



BRILLIANCE
CHINA AUTOMOTIVE
HOLDINGS LIMITED
(華晨中國汽車控股有限公司)
(Incorporated in Bermuda with limited liability)



Interim Report 2002

RESULTS

The board of directors (the “Board”) of Brilliance China Automotive Holdings Limited (the “Company”) is pleased to announce the unaudited interim financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June, 2002. The unaudited interim financial results have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2002

	Note	(Unaudited)	
		Six months ended 30th June	
		2002	2001
		RMB'000	RMB'000
Turnover	3, 17(a)	2,886,027	3,264,627
Cost of sales	17(a)	(2,022,566)	<u>(2,274,583)</u>
Gross profit		863,461	990,044
Other revenues	3	19,510	15,084
Selling expenses		(153,529)	(180,372)
General and administrative expenses		(358,181)	(133,949)
Other operating expenses		(13,008)	<u>(23,288)</u>
Operating profit	4	358,253	667,519
Interest income	3	25,818	51,114
Interest expense		(73,266)	(47,417)
Share of profits less losses of associated companies		26,084	<u>25,493</u>
Profit before taxation and minority interests		336,889	696,709
Taxation	6	(47,264)	<u>(77,939)</u>
Profit after taxation and before minority interests		289,625	618,770
Minority interests		(72)	<u>(129,327)</u>
Net profit attributable to shareholders		289,553	<u>489,443</u>
Dividends	7	15,544	<u>15,544</u>
Basic earnings per share	8	RMB0.0790	<u>RMB0.1438</u>
Fully diluted earnings per share	8	N/A	<u>RMB0.1438</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As At 30th June 2002 and 31st December 2001

		(Unaudited) 30th June 2002	(Audited) 31st December 2001
	Note	RMB'000	RMB'000 (Note 18)
Intangible assets	9	673,492	681,100
Goodwill	9	408,973	414,464
Fixed assets	9	2,890,888	2,375,875
Construction-in-progress	9	395,320	713,219
Interests in associated companies	10	1,312,925	1,319,598
Long-term advances to an affiliated company	17(f)	24,898	44,804
Other long-term assets		1,372	645
Current assets			
Cash and cash equivalents		1,771,568	1,220,226
Short-term bank deposits		42,424	—
Pledged short-term bank deposits		740,696	1,925,805
Notes receivable	11	109,759	235,167
Notes receivable from affiliated companies	17(c)	403,159	686,869
Accounts receivable, net	12	103,507	24,107
Amounts due from affiliated companies, net	17(b)	776,638	596,937
Other receivables		749,723	172,703
Prepayments and other current assets	17(d)	927,229	339,949
Deferred tax asset	6	42,331	—
Inventories, net		532,996	626,969
Advances to affiliated companies	17(f)	<u>785,529</u>	<u>298,386</u>
		6,985,559	6,127,118
Current liabilities			
Short-term bank loans		616,890	405,500
Notes payable		3,720,000	3,300,000
Accounts payable	13	668,944	666,216
Amounts due to affiliated companies	17(e)	565,718	492,079
Customer advances		51,323	83,559
Other payables		672,340	545,785
Dividends payable		23,080	3,475
Dividends payable to joint venture partners		39,648	46,452
Accrued expenses and other current liabilities		67,404	73,730
Tax payable		95,188	70,669
Advances from affiliated companies		<u>6,591</u>	<u>54,276</u>
		<u>6,527,126</u>	<u>5,741,741</u>

		(Unaudited)	(Audited)
		30th June	31st December
		2002	2001
	Note	RMB'000	RMB'000
Net current assets		<u>458,433</u>	<u>385,377</u>
Total assets less current liabilities		<u>6,166,301</u>	<u>5,935,082</u>
Financed by:			
Share capital	14	303,194	303,194
Share premium		2,033,916	2,033,916
Retained earnings		3,217,905	2,945,453
Other reserves		112,092	110,535
2001 proposed final dividend	7(a)	—	19,605
2002 declared interim dividend	7(b)	<u>15,544</u>	<u>—</u>
Shareholders' funds		5,682,651	5,412,703
Minority interests		<u>483,650</u>	<u>522,379</u>
		<u>6,166,301</u>	<u>5,935,082</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2002

