

BRILLIANCE
CHINA AUTOMOTIVE
HOLDINGS LIMITED

(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

Stock Code : 1114

Brilliance Auto
華 晨 汽 車

Interim Report 2012



**for identification purposes only*

RESULTS

The board of directors (the “**Board**”) of Brilliance China Automotive Holdings Limited (the “**Company**”) announces the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30th June, 2012. The unaudited consolidated interim financial statements have been reviewed by the audit committee of the Board.

CONDENSED CONSOLIDATED INCOME STATEMENT

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

		(Unaudited)	
		For the six months ended	
		30th June,	
		2012	2011
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	2,810,302	3,167,327
Cost of sales		(2,449,006)	(2,710,864)
Gross profit		361,296	456,463
Other income		18,770	5,948
Selling expenses		(200,869)	(173,755)
General and administrative expenses		(169,382)	(137,247)
Interest income		36,840	32,884
Finance costs, net	6	(101,813)	(95,471)
Share of results of:			
Associates		61,674	51,437
Jointly controlled entities		1,374,637	897,851
Profit before income tax expense	5	1,381,153	1,038,110
Income tax expense	8	(52,739)	(10,662)
Profit for the period		1,328,414	1,027,448

CONDENSED CONSOLIDATED INCOME STATEMENT (Cont'd)

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

		(Unaudited)	
		For the six months ended	
		30th June,	
		2012	2011
	Note	RMB'000	RMB'000
Attributable to:			
Equity holders of the Company		1,332,316	941,256
Non-controlling interests		(3,902)	86,192
		<hr/>	<hr/>
		1,328,414	1,027,448
		<hr/>	<hr/>
Dividends	9	-	-
		<hr/>	<hr/>
Earnings per share	10		
- Basic		RMB0.26532	RMB0.18846
- Diluted		RMB0.26406	RMB0.18665
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	For the six months ended	
	30th June,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	1,328,414	1,027,448
Other comprehensive (loss) income		
Change in fair value of available-for-sale financial assets	6,294	(5,679)
Share of comprehensive (loss) income of a jointly controlled entity	(31,832)	287,905
Other comprehensive (loss) income, net of tax	(25,538)	282,226
Total comprehensive income for the period	1,302,876	1,309,674
Total comprehensive income, net of tax, attributable to:		
Equity holders of the Company	1,306,778	1,223,482
Non-controlling interests	(3,902)	86,192
	1,302,876	1,309,674

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited)	(Audited)
		As at	As at
		30th June,	31st December,
		2012	2011
	Note	RMB'000	RMB'000
Non-current assets			
Intangible assets	11	196,563	197,524
Property, plant and equipment	11	1,399,613	1,393,389
Construction-in-progress	11	307,257	276,347
Land lease prepayments	11	63,240	63,969
Interests in associates	12	573,614	592,441
Interests in jointly controlled entities	13	4,417,312	3,578,079
Prepayments for a long-term investment	14	600,000	600,000
Available-for-sale financial assets	15	21,628	15,334
Deferred tax assets		–	50,000
Other non-current assets		11,838	11,947
		<hr/>	<hr/>
Total non-current assets		7,591,065	6,779,030
Current assets			
Cash and cash equivalents	16	1,532,713	585,696
Short-term bank deposits		84,628	99,928
Pledged short-term bank deposits	17	999,740	1,183,064
Inventories		859,448	737,338
Accounts receivable	18	174,365	101,064
Accounts receivable from affiliated companies	25(d)	326,375	344,887
Notes receivable	19	272,956	430,398
Notes receivable from affiliated companies	25(e)	593,180	541,411
Other receivables	20	425,927	462,916
Dividends receivable from affiliated companies	25(f)	156,083	76,173
Prepayments and other current assets		74,852	166,048
Income tax recoverable		180	293
Other taxes recoverable		24,929	17,491
Amounts due from affiliated companies	25(g)	701,434	818,416
Receivable for disposal of discontinued operations	25(h)	480,495	466,500
		<hr/>	<hr/>
Total current assets		6,707,305	6,031,623

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

		(Unaudited)	(Audited)
		As at	As at
		30th June,	31st December,
		2012	2011
	Note	RMB'000	RMB'000
Current liabilities			
Accounts payable	21	1,340,614	1,276,682
Accounts payable to affiliated companies	25(i)	1,492,624	1,188,856
Notes payable		1,810,854	1,764,354
Notes payable to affiliated companies	25(j)	12,466	26,090
Receipts in advance from customers		97,583	109,530
Other payables		393,729	547,940
Accrued expenses and other current liabilities		40,299	66,884
Short-term bank borrowings	22	1,235,560	1,296,630
Income tax payable		32,033	31,716
Other taxes payable		115,719	78,905
Amounts due to affiliated companies	25(k)	180,112	184,279
Total current liabilities		6,751,593	6,571,866
Net current liabilities		(44,288)	(540,243)
Total assets less current liabilities		7,546,777	6,238,787
Non-current liabilities			
Deferred government grants		1,400	1,600
Net assets		7,545,377	6,237,187
Capital and reserves			
Share capital	23	395,877	394,931
Reserves		7,905,517	6,594,371
Total equity attributable to equity holders of the Company		8,301,394	6,989,302
Non-controlling interests		(756,017)	(752,115)
Total equity		7,545,377	6,237,187

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30th June, 2011 (Unaudited)

		Attributable to equity holders of the Company												
		Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Difference arising from acquisition of non- controlling interests 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, 2011		393,857	65,509	2,449,520	13,145	39,179	-	222,289	7,843	120,000	3,013,984	6,325,326	(1,068,815)	5,256,511
<i>Transactions with equity holders of the Company</i>														
Issue of new shares by exercise of share options		181	-	4,237	-	-	-	-	-	-	-	4,418	-	4,418
Transfer to dedicated capital		-	-	-	-	-	1,419	-	-	(1,419)	-	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	941,256	941,256	941,256	86,192	1,027,448
<i>Other comprehensive income (loss)</i>														
Share of other comprehensive income of a jointly controlled entity		-	287,905	-	-	-	-	-	-	-	-	287,905	-	287,905
Change in fair value of available- for-sale financial assets		-	-	(5,679)	-	-	-	-	-	-	-	(5,679)	-	(5,679)
		-	287,905	-	(5,679)	-	-	-	-	-	-	282,226	-	282,226
As at 30th June, 2011		394,038	353,414	2,453,757	7,466	39,179	-	223,708	7,843	120,000	3,953,821	7,553,226	(982,623)	6,570,603

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

Six months ended 30th June, 2012 (Unaudited)

