and the jointly controlled entity, which belong to the "manufacture and sale of Zhonghua sedans" CGU and "manufacture and sale of minibuses and automotive components" CGU, respectively. At 31st December, 2009, after the application of the equity method to account for the Group's investments in the associate and the jointly controlled entity, there was no indication of impairment (2008: Nil).

23. PREPAYMENTS FOR A LONG-TERM INVESTMENT

On 29th December, 2003, SJAI (a 99% indirectly-owned subsidiary of the Company) and SXID (an indirectly wholly-owned subsidiary of the Company) entered into agreements with the sellers in relation to the acquisition of the entire equity interests of Shenyang Automobile Industry Asset Management Company Limited ("**SAIAM**") and Shenyang XinJinBei Investment Co., Ltd. ("**SXI**"), respectively (the "**Acquisitions**"). SAIAM owns 24.38% while SXI owns 8.97% of the equity interest in 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 transfer of the entire interest of SAIAM and SXI is subject to the granting of a waiver to SXID and SJAI from making an offer for all of the shares of JinBei under Regulation on Acquisitions of Listed Companies by the China Securities Regulatory Commission. Upon completion of the Acquisitions, the Group will be effectively interested in an aggregate of approximately 33.05% of the issued share capital of JinBei.

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

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	2008
	RMB'000	RMB'000
Equity investments		
Unlisted, at cost	**4,138**	4,138
Listed in Hong Kong, at fair value	**33,562**	11,495
	37,700	15,633

The unlisted equity investments are stated at cost less provision for impairment as they do not have a quoted market price in an active market. The directors are of the opinion that the carrying amounts of the unlisted equity investments approximate their fair value. The Group does not intend to dispose of this unlisted equity investment and hold it for a long term purpose.

The Company's available-for-sale financial assets represent the same equity investment listed in Hong Kong of RMB33,562,000 (2008: RMB11,495,000) set out above.

25. PLEDGED SHORT-TERM BANK DEPOSITS

Pledged short-term bank deposits as at 31st December, 2009 were pledged for the following purposes:

	2009 **RMB'000**	2008 RMB'000
Issue of bank guaranteed notes to trade creditors *(Note)*	**626,617**	2,157,821
Bank loans granted to JinBei (Note 41)	**213,680**	228,274
Bank loan granted	**215,774**	70,000
	1,056,071	2,456,095

Note: In addition to short-term bank deposits, as at 31st December, 2009, the Group also pledged bank guaranteed notes receivable from third parties and affiliated companies of approximately RMB128 million (2008: RMB140 million) for issue of bank guaranteed notes.

26. INVENTORIES

	2009 **RMB'000**	2008 RMB'000
Raw materials	**263,585**	1,001,545
Work-in-progress	**87,511**	190,536
Finished goods	**1,092,350**	754,317
	1,443,446	1,946,398
Less: provision for inventories	**(93,147)**	(77,196)
	1,350,299	1,869,202

As at 31st December, 2009, the carrying amount of inventories that were stated at net realisable value amounted to approximately RMB280 million (2008: RMB896 million).

27. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable is set out below:

	2009 RMB'000	2008 RMB'000
Less than six months	**82,413**	588,350
Between six months to one year	**10,159**	49,132
Above one year but less than two years	**3,583**	29,450
Above two years	**20,354**	66,636
	116,509	733,568
Less: provision for doubtful debts	**(21,377)**	(61,888)
	95,132	671,680

A substantial amount of the accounts receivable is denominated in Renminbi. The Group's credit policy is set out in Note 5(a).

Impairment losses in respect of accounts receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable directly.

The movement in allowance for doubtful debts for accounts receivable during the year, including both specific and collective loss components, is as follows:

	2009 RMB'000	2008 RMB'000
At 1 January,	**61,888**	62,888
Impairment loss recognised	**9,399**	—
Uncollectible amounts written off	**(40,994)**	(330)
Write-back of previously recognised impairment loss	**(7,275)**	(670)
Disposal of discontinued operations	**(1,641)**	—
At 31 December,	**21,377**	61,888

The provision for doubtful debts is in respect of accounts receivables that were individually determined to be impaired. The individual impaired accounts receivable relate to customers that were in financial difficulties and management assessed that the impaired amounts will not be recoverable. Consequently, specific allowance for doubtful debts of full amounts of the impaired receivables was recognised.

27. ACCOUNTS RECEIVABLE (Cont'd)

The aging analysis of the Group's accounts receivable that are past due but neither individually nor collectively considered to be impaired are as follows:

	2009 RMB'000	2008 RMB'000
Less than six months	—	202,273
Between six months to one year	10,159	49,132
Above one year but less than two years	2,560	29,450
Above two years	—	4,748
	12,719	285,603

Accounts receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. These balances were either settled subsequent to 31st December, 2009 and up to the date of these financial statements or based on past experience, management believes that no impairment allowance is necessary in respect of the remaining unsettled balances as there has not been a significant change in credit quality and balances are still considered fully recoverable.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

The Group does not hold any collateral over the accounts receivable.

