



BRILLIANCE
CHINA AUTOMOTIVE
HOLDINGS LIMITED



Annual Report 2001

| <i>(Amounts in thousands of Renminbi, except for ADS data)</i> | Year ended and as of December 31, 2001 RMB | Year ended and as of December 31, 2000 RMB | Year ended and as of December 31, 1999 RMB |
|--|---|---|---|
| Income Statement Data: | | | |
| Net Income | 887,077 | 870,030 | 649,019 |
| Sales | 6,218,436 | 6,306,430 | 4,351,169 |
| Basic earnings per ADS in US\$ | US\$3.0246 | US\$3.3359 | US\$2.9077 |
| Diluted earnings per ADS in US\$ | US\$3.0246 | US\$3.2387 | N/A |
| Weighted average number of ADSs used in calculating basic earnings per ADS | 35,335,529 | 31,514,189 | 26,956,929 |
| Weighted average number of ADSs used in calculating diluted earnings per ADS | 35,335,529 | 32,459,818 | N/A |
| Balance Sheet Data: | | | |
| Total assets | 11,696,523 | 10,552,355 | 7,032,728 |
| Equity | 5,419,803 | 3,836,305 | 2,548,997 |

Notes:

1. The calculation of earnings per ADS is based on the weighted average number of ADSs outstanding during the year. The effect of the stock split on April 14, 2000 has been reflected retrospectively for the purpose of earnings per ADS computation. The weighted average number of ADSs outstanding for the years ended December 31, 2001, 2000 and 1999 were 35,335,529, 31,514,189 and 26,956,929 respectively.
2. The diluted earnings per ADS for the year was calculated based on the weighted average number of common stock mentioned above and adjusted for all dilutive potential common stock outstanding during the year. For the year ended December 31, 2001, the effect of the assumed conversion of all potential common stock outstanding is anti-dilutive. The weighted average number of ADSs for the year ended December 31, 2000 was 32,459,818 shares after taking into account the effect of the weighted average number of shares deemed to be issued at no consideration if all outstanding share options during the year had been exercised. Diluted earnings per ADS information has not been presented for 1999 as there were no dilutive potential common stocks outstanding for the year ended 1999.
3. 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. The calculation of earnings per ADS is based on the adjusted weighted average number of ADSs outstanding during the years presented. The weighted average number of ADSs outstanding is calculated based on the assumptions that the ADSs had been in existence throughout all the years presented and that all of the outstanding common stock were held in the form of ADSs (at the ratio of 100 shares for each ADS).

Brilliance China Automotive Holdings Limited (the "Company"), established in 1992, owns a 51% interest in Shenyang JinBei Passenger Vehicle Manufacturing Company Limited ("Shenyang Automotive"), a Sino-foreign equity joint venture enterprise established in 1991. Shenyang Automotive is located in Shenyang, the capital of Liaoning Province and the commercial center of the northeastern region of the People's Republic of China ("China"). Shenyang Automotive is the leading manufacturer and distributor of minibuses in China, and is also the only minibus manufacturer in China with access to Toyota technology. In October 1992, the Company became the first company with operations solely in China to list directly on the New York Stock Exchange. In October 1999, the Company successfully listed on The Stock Exchange of Hong Kong Limited.

Chairman's Statement



RONG YANG

*Chairman, President and
Chief Executive Officer*

Dear Shareholders:

In this challenging year of 2001, we have still achieved a 5.0% increase in unit sales volume. We have maintained our leadership position in the Chinese minibus market despite unprecedented competition, both foreign and domestic. Due to our long-standing efforts to provide more variety,

better quality and improved services to our customers, the “JinBei” brand has become the proud symbol of quality in the Chinese minibus market.

We have maintained our position as the most profitable minibus manufacturer in China, since we took over the management of Shenyang Jinbei Passenger Vehicle Manufacturing Company Limited (hereinafter “Shenyang Automotive”).

China's accession to the World Trade Organization in November 2001 marked the beginning of a new era for the automotive industry in China. With the gradual reduction in tariffs, competition in the Chinese market is expected to intensify. These challenges have compelled us to further improve our current operations so as to bring better value to our shareholders.