	(Unaudited)	
	Six months ended 30th June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Note 18)</i>
Net cash inflow from operating activities	564,040	1,240,583
Net cash used in investing activities	(1,202,550)	(687,094)
Net cash generated from financing activities	<u>1,189,852</u>	<u>172,718</u>
Increase in cash and cash equivalents	551,342	726,207
Cash and cash equivalents at 1st January	<u>1,220,226</u>	<u>1,338,038</u>
Cash and cash equivalents at 30th June	<u><u>1,771,568</u></u>	<u><u>2,064,245</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2002

	(Unaudited)						
	Ordinary shares RMB'000	Share premium RMB'000	Cumulative		Retained earnings RMB'000	Total RMB'000	Proposed dividends RMB'000
			translation	Dedicated			
			adjustments RMB'000	capital RMB'000			
As 1st January 2002	303,194	2,033,916	39,179	71,356	2,945,453	5,393,098	19,605
Profit for the period	—	—	—	—	289,553	289,553	—
Transfer to dedicated capital	—	—	—	1,557	(1,557)	—	—
Dividends declared during the period	—	—	—	—	—	—	(19,605)
Dividends declared subsequent to period end	—	—	—	—	(15,544)	(15,544)	15,544
As 30th June 2002	<u>303,194</u>	<u>2,033,916</u>	<u>39,179</u>	<u>72,913</u>	<u>3,217,905</u>	<u>5,667,107</u>	<u>15,544</u>

	(Unaudited)						
	Ordinary shares RMB'000	Share premium RMB'000	Cumulative		Retained earnings RMB'000	Total RMB'000	Proposed dividends RMB'000
			translation	Dedicated			
			adjustments RMB'000	capital RMB'000			
As 1st January 2001	276,891	1,343,953	39,179	5,191	2,148,348	3,813,562	17,912
Issue of new ordinary shares	26,303	689,963	—	—	—	716,266	—
Profit for the period	—	—	—	—	489,443	489,443	—
Dividends declared during the period	—	—	—	—	(1,706)	(1,706)	(17,912)
Dividends declared subsequent to period end	—	—	—	—	(15,544)	(15,544)	15,544
As 30th June 2001	<u>303,194</u>	<u>2,033,916</u>	<u>39,179</u>	<u>5,191</u>	<u>2,620,541</u>	<u>5,002,021</u>	<u>15,544</u>

NOTES TO CONDENSED ACCOUNTS

1. Organization and operations

The Company was incorporated in Bermuda on 9th June, 1992 with limited liability. The Company's ADSs and shares are traded on The New York Stock Exchange Inc. and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), respectively.

2. Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed consolidated accounts should be read in conjunction with the 2001 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed consolidated accounts are consistent with those used in the annual accounts for the year ended 31st December, 2001 except that the Group has changed certain of its accounting policies following the adoption of the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants, which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 25 (revised):	Interim financial reporting
SSAP 33:	Discontinuing operations
SSAP 34:	Employee benefits

Other than those disclosed in the respective notes to the accounts, the Group considers that the adoption of or the consequential changes made to the above SSAPs do not have a material impact on the accounts of the Group.

3. Turnover, other revenues and segment information

The Group was principally engaged in the manufacturing and sale of minibuses and automotive components in the People's Republic of China (the "PRC") during the period ended 30th June, 2002.

An analysis of the Group's turnover and revenue is as follows:

	(Unaudited)	
	For the six months ended 30th June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover:		
Sales of minibuses	2,799,427	3,042,223
Sales of automotive Components	<u>86,600</u>	<u>222,404</u>
	<u><u>2,886,027</u></u>	<u><u>3,264,627</u></u>
Other revenues:		
Interest income	25,818	51,114
Other revenues	<u>19,510</u>	<u>15,084</u>
	<u><u>45,328</u></u>	<u><u>66,198</u></u>
Total revenues	<u><u>2,931,355</u></u>	<u><u>3,330,825</u></u>

No business or geographical segmentation analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated operating profit of the Group are attributed to business segments other than manufacturing and sale of minibuses or markets outside the PRC.

