

Notes to the Financial Statements

(Amounts expressed in RMB unless otherwise stated)

1. ORGANIZATION AND OPERATIONS

Brilliance China Automotive Holdings Limited (the “Company”) was incorporated in Bermuda on June 9, 1992 with limited liability. The Company’s ADSs shares are traded on The New York Stock Exchange Inc. and The Stock Exchange of Hong Kong Limited respectively. As of December 31, 2000, the Company was owned by the following shareholders:

Identity of shareholders	Percentage of shares held
Chinese Financial Education Development Foundation	52.15%
FAW-JinBei Automotive Company Limited (“JinBei”)	2.72%
Public shareholders	45.13%
	100.00%

The Company is an investment holding company which owns 51% in Shenyang JinBei Passenger Vehicle Manufacturing Company Limited (“Shenyang Automotive”), a sino-foreign equity joint venture enterprise which manufactures, assembles and sells minibuses within the People’s Republic of China (the “PRC” or “China”).

In April 1998, the Company acquired a 51% indirect equity interest in Ningbo Yuming Machinery Industrial Co., Ltd. (“Ningbo Yuming”). Ningbo Yuming is a wholly foreign-owned enterprise established in the PRC and is principally engaged in manufacturing and selling of automotive components.

In April 1998, the Company also acquired a 50% indirect equity interest in Mianyang Xincheng Engine Co., Ltd. (“Mianyang Xincheng”). Mianyang Xincheng is a sino-foreign equity joint venture enterprise and is principally engaged in manufacturing and selling of automotive engines.

In October 1998, the Company established Shenyang XingYuanDong Automobile Components Co., Ltd. (“Xing Yuan Dong”) in Shenyang as a wholly-owned subsidiary of the Company. Xing Yuan Dong is principally engaged in the trading and development of automotive components and acts as the main sourcing coordinator for Shenyang Automotive. Since its incorporation, Xing Yuan Dong has centralized and consolidated the sourcing of customised components on behalf of Shenyang Automotive. During the year, Xing Yuan Dong acquired certain assembly lines and other assets from affiliated companies and a third party company at net book value and rented certain assembly lines for manufacturing of automotive components.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

1. ORGANIZATION AND OPERATIONS (Cont'd)

In November 1998, the Company acquired a 33.69% interest of Compass Pacific Holdings Limited (“Compass Pacific”) (formerly known as Whimsy Entertainment Co., Limited). Compass Pacific is a public limited company whose shares are listed on The Stock Exchange of Hong Kong Limited. Compass Pacific and its subsidiaries are principally engaged in the operations of indoor family entertainment centres and manufacturing and selling of automotive components and parts in the PRC. On August 30, 2000, Compass Pacific announced the issuance of 780,000,000 new shares to an affiliated company. Upon the completion of this transaction, the Company’s equity interest in Compass Pacific was diluted from 33.69% to 12.89%.

Pursuant to an acquisition agreement dated April 25, 1998 between Shenyang Automotive and Shenyang State Assets Administration Bureau, Shenyang Automotive was to acquire for a 21% indirect interest in Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. (“Shenyang Aerospace”), a sino-foreign equity joint venture at a consideration of RMB155 million. Subsequently, revised agreements were signed between the original contracting parties, an affiliated company and Xing Yuan Dong pursuant to which Shenyang Automotive’s effective interest in Shenyang Aerospace was reduced to 16.8% and the 4.2% indirect interest was transferred to Xing Yuan Dong at cost. At the completion of the transfer in 2000, the Company’s effective interest in Shenyang Aerospace was 12.77%.

In June 2000, the Company established Ningbo Brilliance Ruixing Auto Components Co., Ltd. (“Ningbo Ruixing”) in the PRC as a wholly-owned subsidiary of the Company. Ningbo Ruixing is principally engaged in manufacturing and trading of automotive components. In 2000, 100% of its sales were made to Shenyang Automotive and 100% of Ningbo Ruixing’s purchases were made from Ningbo Yuming.

In July 2000, the Company established Mianyang Brilliance Ruian Automotive Components Co. Ltd. (“Mianyang Ruian”) in the PRC as a wholly-owned subsidiary of the Company. Mianyang Ruian is principally engaged in manufacturing and trading of automotive components. In 2000, 100% of Mianyang Ruian’s sales were made to Mianyang Xinchun.

In December 2000, the Company entered into an agreement with Brilliance Holdings Limited (“BHL”), an affiliated company, for the acquisition of a 50% indirect equity interest in Shenyang Xinguang Brilliance Automotive Engine Co., Ltd. (“Xinguang Brilliance”) at a consideration of RMB388 million. Xinguang Brilliance is a sino-foreign equity joint venture established in the PRC and principally engaged in the manufacturing of gasoline engines for the use in passenger vehicles and light duty trucks.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared under historical cost convention and in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, and accounting principles generally accepted in Hong Kong (“HK GAAP”). Principal accounting policies are summarized below:

a. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”). The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intra-group transactions and balances have been eliminated on consolidation.

b. Turnover

Turnover represents the invoiced value of goods, net of consumption tax, discounts and returns.

c. Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenues and costs, if applicable, can be measured reliably, turnover and other revenue are recognized on the following bases:

(i) *Sale of goods*

Sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to customers.

(ii) *Interest income*

Interest income is recognized on a time proportion basis on the principal outstanding and at the rate applicable.

(iii) *Dividend income*

Dividend income is recognized when the right to receive payment is established.

