

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 and shares are traded on The New York Stock Exchange Inc. and The Stock Exchange of Hong Kong Limited respectively. The Company is an investment holding company. The principal activities of the Company’s subsidiaries (together with the Company referred to as the “Group”) are the manufacturing and selling of minibuses and automotive components in the People’s Republic of China (the “PRC”).

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements of the Company and the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, and the accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“SEHK”). Principal accounting policies are summarized below:

a. Basis of measurement

The financial statements are prepared under the historical cost basis.

b. Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, the following Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segmental reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 10 “Accounting for investments in associates”, SSAP 17 “Property, plant and equipment” and SSAP 18 “Revenue”.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

b. Adoption of Statements of Standard Accounting Practice (Cont'd)

The effects on the financial statements of the Group and the Company from the adoption of the above accounting standards are tabulated below:

	The Group and the Company			
	2001		2000	
	Profit from operations	Opening balance of net assets	Profit from operations	Opening balance of net assets
	RMB'000	RMB'000	RMB'000	RMB'000
SSAP 9 (revised)	—	17,912	—	6,497

SSAP 9 (revised) prescribes when an enterprise should adjust its financial statements for events after the balance sheet date and the disclosures that an enterprise should give about the date when the financial statements were authorized for issue and about events after the balance sheet date. In particular, if dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should not recognize those dividends as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively.

SSAP 26 establishes principles for reporting financial information by segments to help users of the financial statements to better understand an enterprise and make more informed judgements about an enterprise as a whole. This change in accounting policy has been applied retrospectively. No business or geographical segmentation analysis is provided as 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.

The 2000 comparative figures presented herein have incorporated the effect of adjustments resulting from the adoption of the new accounting standards above.

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

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

c. Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealized profits are eliminated in full. Unrealized losses resulting from intragroup transactions are eliminated unless the cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events under similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less accumulated impairment losses, if any. The results of the subsidiaries are included in the income statement of the Company to the extent of dividends received and receivable.

d. Turnover

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

e. Revenue recognition

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

(i) *Sale of goods*

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

(ii) *Interest income*

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

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

e. Revenue recognition (Cont'd)

(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.

f. Deferred taxation

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or an asset will crystallize.

g. Foreign currency transactions

The Company and its subsidiaries maintain their books and records in their respective reporting currencies. The functional currency of the Company and its subsidiaries is Chinese Renminbi ("RMB"). Transactions in other currencies are translated into RMB at the unified exchange rates quoted by the People's Bank of China prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated at the applicable unified exchange rates prevailing at that date. All exchange differences are recognized in the income statement in the year in which they arise.

Cumulative translation adjustments under shareholders' equity represent exchange differences arising from the Company's change in functional currency in previous years.

h. Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortization of discounts or premiums relating to borrowings, amortization of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

h. Borrowing costs (Cont'd)

Interest charges are expenses as incurred, except when they are directly attributable to the acquisition, construction or production of a specific asset that necessarily takes a substantial period of time to prepare for its intended use in which case they are capitalized as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized at the weighted average cost of the related borrowings (which includes the actual borrowing costs incurred on that borrowing less any investment income earned on the temporary investment of funds pending their expenditure) until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Other borrowing costs are considered immaterial and are recognized as an expense in the year incurred.

i. Provisions

A provision is recognized when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Minibuses are sold with an eighteen-month or 30,000 kilometers first-to-occur limited warranty. During the warranty period, the Group 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 obligations, including handling and transportation costs. The assumptions used to estimate warranty expenses are reevaluated periodically in light of actual experience.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

j. Employee benefits

Pursuant to PRC laws and regulations, contributions to the basic old age insurance and other benefits for the Group's PRC staff are made monthly to a government agency based on percentages, ranging from 43.8% to 50.4% of the standard salary set by the provincial government. Part of such contributions, ranging from 29.8% to 34.4% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accrual basis.

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

Cash represents cash on hand and deposits with banks and other financial institutions which are repayable on demand. Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturity of three months or less that are subject to an insignificant risk of change in value.

Bank deposits with maturity between three and twelve months are classified as short-term deposits.

l. Trade and other receivables

Trade and other receivables are stated at their cost, after provision for doubtful debts.

m. 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.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

n. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. 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 beyond its originally assessed standard of performance, the expenditure is capitalized as an additional cost of the fixed asset.

Depreciation is calculated on a straight-line basis, at annual rates estimated to write off the cost less 10% residual value of each asset over its expected useful life. The annual rates are as follows:

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

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 the lease.

The useful lives of assets and the depreciation method are reviewed periodically.

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 disposals is included in the income statement.

o. Construction-in-progress

Construction-in-progress represents factories and office buildings under construction and machinery pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes cost of construction, machinery and equity and other direct costs plus borrowing costs which include interest charges arising from borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

p. Intangible assets

Intangible assets are measured initially at cost. An intangible asset is 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.

Internally generated intangible assets are charged against income in the period incurred except for development costs which comply with the following criteria:

- the product or process is clearly defined and the costs are separately identified and measured reliably;
- the technical feasibility of the product or process is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the product or process are available.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized on a straight-line basis over their estimated useful lives. The amortization period and the amortization method are reviewed annually at each financial year end.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

q. Investments in associated companies

Investments in associated companies where significant influence is exercised by the Group are accounted for using the equity method in the consolidated financial statements, whereby the investment is initially recorded at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the associated companies, distributions received from the associated companies and other necessary alterations in the Group's proportionate interest in the associated companies arising from changes in the equity of the associated companies that have not been included in the income statement and less accumulated impairment losses, if any. The Group's share of post-acquisition results of associated companies is included in the consolidated income statement.

r. Interests in 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.

Interests in jointly controlled joint ventures are accounted for using the equity method in the consolidated financial statements, whereby the interest is initially recorded at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits and losses of the jointly controlled joint ventures, distributions received from the jointly controlled joint ventures and other necessary alterations in the Group's proportionate interest in the jointly controlled joint ventures arising from changes in the equity of the jointly controlled joint ventures that have not been included in the income statement and less accumulated impairment losses, if any. The Group's share of post-acquisition results of jointly controlled joint ventures is included in the consolidated income statement.

In the Company's financial statements, the Company's interests in jointly controlled joint ventures are included under long-term investments and are stated at cost less accumulated impairment losses, if any. The results of jointly controlled joint ventures are accounted for by the Company to the extent of dividends received and receivable.