28. NOTES RECEIVABLE

All notes receivable are denominated in Renminbi and are primarily notes received from customers for settlement of accounts receivable balances. As at 31st December, 2009, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 31st December, 2009 (2008: Same).

29. OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Advance to SAIAM	300,000	300,000
Receivable from a jointly controlled entity	—	6,123
Others	419,477	276,282
	719,477	582,405
Less: provision for doubtful debts	(97,183)	(117,008)
	622,294	465,397

29. OTHER RECEIVABLES (Cont'd)

All other receivables are denominated in Renminbi. SAIAM will become a subsidiary of the Group after the completion of the acquisition of SAIAM as detailed in Note 23. The amount advanced to SAIAM 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 this amount is minimal.

The other items in other receivables mainly represent prepayments and deposits paid and advances to employees and other parties. The management considers the credit risks for the balances after the provision of impairment for doubtful debts detailed below to be minimal as these items are considered insignificant in amounts individually, and are recovered very shortly after they are incurred.

The movement in allowance for doubtful debts for other receivables during the year, including both specific and collective loss components, is as follows:

	2009	2008
	RMB'000	RMB'000
At 1st January,	**117,008**	87,637
Impairment loss recognised	**12,316**	33,025
Write-back of previously recognised impairment loss	**(1,523)**	(3,654)
Uncollectible amounts written off	**(383)**	—
Disposal of discontinued operations	**(30,235)**	—
At 31st December,	**97,183**	117,008

As at 31st December, 2009, the Group's other receivables of RMB97,183,000 (2008: RMB117,008,000) was individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that the impaired amounts will not be recoverable. Consequently, specific allowance for doubtful debts of full amounts of the impaired receivables was recognised. The Group does not hold any collateral over the other receivables.

30. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

	2009	2008
	RMB'000	RMB'000
Less than six months	**1,415,850**	2,207,738
Between six months to one year	**28,766**	39,378
Above one year but less than two years	**10,564**	46,975
Above two years	**31,570**	29,611
	1,486,750	2,323,702

Accounts payable with balances denominated in currencies other than Renminbi are considered not significant.

31. SHORT-TERM BANK BORROWINGS

All bank borrowings at 31st December, 2009 are unsecured (2008: Same), interest-bearing at rates ranging from 4.86% to 5.84% per annum (2008: 5.54% to 8.217% per annum) and repayable from 15th January, 2010 to 11th October, 2010.

32. ADVANCES FROM A SUBSIDIARY

Advances from a subsidiary are unsecured, interest-free and has no fixed repayment terms.

33. CONVERTIBLE BONDS

On 7th June, 2006, the Group, through a wholly-owned subsidiary, Brilliance Finance, issued zero coupon guaranteed convertible bonds with principal amount of US$182,678,000 (equivalent to approximately RMB1,461 million based on the applicable exchange rate at the time of issue). The convertible bonds are listed on the Singapore Exchange Securities Trading Limited.

During 2008, convertible bonds with par value and carrying value of US$10,000,000 were repurchased by the Group at a consideration of US$8,520,000 (equivalent to approximately RMB58,231,000) with a gain of approximately RMB25 million.

The remaining convertible bonds were repurchased and redeemed in whole at a consideration of US$210,065,000 (equivalent to approximately RMB1,434,484,000) with a gain of approximately RMB21 million.

The convertible bonds contain a liability component and embedded derivative components which are required to be accounted for separately. The movements of the convertible bonds for the year are set out below:

	2009 **RMB'000**	2008 RMB'000
Liability component		
At 1st January,	**1,392,309**	1,435,657
Redemption	**(1,444,534)**	(82,543)
Amortisation	**53,446**	135,707
Gain on foreign currency translation	**(1,221)**	(96,512)
At 31st December,	**—**	1,392,309
Fair value of embedded derivative components		
At 1st January,	**10,939**	316,576
Redemption	**(10,938)**	(495)
Changes in fair value	**—**	(289,700)
Gain on foreign currency translation	**(1)**	(15,442)
At 31st December,	**—**	10,939
Carrying value at 31st December,	**—**	1,403,248

34. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary deductible differences under the liability method on balance sheet approach using the principal taxation rate of the relevant entities within the Group.

As at 31st December, 2009, the Group has unrecognised temporary differences and tax losses of approximately RMB364 million (2008: RMB1,959 million) and RMB4,939 million (2008: RMB1,718 million), respectively, available to offset against future taxable profits.