(iv) *Subsidy income*

Subsidy income is recognized when the right to receive subsidy is established.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

d. Foreign currency translation

The functional currency of the Company and its subsidiaries is RMB. Transactions denominated in foreign currencies are translated into RMB at the unified exchange rates quoted by the People's Bank of China prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable unified exchange rates prevailing at the balance sheet dates. The resulting exchange differences are included in the determination of income. Cumulative translation adjustments under shareholders' equity represents exchange difference arising from the Company's change in functional currency in previous years.

e. Taxation

Taxation is provided on the assessable income of the year calculated in accordance with the relevant regulations of the respective tax jurisdiction after considering all the available tax benefits from refunds and allowances.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future. A deferred tax asset is not recognized unless the related benefits are expected to crystallize in the foreseeable future.

f. Warranty

Shenyang Automotive's minibuses are sold with an eighteen-month or 30,000 kilometers first-to-occur limited warranty. During the warranty period, Shenyang Automotive pays service stations for parts and labor covered by the warranty; thereafter, customers must pay for all parts and labor.

The costs of the warranty obligation are accrued at the time the sales are recognized, based on the estimated costs of fulfilling the total obligation, including handling and transportation costs. The assumptions used to estimate warranty expenses are reevaluated periodically in light of actual experience.

g. Staff retirement benefits

Retirement benefits to retired employees and contributions to a government retirement benefit scheme are charged to the income statement in the relevant period in which they are incurred.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

h. Cash and cash equivalents and short-term bank deposits

Cash represents cash on hand and deposits with financial institutions which are repayable on demand. Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and have an original maturity within three months less advances from banks repayable within three months from the date of the advances.

Bank deposits with maturities between three and twelve months, including deposits used as security for banking facilities, are classified as short-term deposits.

i. Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated on the moving-average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

j. Borrowing costs

Interest is expensed as incurred, except for the interest directly attributable to the construction or acquisition of a specific asset that necessarily takes a substantial period of time to get ready for its intended use which is capitalized as part of the cost of that asset. Interest is capitalized at the weighted average cost (which includes the actual borrowing costs incurred on that borrowing less any investment income earned on the temporary investment of funds pending their expenditure) of the related borrowings up to the date of completion of that asset.

Other borrowing costs, including amortization of discounts or premiums relating to borrowings, amortization of ancillary costs incurred in connection with arranging the borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, are considered immaterial and are recognized as an expense in the year incurred.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

k. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalized as an additional cost of the fixed asset.

Depreciation is calculated on a straight-line basis, taking into account an estimated residual value of 10% of cost, over the following periods:

Buildings	20 years
Machinery and equipment (excluding special tools and moulds)	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The costs of special tools and moulds included in machinery and equipment are amortized over their estimated productive periods.

Land use rights are amortized on a straight-line basis over the term of lease.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amount have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

When assets are sold or retired, their cost and accumulated depreciation and amortization are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

1. Construction-in-progress

Construction-in-progress consists of factories and office buildings under construction and machinery pending installation and includes the costs of construction, machinery and equipment, and interest charges arising from borrowings used to finance these assets during the period of construction or installation. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for the intended use.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

m. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization is provided on a straight-line basis to write-off the cost of the intangible assets over their estimated useful lives.

n. Investments in subsidiary and associated company

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued share capital, or has control over its board of directors.

An associate is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associated company is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognize the Group's share of the post-acquisition profits or losses of the associated company, distributions received from the associated company and other changes in the equity of the associated company that have not been included in the income statement. A provision for impairment in value other than temporary is made where considered necessary by the directors.

Goodwill arising on the acquisition of subsidiary or associated company, being the excess of the purchase consideration over the fair value of the Group's share of the separable net assets acquired, is recorded as an asset and amortized on a straight-line basis to the consolidated income statement over its estimated useful life of 40 years.

In the Company's financial statements, investments in subsidiaries and associated companies are carried at cost less provision for impairment in value, other than temporary, where considered necessary by the directors. Where, in the opinion of the directors, there is an impairment in value of the subsidiary or associated company, or the market value has fallen below the carrying value over a sustained period, a provision is made for such impairment in value. The results of the subsidiaries and associated companies are included in the income statement to the extent of dividends declared.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

o. Joint ventures

The Group's investments in joint ventures in the PRC are in the form of sino-foreign equity joint ventures. For sino-foreign equity joint ventures, the partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture are in proportion to their equity contribution ratios.

Where the Group's investments are made in the form of jointly controlled joint ventures, such investments are accounted for using the equity method in the Group's consolidated financial statements. A jointly controlled joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control over the economic activity.

Investments made by means of joint venture structures which do not result in the Group having joint control with other venturers are accounted for as subsidiaries (where the Group controls the board of directors or equivalent governing body), or associated companies (where the Group is in a position to exercise significant influence).

p. Research and development costs

Expenditures for research and development are charged against income in the period incurred except for project development costs which comply strictly with the following criteria:

- the technical feasibility of completing the intangible asset for use or sale can be demonstrated;
- there is an intention to complete the intangible asset for use or sell;
- the Company has the ability to use or sell the intangible asset;
- there is a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset can be demonstrated;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Capital development costs are amortized on a straight-line basis over their expected useful lives.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

q. Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payment under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

3. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sales of minibuses and automotive components in PRC during the year ended December 31, 2000.

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

	2000 RMB'000	1999 RMB'000
Turnover:		
Sales of minibuses	5,861,996	4,281,614
Sales of automotive components	444,434	69,555
	6,306,430	4,351,169
Other revenue:		
Subsidy income (i)	181,600	—
Others	8,917	86,546
	190,517	86,546
Interest income	106,351	34,712
Total revenue	6,603,298	4,472,427

- (i) Xing Yuan Dong was granted a financial subsidy of RMB181.6 million by the Administrative Committee of Shenyang New and High-Tech Industrial Development Zone for the year ended December 31, 2000. During the year, approximately RMB88 million was received by Xing Yuan Dong and the remaining balance was received subsequent to December 31, 2000.

