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Brilliance Auto

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BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

(華晨中國汽車控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1114)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2008

The board of directors (the “Board”) of Brilliance China Automotive Holdings Limited (the “Company”) announces the consolidated financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st December, 2008 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December

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

	Notes	2008 RMB'000	2007 RMB'000
Turnover	3	11,189,162	14,149,149
Cost of sales		<u>(11,085,394)</u>	<u>(13,015,230)</u>
Gross profit		103,768	1,133,919
Other revenue	3	474,919	369,192
Selling expenses		(495,571)	(606,928)
General and administrative expenses		(491,178)	(515,610)
Staff share option costs		(9,205)	(32,243)
Other operating expenses		(105,079)	(149,238)
Impairment losses on intangible assets		<u>(184,288)</u>	—

	<i>Notes</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Operating (loss) profit	4	(706,634)	199,092
Interest income	3	88,004	125,470
Finance costs, net		(196,564)	(123,323)
Share of results of:			
Associates		20,262	37,617
Jointly controlled entities		265,056	154,644
Impairment losses on available-for-sale financial assets		(18,868)	—
Fair value gain (loss) on embedded derivative components of convertible bonds		289,700	(181,933)
(Loss) Profit before taxation		(259,044)	211,567
Taxation	5	(55,267)	(45,208)
(Loss) Profit for the year		(314,311)	166,359
Attributable to:			
Equity holders of the Company		80,929	97,086
Minority interests		(395,240)	69,273
		(314,311)	166,359
Dividends		—	—
Earnings per share			
— basic	6	RMB0.02205	RMB0.02646
— diluted	6	RMB0.02203	RMB0.02639

CONSOLIDATED BALANCE SHEET

As at 31st December

	<i>Notes</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Non-current assets			
Intangible assets		1,075,393	1,054,652
Goodwill		295,529	295,529
Property, plant and equipment		3,881,856	3,309,616
Construction-in-progress		264,482	257,017
Land lease prepayments		115,104	118,720
Interests in associates		393,052	383,429
Interests in jointly controlled entities		1,381,024	1,210,019
Prepayments for a long-term investment		600,000	600,000
Available-for-sale financial assets		15,633	26,129
Advances to an affiliated company		51,470	—
Other non-current assets		10,435	9,343
		<u>8,083,978</u>	<u>7,264,454</u>
Total non-current assets			
Current assets			
Cash and cash equivalents		1,243,861	1,373,416
Short-term bank deposits		692,000	518,000
Pledged short-term bank deposits		2,456,095	1,971,665
Inventories		1,869,202	2,469,033
Accounts receivable	7	671,680	805,187
Accounts receivable from affiliated companies		259,208	684,221
Notes receivable		707,363	416,495
Notes receivable from affiliated companies		205,199	260,155
Other receivables		465,397	491,237
Dividend receivable from affiliated companies		86,673	97,173
Prepayments and other current assets		373,944	273,828
Income tax recoverable		—	18,482
Other taxes recoverable		27,693	125,179
Advances to affiliated companies		172,747	101,402
		<u>9,231,062</u>	<u>9,605,473</u>
Total current assets			

	<i>Notes</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Current liabilities			
Accounts payable	8	2,323,702	3,421,891
Accounts payable to affiliated companies		603,416	952,847
Notes payable		4,803,364	2,828,373
Notes payable to affiliated companies		43,863	207,774
Customer advances		354,768	150,354
Other payables		773,232	419,710
Dividends payable		2,882	3,085
Accrued expenses and other current liabilities		57,381	152,150
Short-term bank borrowings		499,781	370,000
Income tax payable		25,867	9,555
Other taxes payable		84,540	71,095
Advances from affiliated companies		73,123	56,134
Convertible bonds		1,403,248	—
Total current liabilities		<u>11,049,167</u>	<u>8,642,968</u>
Net current (liabilities) assets		<u>(1,818,105)</u>	<u>962,505</u>
Total assets less current liabilities		<u>6,265,873</u>	<u>8,226,959</u>
Non-current liabilities			
Convertible bonds		—	1,752,233
Deferred government grants		79,460	81,555
Advances from affiliated companies		319,158	133,772
Total non-current liabilities		<u>398,618</u>	<u>1,967,560</u>
NET ASSETS		<u>5,867,255</u>	<u>6,259,399</u>
Capital and reserves			
Share capital		303,488	303,488
Share premium		2,040,430	2,040,430
Reserves		3,709,804	3,705,745
Total equity attributable to equity holders of the Company		6,053,722	6,049,663
Minority interests		(186,467)	209,736
TOTAL EQUITY		<u>5,867,255</u>	<u>6,259,399</u>