	Attributable to the equity holders of the Company												
	Issued capital RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Investment revaluation reserve RMB'000	Cumulative translation adjustments reserve RMB'000	Difference arising from acquisition of non- controlling interests 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, 2012	394,931	(541,204)	2,460,021	(299)	39,179	(537,394)	214,389	5,699	120,000	4,834,170	6,999,302	(752,115)	6,237,187
Transactions with equity holders of the Company													
Issue of new shares by exercise of share options	946	-	6,665	-	-	-	-	(2,297)	-	-	5,314	-	5,314
Transfer to dedicated capital	-	-	-	-	-	-	342	-	-	(342)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	1,332,316	1,332,316	(3,902)	1,328,414
Other comprehensive (loss) income													
Share of other comprehensive loss of a jointly controlled entity	-	(31,832)	-	-	-	-	-	-	-	-	(31,832)	-	(31,832)
Change in fair value of available- for-sale financial assets	-	-	-	6,294	-	-	-	-	-	-	6,294	-	6,294
	-	(31,832)	-	6,294	-	-	-	-	-	-	(25,538)	-	(25,538)
As at 30th June, 2012	395,877	(573,036)	2,466,686	5,995	39,179	(537,394)	214,731	3,402	120,000	6,196,144	8,301,394	(756,017)	7,545,377

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Unaudited)	
	For the six months ended	
	30th June,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	82,239	17,794
Net cash generated from investing activities	790,570	538,138
Net cash generated from (used in) financing activities	74,208	(285,570)
Increase in cash and cash equivalents	947,017	270,362
Cash and cash equivalents, as at 1st January	585,696	427,789
Cash and cash equivalents, as at 30th June	1,532,713	698,151

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organisation and operations

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

The principal activities of the Group are set out in note 4 to these condensed consolidated financial statements.

The directors of the Company consider that Huachen Automotive Group Holdings Company Limited ("**Huachen**") is the ultimate holding company of the Company.

2. Statement of compliance and accounting policies

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

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31st December, 2011, except for the adoption of the new and revised HKFRSs (which include individual HKFRSs, HKASs and interpretations) as disclosed in note 3 to these condensed consolidated financial statements.

These interim financial statements are prepared on the basis that the Group is a going concern in view of the net current liabilities as at 30th June, 2012. As the results of the Group continue to improve as shown in the condensed consolidated income statement, management is confident that the Group will continue to generate profits and positive cash flows from its operating activities. Together with the continuing support from the Group's bankers and Huachen, the Group will have sufficient funds for the needs of working capital, investing and financing activities. Accordingly, it is appropriate to prepare these financial statements on a going concern basis.

These interim financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31st December, 2011.

3. Adoption of new or amended HKFRSs

In the current period, the Group has applied for the first time the new and revised standards, amendments and interpretations (the "**new HKFRSs**") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1st January, 2012.

The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The Group has not early adopted the new/revised standards and interpretations that have been issued but not yet effective. The directors of the Company anticipate that the application of the new/revised standards and interpretations will have no material impact on the results and the financial position of the Group.

4. Segment information

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

The Group has identified the following reportable segments:

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

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

The measurement policies the Group adopts for segment reporting under HKFRS 8 are the same as those used in its HKFRS financial statements, except that certain items are not included in arriving at the operating results of the operating segments (eg. interest income, finance costs, income tax and impairment losses on assets, etc.).

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

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

Revenue, results by reportable segments and reconciliation of segment results to profit before income tax expense for the period – for the six months ended 30th June, 2012

	(Unaudited)			Total RMB'000
	Manufacture and sale of minibuses and automotive components RMB'000	Manufacture and sale of BMW sedans RMB'000	Reconciliation to the Group's condensed income statements RMB'000	
Segment sales	2,810,302	26,107,509	(26,107,509)	2,810,302
Segment results	41,611	3,537,792	(3,537,792)	41,611
Unallocated costs net of unallocated revenue				(24,781)
Impairment losses on assets				(7,015)
Interest income				36,840
Finance costs, net				(101,813)
Share of results of:				
Associates	61,674	-	-	61,674
Jointly controlled entities	64,114	1,310,523	-	1,374,637
Profit before income tax expense				1,381,153

4. Segment information (Cont'd)

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

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

The assets and liabilities by reportable segments as at 30th June, 2012

(Unaudited)				
	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Reconciliation to the Group's condensed statements of financial position <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	8,286,247	25,107,395	(25,107,395)	8,286,247
Interests in associates	573,614	–	–	573,614
Interests in jointly controlled entities	580,668	3,836,644	–	4,417,312
Available-for-sale financial assets				21,628
Prepayments for a long-term investment				600,000
Advance to a shareholder of a related party				300,000
Unallocated assets				99,569
Total assets				14,298,370
Segment liabilities	6,744,397	17,434,107	(17,434,107)	6,744,397
Unallocated liabilities				8,596
Total liabilities				6,752,993

4. Segment information (Cont'd)

The assets and liabilities by reportable segments as at 31st December, 2011

(Audited)				
	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Reconciliation to the Group's condensed statements of financial position <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	7,593,932	24,018,218	(24,018,218)	7,593,932
Interests in associates	592,441	–	–	592,441
Interests in jointly controlled entities	520,126	3,057,953	–	3,578,079
Available-for-sale financial assets				15,334
Prepayments for a long-term investment				600,000
Advance to a shareholder of a related party				300,000
Unallocated assets				130,867
Total assets				12,810,653
Segment liabilities	6,562,108	17,902,312	(17,902,312)	6,562,108
Unallocated liabilities				11,358
Total liabilities				6,573,466

5. Profit before income tax expense

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

(Unaudited)		
For the six months ended 30th June,		
	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Charging:		
Impairment losses on:		
– Accounts receivable	3,470	–
– Other receivables	3,546	2,995
– Amounts due from affiliated companies	–	29,198
Write-off of other receivables	1,442	–
Cost of inventories	2,436,635	2,730,345
Amortisation of intangible assets (Note)	14,585	14,026
Depreciation of property, plant and equipment	50,867	53,485
Amortisation of land lease prepayments	729	1,269
Staff costs (including directors' emoluments) (Note 7)	272,574	181,892
Research and development costs (Note)	670	2,328
Provision for inventories	21,457	–
Provision for warranty	8,307	19,201
Loss on disposal of property, plant and equipment	768	–
Operating lease charges for land and buildings	10,491	12,065
Operating lease charges for machinery and equipment	6	–
Crediting:		
Gain on disposal of property, plant and equipment	–	1,072
Gross rental income from land and buildings	56	–
Write back of provision for inventories sold	9,087	13,210
Write back of provision for doubtful debts:		
– Accounts receivable	–	2,027
– Amounts due from affiliated companies	–	1,209