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

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

4. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting) the following:

	2000 RMB'000	1999 RMB'000
Interest expense on borrowings wholly repayable within five years	175,398	88,326
Less: interest expense capitalized	(79,118)	(28,056)
	96,280	60,270
Amortization of other long-term assets	850	1,704
Depreciation of fixed assets	106,683	74,048
Loss on disposal of fixed assets	271	468
Amortization of goodwill	6,355	6,045
Provision for inventory obsolescence	5,000	16,000
Staff costs (excluding directors' emoluments)	170,485	172,450
Provision for doubtful receivables	227	12,230
Auditors' remuneration	2,325	2,200
Foreign exchange loss, net	5,413	1,395
Research and development costs	7,623	1,261
Operating lease rental	3,788	3,077
Interest income from		
— bank deposits	(56,679)	(17,414)
— an associated company	(2,386)	(2,074)
— affiliated companies	(56,964)	(22,270)
Less: interest income capitalized	9,678	7,046
	(106,351)	(34,712)

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Directors' emoluments

The aggregate amounts of the emoluments payable to directors of the Company during the year are as follows:

	2000 RMB'000	1999 RMB'000
Executive:		
Fees	—	—
Other emoluments		
— Basic salaries, allowances, and benefits in kind	12,989	2,012
— Performance related bonuses	—	—
— Contributions to pension scheme	—	—
— Compensation paid for loss of office	—	—
Independent non-executive:		
Fees	—	—
	12,989	2,012

The directors emoluments in 1999 represented emoluments paid for the period since the Company's listing on The Stock Exchange of Hong Kong Limited on October 22, 1999. No directors' emolument were paid/payable by the Company prior to October 22, 1999.

In addition to the directors' emoluments disclosed above, certain directors of the Company were granted options under the Share Option Scheme of the Company to acquire 240,000,000 (1999: Nil) Shares of the Company at HK\$1.059 per share (after taking into account the nineteen for one bonus issue on April 14, 2000). These options are exercisable from January 13, 2000 to October 19, 2009. During the year, 240,000,000 shares of the Company (1999: Nil) were issued to certain directors of the Company at the exercise price of HK\$1.059 per share upon the exercise of the options under the Share Option Scheme.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

The number of directors whose emoluments fell within the following bands are set out as below. The emoluments represent the amount paid to or receivable by the directors of the Company in the respective financial year and exclude the benefits derived or to be derived from the share options granted under the Share Option Scheme.

	2000 RMB'000	1999 RMB'000
Upto RMB1,000,000	3	8
RMB1,000,001 – RMB1,500,000	1	—
RMB1,500,001 – RMB2,000,000	3	—
RMB5,000,001 – RMB5,500,000	1	—
	8	8

No directors waived their emoluments during the year (1999: Nil).

- b. Details of emoluments paid to the five highest paid individuals (including directors and other employees) were:

	2000 RMB'000	1999 RMB'000
Basic salaries, allowances and benefits in kind	12,989	6,466
Contributions to pension scheme	—	12
Number of directors	5	—
Number of employees	—	5

The five highest paid employees of the Group for the year ended December 31, 2000 were also directors of the Company where emoluments are shown above.

During the year, no emoluments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

Certain officers of the Company are participants in the Executive Bonus Plan (the "Plan"). The Plan provides that up to 5% of the Company's net income be set aside each year for distribution among Plan participants based upon performance as determined by the Company's Board of Directors. The allocation of bonuses among participants is determined at the discretion of the Chairman of the Company. For the year ended December 31, 2000, no bonus was allocated (1999: RMB34.1 million).

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

6. RELATED PARTY TRANSACTIONS

An affiliated company is a company in which one or more of the directors or substantial shareholders of the Company have direct or indirect beneficial interest in the company or are in a position to exercise significant influence on the company. Parties are also considered to be affiliated if they are subject to common control or common significant influence.

Except as disclosed elsewhere in the financial statements:

- a. Particulars of significant transactions between the companies comprising the Group and affiliated companies in the ordinary course of business during the year are summarized below:

	2000 RMB'000	1999 RMB'000
Sales to JinBei and its affiliated companies	3,527	15,179
Purchases from JinBei and its affiliated companies	25,319	254,052
Sales to affiliated companies of Brilliance Holdings Limited	5,548,998	2,898,015
Purchases from affiliated companies of Brilliance Holdings Limited	559,953	484,206
Sales to Xinguang Brilliance (see Note 16)	98,546	—
Purchases from Xinguang Brilliance (see Note 16)	373,959	6,922
Sales to affiliated companies of the joint venture partner in Mianyang Xincheng	15,136	—
Purchases from Mianyang Xincheng	341,651	222,393
Sales to affiliated companies of the joint venture partner in Ningbo Yuming	—	6,076
Purchases from affiliated companies of the joint venture partner in Ningbo Yuming	33,237	16,232
Sales to a joint venture partner in Shenyang Aerospace	1,710	—
Purchase of intangible asset from an affiliated company of Brilliance Holdings Limited (see Note 13)	681,100	—
Purchase of fixed assets from affiliated companies of Brilliance Holdings Limited	24,498	—

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.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

6. RELATED PARTY TRANSACTIONS (Cont'd)

- b. As of December 31, 2000, amounts due from affiliated companies arising from trading activities consisted of the following:

	2000	1999
	RMB'000	RMB'000
		<i>(Note 30)</i>
Notes receivable from affiliated companies of Brilliance Holdings Limited (i)	449,679	347,468
Due from affiliated companies of Brilliance Holdings Limited (ii)	111,712	83,020
Due from affiliated companies of the joint venture partner in Ningbo Yuming	280	1,271
Due from affiliated companies of the joint venture partner in Xinguang Brilliance	2,001	1,620
	563,672	433,379
Provision for doubtful receivables	(12,230)	(12,230)
	551,442	421,149