As at 31st December, 2009, the unrecognised temporary differences have no expiry date under current legislation but the unrecognised tax losses of approximately RMB634 million, RMB24 million, RMB25 million, RMB779 million and RMB3,477 million will expire in 2010, 2011, 2012, 2013 and 2014, respectively.

As at 31st December, 2008, the unrecognised tax losses of approximately RMB256 million, RMB634 million, RMB24 million, RMB25 million and RMB779 million will expire in 2009, 2010, 2011, 2012 and 2013, respectively.

35. RETIREMENT PLAN AND EMPLOYEES' BENEFITS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 19% to 22% (2008: 19% to 22%) of salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's Hong Kong employees are covered by the mandatory provident fund which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly mandatory contributions to the scheme at 5% of the employees' salary with the maximum amount of HK$1,000 by the Group and the employees per month. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the fund.

The Group's contributions for staff in Hong Kong and the PRC for the year ended 31st December, 2009 were approximately RMB62.6 million (2008: RMB53.7 million).

36. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	2009		2008	
	Number of shares '000	**Amount '000**	Number of shares '000	Amount '000
Authorised:				
Ordinary shares at par value of US$0.01 each				
As at 1st January, and 31st December,	**8,000,000**	**US$80,000**	8,000,000	US$80,000
Issued and fully paid:				
Ordinary shares at par value of US$0.01 each				
As at 1st January,	**3,669,766**	**RMB303,488**	3,669,766	RMB303,488
Issue of new shares	**1,315,753**	**RMB89,795**	—	—
As at 31st December,	**4,985,519**	**RMB393,283**	3,669,766	RMB303,488

36. SHARE CAPITAL AND SHARE OPTIONS (Cont'd)

(a) Share capital (Cont'd)

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

On 29th April, 2009, 250,000 ordinary shares with a par value of US$0.01 each were issued as a result of an exercise of share options at a consideration of approximately RMB96,000 (equivalent to approximately US$14,000) of which RMB79,000 was credited to the share premium account.

On 9th December, 2009, 1,550,000 ordinary shares with par value of US$0.01 each were issued as a result of an exercise of share options at a consideration of approximately RMB595,000 (equivalent to approximately US$87,000) of which RMB488,000 was credited to the share premium.

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages securely afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The debt-to-equity ratio of the Group at 31st December, 2009 is as follows:

	2009 **RMB'000**	2008 RMB'000
Current liabilities		
Advances from affiliated companies	**1,090,181**	73,123
Notes payable for financing	**260,000**	2,750,800
Short-term bank borrowings	**723,000**	499,781
Convertible bonds	**—**	1,403,248
	2,073,181	4,726,952
Non-current liabilities		
Advances from affiliated companies	**400,000**	319,158
Overall financing	**2,473,181**	5,046,110
Shareholders' equity	**3,728,581**	5,867,255
Debt to equity ratio	**66%**	86%

36. SHARE CAPITAL AND SHARE OPTIONS (Cont'd)

(b) Capital management (Cont'd)

The Group's strategy is to maintain capital at a higher proportion of around 2 times to its financing by reference to the debt to equity ratio. In order to maintain or adjust the ratio, the Group may adjust the dividends policy, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debts. Unfortunately, the loss of Zhonghua sedan business had caused the debt to equity ratio to increase to 86% at 31st December, 2008. The Group has disposed of the respective business during the year and was able to push down the ratio to 66% at 31st December, 2009. The management will take more appropriate measures in an attempt to reduce the ratio further.

(c) Share options

Share option schemes approved before 2008

On 18th September, 1999, the Company approved a share option scheme under which the directors may, at their discretion, at any time during the ten years from the date of approval of the scheme, invite employees of any member company of the Group, including executive directors, to take up share options of the Company. The maximum number of shares of which options may be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of options from time to time. The exercise price in relation to each option offer shall be determined by the directors at their absolute discretion, but in any event shall not be less than the higher of (i) 80 percent of the average of the official closing price of the shares on SEHK for the five trading days immediately preceding the relevant offer date and (ii) the nominal value of the shares. The directors may determine and adjust the period within which the relevant grantee may exercise his or her option and the proportion of the options to be exercised in each period, so long as the period within which the option must be exercised is not more than ten years from the date of grant of the option.

2,800,000 share options previously granted under this scheme were outstanding as at 31st December, 2009 (2008: 2,800,000 share options). No share options granted under this scheme were exercised, lapsed or cancelled during the year.

Each of the outstanding share options under this scheme entitles the holder to subscribe for one ordinary share of the Company at HK$1.896, exercisable from 2nd June, 2001 to 1st June, 2011.

A new option scheme was adopted on 28th June, 2002 to replace the above scheme with an aim to comply with the amendments to Chapter 17 of the Listing Rules of the SEHK which came into effect on 1st September, 2001. But the 2,800,000 outstanding share options granted under the scheme adopted in 1999 are not affected. This 2002 scheme was also then terminated on 11th November, 2008 and replaced by another new scheme mentioned below.