Note: included in general and administrative expenses

6. Finance costs, net

	(Unaudited)	
	For the six months ended 30th June,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expense on:		
Bank loans wholly repayable within one year	47,222	18,997
Discounted bank guaranteed notes	61,647	74,210
An advance from a jointly controlled entity	–	5,877
	<hr/>	<hr/>
	108,869	99,084
Less: Interest expense capitalised in intangible assets and construction-in-progress at the rate of 8% (2011: 6.6%)	(7,056)	(3,613)
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	101,813	95,471
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7. Staff costs (including directors' emoluments)

	(Unaudited)	
	For the six months ended 30th June,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and performance related bonuses	202,849	136,983
Pension costs – defined contribution plans	27,738	18,055
Staff welfare costs	41,987	26,854
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	272,574	181,892
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8. Income tax expense

	(Unaudited)	
	For the six months ended 30th June,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax	2,739	9,747
Deferred tax in respect of tax losses	50,000	915
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	52,739	10,662
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Current tax represents PRC enterprise income tax on the estimated taxable profits of the subsidiaries in the PRC during the period.

8. Income tax expense (Cont'd)

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

	(Unaudited)	
	For the six months ended 30th June,	
	2012	2011
	RMB'000	RMB'000
Recognition of previously unrecognised tax losses	–	(33,090)
Reversal of previously recognised tax losses	46,700	–
Utilisation of tax losses	3,300	34,005
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	50,000	915
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9. Dividends

The directors do not recommend the payment of an interim dividend at the board meeting held on 29th August, 2012 (2011: *No interim dividend declared*).

10. Earnings per share

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

	(Unaudited)	
	For the six months ended 30th June,	
	2012	2011
	'000	'000
<i>Weighted average number of shares</i>		
Issued shares outstanding	5,010,769	4,993,969
Effect of share options exercised	10,756	588
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Weighted average number of ordinary shares for calculating basic earnings per share	5,021,525	4,994,557
Weighted average number of ordinary shares deemed issued under the Company's share option scheme	23,905	48,417
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Weighted average number of ordinary shares for calculating diluted earnings per share	5,045,430	5,042,974
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11. Capital expenditures

	(Unaudited)			
	Intangible assets	Property, plant and equipment	Construction-in-progress	Land lease prepayments
	RMB'000	RMB'000	RMB'000	RMB'000
Net book value as at 1st January, 2012	197,524	1,393,389	276,347	63,969
Additions	12,841	28,695	61,096	–
Transfer/Reclassification	783	29,403	(30,186)	–
Write-off/Disposals	–	(1,007)	–	–
Amortisation/Depreciation	(14,585)	(50,867)	–	(729)
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Net book value as at 30th June, 2012	196,563	1,399,613	307,257	63,240
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12. Interests in associates

Details of interests in associates are as follows:

	(Unaudited) As at 30th June, 2012 RMB'000	(Audited) As at 31st December, 2011 RMB'000
Share of net assets other than goodwill	546,960	565,787
Goodwill, net of accumulated amortisation	26,654	26,654
	<hr/> 573,614	<hr/> 592,441

13. Interests in jointly controlled entities

Details of interests in jointly controlled entities are as follows:

	(Unaudited) As at 30th June, 2012 RMB'000	(Audited) As at 31st December, 2011 RMB'000
Share of net assets other than goodwill	4,354,116	3,514,883
Goodwill	277,936	277,936
Accumulated impairment loss	(214,740)	(214,740)
	<hr/> 63,196	<hr/> 63,196
	<hr/> 4,417,312	<hr/> 3,578,079

14. Prepayments for a long-term investment

On 29th December, 2003, Shenyang JinBei Automotive Industry Holdings Co., Ltd. ("**SJAI**") (currently an indirectly wholly-owned subsidiary of the Company) and Shenyang XinJinBei Investment and Development Co., Ltd. ("**SXID**") (currently an indirectly wholly-owned subsidiary of the Company) entered into agreements 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**"). As at 30th June, 2012, SAIAM owns 24.38% while SXI owns 8.97% of the equity interest in Shenyang JinBei Automotive Company Limited ("**JinBei**"), a company listed on the Shanghai Stock Exchange. The consideration for the Acquisitions was RMB600 million, which was determined after arm's length negotiations between the parties by taking into account the respective financial position of SAIAM and SXI.

Although the Acquisitions have been approved by State-owned Assets Supervision and Administration Commission of Liaoning Provincial Government and the State-Owned Assets Supervision and Administration Commission of the State Council, the transfers of the entire interests of SAIAM and SXI are subject to the granting of a waiver to SXID and SJAI from making an offer for all of the shares of JinBei under Regulation on Acquisitions of Listed Companies by the China Securities Regulatory Commission. If completed, the Group will be effectively interested in an aggregate of approximately 33.35% of the issued share capital of JinBei.

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

As at 30th June, 2012 and 31st December, 2011, the consideration of RMB600 million paid to the shareholders of SAIAM and SXI was recorded as prepayments for a long-term investment. The directors have assessed the fair value of the underlying shares of JinBei and are satisfied that the recoverability of the prepayments is supported by the underlying shares of JinBei.

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

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

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	RMB'000	RMB'000
Equity investments:		
– Unlisted, at cost	4,138	4,138
– Listed in Hong Kong, at fair value	17,490	11,196
	<hr/>	<hr/>
	21,628	15,334
	<hr/>	<hr/>

16. **Cash and cash equivalents**

For condensed consolidated statement of financial position classification, cash and cash equivalents represent assets similar in nature to cash, which are not restricted as to use. For the purposes of condensed consolidated statement of cash flows, cash and cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts and short-term bank borrowings with original maturities less than 3 months.

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

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

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	RMB'000	RMB'000
Issue of bank guaranteed notes to trade creditors	786,060	969,384
Bank loans granted to JinBei (Note 25(b)(i))	213,680	213,680
	<hr/>	<hr/>
	999,740	1,183,064
	<hr/>	<hr/>

18. Accounts receivable

An aging analysis of accounts receivable is set out below:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	RMB'000	RMB'000
Less than six months	157,108	90,145
Six months to one year	11,480	3,599
Above one year but less than two years	3,083	998
Two years or above	23,128	23,286
	<hr/>	<hr/>
	194,799	118,028
Less: Provision for doubtful debts	(20,434)	(16,964)
	<hr/>	<hr/>
	174,365	101,064
	<hr/>	<hr/>

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

19. Notes receivable

All notes receivable are denominated in Renminbi and are primarily notes received from customers for settlement of accounts receivable balances. As at 30th June, 2012, all notes receivable were guaranteed by established banks in the PRC with maturities of less than six months from 30th June, 2012 (As at 31st December, 2011: Same). As at 30th June, 2012, notes receivable from third parties and affiliated companies of approximately RMB53.5 million have been pledged for the issue of bank guaranteed notes payable to trade creditors (As at 31st December, 2011: RMB197 million).