- (i) The notes receivable from affiliated companies are guaranteed by banks in the PRC and have maturities between one to six months.
- (ii) As of December 31, 2000, the aging of the amounts due from affiliated companies were all within 180 days except for approximately RMB86.6 million which is aged between six months and one year and is guaranteed by the joint venture partner in Mianyang Xinchun.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

6. RELATED PARTY TRANSACTIONS (Cont'd)

- c. As of December 31, 2000, amounts due to affiliated companies arising from trading activities consisted of the following:

	2000	1999
	RMB'000	RMB'000
		<i>(Note 30)</i>
Due to JinBei and its affiliated companies	14,468	88,689
Due to Brilliance Holdings Limited and its affiliated companies	173,225	155,167
Due to affiliated companies of the joint venture partner in Ningbo Yuming	3,584	6,711
Due to associated companies	238,329	94,385
	429,606	344,952

As of December 31, 2000, the aging of the amounts due to affiliated companies were all within 180 days. The amounts due to affiliated companies are unsecured and have no fixed repayment terms

- d. Particular of other significant transactions between companies comprising the Group and affiliated companies during the year are summarized below:

	2000	1999
	RMB'000	RMB'000
Management fee charged by Brilliance Holdings Limited	5,796	4,758
Commission expenses paid to an affiliated company of Brilliance Holdings Limited	—	1,653
Interest income from Brilliance Holdings Limited and affiliated companies	56,964	22,270
Interest income from Compass Pacific	2,386	2,074

Pursuant to a trademark license agreement, JinBei granted Shenyang Automotive the right to use the JinBei trademark on its products and marketing materials indefinitely at no cost.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

6. RELATED PARTY TRANSACTIONS (Cont'd)

e. As of December 31, 2000, the advances to affiliated companies consisted of:

	2000	1999
	RMB'000	RMB'000
		<i>(Note 30)</i>
Due from JinBei and its affiliated companies:		
Non-interest bearing (1999: interest bearing at 9.2% per annum)	1,100	1,244
Due from Brilliance Holdings Limited and its affiliated companies:		
Interest bearing at 5.5% to 7.2% (1999: 5.5% to 7.5%) per annum	200,068	1,243,347
Non-interest bearing	407,639	—
Due from affiliated companies of the joint venture partner in Ningbo Yuming:		
Non-interest bearing	—	2,636
	608,807	1,247,227

As of December 31, 2000, advances to affiliated companies of approximately RMB128.2 million were guaranteed by the joint venture partner in Mianyang Xinchun.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

6. RELATED PARTY TRANSACTIONS (Cont'd)

f. As of December 31, 2000, the advances from affiliated companies consisted of:

	Consolidated	
	2000	1999
	RMB'000	RMB'000
		<i>(Note 30)</i>
Due to Brilliance Holdings Limited and its affiliated companies	52,311	23,402
Due to affiliated companies of the joint venture partner in Ningbo Yuming	1,747	—
	54,058	23,402

The advances from affiliated companies are unsecured, non-interest bearing and have no fixed repayment terms.

7. TAXATION

Taxation charges comprised:

	2000	1999
	RMB'000	RMB'000
The Company and its subsidiaries:		
Current taxation:		
Hong Kong profits tax	1,611	—
PRC enterprise income tax	314,726	206,577
Less: Financial subsidies	—	(134,350)
	316,337	72,227
Associated companies:		
Current taxation:		
PRC enterprise income tax	6,197	—
	322,534	72,227

There was no significant unprovided deferred taxation as of December 31, 2000.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

7. TAXATION (Cont'd)

Income Tax

The Company was incorporated under the laws of Bermuda and has received an undertaking from the Ministry of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, which exempts the Company and its shareholders, other than shareholders ordinarily residing in Bermuda, from any Bermuda taxes computed on profit, income or any capital asset gain or appreciation, or any tax in the nature of estate duty or inheritance tax, at least until the year 2016.

The Company also provides for Hong Kong profits tax rate at 16% based on estimated assessable profit arising in Hong Kong.

Shenyang Automotive is subject to state and local income taxes within the PRC at a standard rate of 15% and 3%, respectively, based on the taxable income reported in its statutory financial statements in accordance with the relevant state and local income tax laws applicable to sino-foreign equity joint venture enterprises.

During 1997, Shenyang Automotive received official designation by the local tax authorities as a “New and Technologically-Advanced Enterprises”, which entitled it to 3 years of 50% state income tax exemption through 1999. In 2000, this exemption expired and Shenyang Automotive would not be entitled to such tax benefits.

Ningbo Yuming is subject to state and local income taxes within the PRC at a standard rate of 15% and 3%, respectively, based on the taxable income reported in its statutory financial statements in accordance with the relevant state and local enterprise income tax laws applicable to foreign-invested enterprises. Pursuant to the relevant income tax laws in the PRC, subject to the approval of the tax authorities, Ningbo Yuming is fully exempted from state and local enterprise income tax for two years starting from the year ended December 31, 1997, followed by a 50% reduction of enterprise income tax for the next three years thereafter. As a result, the effective tax rate for Ningbo Yuming was 7.5% for the year ended December 31, 2000 (1999: 7.5%).

Other subsidiaries in the PRC are subject to state and local income taxes within the PRC at a standard rate of 30% and 3%, respectively, based on the taxable income reported in their respective statutory financial statements in accordance with the relevant state and local income tax laws applicable to foreign-invested enterprises.

