

Report of Directors

The Directors present this report together with the audited accounts of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The Company is a holding company whose principal operating asset is its majority interest in Shenyang Automotive. Historically, the Company has derived its revenues from Shenyang Automotive’s sales of minibuses in China. As a result, the Company’s operations results have been primarily driven by the sales price, sales volume and cost of production of Shenyang Automotive’s minibuses. In May 1998, the Company acquired an indirect interest in two component suppliers: a 51% equity interest in Ningbo Yuming, a wholly foreign-owned Chinese enterprise primarily engaged in the production of automobile window molding, stripping and other auto components; and a 50% equity interest in Mianyang Xinchun, a Sino-foreign equity joint venture manufacturer of gasoline engines for use in passenger vehicles and light duty trucks. In October 1998, June 2000 and July 2000, the Company established Xing Yuan Dong, Ningbo Brilliance Ruixing Auto Components Co., Ltd. and Mianyang Brilliance Ruian Automotive Components Co., Ltd. respectively as its wholly owned subsidiaries to centralise and consolidate the sourcing of auto parts and components for Shenyang Automotive. In December 2000, the Company acquired a 50% equity interest in Shenyang Xinguang Brilliance Automobile Engine Co., Ltd., a Sino-foreign equity joint venture manufacturer of gasoline engines for use in passenger vehicles. In December 2001, the Company acquired the 100% equity interest in Shenyang Brilliance Dongxing Automotive Component Co., Ltd., a foreign-invested manufacturer of automotive components in the PRC and established a 90%-owned Sino-foreign joint venture, Shenyang Xingchen Automotive Seats Co., Ltd.. On 27th March, 2003, the indirect 81%-owned subsidiary of Company, Shenyang JinBei Automotive Industry Holdings Company Limited (“SJAI”), entered into a joint venture contract with BMW Holding BV to produce and sell BMW sedans in China. On 28th April, 2003, the Company, through its indirect 90%-owned subsidiary entered into an agreement with the 10% shareholder of SJAI to acquire an additional 9% interests in SJAI. Upon completion, SJAI will be 89.1% indirectly-owned by the Company and 10.9% directly and indirectly owned by the other shareholders. Accordingly, the Company’s effective interests in the joint venture with BMW will increase from 40.50% to 44.55%. As a result of these additional investments, the Company’s income base has been broadened and its future financial performance will differ from that of Shenyang Automotive.

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TURNOVER AND CONTRIBUTION

The Group's turnover and contribution to profit from operations for the year ended 31st December, 2002, analysed by product category, are as follows:

	Manufacturing and sales of minibuses and automotive components	Manufacturing and sales of sedans	Total
	RMB'000	RMB'000	RMB'000
Segment sales	6,283,700	1,117,283	7,400,983
Intersegment sales	(81,528)	—	(81,528)
	<u>6,202,172</u>	<u>1,117,283</u>	<u>7,319,455</u>
Segment results	<u>1,287,637</u>	<u>(245,507)</u>	<u>1,042,130</u>
Unallocated costs			(122,310)
Operating profit			919,820
Interest income			43,617
Interest expense			(171,286)
Share of profits less losses of associated companies	81,268	32,160	113,428
Profit before taxation			905,579
Taxation			<u>(146,610)</u>
Profit after taxation			758,969
Minority interests			<u>(108,122)</u>
Profit attributable to shareholders			<u>650,847</u>

Report of Directors (Cont'd)

FINANCIAL RESULTS

The results for the Group for the year ended 31st December, 2002, are set out in the accounts on page 26.

LIQUIDITY AND FINANCIAL RESOURCES

The cash flow position of the Group for the year ended 31st December, 2002 is set out and analysed on pages 30 and 31 and in note 32 to the accounts.