NOTES:

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 are currently traded on the over-the-counter markets in the United States of America ("US"). On 2nd March, 2009, the Company filed with the United States Securities and Exchange Commission (the "SEC") the Form 15F to de-register the ordinary shares underlying its ADSs under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company's reporting obligations under the Exchange Act were suspended immediately upon such filing. The de-registration is expected to become effective 90 days after the filing of the Form 15F unless earlier withdrawn by the Company or denied by the SEC.

The decision to de-register has been reached in view of the 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 will continue to be listed and traded on the main board of the SEHK after the de-registration.

The Company is an investment holding company. 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"), which collective term includes 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 a basis consistent with the accounting policies adopted in the 2007 financial statements, except for the adoption for the first time the following amendments and interpretations:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these amendments and interpretations had no material effect on the results and financial position of the Group for the current or prior years.

(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.

(c) Preparation of financial statements

At 31st December, 2008, the Group had net current liabilities of approximately RMB1,818 million which include convertible bonds of approximately RMB1,403 million redeemable at the option of the bondholders on 7th June, 2009. Notwithstanding the net loss of RMB314 million incurred for the year ended 31st December, 2008 and the Group's current liabilities exceeding its current assets at 31st December, 2008, 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 and to meet its funding needs if the bondholders exercise their option to redeem the convertible bonds on 7th June, 2009.

Subsequent to the balance sheet date, the Company has already secured adequate funds to satisfy its requirement for the possible redemption of the convertible bonds. These funds include the proceeds from the proposed subscription of 1,313,953,488 new shares of the Company by Huachen Automotive Group Holdings Company Limited ("Huachen"), the major shareholder of the Company, for a total consideration of approximately HK\$565 million (approximately to RMB500 million), and other loans from external parties.

At the balance sheet date, the Group had short-term bank borrowings of RMB499 million which are renewable on a yearly basis. Management is confident that these borrowings can be renewed on their expiry and to date have secured the renewal of approximately RMB50 million of these borrowings.

In addition, Huachen 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) Changes in accounting estimates

The Company re-evaluated as at 1st January, 2008 the periods over which its buildings, plant and machinery, specific tools and moulds are available to use and extended the estimated useful lives of these assets based on historical usage experience and current industry practices. The estimated useful lives of these assets before and after the re-evaluation are as follows:

Property, plant and equipment	Estimated useful lives	
	Before change	After change
Buildings	20 years	20–30 years
Plant and machinery	10 years	10–20 years
Specific tools and moulds	20,000–300,000 times	20,000–420,000 times

The effect of the change in these accounting estimates is a decrease in depreciation of RMB160,777,000 for the year.

3. 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:

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover		
Sale of minibuses and automotive components	5,472,738	5,394,302
Sale of sedans	<u>5,716,424</u>	<u>8,754,847</u>
	<u>11,189,162</u>	<u>14,149,149</u>
Other revenue		
Subsidy income	331,028	140,081
Others	<u>143,891</u>	<u>229,111</u>
	<u>474,919</u>	<u>369,192</u>
Interest income from bank deposits	<u>88,004</u>	<u>125,470</u>
	<u><u>11,752,085</u></u>	<u><u>14,643,811</u></u>

In accordance with the Group's internal financial reporting requirements, the Group determines that business segments be presented as the only reporting format.

The Group operates in the PRC under the following three main business segments:

- (1) the manufacture and sale of minibuses and automotive components;
- (2) the manufacture and sale of Zhonghua sedans; and
- (3) the manufacture and sale of BMW sedans.