20. Other receivables

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	RMB'000	RMB'000
Advance to SAIAM (Note)	300,000	300,000
Receivable for disposal of a subsidiary	–	60,000
Others	218,606	192,049
	<hr/>	<hr/>
	518,606	552,049
Less: Provision for doubtful debts	(92,679)	(89,133)
	<hr/>	<hr/>
	425,927	462,916
	<hr/>	<hr/>

Note: As at 30th June, 2012, an amount of RMB300 million (As at 31st December, 2011: RMB300 million) was advanced to SAIAM which will become a subsidiary of the Group after the completion of the Acquisitions as detailed in note 14 to these condensed consolidated financial statements. The amount will be settled upon the completion of the Acquisitions. In view of the substantial assets in JinBei possessed by SAIAM, the management considers the credit risk in recovering the amount as minimal.

21. Accounts payable

An aging analysis of accounts payable is set out below:

	(Unaudited) As at 30th June, 2012 RMB'000	(Audited) As at 31st December, 2011 RMB'000
Less than six months	1,176,662	1,151,622
Six months to one year	96,592	63,011
Above one year but less than two years	21,817	20,718
Two years or above	45,543	41,331
	<hr/> 1,340,614	<hr/> 1,276,682

22. Short-term bank borrowings

	(Unaudited) As at 30th June, 2012 RMB'000	(Audited) As at 31st December, 2011 RMB'000
Secured bank borrowings	30,000	74,000
Unsecured bank borrowings	1,205,560	1,222,630
	<hr/> 1,235,560	<hr/> 1,296,630

All short-term bank borrowings as at 30th June, 2012 are interest-bearing at rates ranging from 6.89% to 8.53% per annum (As at 31st December, 2011: 6.06% to 9.15% per annum) and repayable from 19th July, 2012 to 6th June, 2013 (As at 31st December, 2011: repayable from 15th January, 2012 to 30th December, 2012).

23. Share capital

	(Unaudited) As at 30th June, 2012	
	Number of shares '000	Amount US\$'000
Authorised:		
Ordinary shares at par value of US\$0.01 each	8,000,000	80,000
	<hr/>	<hr/>
	(Unaudited) For the six months ended 30th June, 2012	
	Number of shares '000	Amount RMB'000
Issued and fully paid:		
Ordinary shares at par value of US\$0.01 each		
As at 1st January, 2012	5,010,769	394,931
Issues of new shares by exercising share options	15,000	946
	<hr/>	<hr/>
As at 30th June, 2012	5,025,769	395,877
	<hr/>	<hr/>

During the period, a total of 15,000,000 ordinary shares with par value of US\$0.01 each were issued as a result of exercise of share options at an aggregate consideration of approximately RMB5,314,000 of which RMB6,665,000 was credited to the share premium account and RMB2,297,000 was debited to the share options reserve.

24. Commitments

(a) Capital commitments

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:		
– Construction projects	7,435	16,204
– Acquisition of plant and machinery	80,309	100,834
– Others	19,750	18,551
	<hr/>	<hr/>
	107,494	135,589
	<hr/>	<hr/>
Authorised but not contracted for:		
– Construction projects and acquisition of plant and machinery	31,492	103,495
	<hr/>	<hr/>

(b) Operating lease commitments

As at 30th June, 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leased properties as follows:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	26,020	18,972
In the second to fifth years inclusive	51,954	39,085
Over five years	21,860	24,749
	<hr/>	<hr/>
	99,834	82,806
	<hr/>	<hr/>

25. **Related party transactions**

(a) Name and relationship

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

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

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

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

	(Unaudited)	
	For the six months ended 30th June,	
	2012	2011
	RMB'000	RMB'000
Sales of goods:		
– Affiliated companies of JinBei	1,136	3,003
– Huachen and its affiliated companies	123,229	232,701
	124,365	235,704
Purchases of goods:		
– Affiliated companies of JinBei	263,589	290,623
– Huachen and its affiliated companies	393,756	360,166
	657,345	650,789
Sub-contracting charges to:		
– Huachen and its affiliated company	13,940	21,846
	13,940	21,846

25. Related party transactions (Cont'd)

(b) (Cont'd)

In addition,

(i) During the period and as at 30th June, 2012, a member of the Group and JinBei, pursuant to an agreement, have agreed to provide cross guarantees in respect of each other's banking facilities in the maximum amount of RMB600 million (As at 31st December, 2011: RMB600 million). As at 30th June, 2012, RMB596.5 million (As at 31st December, 2011: RMB446.5 million) of these guarantees was drawn by JinBei for its revolving bank loans. Out of these guarantees, RMB214 million was provided in the form of a pledge of the Group's bank deposits as at 30th June, 2012 (As at 31st December, 2011: RMB214 million).

(ii) During the period and as at 30th June, 2012, a member of the Group and Huachen, pursuant to an agreement, have agreed to provide cross guarantees in respect of each other's banking facilities in the maximum amount of RMB1,500 million (As at 31st December, 2011: RMB1,500 million). As at 30th June, 2012, RMB275 million (As at 31st December, 2011: RMB465 million) of these guarantees was drawn by Huachen for its revolving bank loans.

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

	(Unaudited)	
	For the six months ended 30th June,	
	2012	2011
	RMB'000	RMB'000
Sales of goods:		
– Shanghai Shenhua and its affiliated companies	1,718,749	1,088,851
– Jointly controlled entities	28,567	27,667
– Associates	23,522	46,255
Purchases of goods:		
– Jointly controlled entities	292,897	379,098
– Associates	4,053	65,422
– Shanghai Shenhua and its affiliated companies	3,338	1,548
Operating lease rental on land and buildings from Huachen	–	1,150
Operating lease rental on land and buildings charged by:		
– Shanghai Shenhua	296	300
– Huachen	2,477	1,000
Interest to a jointly controlled entity for advance to the Group	–	5,877
Interest from joint venture partner of a jointly controlled entity	4,184	–
Imputed interest income from Huachen for receivable of disposal of discontinued operations	13,995	13,203
	13,995	13,203

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.