4. Operating profit

Operating profit is stated after crediting and charging the following:

	(Unaudited)	
	Six months ended 30th June	
	2002	2001
	RMB'000	RMB'000
Crediting		
Gain on disposal of fixed assets	1,800	—
Exchange gain, net	—	239
	<u> </u>	<u> </u>
Charging		
Amortization of other long-term assets	—	516
Amortization of intangible asset	8,108	—
Depreciation of fixed assets	123,505	43,895
Loss on disposal of fixed assets	—	98
Amortization of goodwill included in		
— General and administrative expenses	5,491	3,100
— Share of profits or losses of associated companies	5,657	5,657
Provision for inventory obsolescence	3,670	3,170
Staff costs (excluding directors' emoluments) (Note 5)	115,628	84,703
Cost of inventories sold (including depreciation and amortization)	2,022,566	2,274,583
Provision for doubtful debts	11,215	3,927
Exchange loss, net	1,624	—
Research and development costs included in general and administrative expenses	46,698	11,261
Training expenses included in general and administrative expenses	1,785	5,552
Provision for warranty	22,027	9,940
Operating lease rentals	1,920	1,367
	<u> </u>	<u> </u>

5. Staff costs

	(Unaudited)	
	Six months ended 30th June	
	2002	2001
	RMB'000	RMB'000
Wages and salaries	94,499	69,131
Social security costs	9,708	6,824
Pension costs — defined contribution plans	11,421	8,748
	<u> </u>	<u> </u>
	<u>115,628</u>	<u>84,703</u>

6. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001 : 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at rates of taxation prevailing in the jurisdictions in which the companies of the Group operate.

The amount of taxation charged to the consolidated profit and loss account represents:

	(Unaudited)	
	Six months ended 30th June,	
	2002	2001
	RMB'000	RMB'000
Current taxation: PRC enterprise income tax	86,493	75,281
Share of current taxation attributable to associated companies	3,102	2,658
Deferred taxation: PRC enterprise income tax	<u>(42,331)</u>	<u>—</u>
	<u><u>47,264</u></u>	<u><u>77,939</u></u>

7. Dividends

	(Unaudited)	
	Six months ended 30th June,	
	2002	2001
	RMB'000	RMB'000
2001 Final dividend, declared of HK\$0.005 (2000 : HK\$0.005) per ordinary share (Note (a))	19,605	17,912
Interim dividend, declared of HK\$0.004 (2001 : HK\$0.004) per ordinary share (Note (b))	<u>15,544</u>	<u>15,544</u>
	<u><u>35,149</u></u>	<u><u>33,456</u></u>

Notes:

- (a) At the shareholders' meeting held on 28th June, 2002, a final dividend of HK\$0.005 per ordinary share for the year ended 31st December, 2001 was declared. The declared dividends were not paid as at 30th June, 2002 but were subsequently paid on 3rd July, 2002.
- (b) At a meeting held on 19th September, 2002, the directors declared an interim dividend of HK\$0.004 per share for the six months ended 30th June 2002. This declared dividend is not reflected as a dividends payable in these condensed consolidated accounts, but has been reflected as an appropriation of retained earnings for the six months ended 30th June, 2002.

8. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of RMB289,553,000 (2001: RMB489,443,000).

The basic earnings per share is based on the weighted average of 3,666,052,900 (2001: 3,402,517,000) ordinary shares in issue during the period. No diluted earnings per share for the six months ended 30th June, 2002 has been presented as the effect of the assumed conversion of the potential ordinary shares outstanding is anti-dilutive. The diluted earnings per share for the six months ended 30th June, 2001 is based on 3,403,263,000 ordinary shares, which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 746,000 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

9. Capital expenditure

	Intangible assets	Goodwill	Fixed assets	Construction- in-progress
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30th June 2002				
Beginning net book amount as at 31st December, 2001				
(Audited)	681,100	414,464	2,375,875	713,219
Additions	500	—	86,932	242,262
Disposal	—	—	(5,655)	(2,920)
Construction-in-progress transferred to fixed assets	—	—	557,241	(557,241)
Depreciation/amortization charges (<i>Note 4</i>)	(8,108)	(5,491)	(123,505)	—
Ending net book amount as at 30th June, 2002 (Unaudited)	<u>673,492</u>	<u>408,973</u>	<u>2,890,888</u>	<u>395,320</u>

As at 30th June 2002, fixed assets with net book value of approximately RMB220 million is pledged against short-term bank loans of approximately RMB150 million (*Note 15*).