On December 17, 2001, Shenyang Automotive entered into an agreement with Toyota Motor Corporation for the transfer of technology relating to the fifth generation of the Toyota minibus, the GRANVIA. Pre-production is scheduled to begin in the second half of 2002 and commercial production will be launched one year later. The Zhong Hua Sedan, designed by the world - renowned Italdesign, is under pre-production and is due to be launched to the market once final approval is obtained from the Chinese governmental authorities. In addition, we are currently in negotiations with several foreign automobile manufacturers regarding the production of automobiles for the growing Chinese automotive market at our existing facilities.

We believe that the addition of the above-mentioned new products in the current year and beyond is an essential element in our overall strategy. Looking into the future, the management remain confident that our

current product strategy, combined with the united efforts of our employees, will enable us to provide good value to our shareholders for many years to come.

Last but not least, I would like to express my heartfelt gratitude to our staff and shareholders for their continued support.



Rong Yang

Chairman

April 18, 2002



Satisfying Market Demand by Rolling Out New Products

In the face of increased competition arising from emerging new models and players in the Chinese minibus market, Brilliance China Automotive, through its subsidiary Shenyang Automotive, has readjusted its product strategy by offering more new minibus models and upgrading its product line-up in order to sustain its market share and solidify its competitive edge.



Our high-end products have been further improved

and our low-end models modified to incorporate more user-friendly features to meet diversified customer demands. In the Deluxe line, the SY6500B2C, a locally developed model that is based on the Toyota 441N, is equipped with an anti-lock braking system, improved helix rear suspension and refined interior trim. It has the highest technical content among our product lines. To serve a wider customer group, we also offer the SY6480B2CH AURORA, a version derived from the above model but with more local content, as a lower priced



沈阳金杯客车制造有限公司
SHENYANG JINBEI PASSENGER TRUCK MANUFACTURING CO., LTD.



alternative. Our SY6480 A2-E SHUTTLE, which features a multi-point injection (MPI) system and improved air conditioning and seats, can be used as both a passenger and goods vehicle.

In 2001, we introduced 14 new models to the market. As a result, Shenyang Automotive has further consolidated its position in the marketplace while continuing to offer competitive prices.

On December 17, 2001, Shenyang Automotive entered into an agreement with Toyota for the technology transfer of the fifth generation of the Toyota minibus — the GRANVIA — which is scheduled to start pre-production in 2002 and commercial production in the second half of 2003. The development of the GRANVIA is supported by a strong technical team from Toyota.

Our new Zhong Hua sedan, designed by Italdesign, a leading automotive design firm, is under pre-production and due to reach the market once approval is granted from the relevant Chinese governmental authorities.

Shenyang Automotive is currently in negotiation with foreign automobile manufacturers regarding the production of new vehicles for the Chinese market at its existing sedan facility.



PROMOTING PRODUCT SALES THROUGH

As part of its efforts to increase sales volume and market share, Shenyang Automotive continuously refines its products, pricing policies and promotions in order to meet the market competition that has intensified since China's entry into the World Trade Organization.

As of the end of 2001, Shenyang Automotive had established over 30 authorized 4S (sales, service, spare parts and survey) dealership outlets, which are entitled to special dealership margins in return for their efforts in promoting the "JinBei" brand and offering uniform services. As a result, sales of JinBei minibuses increased in each sales region across China. This system has helped to harness the competition within the sales networks in order to increase service quality while avoiding irregular pricing practices and cross-territory sales, which had led in the past to customer uncertainty.



IMPROVED SERVICE



Shenyang Automotive has focused intensively on promoting its Corporate Identity System among its 83 first tier dealers (including 73 authorized dealership outlets), 262 second tier dealers and hundreds of retailers, and at the same time has revoked sales authorization from those dealers that have not continued to meet the company's qualifications.

In 2001, Shenyang Automotive's strategy of actively targeting sales channels in China's western regions, which have historically shown low sales performance, resulted in an average growth rate in sales of 14% in those areas, twice as much as other regions.

Shenyang Automotive's sales department established 21 Regional Distribution Centers (RDCs) in order to significantly shorten delivery lead-times. Also, by utilizing transportation methods such as trucking, rail and shipping, we ensure that most vehicles are not driven until they reach the end users. In 2001, over 95% finished products were delivered to customers with zero mileage.