Business segments — 2008

	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of Zhonghua sedans <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Total <i>RMB'000</i>
Segment sales	5,807,016	5,716,424	—	11,523,440
Intersegment sales	<u>(334,278)</u>	<u>—</u>	<u>—</u>	<u>(334,278)</u>
Segment sales to external customers	<u>5,472,738</u>	<u>5,716,424</u>	<u>—</u>	<u>11,189,162</u>
Segment results	265,246	(729,452)	—	(464,206)
Impairment losses on intangible assets	—	(184,288)	—	(184,288)
Unallocated costs net of unallocated income				<u>(58,140)</u>
Operating loss				(706,634)
Interest income				88,004
Finance costs, net				(196,564)
Share of results of:				
Associates	(504)	20,766	—	20,262
Jointly controlled entities	9,375	—	255,681	265,056
Impairment losses on available-for-sale financial assets				(18,868)
Fair value gain on embedded derivative components of convertible bonds				<u>289,700</u>
Loss before taxation				(259,044)
Taxation				<u>(55,267)</u>
Loss for the year				<u>(314,311)</u>

Business segments — 2008 (Continued)

	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of Zhonghua sedans <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	6,217,539	8,290,301	—	14,507,840
Interests in associates	13,337	379,715	—	393,052
Interests in jointly controlled entities	339,626	—	1,041,398	1,381,024
Unallocated assets				<u>1,033,124</u>
Total assets				<u>17,315,040</u>
Segment liabilities	4,414,398	5,612,737	—	10,027,135
Unallocated liabilities				<u>1,420,650</u>
Total liabilities				<u>11,447,785</u>
Other disclosures:				
Capital expenditure	366,233	867,337	—	1,233,570
Depreciation of property, plant and equipment	130,353	144,614	—	274,967
Amortisation of land lease prepayments	2,029	1,587	—	3,616
Amortisation of intangible assets	15,613	150,935	—	166,548
Impairment losses on intangible assets	—	184,288	—	184,288
Write-back of impairment losses on property, plant and equipment	54	—	—	54
Provision of other receivables	30,168	2,857	—	33,025
Provision of inventories	1,539	42,579	—	44,118
Staff share option costs				9,205

Business segments — 2007

	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of Zhonghua sedans <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Total <i>RMB'000</i>
Segment sales	5,729,289	8,754,847	—	14,484,136
Intersegment sales	<u>(334,987)</u>	<u>—</u>	<u>—</u>	<u>(334,987)</u>
Segment sales to external customers	<u>5,394,302</u>	<u>8,754,847</u>	<u>—</u>	<u>14,149,149</u>
Segment results	265,955	135	—	266,090
Unallocated costs net of unallocated income				<u>(66,998)</u>
Operating profit				199,092
Interest income				125,470
Finance costs, net				(123,323)
Share of results of:				
Associates	(246)	37,863	—	37,617
Jointly controlled entities	12,417	—	142,227	154,644
Fair value loss on embedded derivative components of convertible bonds				<u>(181,933)</u>
Profit before taxation				211,567
Taxation				<u>(45,208)</u>
Profit for the year				<u>166,359</u>

Business segments — 2007 (Continued)

	Manufacture and sale of minibuses and automotive components <i>RMB'000</i>	Manufacture and sale of Zhonghua sedans <i>RMB'000</i>	Manufacture and sale of BMW sedans <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	5,998,958	8,241,440	—	14,240,398
Interests in associates	13,840	369,589	—	383,429
Interests in jointly controlled entities	328,032	—	881,987	1,210,019
Unallocated assets				<u>1,036,081</u>
Total assets				<u>16,869,927</u>
Segment liabilities	3,506,376	5,337,790	—	8,844,166
Unallocated liabilities				<u>1,766,362</u>
Total liabilities				<u>10,610,528</u>
Other disclosures:				
Capital expenditure	135,290	569,187	—	704,477
Depreciation of property, plant and equipment	207,216	383,943	—	591,159
Amortisation of land lease prepayments	2,254	1,185	—	3,439
Amortisation of intangible assets	14,657	123,984	—	138,641
Impairment losses on property, plant and equipment	—	836	—	836
Provision of other receivables	3,234	2,249	—	5,483
Provision of inventories	15,020	45,441	—	60,461
Staff share option costs				32,243