DIVIDENDS

The Directors recommend the payment of a final dividend of HK\$0.01 per share in cash in respect of the year ended 31st December, 2002. The dividend, if approved by the shareholders at the Annual General Meeting to be held on 27th June, 2003, will be paid on or before 3rd July, 2003 to shareholders registered on 26th June, 2003. The register of members of the Company will be closed from Tuesday, 24th June, 2003 to Thursday, 26th June, 2003, both days inclusive. Details of the dividends paid and proposed are set out in note 10 to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

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

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31st December, 2002 are set out in note 31 to the accounts.

FIXED ASSETS

The movements of fixed assets of the Group for the year ended 31st December, 2002 are set out in note 17 to the accounts.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the subsidiaries and associated companies are set out in notes 19 and 20 respectively to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options as of 31st December, 2002 are set out in note 30 to the accounts.

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On 2nd June, 2001, share options were granted to certain directors and employees entitling them to subscribe ordinary shares of US\$0.01 each in the share capital of the Company (the “Shares”) at HK\$1.896 per Share, totaling 31,800,000 Shares in aggregate, in accordance with the share option scheme of the Company adopted on 18th September, 1999, which came into effect on 20th October, 1999 (the “1999 Share Option Scheme”). Such share options vested immediately upon the grant and are exercisable within a period of ten years.

On 28th June, 2002, the 1999 Share Option Scheme was terminated. A new share option scheme was adopted at a special general meeting of shareholders on 28th June, 2002 (the “New Share Option Scheme”) in compliance with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), which came into effect on 1st September, 2001. The New Share Option Scheme came into effect on 15th July, 2002. Pursuant to Clause 13.1 of the 1999 Share Option Scheme, all the share options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the 1999 Share Option Scheme.

During the year ended 31st December, 2002, 13,972,000 share options granted to a former director and certain former employees have been cancelled or lapsed in accordance with the terms of the 1999 Share Option Scheme.

Details of share options outstanding under the 1999 Share Option Scheme are as follows:

Category and name of participants

Directors	Number of share options
Wu Xiao An	2,800,000
Su Qiang	2,338,000
Hong Xing	2,338,000
He Tao	2,338,000
Yang Mao Zeng	2,338,000
Employees (in aggregate)	5,676,000
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Total	17,828,000

During the year ended 31st December, 2002, none of the above share options has been exercised. Accordingly, the weighted average closing price of the Share immediately before the dates on which the share options were exercised are not disclosed herein. No share option has been granted under the New Share Option Scheme.

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The Directors consider that it is not appropriate to state the value of the outstanding share options given that the variables which are critical for the calculation of the value of such outstanding share options cannot be determined. The variables which are critical for the determination of the value of such share options include the subscription price for the shares upon the exercise of the subscription rights attaching to the share options, which may be adjusted under certain circumstances, and whether or not such share options will be exercised by the grantees. The Directors are of the view that the value of the share options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions, and accordingly, believe that any calculation of the value of the share options will not be meaningful.

DIRECTORS

The Directors of the Company who held office during the year ended 31st December, 2002 and up to the date of this report were:

Executive Directors:

Mr. Wu Xiao An (<i>Chairman</i>)	(also known as Mr. Ng Siu On)
Mr. Hong Xing (<i>Vice Chairman</i>)	
Mr. Su Qiang	(also known as Mr. So Keung)
Mr. He Tao	(also known as Ho To)
Mr. Yang Mao Zeng	
Mr. Yang Rong	(removed as a director on 22nd November, 2002)

Independent Non-executive Directors:

Mr. Wei Sheng Hong
Mr. Huang Anjiang
Mr. Yi Min Li

Mr. Wei Sheng Hong and Mr. Huang Anjiang will retire by rotation in accordance with bye-law 99 of the bye-laws of the Company at the forthcoming annual general meeting of the Company.

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SUBSTANTIAL SHAREHOLDER

As at 31st December, 2002, the register maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Cap. 396) of the laws of Hong Kong (the "SDI Ordinance") showed that the following shareholder has an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of Shares Beneficially held	Approximate shareholding percentage
Huachen Automotive Group Holdings Company Limited ("Huachen")	1,446,121,500	39.45%

Save as disclosed above, no other party was recorded in the register required to be kept by the Company under the SDI Ordinance as having an interest of 10% or more of the shares of the Company as at 31st December, 2002.