Share option scheme approved in 2008

On 11th November, 2008, the Company adopted another option scheme and the scheme adopted on 28th June, 2002 was terminated on the same day by an ordinary resolution passed by the shareholders of the Company. All share options granted before 11th November, 2008 were cancelled except that the 2,800,000 outstanding share options granted under the scheme adopted in 1999 are not affected. This new scheme came into effect on 14th November, 2008.

36. SHARE CAPITAL AND SHARE OPTIONS (Cont'd)

(c) Share options (Cont'd)

Share option scheme approved in 2008 (Cont'd)

The terms of this new scheme are basically similar to the scheme adopted in 2002 in that the Company's board of directors might grant options to the participants (including the Group's employees, non-executive directors, suppliers and customers, etc.) to subscribe for the Company's shares at a price which should not be lower than the higher of:

(i) the closing price of the shares on the SEHK as stated in SEHK's quotation sheet on the date of grant, which must be a trading date;

(ii) the average closing price of the shares on the SEHK as stated in SEHK's quotation sheets for the five trading days immediately preceding the date of grant; and

(iii) the nominal value of the shares.

This new scheme refines the scope of participants such that directors are provided with flexibility in granting options to persons who have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest (the "**Invested Entity**"). In addition, the new scheme clarifies the circumstances under which options granted to non-employees of the Group or Invested Entities will lapse.

Details of movements during the year of share options granted under the scheme approved in 2008 are as follows:

Exercise price	Exercise period	As at 1st January, 2009	Exercised during the year	Lapsed/ Canceled during the year	As at 31st December, 2009
HK$0.438	22nd December, 2008 to 21st December, 2018	64,100,000	(1,800,000)	(1,850,000)	60,450,000

The weighted average closing price of the shares for share options exercised during the year at the date of exercise was HK$2.03.

The weighted average remaining contractual life of the share options granted under the scheme adopted in 2008 outstanding as at 31st December, 2009 was approximately 8.58 years (2008: 9.58 years).

37. RESERVES

The Group

	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustment reserve RMB'000	Dedicated capital RMB'000 (Note a)	Share options reserve RMB'000	Capital reserve RMB'000 (Note b)	Retained earnings RMB'000 (Note c)	Total RMB'000
At 1st January, 2008	31,275	2,040,430	(8,372)	39,179	193,356	43,090	120,000	3,287,217	5,746,175
Share option costs	—	—	—	—	—	10,065	—	—	10,065
Cancellation of share options	—	—	—	—	—	(43,090)	—	43,090	—
Transfer to dedicated capital	—	—	—	—	12,106	—	—	(12,106)	—
Total comprehensive Income	(95,307)	—	8,372	—	—	—	—	80,929	(6,006)
At 31st December, 2008	(64,032)	2,040,430	—	39,179	205,462	10,065	120,000	3,399,130	5,750,234
At 1st January, 2009	**(64,032)**	**2,040,430**	**—**	**39,179**	**205,462**	**10,065**	**120,000**	**3,399,130**	**5,750,234**
Cancellation of share options	**—**	**—**	**—**	**—**	**—**	**(283)**	**—**	**283**	**—**
Issue of new shares by subscription	**—**	**404,238**	**—**	**—**	**—**	**—**	**—**	**—**	**404,238**
Issue of new shares by exercise of share options	**—**	**874**	**—**	**—**	**—**	**(307)**	**—**	**—**	**567**
Transfer to dedicated capital	**—**	**—**	**—**	**—**	**7,876**	**—**	**—**	**(7,876)**	**—**
Total comprehensive Income	**91,459**	**—**	**22,067**	**—**	**—**	**—**	**—**	**(1,639,835)**	**(1,526,309)**
At 31st December, 2009	**27,427**	**2,445,542**	**22,067**	**39,179**	**213,338**	**9,475**	**120,000**	**1,751,702**	**4,628,730**

(a) As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, the Company's subsidiaries are required to maintain discretionary dedicated capital, which includes a general reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund. The dedicated capital is to be appropriated from statutory net profit as stipulated by statute or by the board of directors of respective subsidiaries and recorded as a component of shareholders' equity. For the year ended 31st December, 2009, appropriations of approximately RMB7.9 million (2008: RMB12.1 million) to the general reserve fund were made by subsidiaries of the Company and no appropriation to the enterprise expansion fund was made by the subsidiaries (2008: Same). Under HKFRSs, the appropriation for the staff welfare and incentive bonus fund is charged to the income statement.

(b) In 2003, as approved by the board of directors of Xing Yuan Dong in accordance with the relevant laws and regulations, dedicated capital of Xing Yuan Dong amounting to RMB120 million was released for capitalisation of paid up registered capital. Such release of dedicated capital is credited to the capital reserve.