Investments made by means of a joint venture structure is accounted for as a subsidiary when the Group can control the board of directors or is in a position to exercise control over the financial and operating policies of the joint venture. A joint venture, not being accounted for as a subsidiary, in which the Group can exercise significant influence over its management is accounted for as an associated company.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

s. Goodwill

The excess of the cost of an acquisition over the Group's and the Company's interest in the fair value of the net identifiable assets and liabilities acquired as at the date of the acquisition is recorded as goodwill and recognized as an asset in the balance sheet. With respect to investments in associated companies and interests in joint ventures accounted for under the equity method of accounting, goodwill is included in the carrying amount of the investments. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses, if any. 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.

Pursuant to SSAP 30, there is a rebuttable presumption that the useful life of goodwill will not exceed twenty years from initial recognition. The Company's directors considered the automotive industry in the PRC is subject to stringent control and regulations and the barrier to new entry is significant. It is expected that a significant amount of revenue will be generated by the investee companies. Consequently, in the opinion of the directors, goodwill should be amortized over the shorter of 40 years or the remaining life of the respective joint ventures from their initial recognition. The directors estimate the recoverable amount of goodwill at least at each financial year end.

t. Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

u. Impairment of assets

Fixed assets, construction-in-progress, intangible assets, goodwill, investments in associated companies and subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement for these assets. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

u. Impairment of assets (Cont'd)

A reversal of impairment losses recognised in prior years is recorded when the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in income statement.

v. Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

w. Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, adjusting events, are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

x. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

3. SEGMENT INFORMATION

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.

4. REVENUE

	2001 RMB'000	2000 RMB'000
Turnover:		
Sales of minibuses	5,974,426	5,861,996
Sales of automotive components	244,010	444,434
	6,218,436	6,306,430
Other revenue	38,863	8,917
Other income (subsidy income)	—	181,600
Interest income	106,285	106,351
Total revenue	6,363,584	6,603,298

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

5. INTEREST INCOME

	2001 RMB'000	2000 RMB'000
Interest income from		
— Bank deposits	69,746	56,679
— Affiliated companies (Note 9f)	39,639	56,964
— An associated company (Note 9f)	—	2,386
— Others (Note 23)	1,350	—
	110,735	116,029
Less: Interest income capitalized in construction-in-progress (Note 17)	(4,450)	(9,678)
	106,285	106,351

6. INTEREST EXPENSE

	2001 RMB'000	2000 RMB'000
Interest expense on		
— Borrowings wholly repayable within five years	227,192	175,398
Less: Interest expense capitalized in construction-in-progress (Note 17)	(49,164)	(79,118)
	178,028	96,280

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

7. PROFIT BEFORE TAXATION

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

	2001	2000
	RMB'000	RMB'000
Charging:		
Amortization of other long-term assets	—	850
Depreciation of fixed assets	111,922	106,683
Loss on disposals of fixed assets	4,539	271
Amortization of goodwill included in		
— General and administrative expenses	6,200	6,355
— Share of profits or losses of associated companies	11,313	3,398
Provision for inventory obsolescence	3,000	5,000
Provision for impairment losses on tools and moulds	30,950	—
Staff costs (excluding directors' emoluments)	169,794	170,485
Cost of inventories sold (including depreciation and amortization)	4,307,988	4,436,155
Provision for doubtful debts	1,352	227
Auditors' remuneration	2,300	2,325
Exchange loss, net	11,608	5,413
Research and development costs included in general and administrative expenses	26,825	7,623
Training expenses included in general and administrative expenses	23,981	17,652
Provision for warranty	36,982	14,042
Operating lease rentals	2,540	3,788
Crediting:		
Provision for doubtful debts written back	19,147	—

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Directors' emoluments

Details of directors' emoluments pursuant to Section 161 of the Hong Kong Companies Ordinance are set out below:

	2001 RMB'000	2000 RMB'000
Executive directors:		
Fees	—	—
Other emoluments		
— Basic salaries, allowances and benefits in kind	18,630	12,989
— Performance related bonuses	—	—
— Contributions to pension scheme	—	—
— Compensation paid for loss of office	—	—
	18,630	12,989
Independent non-executive directors:		
Fees	—	—
	18,630	12,989

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 19,952,000 shares of the Company at HK\$1.896 per ordinary share during the year. These options are exercisable from June 2, 2001 to June 1, 2011. During the year, none of the share options was exercised.

The emoluments of the directors (including executive and non-executive directors) analyzed by the number of directors and emolument ranges are as set out 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.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

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

a. Directors' emoluments (Cont'd)

	2001	2000
Up to RMB1,000,000	3	3
RMB1,000,001 – RMB1,500,000	1	1
RMB1,500,001 – RMB2,000,000	4	3
RMB5,000,001 – RMB5,500,000	—	1
RMB7,000,001 – RMB8,500,000	1	—
	9	8

No directors waived their emoluments during the year (2000: Nil).

b. Details of emoluments paid to the five highest paid individuals (including directors and other employees) are as follows:

	2001 RMB'000	2000 RMB'000
Basic salaries, allowances and benefits in kind	17,388	12,989
Contributions to pension scheme	—	—
Number of directors	5	5
Number of employees	—	—

The five highest paid employees of the Group for the year ended December 31, 2001 were also directors of the Company whose 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 (2000: Nil).

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 President of the Company. For the year ended December 31, 2001, no bonus was allocated (2000: Nil).

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

9. 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 over the company. Parties are also considered to be affiliated if they are subject to common control or common significant influence.

Save as disclosed elsewhere in the financial statements, significant transactions with affiliated parties (these affiliated companies and the Company have certain directors in common and/or other relationships as specified) are detailed as follows:

- 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:

	2001	2000
	RMB'000	RMB'000
		<i>(Note 34)</i>
Sales to Shenyang Brilliance Automotive Company Limited (formerly known as JinBei Automotive Company Limited) ("JinBei") and its affiliated companies	14,923	3,527
Purchases from JinBei and its affiliated companies	317,046	25,319
Sales to Shanghai Brilliance Group Co., Ltd. ("Shanghai Brilliance") and its affiliated companies	907,232	4,821,322
Purchases from Shanghai Brilliance and its affiliated companies	164,323	153,933
Sales to other affiliated companies of Brilliance Holdings Limited	59,816	644,167
Purchases from other affiliated companies of Brilliance Holdings Limited	274,379	406,020
Sales to Shanghai Yuantong Automobile Sales and Service Company Limited ("Shanghai Yuantong")	2,622,002	83,509
Advertising expenses reimbursed by Shanghai Yuantong	64,070	—
Sales to associated companies	61,683	98,546
Purchases from associated companies	635,373	715,610
Purchases from affiliated companies of the joint venture partner in Ningbo Yuming Machinery Industrial Co., Ltd. ("Ningbo Yuming")	33,524	33,237
Sales to a joint venture partner in Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("Shenyang Aerospace")	—	1,710
Sales to affiliated companies of the joint venture partner in Mianyang Xincheng	—	15,136

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

9. RELATED PARTY TRANSACTIONS (Cont'd)

a. (Cont'd)

The sales and purchases transactions above 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.