To date, 217 of Shenyang Automotive's 236 authorized service stations offer 24-hour service. In addition, ten spare parts RDCs are located across the country to address maintenance requirements and assure the supply of genuine components in their localities. A 24-hour service hot line, together with over 100 on-call repair vans, has also been put into use for rapid on-site services.

Senior Executives of the Company



Xiaoan Wu
*Vice Chairman,
Executive Vice President,
Chief Financial Officer*



Qiang Su
*Director,
Executive Vice President*



Lloyd Xing Hong
*Director,
Executive Vice President*



Maozeng Yang
*Director,
Vice President,
Chief Accounting Officer*



Tao He
*Director,
Vice President*

2001

Financial Results

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Financial Highlights

The following table presents selected consolidated financial information of the Company as of and for the years ended December 31, 2001, 2000 and 1999. The selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, the respective financial statements and the accompanying notes thereto.

Selected Consolidated Financial Information of the Company

| | Year ended and as of December 31, 2001 RMB | Year ended and as of December 31, 2000 RMB | Year ended and as of December 31, 1999 RMB |
|---|--|--|--|
| <i>(Amounts in thousands)</i> | | | |
| Income Statement Data: | | | |
| Sales | 6,218,436 | 6,306,430 | 4,351,169 |
| Cost of sales | 4,307,988 | 4,436,155 | 2,866,202 |
| Selling and administrative expenses | 740,684 | 643,432 | 524,284 |
| Net income | 887,077 | 870,030 | 649,019 |
| Balance Sheet Data: | | | |
| Total assets | 11,696,523 | 10,552,355 | 7,032,728 |
| Current assets | 6,127,118 | 6,076,716 | 4,782,337 |
| Current liabilities | 5,741,741 | 6,177,695 | 3,541,336 |
| Equity | 5,419,803 | 3,836,305 | 2,548,997 |
| Cash Flow Statement Data: | | | |
| Capital expenditures | 782,520 | 1,016,207 | 929,883 |
| Depreciation and amortization | 118,122 | 114,007 | 81,797 |
| Net cash flows from operations | 1,409,438 | 3,017,372 | 2,059,984 |
| Net cash flows used in investing activities | (1,398,816) | (2,833,243) | (2,894,203) |
| Net cash flows (used in) provided by financing activities | (128,434) | (218,167) | 1,489,685 |

The unified exchange rate quoted by the People's Bank of China for 2001, 2000 and 1999 remained at US\$1 = RMB8.28 throughout these periods.

Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto contained elsewhere in this Annual Report.

OVERVIEW

The Company is a holding company whose principal operating asset is its majority interest in Shenyang Automotive. Historically, the Company has derived its revenues from Shenyang Automotive's sales of minibuses in China. As a result, the Company's results of operations have been primarily driven by the sales price, sales volume and cost of production of Shenyang Automotive's minibuses. In May 1998, the Company acquired indirect interests in two components suppliers: a 51% equity interest in Ningbo Yuming Machinery Industrial Co., Ltd. ("Ningbo Yuming"), a wholly foreign-owned Chinese enterprise primarily engaged in the production of automobile window molding, stripping and other auto components; and a 50% equity interest in Mianyang Xincheng Engine Co., Ltd. ("Mianyang Xincheng"), a Sino-foreign equity joint venture manufacturer of gasoline engines for use in passenger vehicles and light duty trucks. In October 1998, June 2000 and July 2000, the Company established Shenyang XingYuanDong Automobile Component Co., Ltd. ("Xing Yuan Dong"), Ningbo Brilliance Ruixing Auto Components Co., Ltd. ("Ruixing") and Mianyang Brilliance Ruian Automotive Components Co., Ltd. ("Ruian"), respectively, as its wholly owned subsidiaries to centralize and consolidate the sourcing of auto parts and components for Shenyang Automotive. In December 2000, the Company acquired a 50% equity interest in Shenyang Xinguang Brilliance Automobile Engine Co., Ltd., ("Xinguang"), a Sino-foreign equity joint venture manufacturer of gasoline engines for use in passenger vehicles. In December 2001, the Company acquired a 100% equity interest in Shenyang Brilliance Dongxing Automotive Component Co., Ltd. ("Dongxing"), a foreign-invested manufacturer of automotive components in the PRC. As a result, the Company's future financial performance may diverge from that of Shenyang Automotive.