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

(d) As at 30th June, 2012, accounts receivable from affiliated companies consisted of the following:

	(Unaudited) As at 30th June, 2012 RMB'000	(Audited) As at 31st December, 2011 RMB'000
Accounts receivable from related parties:		
– Shanghai Shenhua and its affiliated companies	10,417	10,416
– Affiliated companies of JinBei	18,500	19,311
– Huachen	283,435	309,511
– Associates	13,161	12,217
– Jointly controlled entities	22,250	14,820
	<hr/>	<hr/>
	347,763	366,275
Less: Provision for doubtful debts	(21,388)	(21,388)
	<hr/>	<hr/>
	326,375	344,887
	<hr/>	<hr/>

The Group's credit policy is to offer credit to affiliated companies following financial assessment and an established payment record. These affiliated companies are generally required to settle 25% to 33% of the previous month's ending balances. The aging analysis of accounts receivable from affiliated companies is as follows:

	(Unaudited) As at 30th June, 2012 RMB'000	(Audited) As at 31st December, 2011 RMB'000
Less than six months	167,275	177,271
Six months to one year	44,831	75,697
Above one year but less than two years	111,379	88,359
Two years or above	24,278	24,948
	<hr/>	<hr/>
	347,763	366,275
	<hr/>	<hr/>

(e) As at 30th June, 2012, notes receivable from affiliated companies arising from trading activities consisted of the following:

	(Unaudited) As at 30th June, 2012 RMB'000	(Audited) As at 31st December, 2011 RMB'000
Notes receivable from related parties:		
– Affiliated companies of JinBei	1,710	1,694
– Shanghai Shenhua and its affiliated companies	539,810	496,117
– An associate	2,000	–
– A jointly controlled entity	10,969	500
– Huachen	38,691	43,100
	<hr/>	<hr/>
	593,180	541,411
	<hr/>	<hr/>

All notes receivable from affiliated companies are guaranteed by banks in the PRC and have maturities of six months or less from 30th June, 2012 (As at 31st December, 2011: Same).

25. Related party transactions (Cont'd)

(f) As at 30th June, 2012, the dividends receivable from affiliated companies consisted of:

	(Unaudited) As at 30th June, 2012 RMB'000	(Audited) As at 31st December, 2011 RMB'000
Dividend receivable from related parties:		
– A jointly controlled entity	76,173	76,173
– An associate	79,910	–
	<hr/>	
	156,083	76,173
	<hr/>	

(g) As at 30th June, 2012, amounts due from affiliated companies consisted of:

	(Unaudited) As at 30th June, 2012 RMB'000	(Audited) As at 31st December, 2011 RMB'000
Amounts due from related parties:		
– A jointly controlled entity	16,177	16,288
– An associate	302,884	302,884
– Affiliated companies of BHL	–	310,605
– Shanghai Shenhua and its affiliated company	14,046	14,153
– Huachen	7,627	4,123
– Xinhua Investment Holdings Limited ("Xinhua Investment")	301,181	299,015
– BMW Brilliance	16,863	137,530
– JinBei and its affiliated companies	65,258	67,025
	<hr/>	
	724,036	1,151,623
Less: Provision for doubtful debts	(22,602)	(333,207)
	<hr/>	
	701,434	818,416
	<hr/>	

Except for amount due from Xinhua Investment (a joint venture partner of Xinchen China Power Holdings Limited, a jointly controlled entity of the Group), amounts due from affiliated companies are unsecured, interest-free and repayable on demand.

The amount due from Xinhua Investment represents transitional advances in aggregate of HK\$363,000,000 (or approximately RMB295,626,000) by the Group plus the accrued interest receivable for the restructure of Mianyang Xinchen Engine Co., Ltd. as detailed in note 19 to the consolidated financial statements of the Company for the year ended 31st December, 2011.

The advances to Xinhua Investment are secured by all assets of Xinhua Investment. HK\$20,000,000 of the advances is interest-free and due for repayment in October 2012 and could be extended with written consent from both parties. The remaining advances of HK\$343,000,000 carry interest at 3% p.a. and is due for repayment in August 2013.

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

(h) Receivable for disposal of discontinued operations represents the present value as at 30th June, 2012 of the consideration payable by Huachen in 2013 for the purchase of Zhonghua sedan business.

(i) As at 30th June, 2012, accounts payable to affiliated companies consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts payable to related parties:		
– Associates	73,970	37,749
– Jointly controlled entities	446,729	391,240
– Huachen	586,585	314,450
– An affiliated company of BHL	34,037	34,041
– Shanghai Shenhua and its affiliated companies	73,826	164,394
– Affiliated companies of JinBei	277,467	246,973
– Other affiliated companies	10	9
	<hr/>	<hr/>
	1,492,624	1,188,856
	<hr/>	<hr/>

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

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	<i>RMB'000</i>	<i>RMB'000</i>
Less than six months	1,141,941	1,130,665
Six months to one year	304,231	47,871
Above one year but less than two years	42,976	7,545
Two years or above	3,476	2,775
	<hr/>	<hr/>
	1,492,624	1,188,856
	<hr/>	<hr/>

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

(j) As at 30th June, 2012, notes payable to affiliated companies arising from trading activities consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	RMB'000	RMB'000
Notes payable to related parties:		
– Affiliated companies of JinBei	12,445	14,195
– An associate	21	1,803
– A jointly controlled entity	–	10,092
	<hr/>	<hr/>
	12,466	26,090
	<hr/>	<hr/>

(k) As at 30th June, 2012, amounts due to affiliated companies consisted of the following:

	(Unaudited)	(Audited)
	As at	As at
	30th June, 2012	31st December, 2011
	RMB'000	RMB'000
Amounts due to related parties:		
– Associates	113,352	112,241
– A jointly controlled entity	–	16
– Huachen	57,464	57,464
– Affiliated companies of BHL	5,278	10,734
– Affiliated companies of Shanghai Shenhua	3,099	2,902
– JinBei and its affiliated companies	919	922
	<hr/>	<hr/>
	180,112	184,279
	<hr/>	<hr/>

The amounts due to affiliated companies are unsecured, interest-free and repayable on demand.

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

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

	(Unaudited)	
	For the six months ended 30th June,	
	2012	2011
	RMB'000	RMB'000
Short-term employee benefits	13,382	14,416
	<hr/>	<hr/>

MANAGEMENT'S DISCUSSION & ANALYSIS

Business Review

The unaudited consolidated net sales of the Company and its subsidiaries (the "Group") (which comprised primarily those derived from the minibus business operated under our major operating subsidiaries such as Shenyang Brilliance JinBei Automobile Co., Ltd. ("**Shenyang Automotive**") and Shenyang XingYuanDong Automobile Component Co., Ltd.) for the first six months of 2012 was RMB2,810.3 million, representing a decrease of 11.3% from RMB3,167.3 million for the same period in 2011. The decrease in revenue was primarily due to a drop in the sales volume of minibus during the six months ended 30th June, 2012 compared with the same period last year.

