Management's Discussion & Analysis

BUSINESS REVIEW

The consolidated net sales of the Company and its operating subsidiaries, Shenyang Brilliance JinBei Automobile Co., Ltd ("Shenyang Automotive"), Ningbo Yuming Machinery Industrial Co., Ltd. ("Ningbo Yuming"), Shenyang XingYuanDong Automobile Component Co., Ltd. ("Xing Yuan Dong"), Ningbo Brilliance Ruixing Auto Components Co., Ltd., Mianyang Brilliance Ruian Automotive Components Co., Ltd. and Shenyang Brilliance Dongxing Automotive Component Co., Ltd. (together, the "Group") for the year ended 31st December, 2003 increased by 38.1% to RMB10,109.6 million from RMB7,319.5 million for the year ended 31st December, 2002. The increase in sales was primarily due to the increase in the unit sales of Shenyang Automotive's minibuses and the "Zhonghua" sedans. As the "Zhonghua" sedans were not launched until August 2002, the audited financial results of the Group for 2003 may not be directly comparable to those of 2002.

Shenyang Automotive sold a total of 74,618 minibuses in 2003, representing a 14.6% increase over the 65,138 minibuses sold in 2002. Of these vehicles sold, 65,614 were Mid-priced Minibuses, representing a 16.9% increase over the 56,121 Mid-priced Minibuses sold in 2002. Unit sales of Deluxe Minibuses decreased by 0.1% from 9,017 units in 2002 to 9,004 units in 2003. Shenyang Automotive sold 25,600 "Zhonghua" sedans in 2003, compared to 8,816 sedans sold during the last five months of 2002. BMW Brilliance Automotive Ltd., the Group's 49%-indirectly owned jointly controlled entity, commenced production of the BMW-designed and branded 3-Series and 5-Series sedans based on semi-knockdown kits supplied by the BMW Group and sold 4,359 sedans in the fourth quarter of 2003.

Cost of sales increased by 42.8% from RMB5,411.1 million in 2002 to RMB7,727.1 million in 2003. This increase was primarily due to the increase in the unit sales of minibuses and the "Zhonghua" sedans in 2003. Cost of sales as a percentage of sales was 76.4% in 2003, compared to 73.9% in 2002. Gross margin for minibuses remained stable compared to 2002, while the overall gross margin decreased from 26.1% in 2002 to 23.6% in 2003, as a result of the relatively lower start-up gross margin of the "Zhonghua" sedans.

Other revenue increased by 247.2% from RMB51.3 million in 2002 to RMB178.1 million in 2003. The increase was primarily due to the increase in sales of scrap metals and the tax refund on reinvestment of dividends in certain subsidiaries as additional capital contributions in 2003.

Selling expenses increased by 70.4% from RMB364.5 million, representing 5.0% of turnover in 2002, to RMB621.3 million, representing 6.1% of turnover in 2003. The increase was primarily due to the increase in selling expenses in relation to the "Zhonghua" sedans. General and administrative expenses slightly decreased by 1.5% from RMB625.0 million in 2002 to RMB615.6 million in 2003. The decrease in pre-operating expenses in relation to the initial start-up costs of the "Zhonghua" sedans in 2002 was partly offset by the increase in staff costs and other expenses in relation to the full-year operation of the "Zhonghua" sedans in 2003, resulting in the slight decrease in general and administrative expenses in 2003.

Interest expense net of interest income decreased by 10.4% from RMB127.7 million in 2002 to RMB114.4 million in 2003 due to the increase in interest income from bank deposits.

Share of profits less losses of jointly controlled entities and associated companies decreased by 16.2% from RMB113.4 million in 2002 to RMB95.1 million in 2003. The decrease was mainly due to the initial start-up loss of the joint venture with BMW in 2003 of RMB125.2 million. Excluding the net loss effects from the joint venture with BMW, the share of profits less losses of jointly controlled entities and associated companies increased by 94.3% from RMB113.4 million in 2002 to RMB220.3 million in 2003. The increase was due to the strong performance of the Company's jointly controlled entities and associated companies engaged in engine manufacturing in 2003.

Profit before taxation increased by 38.4% from RMB905.6 million in 2002 to RMB1,253.0 million in 2003. Taxation increased by 4.4% from RMB146.6 million in 2002 to RMB153.0 million in 2003, as a result of the increase in the taxable income of the Group in 2003.

As a result, profit attributable to shareholders increased by 43.9% to RMB936.4 million in 2003 from RMB650.8 million in 2002. Basic earnings per share increased by 43.9% to RMB0.2554 in 2003 from RMB0.1775 in 2002. Diluted earnings per share for 2003 was RMB0.2533.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31st December, 2003, the Group had RMB1,832.3 million in cash and cash equivalents, RMB1,670.6 million in short-term bank deposits and RMB2,264.6 million in pledged short-term bank deposits. The Group had bank notes payable of RMB4,784.0 million and had no short-term and long-term bank loans outstanding as of 31st December, 2003. On 28th November, 2003, the Company, through its wholly owned subsidiary, Brilliance China Automotive Finance Ltd. ("Brilliance Finance"), issued Zero Coupon Guaranteed Convertible Bonds due 2008 (the "Convertible Bonds") with principal amount of US$200 million (equivalent to approximately RMB1,654.3 million). Up to 31st December, 2003, none of the Convertible Bonds had been converted into the ordinary shares of the Company.

CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in note 37 to the accounts.

DEBT TO EQUITY RATIO

The debt to equity ratio, computed by dividing total liabilities by shareholders' equity, as of 31st December, 2003, was approximately 1.41 (2002: 1.22). The increase of the ratio is primarily due to the issue of the Convertible Bonds in 2003.

USE OF PROCEEDS

On 28th November, 2003, Brilliance Finance, a wholly owned subsidiary of the Company, issued the Convertible Bonds. The net proceeds of the sale of the Convertible Bonds was approximately US$194 million. Net proceeds in the amount of approximately US$190 million was lent by Brilliance Finance, through the

Company, to certain operating subsidiaries of the Group for general corporate and working capital purposes. The remaining net proceeds will be used by the Company for general corporate and working capital purposes. The loans to the subsidiaries had not been utilized up to the end of the year.

FOREIGN EXCHANGE RISKS

Since the Group did not consider that exchange rate fluctuations have any material effect on the overall financial performance of the Group, it did not enter into any hedging transactions with respect to its exposure to foreign currency movements in 2003. The Group may consider entering into prudent hedging transactions through exchange contracts in order to minimise foreign exchange risks, if and when necessary.

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 9,000 employees as at 31st December, 2003. Employee costs (excluding directors' emoluments) amounted to approximately RMB371.5 million for 2003. The Group ensures that the pay levels of its employees are in line with industry practice and the prevailing market conditions and employees are rewarded on a performance-related basis, with a share option scheme.