10. Interests in associated companies

Details of investments in associated companies are as follows:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	RMB'000	RMB'000
		<i>(Note 18)</i>
Share of net assets	885,439	886,455
Goodwill	<u>427,486</u>	<u>433,143</u>
	<u>1,312,925</u>	<u>1,319,598</u>

The underlying value of the investments in associated companies was, in the opinion of the directors, not less than the carrying value in the accompanying consolidated accounts as of 30th June 2002.

11. Notes receivable

Notes receivable are primarily notes received from customers for settlement of trade receivable balances. As of 30th June 2002, all notes receivable were guaranteed by established banks in the PRC and the fair value of the notes receivable approximated their carrying value.

12. Accounts receivable

An aging analysis of accounts receivable is set out below:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Less than six months	104,749	19,757
Between six months to one year	1,567	1,896
Between one to two years	681	2,823
Above two years	<u>51,064</u>	<u>52,690</u>
	158,061	77,166
Less: Provision for doubtful debts	<u>(54,554)</u>	<u>(53,059)</u>
	<u><u>103,507</u></u>	<u><u>24,107</u></u>

Credit is offered to customers following financial assessment and an established payment record. Securities in the form of guarantees or bank notes are obtained from major customers. Credit limits are set for all customers and may be exceeded only with the approval of senior company officers. Customers considered to be of high credit risk are traded on a cash basis. Designated staff monitors accounts receivable and follow up collection with the customers. General credit terms are between 30 days to 90 days.

13. Accounts payable

An aging analysis of accounts payable is as follows:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Less than six months	663,963	666,216
Between six months to one year	<u>4,981</u>	<u>—</u>
	<u><u>668,944</u></u>	<u><u>666,216</u></u>

14. Share capital

	Authorized	
	Ordinary shares of US\$0.01 each	
	<i>No. of Shares</i>	<i>US\$'000</i>
As at 1st January 2002 and 30th June 2002	<u>5,000,000,000</u>	<u>50,000</u>
	Issued and fully paid	
	Ordinary shares of US\$0.01 each	
	<i>No. of Shares</i>	<i>RMB'000</i>
As at 1st January 2001	3,348,052,900	276,891
Issue of new ordinary shares	<u>318,000,000</u>	<u>26,303</u>
As at 30th June 2001	<u>3,666,052,900</u>	<u>303,194</u>
As at 1st January 2002 and 30th June 2002	<u>3,666,052,900</u>	<u>303,194</u>

15. Contingent liabilities

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	RMB'000	RMB'000
Bank notes endorsed or discounted but not yet honored	1,542,921	1,145,000
Corporate guarantees for bank loans and notes drawn by Shanghai Shenhua Holdings Co., Ltd. ("Shanghai Shenhua") (formerly known as Shanghai Brilliance Group Co., Ltd.) and its affiliated companies (including cross-guarantee by Shanghai Shenhua amounting to RMB950,000,000)	1,695,000	1,114,000
A joint and several proportional guarantee with the joint venture partner of Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd., an associated company of the Group, on a long-term bank loan which will expire in 2008	416,000	540,000
Fixed assets pledged against bank loans (Note 9)	220,000	—

16. Commitments

(a) Capital commitments for property, plant and equipment

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for		
— Construction projects	93,563	6,902
— Investment and acquisition	—	5,000
— Purchase of equipment	28,765	107,758
— Others	6,890	11,022
	<u>129,218</u>	<u>130,682</u>
Authorized but not contracted for	<u>—</u>	<u>—</u>
	<u>129,218</u>	<u>130,682</u>

(b) Commitments under operating leases

As at 30th June 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases of properties as follows:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	11,969	3,408
In the second to fifth year inclusive	8,360	2,721
After the fifth year	<u>—</u>	<u>—</u>
	<u>20,329</u>	<u>6,129</u>

17. Related party transactions

- (a) Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	(Unaudited)	
	Six months ended 30th June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
		(Note 18)
Sales to Shanghai Shenhua and its affiliated companies	1,101,397	1,366,345
Sales to Shanghai Yuantong Automobile Sales and Service Company Limited ("Shanghai Yuantong")	528,218	470,912
Sales to other affiliated companies of Brilliance Holdings Limited ("BHL")	12,269	47,052
Sales to associated companies	11,284	51,116
Sales to Shenyang Brilliance Automotive Company Limited ("JinBei") and its affiliated companies	9,502	4,167
Purchases from Shanghai Shenhua and its affiliated companies	(236,671)	(51,648)
Purchases from other affiliated companies of BHL	(52,345)	(156,442)
Purchases from associated companies	(347,294)	(297,942)
Purchases from JinBei and its affiliated companies	(207,251)	(104,245)
Purchases from affiliated companies of the joint venture partner in Ningbo Yuming Machinery Industrial Co., Ltd. ("Ningbo Yuming")	<u>(47,527)</u>	<u>(10,438)</u>

The above 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 of the relevant companies.