- b. As of December 31, 2001, amounts due from affiliated companies arising from trading activities consisted of the following:

	2001 RMB'000	2000 RMB'000
		<i>(Note 34)</i>
Due from Shanghai Yuantong (i)	439,411	7,761
Due from Shanghai Brilliance and its affiliated companies	31,874	15,828
Due from other affiliated companies of Brilliance Holdings Limited (ii)	61,125	88,123
Due from affiliated companies of JinBei	35,071	—
Due from affiliated companies of the joint venture partner in Ningbo Yuming	18,281	280
Due from an associated company	11,175	—
Due from affiliated companies of the joint venture partner in Shenyang Xinguang Brilliance Automotive Engine Co., Ltd. ("Xinguang Brilliance")	—	2,001
	596,937	113,993
Provision for doubtful debts	—	(12,230)
	596,937	101,763

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

9. RELATED PARTY TRANSACTIONS (Cont'd)

b. (Cont'd)

- (i) The amount due from Shanghai Yuantong during the year bears interest at a rate of 5.4% per annum. The balance of approximately RMB439 million (2000: Nil) as of year end represents commercial notes issued by Shanghai Yuantong in settlement of the outstanding receivable.
- (ii) Included in the amounts due from affiliated companies of Brilliance Holdings Limited is approximately RMB56 million (2000: Nil) guaranteed by a shareholder of an affiliated company. As of December 31, 2000, approximately RMB86.6 million was guaranteed by the joint venture partner in Mianyang Xinchun.

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. These affiliated companies are generally required to settle 25% to 33% of the previous month's ending balances. The aging analysis of amounts due from affiliated companies is as follows:

	2001 RMB'000	2000 RMB'000
		<i>(Note 34)</i>
Less than six months	530,051	27,388
Between six months to one year	—	86,605
Between one to two years	66,886	—
	596,937	113,993

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

9. RELATED PARTY TRANSACTIONS (Cont'd)

- c. As of December 31, 2001 the notes receivable from affiliated companies arising from trading activities consisted of the following:

	2001 RMB'000	2000 RMB'000
		<i>(Note 34)</i>
Notes receivable from Shanghai Brilliance	536,859	345,196
Notes receivable from Shanghai Yuantong	144,935	75,806
Notes receivable from other affiliated companies of Brilliance Holdings Limited	3,075	16,427
Notes receivable from an associated company	2,000	—
Notes receivable from an affiliated company of the joint venture partner in Ningbo Yuming	—	12,250
	686,869	449,679

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 December 31, 2001 included in prepayments and other current assets are approximately RMB168 million (2000: Nil) of prepayments for purchases of raw materials made to an affiliated company of Brilliance Holdings Limited.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

9. RELATED PARTY TRANSACTIONS (Cont'd)

- e. As of December 31, 2001, amounts due to affiliated companies arising from trading activities consisted of the following:

	2001 RMB'000	2000 RMB'000
		<i>(Note 34)</i>
Due to associated companies	169,589	238,329
Due to Shanghai Brilliance and its affiliated companies	173,636	71,118
Due to JinBei and its affiliated companies	107,095	14,468
Due to other affiliated companies of Brilliance Holdings Limited	32,340	102,107
Due to affiliated companies of the joint venture partner of Ningbo Yuming	6,287	3,584
Due to affiliated companies of the joint venture partner in Xinguang Brilliance	3,132	—
	492,079	429,606

The amounts due to affiliated companies are unsecured and non-interest bearing. Amounts due to affiliated companies are generally settled on a monthly basis at 25% to 33% of the previous month's ending balance. The aging analysis of amounts due to affiliated companies is as follows:

	2001 RMB'000	2000 RMB'000
Less than six months	469,034	429,606
Between six months to one year	11,461	—
Between one to two years	11,584	—
	492,079	429,606

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

9. RELATED PARTY TRANSACTIONS (Cont'd)

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

	2001 RMB'000	2000 RMB'000
		<i>(Note 34)</i>
Purchases of fixed and other assets from affiliated companies of Brilliance Holdings Limited	41,984	24,498
Purchases of moulds from an affiliated company of Shanghai Brilliance	35,750	—
Purchase of an intangible asset from an affiliated company of Brilliance Holdings Limited	—	681,100
Acquisition of Key Choices Group Limited (“Key Choices”) from Brilliance Holdings Limited	278,213	—
Acquisition of Xinguang Brilliance from Brilliance Holdings Limited	—	388,000
Sales of fixed assets to an affiliated company of Brilliance Holdings Limited	5,558	—
Sales of fixed assets to an associated company	18,425	—
Management and consultancy fees charged by Brilliance Holdings Limited	12,405	5,796
Interest income from Brilliance Holdings Limited and affiliated companies	23,709	56,964
Interest income from Shanghai Yuantong	15,930	—
Interest income from an associated company	—	2,386
Pursuant to a trademark license agreement, JinBei granted Shenyang JinBei Passenger Vehicle Manufacturing Company Limited (“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)

9. RELATED PARTY TRANSACTIONS (Cont'd)

g. As of December 31, 2001, the advances to affiliated companies consisted of:

	2001 RMB'000	2000 RMB'000
Advances to Brilliance Holdings Limited and its affiliated companies:		
Interest bearing at 5.5% (2000: 5.5% to 7.2%) per annum (i)	40,000	200,068
Non-interest bearing	256,223	407,639
Advances to JinBei and its affiliated companies:		
Non-interest bearing (2000: non-interest bearing)	2,163	1,100
	298,386	608,807
Long-term advances to an affiliated company of Brilliance Holdings Limited		
Interest bearing at 5.5% (ii)	39,111	—
Non-interest bearing (ii)	5,693	—
	44,804	—

(i) As of December 31, 2000, advances to Brilliance Holdings Limited and its affiliated companies of approximately RMB128.2 million were guaranteed by the joint venture partner in Mianyang Xinchun.

(ii) The long-term advances to an affiliated company of Brilliance Holdings Limited is wholly repayable in year 2003.

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

h. As of December 31, 2001, the advances from affiliated companies consisted of:

	2001 RMB'000	2000 RMB'000
Advances from Brilliance Holdings Limited and its affiliated companies	54,276	52,311

(Note 34)

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

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits in Hong Kong for the year ended December 31, 2001. Overseas taxation has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the jurisdictions in which companies within the Group operate.