PRODUCTION VOLUMES AND SALES

Shenyang Automotive derives its revenues from the sale of the Deluxe, Mid-priced and, until the end of 1999, Standard Minibus. For the years ended December 31, 2001, 2000 and 1999, revenues from the sale of such products in China were RMB5,974.4 million, RMB5,862.0 million, and RMB4,281.6 million, respectively. The principal factor behind the increase in sales revenue was the competitive pricing and the offering of more minibus models and features by Shenyang Automotive.

The Mid-priced Minibus has proven to be Shenyang Automotive's most popular and competitive product. Sales of Deluxe and Mid-priced Minibuses represented 26.8% and 73.2%, respectively, of Shenyang Automotive's total sales revenue in 2001. The Company expects that the Mid-priced Minibus will continue to grow as a percentage of Shenyang Automotive's unit sales and total sales revenue in 2002, while sales of the Deluxe Minibus are still expected to represent a significant proportion of total sales revenue.

RESULTS OF OPERATIONS

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Consolidated net sales of the Company and its operating subsidiaries, Shenyang Automotive, Ningbo Yuming, Xing Yuan Dong, Ruixing, Ruian and Dongxing for the year ended December 31, 2001, decreased 1.4% to RMB6,218.4 million from RMB6,306.4 million for the year ended December 31, 2000. The decrease in sales was primarily attributable to the price reduction of Shenyang Automotive's minibuses and the slight decrease in unit sales of the Deluxe Minibus.

Shenyang Automotive sold a total of 63,009 minibuses in 2001, a 5.0% increase over the 60,018 minibuses sold in 2000. Shenyang Automotive sold 53,356 of its Mid-priced Minibuses in 2001, a 7.0% increase over the 49,873 units sold in 2000. Unit sales of the Deluxe Minibus decreased 4.8% from 10,145 units in 2000 to 9,653 units in 2001.

Management's Discussion and Analysis *(Continued)*

Cost of sales, including depreciation and amortization, decreased 2.9% to RMB4,308.0 million in 2001 from RMB4,436.2 million in 2000. This decrease was primarily due to our continued efforts to reduce the cost of domestic components used in our minibuses.

Operating income of the Company decreased 4.6% to RMB1,169.8 million in 2001 from RMB1,226.8 million in 2000. The decrease was due primarily to the significant increase in selling and administrative expenses and the additional pre-operation expenses and depreciation of the buildings relating to the planned sedan production. Selling and administrative expenses rose 15.1% to RMB740.7 million in 2001 from RMB643.4 million in 2000, and as a percentage of sales increased from 10.2% in 2000 to 11.9% in 2001. Income before income taxes and minority interest decreased 16.9% to RMB1,213.3 million in 2001 from RMB1,459.4 million in 2000. Income taxes decreased to RMB116.3 million in 2001 from RMB316.3 million in 2000 due to the reduction in the enterprise income tax rate for Xing Yuan Dong to 7.5% in 2001 from 33% in 2000.

As a result of the performance of Shenyang Automotive, and taking into account the earnings from the Company's operating subsidiaries and associated companies, the Company's net income increased 2.0% to RMB887.1 million in 2001 from RMB870.0 million in 2000. Based on the adjusted weighted average number of ADSs outstanding, basic earnings per ADS were US\$3.02 in 2001, a 9.1% decrease over the basic earnings of US\$3.34 per ADS for 2000.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Consolidated net sales of the Company and its operating subsidiaries, for the year ended December 31, 2000, increased 44.9% to RMB6,306.4 million from RMB4,351.2 million for the year ended December 31, 1999. The increase in sales was primarily attributable to the increase in the unit sales of Shenyang Automotive's Mid-priced Minibus as well as the strong sales of the Deluxe Minibus.