4. OPERATING (LOSS) PROFIT

Operating (loss) profit is stated after charging and crediting the following:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Charging:		
Staff costs	532,980	531,475
Amortisation of intangible assets (a)	166,548	138,641
Amortisation of land lease prepayments	3,616	3,439
Impairment losses on property, plant and equipment (b)	—	836
Depreciation of property, plant and equipment	274,967	591,159
Cost of inventories	11,077,144	13,145,415
Provision for inventories	44,118	60,461
Provision for doubtful debts:		
— accounts receivable from third parties	—	83
— other receivables	33,025	5,483
Auditors' remuneration	4,905	4,886
Research and development costs (b)	9,112	24,060
Training expenses	1,507	1,112
Operating lease charges in respect of:		
— land and buildings	22,318	16,690
— machinery and equipment	372	458
Exchange loss, net (c)	19,817	32,213
Loss on disposal of property, plant and equipment, net	54	—
Write-off of property, plant and equipment	<u>1,914</u>	<u>4,198</u>
Crediting:		
Gain on disposal of property, plant and equipment, net	—	2,428
Gain on disposal of land lease prepayments	—	1,399
Gross rental income from land and buildings	14,187	14,384
Write back of impairment losses on property, plant and equipment	54	—
Write back of provision for inventories sold	35,868	190,646
Write back of provision for doubtful debts:		
— accounts receivable	670	18
— accounts receivable from affiliated companies	240	—
— other receivables	<u>3,654</u>	<u>279</u>

(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

5. TAXATION

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

The taxation charged to the consolidated income statement represents:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Current tax		
PRC enterprise income tax		
Current year	44,109	32,535
Under provision in prior year	<u>11,158</u>	<u>12,673</u>
Total income tax expense in the consolidated income statement	<u><u>55,267</u></u>	<u><u>45,208</u></u>

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
(Loss) Profit before taxation	<u>(259,044)</u>	<u>211,567</u>
Calculated at a weighted average statutory taxation rate in the PRC of 21.67% (2007: 66.10%)	(56,124)	139,850
Effect of tax holiday	(3,078)	(56,425)
Non-taxable income net of expenses not deductible for taxation purpose	(55,534)	(31,680)
Unrecognised temporary differences	39,076	(1,787)
Unrecognised tax loss	119,769	—
Utilisation of previously unrecognised tax losses	—	(17,423)
Under provision in prior years	<u>11,158</u>	<u>12,673</u>
Tax expense for the year	<u><u>55,267</u></u>	<u><u>45,208</u></u>

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB80,929,000 (2007: RMB97,086,000), divided by weighted average of 3,669,766,000 shares (2007: 3,669,022,000 shares) outstanding during the year calculated as follows:

	Number of shares	
	2008 '000	2007 '000
Issued ordinary shares	3,669,766	3,668,391
Effect of share options exercised	—	631
Weighted average number of ordinary shares for calculating basic earnings per share	<u>3,669,766</u>	<u>3,669,022</u>

Diluted earnings per share is based on the same profit attributable to equity holders of the Company of approximately RMB80,929,000 (2007: RMB97,086,000) as used in calculating basic earnings per share and weighted average number of ordinary shares of 3,672,967,000 (2007: 3,679,573,000) calculated as follows:

	Number of shares	
	2008 '000	2007 '000
Weighted average number of ordinary shares as used in calculating basic earnings per share	3,669,766	3,669,022
Weighted average number of ordinary shares deemed issued under the Company's share option scheme	<u>3,201</u>	<u>10,551</u>
Weighted average number of ordinary shares for calculating diluted earnings per share	<u>3,672,967</u>	<u>3,679,573</u>

The effect of deemed conversion of convertible bonds is not considered in the calculation of diluted earnings per share as the effect is anti-dilutive (2007: Same).

7. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable is set out below:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Less than six months	588,350	619,157
Between six months to one year	49,132	84,884
Above one year but less than two years	29,450	97,111
Above two years	<u>66,636</u>	<u>66,923</u>
	733,568	868,075
Less: provision for doubtful debts	<u>(61,888)</u>	<u>(62,888)</u>
	<u><u>671,680</u></u>	<u><u>805,187</u></u>

A substantial amount of the accounts receivable is denominated in Renminbi. The Group's credit policy is to offer credit to customers following a financial assessment and an established payment record. In order to minimise credit risk, credit history and background of new customers 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.

8. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Less than six months	2,207,738	3,372,186
Between six months to one year	39,378	18,628
Above one year but less than two years	46,975	11,895
Above two years	<u>29,611</u>	<u>19,182</u>
	<u><u>2,323,702</u></u>	<u><u>3,421,891</u></u>

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

9. CONTINGENCIES

- (a) As at 31st December, 2008, the Group had provided the following guarantees:
- Corporate guarantees for revolving bank loans and bank guaranteed notes of approximately RMB60 million (2007: RMB60 million) drawn by affiliated companies of Shanghai Shenhua Holdings Co., Ltd.; and
 - Corporate guarantees for bank loans amounting to RMB200 million (2007: RMB200 million) drawn by Shenyang JinBei Automotive Company Limited. Bank deposits of RMB228 million (2007: RMB214 million) was pledged as a collateral for the corporate guarantee.
- (b) On or about 25th October, 2002, the Company was served with a claim lodged by Mr. Yang Rong (“Mr. Yang”) in the Labour Tribunal in Hong Kong against the Company for alleged wrongful repudiation and/or breach of his employment contract. The claim was for approximately US\$4.3 million (equivalent to approximately RMB29.5 million) with respect to loss of salary. In addition, Mr. Yang claimed unspecified damages in respect of bonuses and share options. The claim was dismissed by the Labour Tribunal in Hong Kong on 28th January, 2003. Mr. Yang subsequently applied for a review of this decision. At the review hearing on 4th July, 2003, the Labour Tribunal ordered the case to be transferred to the High Court in Hong Kong. The claim has therefore been transferred to the High Court and registered as High Court Action No. 2701 of 2003 (the “Action”).

On 16th September, 2003, a Statement of Claim was served on the Company. On 4th November, 2003, the Company filed a Defence and Counterclaim with the High Court. Mr. Yang filed a Reply to Defence and Defence to Counterclaim on 26th April, 2004. On 21st July, 2004, Mr. Yang obtained leave from the Court to file an Amended Reply to Defence and Defence to Counterclaim. The Company filed and served a Reply to Defence to Counterclaim on 4th September, 2004. Pleadings closed on 18th September, 2004. The parties filed and served Lists of Documents on 26th October, 2004 and witness statements were exchanged on 28th February, 2005.

The parties applied by consent to adjourn *sine die* a checklist hearing fixed for 20th April, 2005, as the respective parties anticipated that they would be filing supplemental evidence and amending their pleadings. The Court approved the application and made an Order on 19th April, 2005 that the checklist hearing be vacated and adjourned *sine die* with liberty to restore.

Pursuant to a request made by Mr. Yang on 2nd June, 2005 for further and better particulars of the Defence and Counterclaim, the Company filed and served its Answer to Mr. Yang’s request on 4th July, 2005.

On 17th August, 2005, in compliance with its continuing discovery obligations, the Company filed and served a Supplemental List of Documents. Subsequently, on 5th September, 2005, Mr. Yang also filed and served a Supplemental List of Documents.

There has been no material progress in the litigation since then.

The directors of the Company do not believe the Action will have any significant impact on the financial position of the Company and of the Group. The directors of the Company intend to continue vigorously defending the Action.

BUSINESS REVIEW AND PROSPECTS

The year 2008 had been a turbulent and unprecedented one. The disorder in the global financial markets which originated from the U.S. sub-prime crisis has had tremendous rippling effects that were far reaching and adversely affecting all major industries worldwide. The negative sentiment and liquidity crunch have led to a substantial slowdown in car sales globally. Although the Chinese economy has shown impressive resilience relative to other parts of the world, the Chinese auto sector still experienced slackening sales with growth of only 6.7% in 2008 compared to an annual increase of 21.8% for 2007. According to reports from the China Association of Automobile Manufacturers, 2008 was also the first year the Chinese auto sector experienced non-double digit growth in a decade since 1999.

During the year, our Zhonghua sedan segment experienced a drop in sales volume, while our minibus and premium BMW products continued to exhibit growth. The Group sold 91,356 Zhonghua sedans in 2008, representing a 14.4% decrease from the previous year. The new Junjie FRV, the first model from the brand new A-class line of our Zhonghua products, was introduced to the market in mid-2008. Although the Junjie FRV has been well received since its launch, the short period since introduction resulted in a relatively low volume to support the new A-class platform, and the Junjie FRV model was not profitable in 2008. This was the main reason for the reduced gross margin for 2008.