The amount of taxation charged to the consolidated income statement represents:

	2001 RMB'000	2000 RMB'000
The Company and its subsidiaries:		
Current taxation:		
Hong Kong profits tax	—	1,611
PRC enterprise income tax	116,250	314,726
	116,250	316,337
Associated companies:		
Current taxation:		
PRC enterprise income tax	5,405	6,197
	121,655	322,534

There was no significant unprovided deferred taxation.

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 at rate of 16% based on estimated assessable profit arising in Hong Kong.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

10. INCOME TAX EXPENSE (Cont'd)

Income Tax (Cont'd)

The subsidiaries are subject to state and local income taxes within the PRC at their respective tax rates, based on the taxable income reported in their statutory financial statements in accordance with the relevant state and local income tax laws applicable.

Shenyang Automotive is subject to state and local income taxes within the PRC at standard rates of 15% and 3% respectively in accordance with enterprise income tax laws applicable to sino-foreign equity joint venture enterprises.

Ningbo Yuming Machinery Industrial Co., Ltd. ("Ningbo Yuming") is subject to state and local income taxes within the PRC at standard rates of 15% and 3% respectively in accordance with enterprise income tax laws applicable to foreign-invested enterprises. Pursuant to the relevant income tax laws in the PRC, Ningbo Yuming is fully exempted from state 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. In addition, Ningbo Yuming is also fully exempted from local enterprise income tax for the five-year period. As a result, the effective tax rate for Ningbo Yuming was 7.5% for the year ended December 31, 2001 (2000: 7.5%).

Shenyang XingYuanDong Automobile Component Co., Ltd. ("Xing Yuan Dong") is subject to state and local income taxes within the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws. During 1999, Xing Yuan Dong received official designation by the local tax authorities as a "New and Technologically-Advanced Enterprise". In the current year Xing Yuan Dong is further designated by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. As a result, the effective enterprise income tax rate for Xing Yuan Dong was 7.5% for the year ended December 31, 2001 (2000: 33%).

Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("Dongxing Automotive") is subject to state and local income taxes within the PRC at standard rates of 15% and 0% respectively in accordance with enterprise income tax laws applicable to "New and Technologically-Advanced Enterprises". In addition, Dongxing Automotive also received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. Pursuant to the relevant income tax laws in the PRC, Dongxing Automotive is exempted from state enterprise income tax for two years starting from the first profitable year followed by a 50% reduction of enterprise income tax for the next three years. Dongxing Automotive is also exempted from local enterprise income tax for the five years. As a result the effective tax rate for Dongxing Automotive was 7.5% for the year ended December 31, 2001 (2000: 0%).

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

10. INCOME TAX EXPENSE (Cont'd)

Income Tax (Cont'd)

Mianyang Brilliance Ruian Automotive Components Co., Ltd. (“Mianyang Ruian”) is subject to state and local income taxes within the PRC at standard rates of 30% and 3% respectively in accordance with enterprise income tax laws. During the year, Mianyang Ruian received official designation by the local tax authority as a foreign-invested enterprise engaged in manufacturing activities. Pursuant to the relevant income tax laws in the PRC the Mianyang Ruian is exempted from state and local enterprise income taxes for two years starting from the first profitable year followed by a 50% reduction of enterprise income tax for the next three years. As a result, Mianyang Ruian was exempted from income tax for the year ended December 31, 2001 (2000: 33%).

Other subsidiaries in the PRC are subject to state and local income taxes within the PRC at standard rates of 30% and 3% respectively, based on the taxable income reported in their 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%.

11. 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, an enterprise expansion fund and a staff welfare and incentive bonus fund. The dedicated capital is to be appropriated from statutory net income as stipulated by statute or by the Board of Directors and recorded as a component of shareholders’ equity. Under generally accepted accounting principles in Hong Kong (“HK GAAP”), 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, 2001, unutilized appropriations to the staff welfare and incentive bonus fund amounted to RMB14.7 million (2000: RMB15.4 million). In 2001, appropriations of approximately RMB66.2 million (2000: Nil) to the general reserve fund were made by subsidiaries of the Company. No appropriation to the enterprise expansion fund was made by the subsidiaries (2000: Nil).

Distributions received from the Company’s subsidiaries are denominated in U.S. Dollars and are translated at the prevailing unified exchange rate in the PRC. Total accumulated distributable profits of these subsidiaries as of December 31, 2001 amounted to approximately RMB1,313.6 million (2000: RMB880.2 million). The distributable profits of subsidiaries are different from the amounts reported under HK GAAP.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately RMB266.9 million (2000: RMB921.0 million) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

	2001 RMB'000	2000 RMB'000
Additional dividends proposed for additional ordinary shares issued (<i>Note 28(a)(iv)</i>)	1,850	—
Dividends declared or proposed for the year		
— Interim, paid of HK\$0.004 per share (2000: HK\$0.003)	15,544	9,679
— Final, proposed of HK\$0.005 per share (2000: HK\$0.005)	19,605	17,912
	36,999	27,591

Dividends amounting to RMB19.6 million (2000: RMB17.9 million) above are proposed after the balance sheet date but before the financial statements approval date and are not recognized as a liability as at the balance sheet date.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of RMB900,269,000 (2000: RMB958,629,000), divided by the weighted average number of shares outstanding during the year as shown in the table below.

No diluted earnings per share has been presented as the effect of the assumed conversion of the potential ordinary shares outstanding is anti-dilutive. Diluted earnings per share for year 2000 is computed by dividing net profit attributable to shareholders of RMB958,629,000 by the weighted average number of ordinary shares outstanding during the year adjusted for the effect of all dilutive potential ordinary shares from exercise of share options.

A reconciliation of the number of ordinary shares for calculation of basic and diluted earnings per share is as follows:

	2001	2000
Weighted average number of ordinary shares used in calculation of basic earnings per share	3,533,552,900	3,151,418,000
Deemed issue of ordinary shares for no consideration	—	94,563,803
Weighted average number of ordinary shares used in calculation of diluted earnings per share	3,533,552,900	3,245,981,803

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

15. FIXED ASSETS, NET

- a. Movements in fixed assets of the Group are as follows:

	Land use rights RMB'000	Buildings RMB'000	Machinery and equipment RMB'000	2001 Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
Beginning of year	20,170	306,052	791,032	66,822	51,545	1,235,621
Effect of acquisition of a subsidiary	—	813	2,755	146	137	3,851
Additions	—	2,113	74,451	18,501	20,643	115,708
Transfer from construction-in- progress	—	316,541	1,451,013	15,326	280	1,783,160
Disposals	—	(736)	(71,859)	(4,724)	(4,705)	(82,024)
End of year	20,170	624,783	2,247,392	96,071	67,900	3,056,316
Accumulated depreciation and impairment losses						
Beginning of year	8,290	66,212	438,606	52,855	22,707	588,670
Effect of acquisition of a subsidiary	—	204	909	114	72	1,299
Provision for the year	1,080	25,169	69,320	8,011	8,342	111,922
Provision for impairment losses	—	—	30,950	—	—	30,950
Written-back on disposals	—	(641)	(44,677)	(4,106)	(2,976)	(52,400)
End of year	9,370	90,944	495,108	56,874	28,145	680,441
Net book value						
End of year	10,800	533,839	1,752,284	39,197	39,755	2,375,875
Beginning of year	11,880	239,840	352,426	13,967	28,838	646,951

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

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

15. FIXED ASSETS, NET (Cont'd)

b. Movements in fixed assets of the Company are as follows:

	2001 Motor vehicles RMB'000
<hr/>	
Cost	
Beginning of year	2,637
Additions	1,235
Disposals	(4)
<hr/>	
End of year	3,868
<hr/>	
Accumulated depreciation	
Beginning of year	1,351
Provision for the year	670
<hr/>	
End of year	2,021
<hr/>	
Net book value	
End of year	1,847
<hr/>	
Beginning of year	1,286
<hr/>	

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

16. INTANGIBLE ASSET

	2001 RMB'000	2000 RMB'000
Cost		
Beginning of year	681,100	—
Additions	—	681,100
End of year	681,100	681,100
Accumulated amortization		
Beginning of year	—	—
Amortization for the year	—	—
End of year	—	—
Net book value		
End of year	681,100	681,100
Beginning of year	681,100	—

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. No amortization has been provided as the intangible asset has not been put into use.

The directors are of the opinion that the underlying value of the intangible asset is not less than the carrying value as of December 31, 2001.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

17. CONSTRUCTION-IN-PROGRESS

	2001 RMB'000	2000 RMB'000
Beginning of year	1,831,596	973,268
Additions	664,783	885,228
	2,496,379	1,858,496
Transfer to fixed assets	(1,783,160)	(26,900)
End of year	713,219	1,831,596

The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 4.91% (2000: 6.58%) less return on temporary investment of the borrowings calculated at a rate of 2.11% (2000: 3.02%).

18. INVESTMENTS IN SUBSIDIARIES

As of December 31, 2001, investments in subsidiaries comprised the following:

	2001 RMB'000	2000 RMB'000
Unlisted shares, at cost	2,062,134	1,756,772
Amounts due from subsidiaries:		
Interest bearing	1,200,110	590,954
Non-interest bearing	669,755	560,255
	3,931,999	2,907,981

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

18. INVESTMENTS IN SUBSIDIARIES (Cont'd)

In December 2001, the Company entered into an agreement with Brilliance Holdings Limited for the acquisition of the entire issued share capital of Key Choices Group Limited (“Key Choices”) at a consideration of approximately RMB278 million. Key Choices is an investment holding company and its principal assets are the 100% equity interest in the registered capital of Dongxing Automotive and 90% equity interest in the registered capital of Shenyang Xingchen Automotive Seats Co., Ltd. (“Xingchen Automotive Seats”). Dongxing Automotive is a foreign-invested enterprise established in the PRC whose principal products are automotive components for the use in passenger vehicles. Xingchen Automotive Seats is a Sino-foreign equity joint venture established in the PRC in December 2001 and principally engaged in the manufacturing of automotive seats.

The amounts due from subsidiaries are unsecured and the interest bearing balances carry interest at rates of 5.5% to 9% (2000: 9%) per annum. In the opinion of the Company’s directors, the amounts due 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.

The directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying value as of December 31, 2001.

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

Name	Place of establishment/ incorporation	Registered capital/issued and fully paid capital	Legal structure	Percentage of equity interest/voting right attributable to the Company		Principal activities
				Directly	Indirectly	
Shenyang JinBei Passenger Vehicle Manufacturing Company Limited	Shenyang, the PRC	US\$171,160,000	Equity joint venture	51%	—	Minibus manufacturing, assembly and sales
Ningbo Yuming Machinery Industrial Co., Ltd.	Ningbo, the PRC	US\$2,500,000	Equity joint venture	—	51%	Manufacturing and sales of automotive components
Shenyang XingYuanDong Automobile Component Co., Ltd.	Shenyang, the PRC	US\$29,000,000	Wholly foreign owned enterprise	100%	—	Manufacturing and trading of automotive components

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

18. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place of establishment/ incorporation	Registered capital/issued and fully paid capital	Legal structure	Percentage of equity interest/voting right attributable to the Company		Principal activities
				Directly	Indirectly	
Shenyang Jianhua Motors Engine Co., Ltd.	Shenyang, the PRC	RMB155,032,500	Equity joint venture	—	100%	Manufacturing and trading of automotive components
Ningbo Brilliance Ruixing Auto Components Co., Ltd.	Ningbo, the PRC	US\$4,030,142	Wholly foreign owned enterprise	100%	—	Manufacturing and trading of automotive components
Mianyang Brilliance Ruian Automotive Components Co., Ltd.	Mianyang, the PRC	US\$750,000	Wholly foreign owned enterprise	100%	—	Manufacturing and trading of automotive components
Shenyang Brilliance Dongxing Automotive Component Co., Ltd.	Shenyang, the PRC	RMB12,000,000	Wholly foreign owned enterprise	—	100%	Manufacturing and trading of automotive components
Shenyang Xingchen Automotive Seats Co., Ltd.	Shenyang, the PRC	RMB10,000,000	Equity joint venture	—	90%	Manufacturing and trading of automotive components
China Brilliance Automotive Components Group Limited	Bermuda	US\$120,000	Company with limited liabilities	100%	—	Investment holding
Southern State Investment Limited	British Virgin Islands	US\$1	Company with limited liabilities	100%	—	Investment holding
Beston Asia Investment Limited	British Virgin Islands	US\$1	Company with limited liabilities	100%	—	Investment holding
Pure Shine Limited	British Virgin Islands	US\$1	Company with limited liabilities	100%	—	Investment holding
Key Choices Group Limited	British Virgin Islands	US\$50,000	Company with limited liabilities	100%	—	Investment holding

None of the subsidiaries had any loan capital outstanding as of December 31, 2001.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

19. INVESTMENTS IN ASSOCIATED COMPANIES

Details of investments in associated companies are as follows:

	2001 RMB'000	2000 RMB'000
		<i>(Note 34)</i>
Share of net assets other than goodwill	885,618	354,260
Goodwill		
— Cost	452,665	452,665
— Accumulated amortization	(18,685)	(7,372)
	1,319,598	799,553
Loan to an associated company	—	269,170
	1,319,598	1,068,723

In December 2001, Xing Yuan Dong entered into an agreement with two affiliated companies to establish China Zhengtong Investment Holdings Co., Ltd. (“Zhengtong”). Pursuant to the agreement, Xing Yuan Dong contributed cash amounting to RMB480 million to acquire a 47.06% equity interest in Zhengtong. Zhengtong’s principal activity is investment holding.