Shenyang Automotive sold a total of 60,018 minibuses in 2000, a 42.2% increase over the 42,199 minibuses sold in 1999. Shenyang Automotive sold 49,873 of its Mid-priced Minibuses in 2000, a 48.7% increase over the 33,547 units sold in 1999. Unit sales of the Deluxe Minibus increased 37.3% from 7,387 units in 1999 to 10,145 units in 2000. Shenyang Automotive discontinued production and sale of its lower end Standard Minibus at the end of 1999.

Cost of sales, including depreciation and amortization, increased 54.8% to RMB4,436.2 million in 2000 from RMB2,866.2 million in 1999. This increase was due primarily to an increase in unit output and expenses incurred in upgrading the specifications of the products.

Operating income of the Company increased 27.7% to RMB1,226.8 million in 2000 from RMB960.7 million in 1999. This increase was due primarily to contributions from Xing Yuan Dong and Ningbo Yuming, as well as increased sales of minibuses. Selling and administrative expenses rose 22.7% to RMB643.4 million in 2000 from RMB524.3 million in 1999, and as a percentage of sales declined from 12.1% in 1999 to 10.2% in 2000. Income before income taxes and minority interests increased 43.7% to RMB1,459.4 million in 2000 from RMB1,015.5 million in 1999. Income taxes increased to RMB316.3 million in 2000 from RMB72.2 million in 1999 due to increased taxable profits. However, a subsidy of RMB181.6 million was granted by the Administrative Committee of Shenyang New and High-Tech Industrial Zone for the year ended December 31, 2000.

As a result of the strong performance of Shenyang Automotive, and taking into account the earnings from the Company's operating subsidiaries and associated companies, the Company's net income increased 34.1% to RMB870.0 million in 2000 from RMB649.0 million in 1999. The Company converted its New York Stock Exchange-traded shares to American depository shares ("ADSs") in April 2000. Basic earnings per ADS were US\$3.34 in 2000, compared to basic earnings of US\$2.91 per ADS for 1999. Diluted earnings per ADS (which takes into account the potential dilutive effect of outstanding stock options) were US\$3.24 in 2000.

LIQUIDITY AND CAPITAL RESOURCES**Cash Flows**

As of December 31, 2001, the Company had RMB3,146.0 million in cash, cash equivalents and short-term bank deposits, an increase of RMB410.1 million from its position as of December 31, 2000. This increase was mainly due to the increased percentage of payments in the form of cash and checks from Shenyang Automotive's customers.

Inventory levels decreased from RMB795.6 million at the end of 2000 to RMB627.0 million at year-end 2001. This resulted from the sale in 2001 of the Deluxe and Mid-priced Minibuses produced prior to the end of 2000 in anticipation of the temporary shut-down of the production line for planned renovations in the following month.

Accounts receivable decreased to RMB24.1 million in 2001 from RMB27.0 million in 2000. The decrease mainly resulted from the payment of most of the receivables that had been outstanding at the end of 2000.

Debt Changes

In 2001, Shenyang Automotive continued to maintain credit facilities with banks to finance its working capital needs. As of December 31, 2001, direct bank borrowings amounted to RMB405.5 million, a decrease of RMB641.7 million from RMB1,047.2 million as of December 31, 2000. The bank loans were either secured by equipment and/or properties or unsecured, with maturity periods of less than one year. Shenyang Automotive believes that it will continue to have access to sufficient bank facilities to meet its working capital requirements.

Capital Expenditures

Shenyang Automotive's capital expenditures were RMB782.5 million in 2001, a decrease of RMB233.7 million from the 2000 figure. This decrease occurred primarily because the major portion of expenditures with respect to increasing production capacity and financing the expansion plans were incurred in the previous year.

Foreign Currency Requirements

Shenyang Automotive will require approximately US\$100 million to purchase imported components from Toyota of Japan in 2002. This estimate is based upon Shenyang Automotive's 2002 production plans and the level of domestic content expected for its Deluxe and Mid-priced Minibuses in 2002. The Company believes that it will be able to obtain adequate amounts of foreign currency to meet its planned requirements for 2002.

Report of Independent Public Accountants

To the Shareholders of Brilliance China Automotive Holdings Limited

We have audited the accompanying consolidated balance sheets of Brilliance China Automotive Holdings Limited (a Bermuda corporation) and its subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2001, 2000 and 1999, expressed in Chinese Renminbi ("RMB"). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brilliance China Automotive Holdings Limited and its subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years ended December 31, 2001, 2000 and 1999, in conformity with generally accepted accounting principles in the United States of America.