- (b) As of 30th June 2002, amounts due from affiliated companies arising from trading activities consisted of the following:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Due from Shanghai Yuantong	600,442	439,411
Due from Shanghai Shenhua and its affiliated companies	60,854	31,874
Due from affiliated companies of BHL (i)	58,682	61,125
Due from affiliated companies of JinBei	49,955	35,071
Due from affiliated companies of the joint venture partner in Ningbo Yuming	280	18,281
Due from an associated company	<u>16,145</u>	<u>11,175</u>
	786,358	596,937
Provision for doubtful debts	<u>(9,720)</u>	<u>—</u>
	<u>776,638</u>	<u>596,937</u>

- (i) Included in the amounts due from affiliated companies of BHL is approximately RMB56 million (31st December 2001: RMB56 million) guaranteed by a shareholder of an affiliated company.

Save as disclosed above, the amounts due from affiliated companies are unsecured and non-interest bearing.

Credit is offered to affiliated companies following financial assessment and an established payment record. The aging analysis of amounts due from affiliated companies is as follows:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Less than six months	701,981	530,051
Between six months to one year	17,571	—
Between one to two years	41	66,886
Over two years	<u>66,765</u>	<u>—</u>
	<u><u>786,358</u></u>	<u><u>596,937</u></u>

(c) As of 30th June 2002, the notes receivable from affiliated companies arising from trading activities consisted of the following:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivable from Shanghai Shenhua	349,233	536,859
Notes receivable from Shanghai Yuantong	38,744	144,935
Notes receivable from an affiliated company of BHL	3,000	3,075
Notes receivable from an affiliated company of JinBei	4,404	—
Notes receivable from an associated company	<u>7,778</u>	<u>2,000</u>
	<u><u>403,159</u></u>	<u><u>686,869</u></u>

All the notes receivable from affiliated companies are guaranteed by banks in the PRC and have maturities of between one to six months.

(d) As of 30th June 2002, included in prepayments and other current assets are approximately RMB183 million and RMB24 million (2001: RMB168 million and nil) of prepayments for purchases of raw materials made to an affiliated company of BHL and to an affiliated company of JinBei, respectively.

(e) As of 30th June 2002, amounts due to affiliated companies arising from trading activities consisted of the following:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Due to associated companies	272,977	169,589
Due to Shanghai Shenhua and its affiliated companies	170,165	173,636
Due to JinBei and its affiliated companies	91,735	107,095
Due to affiliated companies of BHL	22,788	32,340
Due to affiliated companies of the joint venture partner of Ningbo Yuming	4,716	6,287
Due to affiliated companies of the joint venture partner in Shenyang Xinguang Brilliance Automotive Engine Co., Ltd.	<u>3,337</u>	<u>3,132</u>
	<u><u>565,718</u></u>	<u><u>492,079</u></u>

The amounts due to affiliated companies are unsecured and non-interest bearing. The aging analysis of amounts due to affiliated companies is as follows:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Less than six months	560,298	469,034
Between six months to one year	—	11,461
Between one to two years	<u>5,420</u>	<u>11,584</u>
	<u><u>565,718</u></u>	<u><u>492,079</u></u>

(f) As of 30th June 2002, the advances to affiliated companies consisted of:

	(Unaudited)	(Audited)
	30th June	31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Advances to BHL and its affiliated companies:		
Interest bearing at 5.5% per annum	—	40,000
Non-interest bearing	744,912	256,223
Advance to affiliated companies of the joint venture partners in Ningbo Yuming	12,534	—
Advances to JinBei and its affiliated companies:		
Non-interest bearing (2001: non-interest bearing)	<u>28,083</u>	<u>2,163</u>
	<u>785,529</u>	<u>298,386</u>
Long-term advances to an affiliated company of BHL		
Interest bearing at 5.5% (i)	—	39,111
Non-interest bearing (i)	<u>24,898</u>	<u>5,693</u>
	<u>24,898</u>	<u>44,804</u>

(i) The long-term advances to an affiliated company of BHL are wholly repayable in year 2003.