Value Added Tax (“VAT”) and Consumption Tax

The general VAT rate applicable to Shenyang Automotive and the Company’s other subsidiaries in the PRC is 17%. Shenyang Automotive is also subject to Consumption Tax at standard rates of 3 to 5%.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

8. DISTRIBUTION OF PROFIT

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, the Company's subsidiaries are required to maintain discretionary dedicated capital, which includes a general reserve fund, enterprise expansion fund and staff welfare and incentive bonus fund. The dedicated capital is to be appropriated from statutory net income as stipulated by the Board of Directors and recorded as a component of shareholders' equity. Under the generally accepted accounting principles in Hong Kong, the appropriation for the staff welfare and incentive bonus fund is charged to income and any unutilized balance is included in current liabilities. As of December 31, 2000, unutilized appropriations to the staff welfare and incentive bonus fund amounted to RMB15.4 million (1999: RMB22.8 million). In 2000, no appropriations to general reserve fund and enterprise expansion fund was made by the subsidiaries (1999: RMB17.6 million).

Distributions received from the Company's subsidiaries are denominated in U.S. Dollar and are translated at the prevailing unified exchange rate in the PRC. Total accumulated distributable profits of these subsidiaries as of December 31, 2000 amounted to approximately RMB880.2 million (1999: RMB1,080.8 million). The distributable profits of subsidiaries are different from the amounts reported under the HK GAAP.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Approximately RMB920.9 million (1999: RMB127.6 million) of the consolidated profit attributable to shareholders was dealt with in the financial statements of the Company.

10. DIVIDENDS

The 2000 interim dividends of approximately RMB9.7 million were declared and paid to the then shareholders of the Group on October 16, 2000. The directors also recommended the payment of a final dividend of HK\$0.005 per share for the year ended December 31, 2000 totalling approximately RMB17.9 million.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the weighted average number of ordinary shares outstanding during the year. The effect of the bonus issue on April 14, 2000 have been reflected retrospectively for the purpose of earnings per share computation. The weighted average number of ordinary shares outstanding for the year ended December 31, 2000 was 3,151,418,900 (1999: 2,695,692,900) shares.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

11. EARNINGS PER SHARE (Cont'd)

The diluted earnings per share is calculated based on the weighted average number of ordinary shares mentioned above and adjusted for all dilutive potential ordinary shares outstanding during the year. The adjusted weighted average number of shares outstanding for the year ended December 31, 2000 was 3,245,981,803 shares after taking into account the effect of the weighted average number of ordinary shares deemed to be issued at no consideration if all outstanding options during the year had been exercised. Diluted earnings per share information has not been presented for 1999 as there was no dilutive potential ordinary shares outstanding for the year ended December 31, 1999.

12. FIXED ASSETS, NET

a. Consolidated

	2000					1999	
	Land use rights	Buildings	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
Beginning of year	20,170	294,126	693,052	54,994	30,886	1,093,228	1,067,172
Additions	—	7,321	79,790	12,144	21,926	121,181	51,592
Transfer from construction-in-progress	—	4,616	22,284	—	—	26,900	29,621
Disposal	—	(11)	(4,094)	(316)	(1,267)	(5,688)	(55,157)
End of year	20,170	306,052	791,032	66,822	51,545	1,235,621	1,093,228
Accumulated depreciation							
Beginning of year	7,210	50,345	369,969	43,706	15,995	487,225	440,380
Provision for the year	1,080	15,878	72,670	9,360	7,695	106,683	74,048
Written-back on disposal	—	(11)	(4,033)	(211)	(983)	(5,238)	(27,203)
End of year	8,290	66,212	438,606	52,855	22,707	588,670	487,225
Net book value							
End of year	11,880	239,840	352,426	13,967	28,838	646,951	606,003
Beginning of year	12,960	243,781	323,083	11,288	14,891	606,003	626,792

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

12. FIXED ASSETS, NET (Cont'd)

a. Consolidated (Cont'd)

All the land use rights of the Group are related to land located in the PRC where no individual land ownership rights exists. All buildings of the Group are also located in the PRC.

As of December 31, 2000, fixed assets of Shenyang Automotive with an aggregate carrying value of approximately RMB421.9 million (1999: 244.3 million) were pledged to secure the Group's short-term bank loans (Note 22).

b. Company

	2000			1999
	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000	Total RMB'000
Cost				
Beginning of year	—	2,633	2,633	2,269
Additions	4	—	4	364
End of year	4	2,633	2,637	2,633
Accumulated depreciation				
Beginning of year	—	824	824	298
Provision for the year	1	526	527	526
End of year	1	1,350	1,351	824
Net book value				
End of year	3	1,283	1,286	1,809
Beginning of year	—	1,809	1,809	1,971

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

13. INTANGIBLE ASSET

On July 15, 1999, Shenyang Automotive entered into an agreement with China Automotive Company Ltd. ("CAC"), an affiliated company of Brilliance Holdings Limited, pursuant to which Shenyang Automotive has the option, exercisable until June 30, 2001, to acquire all of CAC's rights and interests in a certain project at market price to be determined by Shenyang Automotive and CAC. The project involves the design, engineering and prototype construction work for a multi-purpose vehicle and a sedan. On December 28, 2000, Shenyang Automotive exercised the above-mentioned option and acquired all of CAC's rights, titles and interests in certain design and engineering agreements and technical assistance agreement relating to the project, at a total consideration of RMB681.1 million. The consideration was determined by mutual agreement between Shenyang Automotive and CAC with reference to the actual costs and expenses incurred by CAC.

The directors are of the opinion that the underlying value of the intangible assets is not less than the carrying values at December 31, 2000.

14. CONSTRUCTION-IN-PROGRESS

	2000 RMB'000	1999 RMB'000
Beginning of year	973,268	136,182
Additions	885,228	866,707
	1,858,496	1,002,889
Transfer to fixed assets	(26,900)	(29,621)
End of year	1,831,596	973,268

The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 6.58% (1999: 7.33%) less return on temporary investment of the borrowings calculated at a rate of 3.02% (1999: 1.6%).

