

Management's Discussion & Analysis

BUSINESS REVIEW

The consolidated net sales of the Company and its major operating subsidiaries, Shenyang Brilliance JinBei Automobile Co., Ltd. ("Shenyang Automotive"), Shenyang XingYuanDong Automobile Component Co., Ltd. ("Xing Yuan Dong"), Ningbo Yuming Machinery Industrial Co., Ltd. ("Ningbo Yuming"), Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("Ningbo Ruixing"), Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("Mianyang Ruian"), Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("Dongxing Automotive"), Shenyang ChenFa Automobile Component Co., Ltd. and Shenyang Jindong Development Co., Ltd. (together, the "Group") for the year ended 31st December, 2004 were RMB6,542.0 million, representing a 35.3% decrease from RMB10,109.6 million for the year ended 31st December, 2003. The decrease in sales was primarily due to the decrease in the unit sales of Shenyang Automotive's minibuses and, especially, the Zhonghua sedans and the decrease in average unit selling prices due to the changes in product mix.

Shenyang Automotive sold a total of 61,618 minibuses in 2004, representing a 17.4% decrease from 74,618 minibuses sold in 2003. Of these vehicles sold, 54,992 were mid-priced minibuses, representing a 16.2% decrease from 65,614 units sold in 2003. Unit sales of deluxe minibuses decreased by 26.4% from 9,004 units in 2003 to 6,626 units in 2004. Shenyang Automotive sold 10,982 Zhonghua sedans in 2004, representing a 57.1% decrease from 25,600 sedans sold in 2003.

Cost of sales decreased by 29.0% from RMB7,727.1 million in 2003 to RMB5,487.0 million in 2004. The decrease was primarily due to the decrease in the unit sales of minibuses and Zhonghua sedans in 2004. Cost of sales as a percentage of sales was 83.9% in 2004, compared to 76.4% in 2003. The overall gross profit margin of the Group decreased from 23.6% in 2003 to 16.1% in 2004, as a result of lower gross profit margin in respect of minibuses and Zhonghua sedans due to the decrease in sales volume and the decrease in average selling prices resulting from the changes in product mix.

Other revenue decreased by 37.6% from RMB178.1 million in 2003 to RMB111.2 million in 2004. The difference was primarily due to the recognition of one-time tax refund of RMB48.5 million in relation to reinvestment by certain subsidiaries of the Group in 2003.

Selling expenses decreased by 19.5% from RMB621.3 million, representing 6.1% of turnover in 2003, to RMB500.3 million, representing 7.6% of turnover in 2004. The decrease was primarily due to the decrease in warranty costs and sales volume of the Zhonghua sedans and the decrease in marketing staff costs in 2004 as compared to 2003. General and administrative expenses increased by 19.0% from RMB615.6 million in 2003 to RMB732.6 million in 2004. The increase was primarily due to the increase in research and development costs incurred with respect to the "Granse" minibus (known as the "Grace" minibus before February 2004) and the Zhonghua sedans, the increase in provision for inventories and provision for and write-off of bad and doubtful debts in 2004.

Management's Discussion & Analysis (Cont'd)

Other operating expenses increased by 37.6% from RMB51.3 million in 2003 to RMB70.6 million in 2004. The increase was mainly due to the one-off impairment of the property, plant and equipment in one of the Group's subsidiaries. The Group has also recognised a one-time provision for impairment of intangible assets of RMB300.0 million in respect of the design and development costs of the Zhonghua sedans in 2004.

Interest expense net of interest income increased by 8.1% from RMB114.4 million in 2003 to RMB123.7 million in 2004 due to the increase in interest expense from notes payable and convertible bonds issued in November 2003.

Share of profits less losses of jointly controlled entities and associates increased by 17.2% from RMB95.1 million in 2003 to RMB111.5 million in 2004. The increase was mainly due to the contribution of profit in 2004 from BMW Brilliance Automotive Ltd., the Group's 49% indirectly owned jointly controlled entity. The BMW joint venture achieved sales of 8,708 BMW sedans and a net profit of RMB37.7 million in 2004.

The Group recorded a loss before taxation amounting to RMB449.6 million in 2004 as compared to profit before taxation amounting to RMB1,253.0 million in 2003. The Group recorded net tax credit of RMB41.8 million in 2004 as compared to the tax expenses of RMB153.0 million in 2003, resulting from the decrease in the taxable income of the Group and the effect of deferred taxation in 2004.

As a result, profit attributable to shareholders decreased by 94.8% to RMB48.6 million in 2004 from RMB936.4 million in 2003. Basic earnings per share decreased by 94.8% to RMB0.0132 in 2004 from RMB0.2554 in 2003. Diluted earnings per share decreased by 94.8% to RMB0.0132 in 2004 from RMB0.2533 in 2003.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31st December, 2004, the Group had RMB1,244.5 million in cash and cash equivalents, RMB1,008.6 million in short-term bank deposits and RMB2,777.2 million in pledged short-term bank deposits. The Group had bank notes payable of RMB5,848.4 million, but had no short-term or long-term bank loans outstanding as of 31st December, 2004. 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, 2004, 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 39 to the financial statements.

Management's Discussion & Analysis (Cont'd)

DEBT TO EQUITY RATIO

The debt to equity ratio, computed by dividing total liabilities by shareholders' equity, as of 31st December, 2004, was approximately 1.43 (2003: 1.41). The slight increase of the ratio is primarily due to the increase in current liabilities.

USE OF PROCEEDS

On 28th November, 2003, Brilliance Finance issued the Convertible Bonds. The net proceeds of the sale of the Convertible Bonds was approximately US\$194 million. Up to 31st December, 2004, the Group had utilised US\$169 million for general corporate and working capital purposes. The remaining unused balance of US\$25 million had been placed with banks in interest-bearing U.S. dollar-denominated time and savings deposits.

FOREIGN EXCHANGE RISKS

The Group does not consider exchange rate fluctuations to have any material effect on the overall financial performance of the Group, but 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 of 31st December, 2004.

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 9,100 employees as at 31st December, 2004. Employee costs (excluding directors' emoluments) amounted to approximately RMB323.0 million for 2004. The Group ensures that the pay levels of its employees are in line with industry practices and prevailing market conditions and employees are rewarded on a performance-related basis, and eligible for share options under the share option scheme adopted by the Company.