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 assets 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 directors are of the opinion that the underlying value of the associated companies is not less than the carrying value as of December 31, 2001.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

19. INVESTMENTS IN ASSOCIATED COMPANIES (Cont'd)

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

Name of company	Place of establishment/ incorporation	Registered capital/issued and paid up capital	Legal structure	Percentage of equity interest/ voting right held indirectly	Principal activities
Mianyang Xincheng Engine Co., Ltd.	Mianyang, the PRC	US\$8,600,000	Equity joint venture	50%	Manufacturing and sales of automotive engines
Compass Pacific Holdings Limited	Bermuda	HK\$1,629,510,000	Company with limited liabilities	12.89%	Investment holding
Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd.	Shenyang, the PRC	RMB738,250,000	Equity joint venture	12.77%	Manufacturing and sales of automotive engines
Shenyang Xinguang Brilliance Automotive Engine Co., Ltd.	Shenyang, the PRC	RMB60,000,000	Equity joint venture	50%	Manufacturing and sales of automotive engines
China Zhengtong Investment Holdings Co., Ltd.	Shenyang, the PRC	RMB1,020,000,000	Equity joint venture	47.06%	Investment holding

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

19. INVESTMENTS IN ASSOCIATED COMPANIES (Cont'd)

Unaudited combined financial information of the associated companies for the year ended December 31, 2001 is summarized as follows:

	2001	2000
	RMB'000	RMB'000
Balance sheet		
Current assets	2,288,293	1,306,505
Long-term assets	1,344,050	1,527,258
	3,632,343	2,833,763
Current liabilities	(572,000)	(586,920)
Long-term liabilities	(824,336)	(866,960)
Net assets	2,236,007	1,379,883
Income statement		
Turnover	1,732,108	1,847,422
Net profit	70,678	209,468

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

20. GOODWILL

	2001 RMB'000	2000 RMB'000
Cost		
Beginning of year	248,316	248,316
Additions	191,267	—
End of year	439,583	248,316
Accumulated amortization		
Beginning of year	18,919	12,564
Provision for the year	6,200	6,355
End of year	25,119	18,919
Net book value		
End of year	414,464	229,397
Beginning of year	229,397	235,752

The directors are of the opinion that the underlying value of the goodwill is not less than the carrying value as of December 31, 2001.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

21. ACCOUNTS RECEIVABLE

An aging analysis of accounts receivable is set out below:

	2001 RMB'000	2000 RMB'000
		<i>(Note 34)</i>
Less than six months	19,757	9,532
Between six months to one year	1,896	7,516
Between one to two years	2,823	17,071
Above two years	52,690	51,542
	77,166	85,661
Less: Provision for doubtful debts	(53,059)	(58,624)
	24,107	27,037

Credit is offered to customers following financial assessment and an established payment record. Security in the form of guarantees or bank notes is 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 monitor accounts receivable and follow up collection with the customers. General credit terms are between 30 days to 90 days.

22. NOTES RECEIVABLE

Notes receivable are primarily notes received from customers for settlement of trade receivable balances. As of December 31, 2001, all notes receivable are guaranteed by established banks in the PRC and have maturities of between one to six months.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

23. OTHER RECEIVABLES

	2001 RMB'000	2000 RMB'000
Advances to third parties	23,350	709,977
Subsidies receivable	81,950	227,950
Others	67,403	60,352
	172,703	998,279

The advances to third parties are guaranteed by JinBei, have no fixed repayment dates and bear interest at 6.1% (2000: Nil) per annum.

24. INVENTORIES

	2001 RMB'000	2000 RMB'000
Raw materials	319,173	296,260
Work-in-progress	46,783	115,411
Finished goods	273,417	399,522
	639,373	811,193
Less: Provision for inventory obsolescence	(12,404)	(15,562)
	626,969	795,631

Included in finished goods are inventories of approximately RMB5.3 million (2000: RMB4.0 million) that are stated at net realizable value.

25. SHORT-TERM BANK LOANS

	2001 RMB'000	2000 RMB'000
Secured	200,000	428,077
Unsecured	205,500	619,152
	405,500	1,047,229

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

25. SHORT-TERM BANK LOANS (Cont'd)

As of December 31, 2001, the short-term bank loans were

	2001 RMB'000	2000 RMB'000
Secured by:		
Property, plant and equipment of Shenyang Automotive with net book value of	—	421,880
Guaranteed by:		
An associated company	—	143,808
The Company	200,000	—

26. NOTES PAYABLE

	2001 RMB'000	2000 RMB'000
Bank notes	3,300,000	3,217,318
Commercial notes	—	350,000
	3,300,000	3,567,318

As of December 31, 2001, the notes payable were pledged by short-term bank deposits of approximately RMB1,925.8 million (2000: RMB905.5 million).

27. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

	2001 RMB'000	2000 RMB'000
Aged less than six months	666,216	472,068

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

28. SHARE CAPITAL AND SHARE OPTIONS

	2001		2000	
	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	5,000,000	US\$50,000
Issued and fully paid:				
Ordinary shares of US\$0.01 each	3,666,053	RMB303,194	3,348,053	RMB276,891

a. Share Capital

- (i) 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 ordinary shares of US\$0.01 each.
- (ii) 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 the 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 ordinary shares for every then-existing shares. These shares rank pari passu with the existing shares.
- (iii) 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.
- (iv) On May 25, 2001, arrangements were made for a private placement to professional and institutional investors of 318,000,000 ordinary shares of US\$0.01 each at a price of HK\$2.20 per share by Zhuhai Brilliance Holdings Company Limited ("Zhuhai Brilliance") and Mr. Yang Rong, Chairman of the Company. The price of HK\$2.20 per share represents a discount of approximately 12% to the closing market price of the Company's shares of HK\$2.50 per share as quoted on SEHK on May 24, 2001. On the same date, the Company entered into a subscription agreement with Zhuhai Brilliance and Mr. Yang Rong for the subscription of 318,000,000 new ordinary shares of US\$0.01 each at a price of HK\$2.20 per share. All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

28. SHARE CAPITAL AND SHARE OPTIONS (Cont'd)

b. Share Options

On September 18, 1999, the Company approved a share option scheme under which the directors may, at their discretion, at any time during the ten years from the date of approval of the scheme, invite employees of any member company of the Group, including executive directors, to take up share options of the Company. The maximum number of shares on which options may be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of options from time to time. The exercise price in relation to each option offer shall be determined by the directors at their absolute discretion, but in any event shall not be less than the greater of (i) 80% of the average of the official closing price of the shares on SEHK for the five trading days immediately preceding the relevant offer date or (ii) the nominal value of the shares. The directors may determine and adjust the period within which the relevant grantee may exercise his or her option and the proportion of the options to be exercised in each period, so long as the period within which the option must be exercised is not more than ten years from the date of grant of the option.