ARTHUR ANDERSEN & CO

Hong Kong

April 25, 2002

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2001, 2000 and 1999

| <i>(Expressed in thousands of RMB, except for share and ADS data)</i> | Year ended December 31, | | |
|---|-------------------------|-------------|-------------|
| | 2001 | 2000 | 1999 |
| Sales to third parties | 2,552,780 | 638,513 | 1,431,899 |
| Sales to affiliated companies | 3,665,656 | 5,667,917 | 2,919,270 |
| Total sales | 6,218,436 | 6,306,430 | 4,351,169 |
| Cost of sales | (4,307,988) | (4,436,155) | (2,866,202) |
| Gross profit | 1,910,448 | 1,870,275 | 1,484,967 |
| Selling and administrative expenses | (740,684) | (643,432) | (524,284) |
| Operating income | 1,169,764 | 1,226,843 | 960,683 |
| Equity in earnings of associated companies, net | 40,043 | 62,264 | 45,429 |
| Subsidy income | — | 181,600 | — |
| Other income (expenses), net | 3,456 | (11,281) | 9,400 |
| Income before income taxes and minority interests | 1,213,263 | 1,459,426 | 1,015,512 |
| Income taxes | (116,250) | (316,337) | (72,227) |
| Income before minority interests | 1,097,013 | 1,143,089 | 943,285 |
| Minority interests in consolidated subsidiaries | (209,936) | (273,059) | (294,266) |
| Net income and comprehensive income | 887,077 | 870,030 | 649,019 |
| Basic earnings per share in RMB | RMB0.2510 | RMB0.2761 | RMB0.2408 |
| Basic earnings per share in US\$ | US\$0.0302 | US\$0.0334 | US\$0.0291 |
| Basic earnings per ADS in US\$ | US\$3.0246 | US\$3.3359 | US\$2.9077 |
| Diluted earnings per share in RMB | RMB0.2510 | RMB0.2680 | N/A |
| Diluted earnings per share in US\$ | US\$0.0302 | US\$0.0324 | N/A |
| Diluted earnings per ADS in US\$ | US\$3.0246 | US\$3.2387 | N/A |

The accompanying notes are an integral part of these consolidated statements of income and comprehensive income.

Consolidated Balance Sheets

As of December 31, 2001 and 2000

| <i>(Expressed in thousands of RMB)</i> | December 31, | |
|---|---------------------|-------------|
| | 2001 | 2000 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 1,220,226 | 1,338,038 |
| Short-term bank deposits | 1,925,805 | 1,397,883 |
| Notes receivable | 235,167 | 129,578 |
| Notes receivable from affiliated companies | 686,869 | 449,679 |
| Accounts receivable, net | 24,107 | 27,037 |
| Due from affiliated companies | 596,937 | 101,763 |
| Inventories, net | 626,969 | 795,631 |
| Other receivables | 172,703 | 998,279 |
| Prepayments and other current assets | 339,949 | 230,021 |
| Advances to affiliated companies | 298,386 | 608,807 |
| Total current assets | 6,127,118 | 6,076,716 |
| Property, plant and equipment | 3,104,006 | 2,487,928 |
| Intangible asset | 681,100 | 681,100 |
| Investments in associated companies | 1,313,586 | 1,062,712 |
| Goodwill | 414,464 | 229,397 |
| Long-term advances to an affiliated company | 44,804 | — |
| Other assets | 11,445 | 14,502 |
| Total assets | 11,696,523 | 10,552,355 |