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

15. INVESTMENTS IN SUBSIDIARIES

In the balance sheet of the Company, investments in subsidiaries comprised:

	2000	1999
	RMB'000	RMB'000
		<i>(Note 30)</i>
Unlisted shares, at cost	1,756,772	1,127,822
Receivables from subsidiaries:		
Interest bearing	590,954	587,729
Non-interest bearing	560,255	—
	2,907,981	1,715,551

The interest on receivables from subsidiaries was charged at 9% (1999: 9% to Hong Kong dollars prime lending rate plus 1%).

In the opinion of the Company's directors, the receivables from subsidiaries will not be repayable in the next twelve months from the balance sheet date and accordingly, the amounts have been classified as non-current assets.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

15. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Details of the Company's principal subsidiaries are as follows:

Name	Place of establishment/ incorporation	Registered capital/ issued and fully paid capital	Percentage of equity interest/voting right attributable to the Company		Principal activities
			Directly	Indirectly	
Shenyang JinBei Passenger Vehicle Manufacturing Company Limited	Shenyang, China	US\$171,160,000	51%	—	Minibus manufacturing, assembly and sales
Ningbo Yuming Machinery Industrial Co., Ltd.	Ningbo, China	US\$2,500,000	—	51%	Manufacturing and sales of automotive components
Shenyang XingYuanDong Automobile Component Co., Ltd.	Shenyang, China	US\$2,450,000	100%	—	Trading and developing of automotive components
Shenyang Construction Investment Company Limited	Shenyang, China	RMB155,032,500	—	80%	Manufacturing and trading of automotive components
Ningbo Brilliance Ruixing Auto Components Co., Ltd.	Ningbo, China	US\$750,000	100%	—	Manufacturing and trading of automotive components
Mianyang Brilliance Ruian Automotive Components Co., Ltd.	Mianyang, China	US\$750,000	100%	—	Manufacturing and trading of automotive components
China Brilliance Automotive Components Group Limited	Bermuda	US\$120,000	100%	—	Investment holding
Southern State Investment Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Beston Asia Investment Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Pure Shine Limited	British Virgin Islands	US\$1	100%	—	Investment holding

None of the subsidiary had any loan capital outstanding as of December 31, 2000.

The underlying value of investments in subsidiaries was, in the opinion of the directors, not less than the net carrying value in the accompanying balance sheet as of December 31, 2000.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

16. INVESTMENTS IN ASSOCIATED COMPANIES

Details of investments in associated companies are as follows:

	2000 RMB'000	1999 RMB'000
Share of net assets	354,868	242,564
Goodwill	444,685	126,514
	799,553	369,078
Loan to an associated company	269,170	27,870
	1,068,723	396,948

The loan to an associated company was unsecured, carried interest at 5.5% and had no fixed repayment terms. Subsequent to December 31, 2000, the full outstanding amount as of year end was repaid by the associated company.

Details of the Group's principal associated companies are as follows:

Name of company	Place of establishment	Issued and paid up capital	Attributable equity interest held indirectly	Principal activities
Mianyang Xincheng Engine Co., Ltd.	Mianyang, China	US\$8,600,000	50%	Manufacturing and sales of automotive engines
Compass Pacific Holdings Limited	Bermuda	HK\$1,629,510,000	12.89%	Investment holding
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd.	Shenyang, China	RMB738,250,000	12.77%	Manufacturing and sales of automotive engines
Shenyang Xinguang Brilliance Automotive Engine Co., Ltd.	Shenyang, China	RMB60,000,000	50%	Manufacturing and sales of automotive engines

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

16. INVESTMENTS IN ASSOCIATED COMPANIES (Cont'd)

In December 2000, the Company entered into an agreement with Brilliance Holdings Limited for the acquisition of the entire issued share capital of China Brilliance Automotive Components Group Limited ("Automotive Components") at a consideration of RMB388 million. Automotive Components is an investment holding company incorporated in Bermuda. The principal asset of Automotive Components is a 50% interest in the registered capital of Xinguang Brilliance, a sino-foreign equity joint venture established in the PRC whose principal products are gasoline engines for the use in passenger vehicles and light duty trucks. The purchase consideration was settled through offset against the receivable balance from Brilliance Holdings Limited and a portion of the proceeds from issuance of shares on exercise of share options which the Company directed to be paid to Brilliance Holdings Limited.

As of December 31, 2000, the Group's share of post acquisition reserve retained by the associated companies and included in the Group's consolidated reserve amounted to approximately RMB95.1 million (1999: RMB42.8 million).

Unaudited combined financial information of the associated companies for the year ended December 31, 2000 are summarized as follows:

	2000 RMB'000	1999 RMB'000
<hr/>		
Balance sheet		
Current assets	1,306,505	717,916
Long-term assets	1,527,258	1,397,233
	<hr/>	
	2,833,763	2,115,149
Current liabilities	(586,920)	(286,068)
Long-term liabilities	(866,960)	(909,259)
	<hr/>	
Net assets	1,379,883	919,822
<hr/>		
Income statement		
Turnover	1,847,422	704,579
	<hr/>	
Net profit	209,468	104,839
	<hr/>	

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 financial statements as of December 31, 2000.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

17. GOODWILL

	2000 RMB'000	1999 RMB'000
Beginning of year	248,316	260,748
Adjustment to fair value of assets acquired in 1998	—	(12,432)
	248,316	248,316
Less: Accumulated amortization	(18,919)	(12,564)
	229,397	235,752

18. ACCOUNTS RECEIVABLE

	2000 RMB'000	1999 RMB'000
Accounts receivable	27,037	62,067
Less: Provision for doubtful receivables	—	(9,406)
	27,037	52,661

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

18. ACCOUNTS RECEIVABLE (Cont'd)

Credit is offered to customers following financial assessment and an established payment record. Security in the form of guarantee or bank notes is obtained from major customers. Credit limits are set for all customers and are 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 monitor accounts receivable status and follow up collection with the customers. General credit terms are 30 days to 90 days. As of December 31, 2000, the aging analysis of accounts receivable of the Group was as follows:

	2000 RMB'000	1999 RMB'000
Within one year	9,600	17,200
Within one to two years	3,200	6,000
Above two years	14,237	38,867
	27,037	62,067

Approximately RMB13.9 million (1999: Nil) of the outstanding accounts receivable as of December 31, 2000 was guaranteed by the joint venture partner in Ningbo Yuming.