Shenyang Automotive sold 39,704 minibuses in the first half of 2012, representing a 8.6% decrease from the 43,424 units sold during the same period in 2011. Of these minibuses sold, 31,784 were mid-price minibuses, representing a 6.1% decrease from 33,840 units sold during the first six months of 2011. Similarly, unit sales of deluxe minibuses also decreased by 17.4% from 9,584 units for the first half of 2011 to 7,920 units for the corresponding period in 2012. The decrease in minibus sales volume was due to a slowdown in the minibus market as well as our existing minibus products reaching the end of their product life cycles and no new model was introduced this year.

Unaudited cost of sales decreased by 9.7% from RMB2,710.9 million in the first six months of 2011 to RMB2,449.0 million for the same period in 2012. The decrease was in line with the reduction in revenue during the period.

Unaudited gross profit margin decreased to 12.9% for the first half of 2012 from 14.4% in the same period in 2011. The decrease in gross margin was primarily caused by a change in product mix with lower sales volume of higher margin deluxe products being realized during the period.

Unaudited other income increased by 215.6% from RMB5.9 million in the first six months of 2011 to RMB18.8 million for the same period in 2012. The increase was primarily due to an increase in the sale of scrap materials and certain service related income earned during the period.

Unaudited selling expenses increased by 15.6% from RMB173.8 million in the first half of 2011, or 5.5% as a percentage of turnover, to RMB200.9 million for the same period in 2012, or 7.1% as a percentage of turnover. The increase was mainly due to an increase in the costs of advertising and sales team staff costs during the period in 2012.

Unaudited general and administrative expenses increased by 23.4% from RMB137.2 million in the first six months of 2011 to RMB169.4 million for the same period in 2012, due to certain adjustments made in 2011 to over provision of general and administrative expenses in the previous year, as well as a new fee imposed by the local government in 2012 for environmental maintenance.

Unaudited interest income increased by 12.0% from RMB32.9 million in the first six months of 2011 to RMB36.9 million for the same period in 2012 due to an increase in cash and cash equivalents, short-term bank deposits and pledged short-term bank deposits in aggregate compared with same period last year. The moderate increase in bank deposit interest rates also attributed to the increase in interest income over the period.

Unaudited net finance costs increased by 6.6% from RMB95.5 million in the first six months of 2011 to RMB101.8 million for the same period in 2012, mainly due to the increase in bank borrowing interest rates.

The Group's unaudited share of operating results of associates and jointly controlled entities increased by 51.3% from RMB949.3 million in the first half of 2011 to RMB1,436.3 million for the same period in 2012. This was primarily attributable to the increase in contribution by BMW Brilliance Automotive Ltd. ("**BMW Brilliance**"), the Group's 50% indirectly-owned jointly controlled entity, in the first half of 2012.

Unaudited net profit contributed to the Group by BMW Brilliance increased by 57.5% from RMB832.3 million in the first half of 2011 to RMB1,310.5 million for the same period this year. The BMW joint venture achieved sales of 80,792 BMW sedans in the first six months of 2012, an increase of 46.9% as compared to 55,012 BMW sedans for the same period in 2011. The increased net profit contributed to the Group in the first half of 2012 was a result of the increase in units sold and the achievement of cost reduction from local suppliers during the period.

The Group's unaudited profit before income tax expense increased by 33.1% from RMB1,038.1 million in the first half of 2011 to RMB1,381.2 million for the same period in 2012. Unaudited income tax expense has increased by 392.5% from RMB10.7 million for the first half of 2011 to RMB52.7 million for the first half of 2012 due to the reversal of certain deferred tax assets recognised in previous years.

As a result, the Group recorded an unaudited profit attributable to equity holders of the Company of RMB1,332.3 million for the first half of 2012 as compared to RMB941.3 million for the same period in 2011, representing an increase of 41.5%. Unaudited basic earnings per share for the six months ended 30th June, 2012 amounted to RMB0.26532 compared to RMB0.18846 for the same period in 2011.

Prospects

During the first half of 2012, China's automobile sector continued to show sluggish growth, with total sales of 9.6 million units or an increase of 2.9% over the same period last year, according to the China Association of Automobile Manufacturers. Of these, 7.6 million units were passenger vehicles, representing a growth of 7.1% over the same period last year. Despite the slowing market, the luxury passenger vehicle segment in China continued to significantly outperform, realizing growth of over 25% during this period.

The new second production plant at Tiexi of our BMW joint venture commenced operation at the beginning of the year. The addition of this new production facility enables our joint venture to produce up to 400,000 vehicles annually in the medium term. In addition, as part of our component localisation effort, a new BMW engine assembly facility also opened in March 2012 which will bring about further cost savings to the joint venture over time. As for new products, the X1 SUV was added at the beginning of the year as a third model for local production at our joint venture, while the new generation 3-series China-only long wheelbase version was recently launched in July 2012 in order to satisfy Chinese market demand. The BMW brand and product quality is highly appreciated by consumers in China, and our joint venture's share of the premium auto market continues to rise. The strong sales momentum of our joint venture's products is complemented by the rapid rollout of our dealer network, which have reached 320 outlets nationwide as at July 2012. The BMW auto finance company also started contributing profits in the first half of this year, albeit still small, after just over 18 months of operation.

As for the minibus business, growth of the light vehicle market continued to be slow in the first half of the year. Our existing minibus products are due for a major upgrade, and we have teamed up with our strategic partners to develop a new model with market launch targeted by early 2014. As a result, the years 2012 and 2013 will remain challenging for this business. In addition to the new models currently under development, we are concurrently studying various options to enrich our minibus portfolio over time.

Aside from the BMW joint venture and the minibus operation, we had also entered into an agreement earlier this month for the establishment of an auto finance joint venture with two prominent financial institutions Bank of East Asia and CaixaBank. We see great potentials in China's auto aftermarket service businesses, and this new joint venture will allow the Group to play a role in this nascent but promising market segment.

Apart from the above, the Group continues to look for ways to further streamline our operation and to strengthen our corporate structure as our operations continue to grow. The Group is also actively on the lookout for new business opportunities as a means to further expand our income base.

Liquidity and Financial Resources

As at 30th June, 2012, the Group had RMB1,532.7 million in cash and cash equivalents, RMB84.6 million in short-term bank deposits and RMB999.7 million in pledged short-term bank deposits. The Group had notes payable in the amount of RMB1,823.3 million and outstanding short-term bank borrowings of RMB1,235.6 million, but had no long-term bank borrowings outstanding as at 30th June, 2012.