During the year, share options were granted to certain directors and employees of the Company, entitling them to subscribe for a total of 31,800,000 (2000: 304,360,000) ordinary shares of the Company at HK\$1.896 (2000: HK\$1.059) per ordinary share. The options granted during the year are exercisable from June 2, 2001 to June 1, 2011.

A summary of the movements of share options granted under the scheme during the year and balance outstanding as of December 31, 2001 is as follows:

Exercise price per share	HK\$1.896
	Number of share options
<hr/>	
Beginning of year	—
Granted during the year	31,800,000
Exercised during the year	—
Cancelled/lapsed during the year	—
<hr/>	
Outstanding as of year end	31,800,000
<hr/>	

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

29. EQUITY AND RESERVES

a. Consolidated

	Ordinary shares RMB'000	Share premium RMB'000	Cumulative translation adjustments RMB'000	Dedicated capital RMB'000	Retained earnings RMB'000	Total RMB'000	Proposed dividend RMB'000
Balance as of January 1, 2000	12,332	1,263,322	39,179	5,191	1,217,310	2,537,334	6,497
Bonus issue of 19 shares for 1 share on April 14, 2000 (Note 28(a)(ii))	239,370	(239,370)	—	—	—	—	—
Exercise of employee stock options (Note 28(b))	25,189	320,001	—	—	—	345,190	—
Dividends declared during the year	—	—	—	—	(9,679)	(9,679)	9,679
Profit for the year	—	—	—	—	958,629	958,629	—
Dividends paid during the year	—	—	—	—	—	—	(16,176)
Dividends proposed subsequent to year end	—	—	—	—	(17,912)	(17,912)	17,912
Balance as of December 31, 2000	276,891	1,343,953	39,179	5,191	2,148,348	3,813,562	17,912
Issue of ordinary shares (Note 28(a)(iv))	26,303	689,963	—	—	—	716,266	—
Additional dividends proposed for additional ordinary shares issued (Note 13)	—	—	—	—	(1,850)	(1,850)	1,850
Dividends declared during the year	—	—	—	—	(15,544)	(15,544)	15,544
Profit for the year	—	—	—	—	900,269	900,269	—
Transfer to dedicated capital	—	—	—	66,165	(66,165)	—	—
Dividends paid during the year	—	—	—	—	—	—	(35,306)
Dividends proposed subsequent to year end	—	—	—	—	(19,605)	(19,605)	19,605
Balance as of December 31, 2001	303,194	2,033,916	39,179	71,356	2,945,453	5,393,098	19,605
Retained by:							
The Company and subsidiaries	303,194	2,033,916	39,179	71,356	2,889,645	5,337,290	
Associated companies	—	—	—	—	55,808	55,808	
	303,194	2,033,916	39,179	71,356	2,945,453	5,393,098	

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

29. EQUITY AND RESERVES (Cont'd)

b. Company

	Ordinary shares RMB'000	Share premium RMB'000	Cumulative translation adjustments RMB'000	Retained earnings RMB'000	Total RMB'000	Proposed dividend RMB'000
Balance as of January 1, 2000	12,332	1,263,322	39,179	620,521	1,935,354	6,497
Bonus issue of 19 shares for 1 share on April 14, 2000 (Note 28(a)(ii))	239,370	(239,370)	—	—	—	—
Exercise of employee stock options	25,189	320,001	—	—	345,190	—
Dividends declared during the year	—	—	—	(9,679)	(9,679)	9,679
Dividends paid during the year	—	—	—	—	—	(16,176)
Profit for the year	—	—	—	920,972	920,972	—
Dividends proposed subsequent to year end	—	—	—	(17,912)	(17,912)	17,912
Balance as of December 31, 2000	276,891	1,343,953	39,179	1,513,902	3,173,925	17,912
Issue of ordinary shares (Note 28(a)(iv))	26,303	689,963	—	—	716,266	—
Additional dividends proposed for additional ordinary shares issued (Note 13)	—	—	—	(1,850)	(1,850)	1,850
Dividends declared during the year	—	—	—	(15,544)	(15,544)	15,544
Dividends paid during the year	—	—	—	—	—	(35,306)
Profit for the year	—	—	—	266,909	266,909	—
Dividends proposed subsequent to year end	—	—	—	(19,605)	(19,605)	19,605
Balance as of December 31, 2001	303,194	2,033,916	39,179	1,743,812	4,120,101	19,605

Dividends proposed after the balance sheet date are not recognized as a liability and accordingly are not included as part of the distributions during the year (Note 2b).

The directors consider that the Company had approximately RMB1,744 million (2000: RMB1,514 million) available for distribution to shareholders as of December 31, 2001. Please also refer to Note 11 for details of distribution of profit.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash inflow from operating activities:

	2001	2000
	RMB'000	RMB'000
		<i>(Note 34)</i>
Profit before taxation	1,229,680	1,549,480
Share of profits or losses of associated companies	(45,448)	(74,423)
Interest income	(106,285)	(106,351)
Interest expense	178,028	96,280
Depreciation of fixed assets	111,922	106,683
Amortization of other long-term assets	—	850
Amortization of goodwill	6,200	6,355
Loss on disposals of fixed assets	4,539	271
Provision for doubtful debts	1,352	227
Provision for doubtful debts written back	(19,147)	—
Provision for inventory obsolescence	3,000	5,000
Provision for impairment losses on tools and moulds	30,950	—
Decrease in accounts receivable	8,566	25,397
Increase in notes receivable	(93,090)	(85,796)
Increase in notes receivable from affiliated companies	(237,190)	(102,211)
Increase in amounts due from affiliated companies	(477,136)	(28,082)
Decrease (Increase) in other receivable	860,387	(816,588)
(Increase) Decrease in prepayments and other current assets	(109,967)	297
Decrease (Increase) in inventories	168,639	(419,088)
(Decrease) Increase in notes payable	(267,318)	3,166,015
Increase in accounts payable	181,361	13,182
Increase in amounts due to affiliated companies	133,968	86,401
Increase (Decrease) in customer advances	45,786	(75,036)
Increase in other payables	33,251	155,727
Increase (Decrease) in accrued expenses and other current liabilities	8,317	(29,373)
Increase (Decrease) in taxes payable	43,739	(107,284)
	1,694,104	3,367,933