Save as disclosed above, the advances to affiliated companies are unsecured and have no fixed repayment dates.

18. Comparative figures

The adoption of SSAP 15 (revised) by the Group has resulted in changes to the presentation of the cash flow statement and the 2001 comparative figures have been reclassified accordingly.

In addition, certain of the 2001 comparative figures have been reclassified to conform to the current period's presentation.

19. Comparison of US GAAP and HK GAAP

The Group has prepared a separate set of accounts for the six months ended 30th June, 2002 in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

Differences between HK GAAP and US GAAP give rise to differences in the reported balances of assets, liabilities and net profit of the Group. The financial effect of the material differences between HK GAAP and US GAAP are summarized and explained as follows:

	(Unaudited)	
	Six months ended 30th June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit reported under HK GAAP	289,553	489,443
Stock-based compensation (a)	—	(15,461)
Amortization of goodwill (c)	11,148	—
Others	—	882
	<u>300,701</u>	<u>474,864</u>
	(Unaudited)	(Audited)
	As at 30th June	As at 31st December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets reported under HK GAAP	5,682,651	5,412,703
Effect of interest capitalization (b)	13,114	13,114
Effect of goodwill amortization (c)	11,148	—
Others	<u>(6,014)</u>	<u>(6,014)</u>
	<u>5,700,899</u>	<u>5,419,803</u>

- (a) On 2nd June, 2001, share options were granted to certain directors and employees of the Group entitling them to subscribe for a total of 31,800,000 shares of the Company at a discount of 20% of the average closing price of the shares as quoted on the Stock Exchange for the five business days immediately preceding the date of grant.

US GAAP requires that discounts granted to employees under a compensatory share option scheme be recognized as compensation and charged to expense over the periods expected to be benefited, to the extent that the fair value of the equity instrument exceeds the exercise price of the option on the date of grant. Since the options granted by the Company vested immediately upon grant, compensation expense amounting to RMB15.5 million associated with the share options was charged to the income statement for the six months ended 30th June 2001.

Under HK GAAP, there is no specific accounting standard to account for the compensation element in share options. Issuance of shares under such scheme will be recorded like normal share issue transactions.

- (b) Under HK GAAP, the amount of borrowing costs eligible for capitalization includes the actual borrowing costs incurred on that borrowing less any investment income earned on the temporary investment of funds pending their expenditure on the qualified assets. Under US GAAP, temporary investment income earned is ignored. As a result, the amount of the net interest capitalized under HK GAAP is lower than that under US GAAP.
- (c) Under HK GAAP, goodwill is amortized on a straight-line basis over the expected future economic life, being the shorter of 40 years or the remaining life of the respective joint ventures.

Under US GAAP, the Group adopted SFAS No. 142 since 1st January 2002 and goodwill amortization was ceased as of that date.

BUSINESS REVIEW

Unaudited consolidated net sales of the Company and its operating subsidiaries, Shenyang JinBei Passenger Vehicle Manufacturing Company Limited (“Shenyang Automotive”), Shenyang XingYuanDong Automotive Component Co., Ltd, Ningbo Yuming Machinery Industrial Company Ltd., Ningbo Brilliance Ruixing Auto Components Co., Ltd., Mianyang Brilliance Ruian Automotive Components Co., Ltd., Shenyang Brilliance Dongxing Automotive Component Co., Ltd. and Shenyang Xingchen Automotive Seats Co., Ltd. (together the “Group”) for the first six months of 2002 were RMB2,886.0 million, representing an 11.6% decrease from RMB3,264.6 million for the same period in 2001. The decrease in sales was primarily due to the decrease in the unit selling prices and the unit sales of Shenyang Automotive’s Mid-priced Minibus and Deluxe Minibus.

Shenyang Automotive sold a total of 29,491 minibuses in the first half of 2002, representing a 7.8% decrease from the 32,000 minibuses sold during the same period in 2001. Shenyang Automotive sold 25,716 of its Mid-priced Minibuses for the first six months of 2002, representing a decrease of 5.4% from the 27,193 units sold during the same period in 2001. Unit sales of the Deluxe Minibus decreased by 21.5% from 4,807 units in the first six months of 2001 to 3,775 units for the same period in 2002.