19. NOTES RECEIVABLE

Notes receivable are primarily notes received from customers for settlement of trade receivable balances. As of December 31, 2000, all notes receivable were guaranteed by established banks in the PRC and the fair value of the notes receivable approximated their carrying value.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

20. OTHER RECEIVABLES

	2000	1999
	RMB'000	RMB'000
Advances to third parties (i)	709,977	—
Subsidy receivables (ii)	227,950	134,350
Others	60,352	47,341
	998,279	181,691

- (i) The advances to third parties bear interest at 6.138% per annum and are unsecured and repayable within one year. Subsequent to December 31, 2000, approximately RMB622.5 million was repaid to the Group.
- (ii) Amounts represent subsidy receivables from the Administrative Committee of Shenyang New and High-Tech Industrial Development Zone. Subsequent to December 31, 2000, approximately RMB123.6 million was repaid to the Group.

21. INVENTORIES

	2000	1999
	RMB'000	RMB'000
Raw materials	296,260	162,809
Work-in-progress	115,411	68,787
Finished goods	399,522	168,999
	811,193	400,595
Less: Provision for inventory obsolescence	(15,562)	(19,052)
	795,631	381,543

The amount of inventories (included above) carried at net realizable value is approximately RMB3.95 million (1999: RMB31.6 million).

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

22. SHORT-TERM BANK LOANS

	2000 RMB'000	1999 RMB'000
Secured	428,077	778,770
Unsecured	619,152	812,090
	1,047,229	1,590,860

As of December 31, 2000, the short-term bank loans were

	2000 RMB'000	1999 RMB'000
Secured by:		
Short-term bank deposits	—	534,500
Property, plant and equipment of Shenyang Automotive with net book value of	421,880	244,270
Guaranteed by:		
An associated company	143,808	107,634

23. NOTES PAYABLE

	2000 RMB'000	1999 RMB'000
Bank notes	3,217,318	401,303
Commercial notes	350,000	—
	3,567,318	401,303

As of December 31, 2000, the notes payable were secured by short-term bank deposits of approximately RMB905.5 million (1999: Nil).

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

24. ACCOUNTS PAYABLE

All the accounts payable as of December 31, 2000 were aged within 180 days.

25. SHARE CAPITAL

	2000		1999	
	Number of Shares '000	Amount '000	Number of Shares '000	Amount '000
Authorized:				
Ordinary shares of US\$0.01 each	5,000,000	US\$50,000	1,000,000	US\$10,000
	5,000,000	US\$50,000	1,000,000	US\$10,000
Issued and fully paid:				
Ordinary shares of US\$0.01 each	3,348,053	RMB276,891	152,185	RMB12,332
	3,348,053	RMB276,891	152,185	RMB12,332

- a. On January 13, 2000, share options were granted to certain directors and employees, entitling them to subscribe for a total of 304,360,000 shares (the "Shares") of the Company at HK\$1.059 per share (after taking into account the effect of the nineteen for one bonus issue on April 14, 2000). The exercisable period of these options is from January 13, 2000 to October 19, 2009.

During the year, all the share options were exercised by the directors and employees. These shares rank pari passu in all respect with the existing shares. As a result, share capital and share premium of the Company increased by RMB25.2 million and RMB320.0 million respectively.

- b. By a resolution passed on March 31, 2000, the authorized ordinary share capital was increased from US\$10,000,000 to US\$50,000,000 by the creation of 4,000,000,000 shares of US\$0.01 each.
- c. On April 14, 2000, as a result of a bonus issue of nineteen shares for every existing shares at then, the outstanding share capital was increased to RMB251.7 million by capitalization of RMB239.4 million of share premium in full settlement of 2,891,508,255 ordinary shares of US\$0.01 each on the basis of nineteen new shares for every then-existing shares. These shares ranked pari passu with the existing shares.
- d. On April 14, 2000, the Company's shares traded on The New York Stock Exchange Inc. were converted to ADSs at a ratio of 100 shares to 1 ADS.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

26. EQUITY AND RESERVES

a. Consolidated

	Ordinary shares RMB'000	Supervoting ordinary shares RMB'000	Share premium RMB'000	Cumulative translation adjustments RMB'000	Dedicated capital RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at December 31, 1998	362	813	618,933	39,179	5,191	584,140	1,248,618
Capitalization of share premium for bonus shares issue on July 12, 1999	210	510	(720)	—	—	—	—
Payment in lieu of bonus shares	—	—	(4)	—	—	—	(4)
Capitalization of share premium for bonus shares issue on September 24, 1999	2,514	6,123	(8,637)	—	—	—	—
Elimination of super-voting shares	7,446	(7,446)	—	—	—	—	—
Issuance of new shares	1,800	—	653,750	—	—	—	655,550
Profit for the year	—	—	—	—	—	645,425	645,425
Dividends declared	—	—	—	—	—	(12,255)	(12,255)
Balance at December 31, 1999	12,332	—	1,263,322	39,179	5,191	1,217,310	2,537,334
Bonus issue of 19 shares for 1 share on April 14, 2000	239,370	—	(239,370)	—	—	—	—
Exercise of employee stock options	25,189	—	320,001	—	—	—	345,190
Profit for the year	—	—	—	—	—	958,629	958,629
Dividends declared	—	—	—	—	—	(27,591)	(27,591)
Balance at December 31, 2000	276,891	—	1,343,953	39,179	5,191	2,148,348	3,813,562