37. RESERVES (Cont'd)

The Group (Cont'd)

(c) Distributions received from the Company's subsidiaries in the PRC with accumulated distributable profits are denominated in U.S. Dollar and are translated at the prevailing unified exchange rate in the PRC. Total accumulated distributable profits of these subsidiaries under HKFRSs as at 31st December, 2009 amounted to approximately RMB1,805.6 million (2008: RMB1,722.2 million). The distributable profits of subsidiaries under PRC GAAP are different from the amounts reported under HKFRSs.

The Company

	Share premium RMB'000	**Investment revaluation reserve** RMB'000	**Cumulative translation adjustments reserve** RMB'000	**Share option reserve** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
As at 1st January, 2008	2,040,430	(8,372)	39,179	43,090	3,609,502	5,723,829
Cancellation of share options	—	—	—	(43,090)	43,090	—
Share option cost	—	—	—	10,065	—	10,065
Total comprehensive income (loss)	—	8,372	—	—	(567,533)	(559,161)
As at 31st December, 2008	2,040,430	—	39,179	10,065	3,085,059	5,174,733
As at 1st January, 2009	**2,040,430**	**—**	**39,179**	**10,065**	**3,085,059**	**5,174,733**
Cancellation of share options	**—**	**—**	**—**	**(283)**	**283**	**—**
Issue of new shares by subscription	**404,238**	**—**	**—**	**—**	**—**	**404,238**
Issue of new shares by exercise of share options	**874**	**—**	**—**	**(307)**	**—**	**567**
Total comprehensive income (loss)	**—**	**22,067**	**—**	**—**	**(923,300)**	**(901,233)**
As at 31st December, 2009	**2,445,542**	**22,067**	**39,179**	**9,475**	**2,162,042**	**4,678,305**

The directors consider that the Company had approximately RMB2,201.2 million (2008: RMB3,124.2 million) available for distribution to shareholders.

38. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
JinBei	A shareholder of Shenyang Automotive
Shanghai Shenhua	Common directorship of certain directors of the Company
Brilliance Holdings Limited ("**BHL**")	Common directorship of certain directors of the Company
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 the 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) Particulars of significant transactions between the companies comprising the Group and affiliated companies in the ordinary course of business during the year are summarised below:

	2009 RMB'000	2008 RMB'000
Sales of goods:		
— Affiliated companies of JinBei	**114,947**	117,068
— Shanghai Shenhua and its affiliated companies	**560,089**	1,220,886
— Jointly controlled entities	**121,687**	90,984
— An associate	**93,633**	84,427
— A subsidiary of Huachen	**405,252**	1,379,829
Purchases of goods:		
— Affiliated companies of JinBei	**1,055,458**	870,207
— An affiliated company of BHL	**129,207**	107,101
— Jointly controlled entities	**797,456**	496,797
— Associates	**149,617**	160,768
— An affiliated company of the joint venture partner of Xinguang Brilliance	**43**	56
— Shareholders of Shenyang Aerospace and their affiliated companies	**48,757**	61,820

38. RELATED PARTY TRANSACTIONS (Cont'd)

(b) (Cont'd)

	2009 **RMB'000**	2008 RMB'000
Interest to a jointly controlled entity	**15,840**	—
Interest to a jointly controlled entity on sale and lease back arrangement	**14,568**	15,376
Imputed interest on receivable from disposal of discontinued operations	**79,307**	—
Imputed interest on advances to an affiliated company of BHL	**—**	26,983
Interest from an affiliated company of BHL	**503**	—
Operating lease rental on land and buildings charged by:		
— a jointly controlled entity	**2,860**	2,860
— Shanghai Shenhua	**592**	296
Operating lease rental from a jointly controlled entity	**14,174**	14,180
Subcontracting charge to a jointly controlled entity	**152,531**	208,874
Service income from an associate	**4,310**	—
Service income from affiliated companies of Shanghai Shenhua	**2,160**	567

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

(c) As at 31st December, 2009, accounts receivable from affiliated companies consisted of the following:

	2009 **RMB'000**	2008 RMB'000
Accounts receivable from related parties:		
— Shanghai Shenhua and its affiliated companies	**10,416**	78,059
— Affiliated companies of JinBei	**26,510**	53,189
— Ultimate holding company	**816,660**	—
— A subsidiary of Huachen	**—**	99,939
— An associate	**6,167**	28
— Jointly controlled entities		
— BMW Brilliance	**—**	57,451
— Other jointly controlled entities	**265**	22
	860,018	288,688
Less: provision for doubtful debts	**(27,677)**	(29,480)
	832,341	259,208

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

38. RELATED PARTY TRANSACTIONS (Cont'd)

(c) (Cont'd)