Unaudited cost of sales decreased by 11.1% from RMB2,274.6 million in the first six months of 2001 to RMB2,022.6 million for the same period in 2002. This decrease was primarily due to the decrease in the unit sales and a reduction in costs of the domestic components and parts of minibuses in the first six months of 2002. Cost of sales as a percentage of sales was 70.1% for the first half of 2002, compared to 69.7% for the first half of 2001. The gross profit margin of the Group remained stable at approximately 30% for the first half of both 2001 and 2002.

Unaudited consolidated operating profit for the first six months of 2002 was RMB358.3 million, representing a 46.3% decrease from RMB667.5 million for the same period in 2001. The decrease was primarily due to the increase in general and administrative expenses for the first six months of 2002. The increase in the general and administrative expenses was mainly due to the additional depreciation and amortization expenses, pre-operating expenses and R&D expenditure in relation to the “Zhonghua” sedan project. Unaudited profit before taxation and minority interests decreased by 51.6% to RMB336.9 million for the first half of 2002 from RMB696.7 million for the first half of 2001.

Unaudited net profit attributable to shareholders decreased by 40.8% to RMB289.6 million for the first half of 2002 from RMB489.4 million for the first half of 2001. Unaudited basic earnings per share were RMB0.0790 for the first half of 2002, compared with that of RMB0.1438 for the first half of 2001.

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of HK\$0.004 per ordinary share for the six months ended 30th June, 2002 to shareholders whose names appear on the Register of Members as at 16th October, 2002. The dividend will be paid to shareholders by on or before 31st October, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Friday, 11th October, 2002 to Wednesday, 16th October, 2002, both dates inclusive, during which no transfers of shares will be effected. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant shares 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 by no later than 4:00 p.m. on Thursday, 10th October, 2002.

USE OF PROCEEDS

As at 30th June, 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.

PROSPECTS

During the first quarter of 2002, the Group faced challenging market conditions. Being the first year after China's accession to the World Trade Organization, competition in the PRC automotive industry has intensified with the decrease in import tariffs and the increase in license quotas for imported vehicles. In the first quarter of 2002, the unit sales of the Group's minibuses decreased as compared to the same period in 2001. The difficult market conditions also contributed to pricing pressures for some of the Group's minibuses. However, there has been a recovery in the unit sales of the Company's minibuses since April 2002. By focusing on market trends and introducing upgraded models, the Group obtained better operating results in the second quarter of this year. The management anticipates that with (i) the continued improving demand for its minibuses; (ii) the stabilization of the unit selling prices; and (iii) the reduction in the costs of components used in the production of its minibuses in the coming months, the performance of the Group's minibus operation for the second half of 2002 will be improved.

The Year 2002 so far has not only been an important year for the Chinese automotive industry, but also an important milestone year for the Group. In May 2002, Shenyang Automotive obtained the final approval from the Chinese Government to produce and sell its “Zhonghua” brand passenger sedan and thus marked the beginning of a new era for the Group. The “Zhonghua” brand sedan was successfully introduced to the market on 20th August, 2002 with positive initial response from the market.

Significant progress was also achieved in the establishment of the joint venture company with BMW AG (“BMW”) of Germany. In July 2002, the Chinese Central Government approved the proposal for the establishment of a joint venture with BMW to produce and sell the latest BMW “3” and “5” series models in China. The joint venture with BMW is expected to have an annual production capacity of 30,000 vehicles per annum and is scheduled to begin production in the second half of 2003. The management believes that the “Zhonghua” brand sedan together with the approval for the proposal for the establishment of the joint venture with BMW allow Shenyang Automotive to capitalize on its expertise in the minibus sector to further expand into the growing sedan market.