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

26. EQUITY AND RESERVES (Cont'd)

b. Company

	Ordinary shares RMB'000	Supervoting ordinary shares RMB'000	Share premium RMB'000	Cumulative translation adjustments RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at December 31, 1998	362	813	618,933	39,179	505,209	1,164,496
Capitalization of share premium for bonus shares issue on July 12, 1999	210	510	(720)	—	—	—
Payment in lieu of bonus shares	—	—	(4)	—	—	(4)
Capitalization of share premium for bonus shares issue on September 24, 1999	2,514	6,123	(8,637)	—	—	—
Elimination of super-voting shares	7,446	(7,446)	—	—	—	—
Issuance of new shares	1,800	—	653,750	—	—	655,550
Profit for the year	—	—	—	—	127,567	127,567
Dividends declared	—	—	—	—	(12,255)	(12,255)
Balance at December 31, 1999	12,332	—	1,263,322	39,179	620,521	1,935,354
Bonus issue of 19 shares for 1 share on April 14, 2000	239,370	—	(239,370)	—	—	—
Exercise of employee stock options	25,189	—	320,001	—	—	345,190
Profit for the year	—	—	—	—	920,972	920,972
Dividends declared	—	—	—	—	(27,891)	(27,891)
Balance at December 31, 2000	276,891	—	1,343,953	39,179	1,513,902	3,173,925

The directors consider that the Company had approximately RMB1,514 million (1999: RMB621 million) available for distribution to shareholders as of December 31, 2000.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

27. RETIREMENT PLAN AND EMPLOYEES' BENEFIT

As stipulated by the regulations of the PRC government, the Company's subsidiaries in the PRC have defined contribution retirement plans for their employees. The PRC government is responsible for the pension liability to these retired employees. The Company's subsidiaries are required to make specified contributions to the state-sponsored retirement plan at 20% to 23.5% of the basic salary cost of their staffs for 2000 and 20% for 1999. Commencing January 1, 1992, Shenyang Automotive agreed to pay a Chinese insurance company to assume the responsibility for making pension payments to all employees retiring after January 1, 1992. JinBei has undertaken to bear all pension payments to employees of Shenyang Automotive staff who retired prior to January 1, 1992.

The retirement plan contributions payable for the years ended December 31, 2000 and 1999 were approximately RMB17.6 million and RMB11.1 million, respectively.

In addition to the pension contribution, pursuant to the relevant laws and regulations of the PRC, the Company's subsidiaries are required to provide benefits such as housing funds and unemployment insurance for their PRC employees. These provisions, which were approximately RMB32.3 million and RMB22.7 million for 2000 and 1999, respectively, were calculated at a certain percentage (approximately 29.27% in 2000 and 34.79% in 1999) of the employees' actual salaries.

The Group's Hong Kong employees are covered by the new mandatory provident fund which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contribution to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK\$1,000 per month. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Company to the fund. During the year ended December 31, 2000, no contributions was made.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

28. COMMITMENTS

a. Capital commitments

The Group had the following significant commitments which were not provided for in the consolidated financial statements of the Group.

	2000 RMB'000	1999 RMB'000
Contracted but not provided for		
Construction projects	117,000	44,401
Investment and acquisition	—	31,007
Purchase of equipment	307,953	606,798
Others	166,567	—
Total	591,520	682,206

b. Operating lease commitments

Operating lease commitments of the Group as of December 31, 2000 was approximately RMB5.9 million (1999: RMB1.6 million) of which approximately RMB3.5 million (1999: RMB1.6 million) is payable in the next twelve months. The amount payable in the next twelve months, analyzed according to the period in which the lease expires, is as follows:

	2000 RMB'000	1999 RMB'000
Leases expiring		
— within one year	1,986	1,609
— within two to five years	1,534	—
— over five years	—	—
	3,520	1,609

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

29. CONTINGENCIES

As of December 31, 2000, the Group had bank notes of approximately RMB1,523.2 million (1999: RMB906.9 million) which were endorsed or discounted but not yet honored.

As of December 31, 2000, the Group had provided the following guarantees to its affiliated companies:

- Bank loans and notes guarantees of approximately RMB1,727.5 million (1999: Nil) to affiliated companies of Brilliance Holdings Limited;
- Bank loan guarantee of approximately RMB50 million (1999: Nil) to Xinguang Brilliance; and
- A joint guarantee with the joint venture partners of Shenyang Aerospace proportional to their respective shareholding on a long-term bank loan of approximately RMB540 million (1999: Nil) which will expire in 2008.

30. COMPARATIVE FIGURES

Certain 1999 comparative figures were reclassified to conform to the current year presentation.

31. COMPARISON OF US GAAP AND HK GAAP

The Group has prepared a separate set of financial statements for the year ended December 31, 2000 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:

	2000 RMB'000	1999 RMB'000
Net profit reported under HK GAAP	958,629	645,425
Capitalization of borrowing costs (a)	4,936	3,594
Stock-based compensation (b)	(88,264)	—
Others	(5,271)	—
Net profit reported under US GAAP	870,030	649,019

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

31. COMPARISON OF US GAAP AND HK GAAP (Cont'd)

- a. 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.
- b. On January 13, 2000, share options were granted to certain directors and employees of the Group entitling them to subscribe for a total of 304,360,000 shares after taken into account the nineteen for one bonus issue on April 14, 2000 of the Company at a discount of 20% of the average closing price of the shares as quoted on The Stock Exchange of Hong Kong Limited for the 5 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 RMB88.3 million associated with the share options was charged to the income statement.

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