With respect to our minibus business, despite a difficult operating environment the Group continued to maintain its market leading position in 2008. A total of 73,863 minibuses were sold in 2008, representing a slight increase of 0.6% from the 73,415 units sold in 2007. With its long history, established track record and strong brand recognition, our minibus business continues to be a relatively stable profit contributor to the Group.

The BMW Brilliance joint venture registered sale of 35,068 units in 2008, an increase of 9.2% over that of 2007. The tremendous efforts contributed in the past years by both Brilliance and BMW in the acceleration of component localization and cost cutting are beginning to show results, as demonstrated by the 79.8% increase in profit contribution from the BMW Brilliance joint venture in 2008 compared to the previous year.

Looking forward to 2009, conditions of the auto industry in China will likely continue to be difficult. China has already surpassed the United States in terms of monthly sales, and has become the largest auto market globally. The increasing wealth of the Chinese consumers will continue to drive consumer sector growth in the long run, however uncertainty of possible repercussion from further financial fallout remains in the near term. To combat the current slowdown, the Chinese government has recently announced a series of stimulus packages and favorable policies to entice auto purchases. These policies have already shown positive impacts on the volume sales of our Zhonghua FRV and some of our Hiace minibus products in the first quarter of 2009. In order to boost sales and improve our performance, the Group has implemented various marketing and cost control strategies. The Group will continue to introduce new and next generation models such as the Junjie wagon, Zunchi facelift and A2 of the Junjie FRV line in an effort to enrich our product portfolio and gear up volume. At the same time, the Group is also exploring possible avenues of maximizing the value of our Zhonghua business. In

addition, we are working on deepening our cooperation with Toyota on our minibus business. As for our joint venture with BMW, we continue to work closely with our partner to strive for volume growth and cost reduction through further content localization and improved economies of scale. At the same time, we are at an advanced stage of discussion with BMW regarding the joint venture's phase II expansion plan, as well as the formation of new cooperation in other auto-related businesses in China.

MANAGEMENT'S DISCUSSION & ANALYSIS

Consolidated net sales of the Company and its subsidiaries, including Shenyang Brilliance JinBei Automobile Co., Ltd. ("Shenyang Automotive"), Shenyang XingYuanDong Automobile Component Co., Ltd., Ningbo Yuming Machinery Industrial Co., Ltd., Ningbo Brilliance Ruixing Auto Components Co., Ltd., Mianyang Brilliance Ruian Automotive Components Co., Ltd., Shenyang Brilliance Dongxing Automotive Component Co., Ltd., Shenyang ChenFa Automobile Component Co., Ltd., Shenyang Jindong Development Co., Ltd., Shanghai Hidea Auto Design Co., Ltd. and Shenyang Brilliance Power Train Machinery Co., Ltd. for the year ended 31st December, 2008 were RMB11.2 billion, representing a 20.6% decrease from RMB14.1 billion for the year ended 31st December, 2007. The decrease in sales was primarily due to a decrease in unit sales of Shenyang Automotive's Zhonghua sedans in 2008.

Shenyang Automotive sold 73,863 minibuses in 2008, representing a 0.6% increase from 73,415 minibuses sold in 2007. Of these minibuses sold, 61,001 were mid-priced minibuses, representing a 2.5% increase from 59,517 units sold in 2007. Unit sales of deluxe minibuses decreased by 7.5% from 13,898 units in 2007 to 12,862 units in 2008. Shenyang Automotive sold 91,356 Zhonghua sedans in 2008, representing a 14.4% decrease from 106,770 sedans sold in 2007. 17,413 units of the Zhonghua Zunchi model were sold in 2008, representing a 48.3% decrease from 33,689 units for 2007. The Junjie model recorded a sale of 51,830 units during the year, a 28.5% decrease compared to the 72,502 units sold in 2007. The Kubao model, which was launched in September 2007, registered sales of 1,349 units in 2008, compared to 579 units sold in the last quarter of 2007. The new Junjie FRV model, a new introduction under the brand new A-class platform, was launched in June 2008 and recorded a sale of 20,764 units for the year.