(ii) The movement in allowance for doubtful debts for accounts receivable from affiliated companies is as follows:

	2009	2008
	RMB'000	RMB'000
At 1st January,	**29,480**	29,720
Impairment loss	**17,957**	—
Disposal of discontinued operations	**(19,760)**	—
Write-back of previously recognised impairment loss	**—**	(240)
At 31st December,	**27,677**	29,480

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

	2009	2008
	RMB'000	RMB'000
Less than six months	**833,758**	241,819
Between six months to one year	**746**	1,640
Above one year but less than two years	**1,921**	21,610
Over two years	**23,593**	23,619
	860,018	288,688

The aging analysis of the Group's accounts receivable from affiliated companies that are past due but neither individually nor collectively considered to be impaired are as follows:

	2009	2008
	RMB'000	RMB'000
Between six months to one year	**746**	610
Above one year but less than two years	**1,921**	2,700
Over two years	**135**	—
	2,802	3,310

38. RELATED PARTY TRANSACTIONS (Cont'd)

(c) (Cont'd)

At as 31st December, 2009, the Group's accounts receivable from affiliated companies of RMB27,677,000 (2008: RMB29,480,000) was individually determined to be impaired. The individually impaired accounts receivable from affiliated companies related to affiliated companies which failed to settle the outstanding balances in full and management assessed that the impaired amounts will not be recoverable. Consequently, specific allowance for doubtful debts of full amounts of the impaired receivables was recognised.

The remaining past due accounts receivable from affiliated companies which are not impaired relate to a number of other affiliated companies which have been repaying the Group but at a slower pace. As they are still settling the outstanding balances, management believes that no impairment allowance is necessary in respect of these balances.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

The Group does not hold any collateral over the accounts receivable from affiliated companies.

(d) As at 31st December, 2009, notes receivable from affiliated companies arising from trading activities consisted of the following:

	2009	2008
	RMB'000	RMB'000
Notes receivable from related parties:		
— Affiliated companies of JinBei	**79**	15,956
— Shanghai Shenhua and its affiliated companies	**1,400**	183,010
— An associate	**26,971**	133
— A subsidiary of Huachen	**—**	6,100
	28,450	205,199

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

(e) As at 31st December, 2009, the dividends receivable from affiliated companies consisted of:

	2009	2008
	RMB'000	RMB'000
Dividends receivable from related parties:		
— a jointly controlled entity	**76,173**	76,173
— an associate	**18,795**	10,500
	94,968	86,673

38. RELATED PARTY TRANSACTIONS (Cont'd)

(f) As at 31st December, 2009, the advances to affiliated companies consisted of:

	2009 RMB'000	2008 RMB'000
Advances to related parties:		
— Jointly controlled entity	**26,378**	26,365
— Affiliated companies of BHL	**287,462**	145,185
— Shanghai Shenhua and its affiliated companies	**14,046**	14,046
— Huachen	**17**	—
— JinBei and its affiliated company	**71,348**	39,987
— Other affiliated company	**—**	848
	399,251	226,431
Less: non-current portion for advance to an affiliated company of BHL	**—**	(51,470)
	399,251	174,961
Less: provision for doubtful debts	**(296,063)**	(2,214)
	103,188	172,747

Advances to affiliated companies are unsecured, interest-free and with no fixed repayment terms. (2008: Same except for RMB112,896,000 which was to be settled within five years).

The movement in allowance for doubtful debts for the above amounts as well as for other advances is as follows:

	2009 RMB'000	2008 RMB'000
At 1st January,	**2,214**	2,214
Impairment loss	**294,088**	—
Disposal of discontinued operations	**(239)**	—
At 31st December,	**296,063**	2,214

After the provision for long overdue advances to affiliated companies, the unprovided balances are either from affiliated companies which had made repayments during the year or up to date of these financial statements, or those that management has assessed to be financially sound and are capable of repaying. Accordingly, the management believes that no impairment allowance is necessary in respect of these balances. The Group does not hold any collateral over the advances to affiliated companies.

38. RELATED PARTY TRANSACTIONS (Cont'd)

(f) (Cont'd)

The aging analysis of the Group's other receivable from affiliated companies that are past due but neither individually nor collectively considered to be impaired are as follows:

	2009 **RMB'000**	2008 RMB'000
Between six months to one year	**—**	130
Above one year but less than two years	**1**	13,119
Over two years	**41,426**	101,589
	41,427	114,838

(g) As set out in Note 10, the Group disposed of the Zhonghua sedan business to its ultimate holding company for a consideration of RMB494,490,168 which is wholly payable in three years. With an imputed interest rate of 6%, the receivable for the disposal of the discontinued operation is discounted to the present value of RMB415,183,480.