Following the coming into effect of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong (the "SFO") on 1st April, 2003, which repeals and replaces the SDI Ordinance, the register maintained under Section 336 of the SFO shows that the following shareholders have an interest of 5% or more in the issued share capital of the Company as at the date of this report:

Name of shareholder	Number of Shares held/Approximate shareholding percentage					
	Long Position		%	Short Position		Lending Pool
Huachen	1,446,121,500	39.45	—	—	—	—
J.P. Morgan Chase & Co. <i>(Note)</i>	311,979,178	8.51	—	80,409,178	—	2.19
JF Asset Management Limited <i>(Note)</i>	212,554,000	5.80	—	—	—	—
J.P. Morgan Fleming Asset Management (Asia) Inc. <i>(Note)</i>	227,364,000	6.20	—	—	—	—
J.P. Morgan Fleming Asset Management Holdings Inc. <i>(Note)</i>	227,364,000	6.20	—	—	—	—

Note: Each of JF Asset Management Limited, J.P. Morgan Fleming Asset Management (Asia) Inc. and J.P. Morgan Fleming Asset Management Holdings Inc. are companies controlled by J.P. Morgan Chase & Co. and their interest in the shares of the Company are included in the interests of J.P. Morgan Chase & Co.. J.P. Morgan Fleming Asset Management (Asia) Inc. is the controlling shareholder of JF Asset Management Limited and the interest of the JF Asset Management Limited is included in the interest of JP Morgan Fleming Asset Management (Asia) Inc.. J.P. Morgan Fleming Asset Management Holdings Inc. is the controlling shareholder of J.P. Morgan Fleming Asset Management (Asia) Inc. and the interest of J.P. Morgan Fleming Asset Management (Asia) Inc. is included in the interest of J.P. Morgan Fleming Asset Management Holdings Inc..

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DIRECTORS' INTERESTS IN SHARES

The interests of the directors in the issued share capital of the Company as recorded in the register maintained under Section 29 of the SDI Ordinance as at 31st December, 2002 and Section 352 of the SFO as at the date of this report, respectively, were as follows:

Name of director	Type of interests	Number of Shares held		Approximate shareholding percentage	Number of share options granted	Number of Shares to be acquired under a call option agreement
		Long Position	Short Position			
Wu Xiao An	Personal	30,000,000	—	0.82	2,800,000	92,911,266
Su Qiang	Personal	34,500,000	—	0.94	2,338,000	84,464,788
Hong Xing	Personal	26,640,000	—	0.73	2,338,000	84,464,788
He Tao	Personal	35,045,000	—	0.96	2,338,000	84,464,788
Yang Mao Zeng	Personal	2,800,000	—	0.08	2,338,000	—

(Note 1)

Save as disclosed above, none of the directors, executives or their respective associates had any interests in the equity or debt securities of the Company and any of its associated corporations (within the meaning of the SFO) or had any short positions in the shares of the Company and any of its associated corporations (within the meaning of the SFO).

Note:

- Pursuant to four call option agreements all dated 18th December, 2002, Huachen has granted to each of Mr. Wu Xiao An, Mr. Su Qiang, Mr. Hong Xing and Mr. He Tao a call option to acquire up to 92,911,266 Shares, 84,464,788 Shares, 84,464,788 Shares and 84,464,788 Shares, respectively, representing approximately 2.534%, 2.304%, 2.304% and 2.304%, respectively, of the existing issued share capital of the Company, at HK\$0.95 per Share, exercisable in whole or in part at any time during a period of three years commencing from the date falling six months after 6th February, 2003.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31st December, 2002 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Wu Xiao An, Mr. Su Qiang, Mr. Hong Xing and Mr. He Tao, all of whom are executive Directors, has entered into service agreement with the Company dated 21st August, 2000 for a term of five years commencing from 1st October, 2000.