Contingent Liabilities

During the period and as at 30th June, 2012, a member of the Group and Shenyang JinBei Automotive Co., Ltd. ("**JinBei**"), pursuant to an agreement, have agreed to provide cross guarantees in respect of each other's banking facilities in the maximum amount of RMB600 million (*As at 31st December, 2011: RMB600 million*). As at 30th June, 2012, RMB596.5 million (*As at 31st December, 2011: RMB446.5 million*) of these guarantees was drawn by JinBei for its revolving bank loans. Out of these guarantees, RMB214 million was provided in the form of a pledge of the Group's bank deposits as at 30th June, 2012 (*As at 31st December, 2011: RMB214 million*).

During the period and as at 30th June, 2012, a member of the Group and Huachen Automotive Group Holdings Company Limited ("**Huachen**"), pursuant to an agreement, have agreed to provide cross guarantees in respect of each other's banking facilities in the maximum amount of RMB1,500 million (*As at 31st December, 2011: RMB1,500 million*). As at 30th June, 2012, RMB275 million (*As at 31st December, 2011: RMB465 million*) of these guarantees was drawn by Huachen for its revolving bank loans.

Gearing Ratio

As at 30th June, 2012, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 0.81 (*31st December, 2011: 0.94*). The decrease in the gearing ratio was primarily due to the increase in the equity attributable to equity holders of the Company in the first half of 2012.

Foreign Exchange Risks

The Group considers that exchange rate fluctuations will only have an insignificant effect on the overall financial performance of the Group in the future. The Group may consider entering into hedging transactions through exchange contracts in order to minimise foreign exchange risks, if and when necessary. There were no outstanding hedging transactions as at 30th June, 2012.

Employees and Remuneration Policy

The Group employed approximately 6,400 employees as at 30th June, 2012 (*30th June, 2011: approximately 6,400*). Employee costs amounted to approximately RMB272.6 million for the six months ended 30th June, 2012 (*six months ended 30th June, 2011: approximately RMB181.9 million*). The Group will endeavour to ensure that the salary levels of its employees are in line with industry practices and prevailing market conditions and that employees' remuneration is based on performance. In addition, employees are eligible for share options under the share option scheme adopted by the Company.

INTERIM DIVIDEND

The board of directors (the "**Board**") resolved not to declare any interim dividend for the six months ended 30th June, 2012 (*six months ended 30th June, 2011: nil*).

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

As at 30th June, 2012, so far as is known to the directors or chief executives of the Company, the following persons other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

Name of shareholders	Number of shares held/ Approximate shareholding percentage (Note 1)					
	Long		Short		Lending	
	Position	%	Position	%	Pool	%
Huachen (Note 2)	2,260,074,988	44.97	-	-	-	-
Templeton Asset Management Ltd. (Note 3)	854,579,347	17.00	-	-	-	-
Cheah Cheng Hye (Note 4)	351,354,000	6.99	-	-	-	-
To Hau Yin (Note 4)	351,354,000	6.99	-	-	-	-
Hang Seng Bank Trustee International Limited (Note 4)	351,354,000	6.99	-	-	-	-
Cheah Company Limited (Note 4)	351,354,000	6.99	-	-	-	-
Cheah Capital Management Limited (Note 4)	351,354,000	6.99	-	-	-	-
Value Partners Group Limited (Note 4)	351,354,000	6.99	-	-	-	-
Value Partners Limited (Note 4)	351,354,000	6.99	-	-	-	-

Notes:

- The percentage of shareholding is calculated on the basis of 5,025,769,388 shares in issue as at 30th June, 2012, according to the records of the branch share registrar of the Company.
- The 2,260,074,988 shares in long position were held in the capacity as beneficial owner.
- The 854,579,347 shares in long position were held in the capacity as investment manager.
- The 351,354,000 shares in long position were held by Value Partners Limited in the capacity as investment manager. These shares were interests of a discretionary trust of which Mr. Cheah Cheng Hye is the founder. The trustee of the trust was Hang Seng Bank Trustee International Limited, which held the interests in the Company through its indirect control over Value Partners Limited. Value Partners Limited is 100% controlled by Value Partners Group Limited, which in turn is 28.47% controlled by Cheah Capital Management Limited. Cheah Capital Management Limited is 100% controlled by Cheah Company Limited, which in turn is 100% controlled by Hang Seng Bank Trustee International Limited. Accordingly, Mr. Cheah Cheng Hye, Ms. To Hau Yin (spouse of Mr. Cheah Cheng Hye), Hang Seng Bank Trustee International Limited, Cheah Company Limited, Cheah Capital Management Limited and Value Partners Group Limited were deemed to have interests in the 351,354,000 shares in the Company.

Save as disclosed herein, as at 30th June, 2012, there was no other person so far known to the directors or chief executives of the Company, other than a director or chief executive of the Company as having an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th June, 2012, the interests and short positions of each director, chief executive and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, are set out below:

Name of directors	Type of interests	Number of shares held		Approximate shareholding percentage (Note 1)	Number of share options granted (Percentage of the Company's issued share capital) (Note 2)
		Long Position	Short Position		
Wu Xiao An (also known as Ng Siu On)	Personal	7,750,000	–	0.15%	–
Qi Yumin	Personal	–	–	–	4,500,000 (0.09%) (Note 3)
Wang Shiping	Personal	1,500,000	–	0.03%	1,500,000 (0.03%) (Note 3)
Lei Xiaoyang	Personal	1,400,000	–	0.03%	1,500,000 (0.03%) (Note 3)

Notes:

1. The percentage of shareholding is calculated on the basis of 5,025,769,388 shares of the Company in issue as at 30th June, 2012, according to the records of the branch share registrar of the Company.
2. The percentage represents the number of shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to the share options granted by the Company based on the 5,025,769,388 shares of the Company in issue as at 30th June, 2012.
3. These share options are exercisable at any time during the 10-year period from 22nd December, 2008 at the subscription price of HK\$0.438 per share.

Save as disclosed above, as at 30th June, 2012, none of the directors, chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

At a special general meeting held on 11th November, 2008, shareholders of the Company adopted a share option scheme (the “**Share Option Scheme**”).