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

b. Effect of acquisition of a subsidiary

The assets and liabilities included in the acquisition are as follows:

	RMB'000
Cash and cash equivalents	6,805
Fixed assets, net	2,552
Inventories, net	2,978
Receivables	98,291
Other assets	539
Payables	(21,734)
Taxes payable	(1,485)
Minority interests	(1,000)
Fair value of net assets acquired	86,946
Goodwill	191,267
Total purchase consideration settled by offsetting against advances to affiliated companies (<i>Note 30 (d)</i>)	278,213
Effect on cash flow	
Cash and cash equivalents acquired	6,805

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

c. An analysis of changes in financing during the year is as follows:

	Share capital and share premium RMB'000	Short-term bank loans RMB'000	Advances from affiliated companies RMB'000	Pledged Bank Deposits RMB'000	Minority interests RMB'000
Balances as of January 1, 2000	1,275,654	1,590,860	23,402	534,501	915,231
Minority interest acquired	—	—	—	—	(31,007)
Increase in advances from affiliated companies	—	—	28,909	—	—
Increase in pledged bank deposits	—	—	—	371,027	—
Share of profit by joint venture partners	—	—	—	—	268,317
Exercise of employee stock options	345,190	—	—	—	—
Distributions during the year	—	—	—	—	(624,604)
Decrease in short-term bank loans	—	(543,631)	—	—	—
Balances as of December 31, 2000	1,620,844	1,047,229	52,311	905,528	527,937
Issue of ordinary shares	716,266	—	—	—	—
Distributions during the year	—	—	—	—	(214,314)
Increase in advances from affiliated companies	—	—	1,965	—	—
Increase in pledged bank deposits	—	—	—	1,020,277	—
Share of profit by joint venture partners	—	—	—	—	207,756
Minority interest acquired	—	—	—	—	1,000
Decrease in short-term bank loans	—	(641,729)	—	—	—
Balances as of December 31, 2001	2,337,110	405,500	54,276	1,925,805	522,379

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

d. Major non-cash transactions during the year are as follows:

- (i) Purchase consideration amounting to approximately RMB278 million for the acquisition of an indirect equity interest in a subsidiary was offset against certain receivable balances from affiliated companies.
- (ii) Amounts due from and due to affiliated companies of approximately RMB87 million were offset after agreement among the parties.

31. 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 staff for 2001 (2000: 20% to 23.5%). 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 who retired prior to January 1, 1992.

The retirement plan contributions payable for the year ended December 31, 2001 was approximately RMB21.2 million (2000: RMB17.6 million).

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 RMB10.4 million (2000: RMB32.3 million) for 2001, have been calculated at a certain percentage (approximately 9.8% to 10.9% in 2001 and 29.3% in 2000) 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, 2001, contributions amounting to approximately HK\$160,000 (2000: Nil) were made.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

32. COMMITMENTS

a. Capital commitments

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

	2001	2000
	RMB'000	RMB'000
<hr/>		
Contracted but not provided for:		
— Construction projects	6,902	117,000
— Investment and acquisition	5,000	—
— Purchase of equipment	107,758	307,953
— Others	11,022	166,567
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Total	130,682	591,520
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b. Operating lease commitments

As at December 31, 2001, the total future minimum lease payments payable under non-cancellable operating leases of the Group in respect of leased properties are as follows:

	2001	2000
	RMB'000	RMB'000
<hr/>		
Total future lease payments payable		<i>(Note 34)</i>
Within one year	3,408	1,706
Later than one year but not later than five years	2,721	3,890
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Total	6,129	5,596
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Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

33. CONTINGENCIES

As of December 31, 2001, the Group had bank notes of approximately RMB1,145 million (2000: RMB1,523.2 million) which were endorsed or discounted but not yet honored.

As of December 31, 2001, subsidiaries in the Group had provided the following guarantees:

- Corporate guarantees of approximately RMB1,114 million (2000: RMB1,727.5 million) for bank loans and notes drawn by affiliated companies of Shanghai Brilliance;
- Corporate guarantee of approximately RMB25 million (2000: Nil) for notes drawn by affiliated companies of the joint venture partner in Ningbo Yuming; and
- A joint and several proportional guarantee with the joint venture partner of Shenyang Aerospace on a long-term bank loan of approximately RMB540 million drawn by Shenyang Aerospace (2000: RMB540 million) which will expire in 2008.

As of December 31, 2001 the Company had provided guarantees of approximately RMB200 million (2000: Nil) for bank loans of a subsidiary.

34. COMPARATIVE FIGURES

The Group has adopted the following new accounting standards: SSAP 9 (revised) “Events after the balance sheet date”, SSAP 14 (revised) “Leases”, SSAP 26 “Segmental reporting”, SSAP 28 “Provisions, contingent liabilities and contingent assets”, SSAP 29 “Intangible assets”, SSAP 30 “Business combination”, SSAP 31 “Impairment of assets” and SSAP 32 “Consolidated financial statements and accounting for investments in subsidiaries” recently issued by the Hong Kong Society of Accountants. These have resulted in changes to the presentation of various items and comparative financial information has been restated accordingly.

Certain 2000 comparative figures were also reclassified to conform to the current year’s presentation.

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

35. COMPARISON OF US GAAP AND HK GAAP

The Group has prepared a separate set of financial statements for the year ended December 31, 2001 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 effects of the material differences between HK GAAP and US GAAP are summarized and explained as follows:

	2001 RMB'000	2000 RMB'000
		<i>(Note 34)</i>
Net profit reported under HK GAAP	900,269	958,629
Stock-based compensation (a)	(15,462)	(88,264)
Capitalization of borrowing costs (b)	2,270	4,936
Others	—	(5,271)
Net profit reported under US GAAP	887,077	870,030
	2001 RMB'000	2000 RMB'000
Net assets reported under HK GAAP	5,412,703	3,831,474
Capitalization of borrowing costs (b)	13,114	10,844
Others	(6,014)	(6,013)
Net assets reported under US GAAP	5,419,803	3,836,305

Notes to the Financial Statements (Cont'd)

(Amounts expressed in RMB unless otherwise stated)

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

- a. On June 2, 2001, share options were granted to certain directors and employees of the Group entitling them to subscribe for a total of 31,800,000 ordinary shares of the Company at a discount of 80% of the average closing price of the shares as quoted on SEHK for the 5 trading 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 (2000: 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 shares under such scheme will be recorded as 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.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements (set out on pages 23 to 78) were approved and authorized for issue by the Board of Directors on April 25, 2002.