(h) As at 31st December, 2009, amounts due to affiliated companies arising from trading activities consisted of the following:

	2009 **RMB'000**	2008 RMB'000
Due to related parties:		
— Associates	**61,053**	16,915
— Jointly controlled entities	**487,338**	308,052
— Huachen	**564**	—
— An affiliated company of BHL	**79,323**	—
— Affiliated companies of Shanghai Shenhua	**29,694**	7,068
— Affiliated companies of JinBei	**196,645**	270,030
— Other affiliated companies	**12**	1,351
	854,629	603,416

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

	2009 **RMB'000**	2008 RMB'000
Less than six months	**808,092**	438,325
Between six months to one year	**20,041**	108,325
Above one year but less than two years	**1,387**	28,058
Over two years	**25,109**	28,708
	854,629	603,416

38. RELATED PARTY TRANSACTIONS (Cont'd)

(i) As at 31st December, 2009, the notes payable to affiliated companies arising from trading activities consisted of the following:

	2009 RMB'000	2008 RMB'000
Notes payable to related parties:		
— An affiliated company of BHL	**51,253**	—
— Affiliated companies of JinBei	**52,250**	—
— An associate	**6,882**	—
— Jointly controlled entities	**2,000**	43,863
	112,385	43,863

(j) As at 31st December, 2009, the advances from affiliated companies consisted of:

	2009 RMB'000	2008 RMB'000
Advances from related parties classified under current liabilities:		
— Associates	**108,576**	493
— A jointly controlled entity	**3,690**	9,204
— Huanchen	**964,253**	—
— Affiliated companies of BHL	**11,192**	11,531
— Affiliated companies of Shanghai Shenhua	**1,720**	2,787
— JinBei and its affiliates	**750**	735
— Current portion of financing received from BMW Brilliance	**—**	48,373
	1,090,181	73,123
Advances from related parties classified under non-current liabilities:		
— BMW Brilliance	**400,000**	126,000
— Other jointly controlled entities	**—**	193,158
	400,000	319,158
Total advances from affiliated companies	**1,490,181**	392,281

38. RELATED PARTY TRANSACTIONS (Cont'd)

(j) (Cont'd)

Advances from BMW Brilliance are repayable on the following terms:

	2009	2008
	RMB'000	RMB'000
Within 1 year	—	48,373
More than 1 year but less than 2 years	—	8,673
More than 2 years but less than 5 years	—	32,536
More than 5 years	—	84,791
	—	174,373
Less: non-current portion	—	(126,000)
Current portion	—	48,373

In addition, BMW Brilliance made an advance of RMB400 million to the Group during the year. The amount is unsecured, interest-bearing at 5.4% per annum and is wholly repayable in two years.

Except for the advance from BMW Brilliance of RMB400 million made during the year, the remaining balances were transferred to Huachen in connection to the disposal of the discontinued operations during the year.

Advances from other affiliated companies are unsecured, non-interest bearing and with no fixed repayment term.

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

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

	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	**21,254**	22,233

39. CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash generated from (used in) operations

	2009 RMB'000	2008 RMB'000
Loss before taxation	**(2,703,203)**	(259,044)
Share of results of:		
— Jointly controlled entities	**(354,276)**	(265,056)
— Associates	**(22,004)**	(20,262)
Interest income	**(65,665)**	(88,004)
Interest expenses	**248,890**	333,325
Loss on disposal of discontinued operations	**830,711**	—
Write back of provision for inventories sold	**(50,473)**	(35,868)
Depreciation of property, plant and equipment	**324,248**	274,967
Impairment loss on goodwill	**295,529**	—
Impairment loss on property, plant and equipment	**41,328**	—
Impairment losses on intangible assets	**303,500**	184,288
Amortisation of intangible assets	**130,908**	166,548
Amortisation of land lease prepayments	**6,029**	3,616
Share option costs	**—**	10,065
Loss on disposals and write-off of property, plant and equipment	**497**	1,968
Deferred income	**(145,964)**	(331,028)
Write back of provision for doubtful debts	**(8,798)**	(4,564)
Write back of provision for impairment loss on property, plant and equipment	**—**	(54)
Provision for inventories	**156,970**	44,118
Provision for doubtful debts on:		
— Accounts receivable	**9,399**	—
— Other receivables	**12,316**	33,025
— Accounts receivable from affiliated companies	**17,957**	—
— Advances to affiliated companies	**294,088**	—
Gain on redemption of convertible bonds	**(20,988)**	(25,302)
Change in fair value of embedded derivative components of convertible bonds	**—**	(289,700)
Impairment loss on available-for-sale financial assets	**—**	18,868
Unrealised gain on exchange	**(1,225)**	(112,157)
(Increase) Decrease in accounts receivable	**(476,660)**	134,177
Decrease (Increase) in notes receivable	**165,570**	(290,868)
Decrease in notes receivable from affiliated companies	**176,749**	54,956
(Increase) Decrease in accounts receivable from affiliated companies	**(571,330)**	129,348
(Increase) Decrease in other receivables	**(543,984)**	491
Decrease (Increase) in prepayments and other current assets	**61,012**	(86,467)
(Increase) Decrease in inventories	**(385,302)**	589,501
Increase (Decrease) in notes and accounts payable	**1,503,031**	(1,053,998)
Increase (Decrease) in notes payable to affiliated companies	**68,522**	(163,911)
Increase in accounts payable to affiliated companies	**251,213**	44,727
Increase in customer advances	**624,883**	204,414
Increase (Decrease) in other payables	**831,434**	(60,599)
Increase (Decrease) in accrued expenses and other current liabilities	**86,086**	(94,769)
(Decrease) Increase in other tax payable, net	**(129,255)**	110,931
Cash generated from (used in) operations	**961,743**	(842,318)

39. CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

(b) Major non-cash Transactions

During the year ended 31st December, 2009, the Group entered into an agreement with Huachen and an associate to offset advances to Huachen to the advances from the associate amounting to approximately RMB126 million.

During the year ended 31st December, 2008, the Group also entered into an agreement to an affiliated company to offset the receivable balance due from this affiliated company to the Group of approximately RMB201 million with the payable balance due to this affiliated company.

(c) Disposal of discontinued operations

During the year, the Group disposed of assets and liabilities in connection with Zhonghua sedan business to Huachen.

	RMB'000
Net assets disposed of:	
Property, plant and equipment	2,624,237
Construction-in-progress	160,200
Land lease prepayments	102,501
Intangible assets	773,661
Inventories	795,643
Accounts and other receivables	1,395,916
Notes receivable	236,282
Prepayments and other current assets	51,287
Other non-current assets	18,369
Other taxes recoverable	9,379
Short-term and pledged bank deposits	1,762,976
Cash and bank balances	151,661
Accounts and other payable	(4,029,784)
Notes payable	(2,380,000)
Accrued expenses and other current liabilities	(69,083)
Short-term bank borrowings	(120,000)
Advances from an affiliated company	(146,767)
Deferred income	(54,461)
Non-controlling interests	(3,532)
	1,278,485
Less: interest in a subsidiary becoming an associate upon disposal	(118,914)
	1,159,571
Loss on disposal of discontinued operations	(830,711)
Total consideration	328,860
Satisfied by:	
Receivable wholly recoverable in 3 years	415,183
Taxes payable arising from disposal of discontinued operations	(86,323)
	328,860

39. CONSOLIDATED CASH FLOW STATEMENTS (Cont'd)

(c) Disposal of discontinued operations (Cont'd)

An analysis of the net outflows of cash and cash equivalents in respect of the disposal of the discontinued operations is as follows:

	RMB'000
Cash consideration	—
Cash and bank balances disposed of	151,661
Net outflow of cash and cash equivalents in respect of disposal of discontinued operations	(151,661)

40. COMMITMENTS

(a) Capital commitments

	2009 **RMB'000**	2008 RMB'000
Contracted but not provided for:		
— Construction projects	**76**	39,505
— Acquisition of plant and machinery	**67,067**	259,104
— Others	**39,954**	16,027
	107,097	314,636
Authorised but not contracted for:		
— Construction projects and acquisition of plant and machinery	**470,123**	974,229

(b) Operating lease commitments

As at 31st December, 2009, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	2009 **RMB'000**	2008 RMB'000
Within one year	**17,112**	12,788
In the second to fifth years inclusive	**32,097**	33,734
Over five years	**34,009**	48,750
	83,218	95,272

40. COMMITMENTS (Cont'd)

(c) Future operating lease arrangements

As at 31st December, 2009, the Group had future aggregate minimum lease receivable under non-cancellable operating leases as follows:

	2009 **RMB'000**	2008 RMB'000
Within one year	—	20,458
In the second to fifth years inclusive	—	56,697
Over five years	—	62,603
	—	139,758

41. CONTINGENCIES

As at 31st December, 2009, the Group had provided the following guarantees:

— Corporate guarantees for revolving bank loans amounting to RMB200 million (2008: RMB200 million) drawn by JinBei. Bank deposits of RMB214 million (2008: RMB228 million) was pledged as a collateral for the corporate guarantee as detailed in Note 25;

— Corporate guarantees for revolving bank loans and bank guaranteed notes of approximately RMB60 million (2008: RMB60 million) drawn by affiliated companies of Shanghai Shenhua; and

— Corporate guarantees for revolving bank loans and bank guaranteed notes of approximately RMB750 million (2008:Nil) drawn by Huachen.

42. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 37 to 120 were approved and authorised for issue by the board of directors on 16th April, 2010.