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

A summary of movements of the share options of the Company under the Share Option Scheme during the six months ended 30th June, 2012 is set out below:

Category and name of participants	Date of grant	Number of share options					Outstanding as at 30th June, 2012	Option period	Subscription price per share (HK\$)
		Outstanding as at 1st January, 2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period			
Directors									
Wu Xiao An	22nd December, 2008 (Note 1)	5,000,000	-	5,000,000	-	-	-	22nd December, 2008 – 21st December, 2018	0.438
Qi Yumin	22nd December, 2008 (Note 1)	4,500,000	-	-	-	-	4,500,000	22nd December, 2008 – 21st December, 2018	0.438
Wang Shiping	22nd December, 2008 (Note 1)	3,000,000	-	1,500,000	-	-	1,500,000	22nd December, 2008 – 21st December, 2018	0.438
Lei Xiaoyang	22nd December, 2008 (Note 1)	1,500,000	-	-	-	-	1,500,000	22nd December, 2008 – 21st December, 2018	0.438
Employees (in aggregate)	22nd December, 2008 (Note 1)	20,500,000	-	8,500,000	-	-	12,000,000	22nd December, 2008 – 21st December, 2018	0.438
Others (in aggregate)	22nd December, 2008 (Note 1)	1,500,000	-	-	-	-	1,500,000	22nd December, 2008 – 21st December, 2018	0.438
Total		36,000,000	-	15,000,000 (Note 2)	-	-	21,000,000		

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.
2. The weighted average closing price of the shares immediately before the dates on which the share options were exercised was HK\$8.56 per share.

As no share options have been granted by the Company under the Share Option Scheme for the six months ended 30th June, 2012, no expenses were recognised by the Group for the period under review (*six months ended 30th June, 2011: nil*).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Maintaining an effective corporate governance framework is one of the priorities of the Company. The Company has complied with the code provisions of the "Corporate Governance Code and Corporate Governance Report" (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the six months ended 30th June, 2012.

Major updates

There have not been material changes to the information disclosed in the Company's 2011 annual report in respect of our corporate governance practices. Major updates since the 2011 annual report are summarized below.

Specific term 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. Prior to 28th March, 2012, non-executive directors (including independent non-executive directors) of the Company did not have a specific term of appointment and their appointments were subject to the retirement by rotation provisions in the bye-laws of the Company. Each of Mr. Wu Xiao An (also known as Mr. Ng Siu On) and Mr. Qi Yumin, a director of the Company, has entered into service agreements with the Company for a term of three years commencing from 1st January, 2012. On 28th March, 2012, the Company signed a formal letter of appointment with each director (except for Mr. Wu Xiao An and Mr. Qi Yumin) with specific term of appointment.

Retirement of directors

Code provision A.4.2 states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to bye-law 99, at every annual general meeting, one-third of the directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not greater than one-third, shall retire from office by rotation. To comply with the code provision A.4.2 and in accordance with bye-law 99, Mr. Wu Xiao An and Mr. Qi Yumin retired by rotation at the annual general meeting of the Company held on 18th May, 2012 (the "**2012 AGM**").

Mr. Xu Bingjin (“**Mr. Xu**”), an independent non-executive director who was first appointed on 27th June, 2003 has been continuously served as an independent non-executive director for near 9 years. In accordance with code provision A.4.3, Mr. Xu has sought shareholders’ approval for further appointment by way of a separate resolution at the 2012 AGM. Reasons why the Board believed Mr. Xu is still independent was set out in the circular issued by the Company dated 18th April, 2012 accompanying the notice of the 2012 AGM.

Establishment of nomination committee

On 28th March, 2012, the Company established the nomination committee with specific written terms of reference for reviewing the composition of the Board, developing the relevant procedures for nomination and appointment of directors and assessing the independence of the independent non-executive directors to ensure that the Board has a balance of expertise, skills and experience and formulating succession plans for executive directors and senior executives. The existing members of the nomination committee include Mr. Xu, 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 nomination committee. Mr. Xu is the chairman of the nomination committee.

The terms of reference of the nomination committee are available on the website of the Company and the website of the Stock Exchange.

Responsibilities of directors

The Company has arranged for continuous update on the latest development of the Listing Rules and related laws for the directors in accordance with code provision A.6.5, including but not limited to, briefing sessions and circulation of notes on the latest development of the Listing Rules and securities legislation.

Corporate governance functions

The Company has adopted the terms of reference for corporate governance on 28th March, 2012 in compliance with the code provision D.3, effective from 1st April, 2012. Pursuant to the terms of reference of the corporate governance function, the Board shall be responsible for developing, reviewing and/or monitoring the policies and practices on corporate governance of the Company; training and continuous professional development of directors and senior management; and compliance with legal and regulatory requirements of the Company. This update report on corporate governance has been reviewed by the Board in discharge of its corporate governance function.

Communications with shareholders

In accordance with the code provision E.1.2, Mr. Wu Xiao An, the Chairman of the Board, and Mr. Xu, the chairman of each of the audit committee, remuneration committee and nomination committee, have attended the 2012 AGM to answer questions of shareholders. In addition, most of the directors have attended the 2012 AGM and the special general meeting held on 18th May, 2012 (the “2012 SGM”).

Pursuant to the code provision E.1.2, the Company has invited representatives of the external auditors of the Company to attend the 2012 AGM to answer shareholders’ questions about the conduct of the audit, the preparation and content of the auditors’ report, the accounting policies and auditor independence.

The Company has adopted a shareholders’ communication policy and procedures for shareholders to propose a person for election as a director of the Company with effect on 28th March, 2012. The policy and the procedures are available on the website of the Company.

Miscellaneous

In the light of the amendments to the CG Code which came into effect on 1st April, 2012, on 28th March, 2012, the Board has reviewed and updated a number of internal guidelines and terms of reference of board committees:

- The guidelines regarding the respective responsibilities of the chairman and chief executive officer;
- Memorandum on respective functions of the board of directors and the management;
- Terms of reference for the respective audit committee and remuneration committee; and
- Policy and guidelines of the remuneration committee.

In addition, slight amendments have also been made to the “Code for securities transactions by employees” on 28th March, 2012 to keep the guidelines in line with the current practices of the Company.

At the 2012 SGM, shareholders of the Company have approved the amendments to the bye-laws of the Company so as to bring the constitution of the Company in line with the recent amendments made to the Listing Rules, including amendments to the CG Code, and certain changes to the Companies Act 1981 of Bermuda (as amended). For easy reference, the shareholders of the Company have also adopted the new bye-laws at the 2012 SGM incorporating previous amendments and also the amendments approved at the 2012 SGM. The memorandum of association and bye-laws of the Company are available on the website of the Company and the website of the Stock Exchange.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the unaudited consolidated interim financial statements of the Group for the six months ended 30th June, 2012. At present, the audit committee comprises Mr. Xu, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Xu is the chairman of the audit committee.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”). Having made specific enquiry of all directors, each director of the Company has confirmed that he has complied with the standards set out in the Model Code during the six months ended 30th June, 2012.

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

Hong Kong, 29th August, 2012