Cost of sales decreased by 14.6% from RMB13.0 billion in 2007 to RMB11.1 billion in 2008. The decrease was primarily due to the decrease in unit sales of the Zhonghua sedans. The new Junjie FRV was introduced to the market in mid-2008. The short period since introduction resulted in a relatively low volume to support the new A-class platform, and the Junjie FRV model was not profitable in 2008. As a result, the overall gross profit margin of the Group dropped from 8.0% in 2007 to 0.9% in 2008.

Other revenue increased by 28.6% from RMB369.2 million in 2007 to RMB474.9 million in 2008. The increase was primarily due to the 136.3% increase in incentives provided by the government from RMB140.1 million in 2007 to RMB331.0 million in 2008. This increase was partially offset by a decrease in the sale of raw and scrap materials in 2008.

Selling expenses decreased by 18.3% from RMB606.9 million in 2007 to RMB495.6 million in 2008. The decrease was primarily due to the implementation of tighter cost control to maintain selling expenses in proportion to sales volume. Selling expenses as a percentage of turnover has remained relatively stable at 4.4% in 2008 versus 4.3% in 2007.

General and administrative expenses decreased by 4.7% from RMB515.6 million in 2007 to RMB491.2 million in 2008, mainly as a result of tighter cost control implemented during the year.

Staff share option costs which represent expenses recognised for share options issued during the year decreased by 71.4% from RMB32.2 million in 2007 to RMB9.2 million in 2008 primarily due to different values of the valuation parameters used compared to 2007 and different number of share options granted.

Other operating expenses decreased by 29.6% from RMB149.2 million in 2007 to RMB105.1 million in 2008, resulting mainly from a decrease in the volume of raw and scrap materials sold.

Non-recurring impairment losses of RMB184.3 million were recorded in 2008 in relation to certain intangible assets derived from the sedan and engine development.

Interest income decreased by 29.9% from RMB125.5 million in 2007 to RMB88.0 million in 2008 due to a non-recurring other interest income of RMB53 million which was realized in 2007. Excluding this interest income, the interest income for 2008 actually increased due to the increase in bank interest rates and cash and cash equivalents, short-term and pledged deposits.

Net finance costs increased by 59.4% from RMB123.3 million in 2007 to RMB196.6 million in 2008 due to increased short-term borrowings during the year.

The Group's share of operating results of associates and jointly controlled entities increased by 48.4% from RMB192.3 million in 2007 to RMB285.3 million in 2008. This was mainly attributable to the increased profits contributed by BMW Brilliance Automotive Ltd. ("BMW Brilliance"), the Group's 49.5% indirectly owned jointly controlled entity.

Net profits contributed to the Group by BMW Brilliance increased by 79.8% from RMB142.2 million in 2007 to RMB255.7 million in 2008. The BMW joint venture achieved sales of 35,068 BMW sedans in 2008, an increase of 9.2% as compared to 32,100 BMW sedans in 2007.

Non-recurring impairment losses of RMB18.9 million was recorded in 2008 in certain marketable securities which are classified as available for sale.

In 2008, the Group recognised a gain of RMB289.7 million on the fair value gain on embedded derivative components of the convertible bonds in accordance with Hong Kong Financial Reporting Standards. This compares to a loss of RMB181.9 million recorded in 2007. The gain realized in 2008 was primarily due to the drop in the Company's share price between 31st December, 2007 and 31st December, 2008.

The Group recorded a loss before taxation amounting to RMB259.0 million in 2008 as compared to a profit before taxation of RMB211.6 million in 2007. Taxation increased by 22.3% from RMB45.2 million in 2007 to RMB55.3 million in 2008, resulting mainly from an increase in applicable tax rate to the standard tax rate of 25% effective from 1st January, 2008 in the PRC for some of the Company's subsidiaries.

Profit attributable to equity holders of the Company was RMB80.9 million for 2008, a 16.7% decrease from the RMB97.1 million recorded for 2007. Basic earnings per share in 2008 amounted to RMB0.02205 compared to RMB0.02646 in 2007. Diluted earnings per share in 2008 amounted to RMB0.02203 compared to RMB0.02639 in 2007.

Liquidity and Financial Resources

As at 31st December, 2008, the Group had RMB1,243.9 million in cash and cash equivalents, RMB692.0 million in short-term bank deposits and RMB2,456.1 million in pledged short-term bank deposits. The Group had notes payable of RMB4,847.2 million and outstanding short-term bank borrowings of RMB499.8 million, but had no long-term bank borrowings outstanding as at 31st December, 2008.