The management believes that with its established market position, solid track record and well-defined growth strategies, the Group is well-positioned to capture the market opportunities and navigate through the challenges ahead. To further strengthen the Group’s competitive advantages, the management has formulated the following strategies for the Group:

1. Maintain leadership in the minibus industry in the PRC by (i) continuing to deliver high quality minibuses at competitive prices; and (ii) increasing the market share by introducing new and upgraded minibus models;
2. Improve operation efficiency by (i) implementing cost reduction programs, (ii) streamlining production, operational and financial reporting systems and (iii) improving the efficiency of the domestic sales and distribution networks;
3. Build up the brand image and increase the market share of our “Zhonghua” brand sedan by (i) expanding the domestic sales and distribution and after-sales services networks, (ii) improving product quality while maintaining price competitiveness; and (iii) upgrading the standard model by introducing new functions and options;
4. Capitalize on our established relationships with BMW and Toyota to introduce new products and develop new markets in China.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2002, the interests of the Directors in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (Cap. 396 of the laws of Hong Kong) (the "SDI Ordinance")) which have been notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which are deemed or taken to have under Section 31 or Part I of the Schedule of the SDI Ordinance) which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, were:

Interests in the ordinary shares

Name of Directors	Type of interests	Number of ordinary shares
He Tao	personal	35,045,000
Su Qiang	personal	34,500,000
Wu Xiao An	personal	30,000,000
Hong Xing	personal	26,640,000
Yang Rong	personal	6,718,200
Yang Mao Zeng	personal	2,800,000

Share Options

Name of Directors	Number of ordinary shares
	<i>(Note 1)</i>
Yang Rong	7,800,000
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

Save as disclosed above, none of the Directors, chief executives or their respective associates had any interests in the equity or debt securities of the Company or any associated corporations as defined in the SDI Ordinance.

Note:

1. The share options were all granted on 2nd June, 2001 and exercisable during a period of 10 years from 2nd June, 2001 at a discount of 20% of the average closing price of the Shares as quoted on the Stock Exchange for the five business days immediately preceding the date of the grant. As at 30th June, 2002, none of the above share options has been exercised.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholder has an interest of 10% or more in the issued share capital of the Company.

Name	Number of shares Beneficially held	Percentage of shareholding
The Chinese Financial Education Development Foundation	1,446,121,500	39.45%

Save as disclosed above, no other party was recorded in the register required to be kept by the SDI Ordinance as having an interest of 10% or more in the issued share capital of the Company as at 30th June, 2002.

On 28th June, 2002, the Company adopted a new share option scheme (the "New Share Option Scheme") in compliance with the amendments to Chapter 17 of the Listing Rules which came into effect on 1st September, 2001. The New Share Option Scheme has come into effect on 15th July, 2002 and the share option scheme (the "1999 Share Option Scheme", together with the New Share Option Scheme, the "Share Option Schemes") adopted by the Company on 18th September, 1999 and came into effect on 20th October, 1999 was terminated with immediate effect.

During the six months ended 30th June, 2002, no option has been granted, cancelled or lapsed in accordance with the terms of the Share Option Schemes. Details of the options which were granted to the directors of the Company and remained outstanding as at 30th June, 2002 are set out in the subparagraph headed "Share Options" in the paragraph headed "Directors' Interests in Shares".

The Directors consider that it is not appropriate to state the value of the outstanding options under the Share Option Schemes given that the variables which are critical for the calculation of the value of such outstanding 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 options will be exercised by the grantees. In view of the length of the option period and the possibility that the subscription price and the number of shares that may be subscribed thereunder may be adjusted prior to the exercise of the subscription rights attaching to such options, the

Directors are of the view that the value of the options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical basis and speculative assumptions. Accordingly, the Directors believe that any calculation of the value of the share options will not be meaningful and may be misleading to shareholders in the circumstances.

DEBT TO EQUITY RATIO

The debt to equity ratio, computed at dividing total liabilities by shareholders' equity, as of 30th June, 2002 is approximately 1.15 (30th June, 2001 : 1.29). The decrease of the ratio is primarily due to the increase of retained earnings.

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 for the six months ended 30th June, 2002.

AUDIT COMMITTEE

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 unaudited interim accounts for the six months ended 30th June, 2002.

CODE OF BEST PRACTICE

In the opinion of the directors of the Company, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange throughout the six months ended 30th June, 2002, except that 1) an executive director of the Company failed to observe the notification procedures as set out in Appendix 10.B.5 of the Listing Rules in 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.

PUBLICATION OF FINANCIAL INFORMATION

The Group's 2002 interim report containing all the information required by paragraphs 46(1) to 46 (6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
Wu Xiao An
Chairman

Hong Kong, 19th September, 2002