Save as disclosed herein, there is no service contract between the Directors and members of the Group that does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

PURCHASE, SALE OR REDEMPTION

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

ANALYSIS OF BORROWINGS AND INTERESTS CAPITALISED

The particulars of the Group's borrowings as at the end of the year are set out in notes 27 and 28 to the accounts. Details of interest capitalised are set out in notes 5 and 6 to the accounts.

DEBT TO EQUITY RATIO

The Company's debt to equity ratio, computed by dividing total liabilities by shareholders' equity, as of 31st December, 2002 was approximately 1.22 (2001: 1.06). The increase of the ratio is primarily due to the increase of accounts and notes payable.

PRE-EMPTIVE RIGHTS

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

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MAJOR CUSTOMERS AND SUPPLIERS

During 2002, the aggregate sales attributable to the Group's five largest customers represented approximately 46% of the Group's turnover and sales attributable to the Group's largest customer was approximately 23%. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 31% of the Group's total purchases and the purchases attributable to the Group's largest supplier represented approximately 9%.

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

CONNECTED TRANSACTIONS

The following connected transactions have been entered into and/or ongoing after the listing of the Company's shares on the Stock Exchange. The Stock Exchange has, subject to certain conditions, granted a waiver to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules in connection with these transactions:

	RMB'000
Purchases of materials and component parts made by Ningbo Yuming from Mr. Qin's, a substantial shareholder of Ningbo Yuming, subsidiaries and associates	19,240
Purchases of materials and component parts made by Xing Yuan Dong from JinBei's subsidiaries and associates	157,422
Purchases of materials and component parts made by Shenyang Automotive from JinBei's subsidiaries and associates	153,802
Sales of automobiles and component parts by Shenyang Automotive to Jinbei's subsidiaries and associates	6,149

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Save as disclosed above, in the opinion of the directors, the transactions disclosed as related party transactions in note 35 to the accounts do not constitute connected transactions as defined under the Listing Rules.

The independent non-executive Directors of the Company confirmed that all connected transactions in 2002 to which any member of the Group was a party:

1. had been entered into by the Group in the ordinary and usual course of its business;
2. had been entered into either (a) on normal commercial terms or (b) on terms not less favourable than those available to or from (as the case may be) independent third parties, or (c) where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

The auditors of the Company have reviewed the transactions and confirmed to the Directors that:

1. the Directors had approved the transactions; and
2. the transactions had been entered into in accordance with the terms of the related agreements governing such transactions and within the annual caps as approved by the Stock Exchange.

USE OF LISTING PROCEEDS

As at 31st December, 2002, the Company had used approximately RMB70 million of the proceeds from the share placement completed on 8th June, 2001 for the expansion of new production facilities and the balance of approximately RMB140 million for general working capital purposes.

EMPLOYEES

The Group employed approximately 9,200 employees as at the end of the year 2002. Employee costs (excluding directors' emoluments) amounted to approximately RMB256.4 million for the year 2002. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis, with a mandatory provident fund scheme and share option scheme, and within the general framework of the Group's salary and bonus system. The Group will make every effort to retain a highly professional team for its operations.

CODE OF BEST PRACTICE AND AUDIT COMMITTEE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except that (1) a former executive director of the Company failed to observe the notification procedures as set out in Appendix 10 Rule B 5 of the Listing Rules in

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relation to his personal dealings in securities of the Company in June 2002 and (2) the independent non-executive directors of the Company are not appointed for specific terms and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters, including the audited consolidated accounts for the year ended 31st December, 2002.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers (having previously been appointed by the board of directors (the "Board") to fill the casual vacancy arising by reason of the resignation of Arthur Andersen & Co. in August 2002), who retire and being eligible, offer themselves for appointment. A resolution will be submitted to the Annual General Meeting to authorise the Board to appoint auditors and to fix their remuneration.

On behalf of the Board

Wu Xiao An
Chairman

Hong Kong,
28th April, 2003