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. The Convertible Bonds are guaranteed by the Company and are convertible by the holders into fully paid ordinary shares with a par value of US\$0.01 each of the Company at an initial conversion price of HK\$1.93 per share (subsequently adjusted to HK\$1.53 with effect from 10th March, 2008 (the “Adjustment”)) at any time from 6th July, 2006 up to the close of business on 8th May, 2011, unless the Convertible Bonds have previously been redeemed or matured. Details of the Adjustment were set out in the announcement made by the Company on 7th March, 2008 and the circular dated 20th March, 2008. The Convertible Bonds are listed on The Singapore Exchange Securities Trading Limited.

Up to 31st December, 2008, US\$10 million in principal amount of the Convertible Bonds had been repurchased. Another US\$21 million in principal amount of the Convertible Bonds had been subsequently repurchased in February 2009. None of the Convertible Bonds have been converted into ordinary shares of the Company.

Holders of the Convertible Bonds will have the option to tender their Convertible Bonds for redemption on 7th June, 2009. It is currently expected that the outstanding principal amount of US\$151,678,000 will be fully redeemed. At a redemption value of 122.926%, the maximum redemption amount will be US\$186.5 million or approximately RMB1,274.7 million.

Contingent Liabilities

Details of the contingent liabilities are set out in note 9 to this results announcement.

Gearing Ratio

As at 31st December, 2008, the gearing ratio, computed by dividing total liabilities by total equity attributable to equity holders of the Company, was approximately 1.89 (*31st December, 2007: 1.75*). The increase of the ratio was primarily due to the increase in notes payable as at 31st December, 2008 to fund our operation in 2008.

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, 2008.

Employees and Remuneration Policy

The Group employed approximately 12,250 employees as at 31st December, 2008 (*31st December, 2007: approximately 11,670*). Employee costs amounted to approximately RMB533.0 million for the year ended 31st December, 2008 (*2007: approximately RMB531.5 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.

DIVIDEND

The directors did not recommend the payment of any dividend in respect of the year ended 31st December, 2008 (*2007: nil*).

CLOSURE OF REGISTER OF MEMBERS

The Hong Kong branch register of members of the Company will be closed from Wednesday, 3rd June, 2009 to Friday, 5th June, 2009, 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, 5th June, 2009 or their proxies or duly authorised corporate representatives are entitled to attend the forthcoming annual general meeting of the Company to be held on 5th June, 2009. In order to qualify for attending the said annual 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, 2nd June, 2009.

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

In November 2008, Brilliance Finance repurchased a certain portion of the Convertible Bonds in the principal amount of US\$10,000,000 via a private arrangement. The consideration for the repurchase amounted to US\$8,520,000. The repurchase has been financed by the Company through its internal resources. All of the repurchased Convertible Bonds have been cancelled. As at 31st December, 2008, Convertible Bonds in the principal amount of US\$172,678,000 remained outstanding.

Saved as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities in 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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. Throughout the accounting year ended 31st December, 2008, except for deviation from code provision A.4.1 which is described below, the Group has complied with all code provisions.

Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. At present, all the non-executive directors (including the independent non-executive directors) of the Company do not have a specific term of appointment. As the appointment of non-executive directors is subject to the retirement by rotation provisions in the bye-laws of the Company, the Board considers that it is not necessary to appoint the non-executive directors for a specific term. Pursuant 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. All directors, including those appointed for a fixed term, are subject to retirement by rotation.

There have been no material changes to the information disclosed in the Company's 2007 annual report in respect of our corporate governance practices. Major updates since the 2007 annual report are summarized in the 2008 annual report to be sent to shareholders of the Company in April 2009.

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 report matters, including the consolidated financial statements of the Group for the year ended 31st December, 2008. At present, the Audit Committee comprises Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Xu Bingjin is the chairman of the Audit Committee.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31st December, 2008 have been agreed by the Group's auditors, Grant Thornton (the "Auditors"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditors on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The 2008 annual report of the Company containing the information required by the Listing Rules will be published on the websites of the SEHK and the Company in due course.

BOARD OF DIRECTORS

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

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

Hong Kong, 3rd April, 2009

* *For identification purposes only*