Consolidated Balance Sheets *(Continued)*

As of December 31, 2001 and 2000

| <i>(Expressed in thousands of RMB)</i> | December 31, | |
|--|---------------------|-------------|
| | 2001 | 2000 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short-term bank loans | 405,500 | 1,047,229 |
| Notes payable | 3,300,000 | 3,567,318 |
| Accounts payable | 666,216 | 472,068 |
| Due to affiliated companies | 492,079 | 429,606 |
| Customer advances | 83,559 | 37,773 |
| Other payables | 385,661 | 349,524 |
| Dividends payable | 46,452 | 1,747 |
| Accrued expenses and other current liabilities | 73,730 | 65,630 |
| Taxes payable | 234,268 | 154,489 |
| Advances from affiliated companies | 54,276 | 52,311 |
| Total current liabilities | 5,741,741 | 6,177,695 |
| Minority interests | 534,979 | 538,355 |
| SHAREHOLDERS' EQUITY: | | |
| CAPITAL STOCK | | |
| Common stock (3,666,052,900 and 3,348,052,900 shares outstanding as of December 31, 2001 and December 31, 2000 respectively) | 303,194 | 276,891 |
| Additional paid-in capital | 2,137,641 | 1,432,217 |
| Other comprehensive income | 39,179 | 39,179 |
| Dedicated capital | 71,356 | 5,191 |
| Retained earnings | 2,868,433 | 2,082,827 |
| Total shareholders' equity | 5,419,803 | 3,836,305 |
| Total liabilities and shareholders' equity | 11,696,523 | 10,552,355 |

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Cash Flows

For the years ended December 31, 2001, 2000 and 1999

| <i>(Expressed in thousands of RMB)</i> | Year ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2001 | 2000 | 1999 |
| Cash flows from operating activities: | | | |
| Net income | 887,077 | 870,030 | 649,019 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 111,922 | 106,683 | 74,048 |
| Amortization of goodwill in subsidiaries and other assets | 6,200 | 7,324 | 7,749 |
| Minority interests in consolidated subsidiaries | 209,936 | 273,059 | 294,266 |
| Provisions for doubtful debts and inventory obsolescence | 4,352 | 5,227 | 28,230 |
| Provision for doubtful debts written back | (19,147) | — | — |
| Provision for impairment losses | 30,950 | — | — |
| Loss on disposal of fixed assets | 4,539 | 271 | 468 |
| VAT and sales tax refunds | — | — | (8,336) |
| Amortization of deferred compensation expenses | 15,461 | 88,264 | — |
| Equity in earnings of associated companies, net | (40,043) | (62,264) | (45,429) |
| (Increase) Decrease in operating assets net of effects from the purchase of subsidiaries in 2001 and 1999: | | | |
| Accounts receivable, net | 8,566 | 25,397 | 22,518 |
| Notes receivable | (93,090) | (85,796) | 484,921 |
| Notes receivable from affiliated companies | (237,190) | (102,211) | (347,468) |
| Due from affiliated companies | (477,136) | (28,082) | (27,631) |
| Inventories | 168,639 | (419,088) | (91,942) |
| Other receivables | 826,859 | (816,588) | 181,690 |
| Prepayments and other current assets | (109,967) | 297 | (190,154) |
| Increase (Decrease) in operating liabilities net of effects from the purchase of subsidiaries in 2001 and 1999: | | | |
| Accounts payable | 181,361 | 13,182 | 94,292 |
| Due to affiliated companies | 133,968 | 84,654 | 207,253 |
| Notes payable | (267,318) | 3,166,015 | 401,303 |
| Customer advances | 45,786 | (75,036) | 100,284 |
| Other payables | 33,251 | 155,727 | 97,338 |
| Accrued expenses and other current liabilities | 8,317 | (29,373) | 32,266 |
| Taxes payable | (23,855) | (160,320) | 95,299 |
| Net cash provided by operating activities | 1,409,438 | 3,017,372 | 2,059,984 |

The accompanying notes are an integral part of these consolidated statements of cash flows.

Consolidated Statements of Cash Flows *(Continued)*

For the years ended December 31, 2001, 2000 and 1999

| <i>(Expressed in thousands of RMB)</i> | Year ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2001 | 2000 | 1999 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (782,520) | (1,016,207) | (929,883) |
| Proceeds from disposal of fixed assets | 25,085 | 179 | 27,486 |
| Increase in short-term bank deposits | (527,922) | (545,993) | (745,890) |
| Decrease (Increase) in advances to affiliated companies | 90,566 | (1,054,528) | (1,169,376) |
| Increase in other assets | — | (1,194) | (1,154) |
| Increase in deposits for an investment | — | — | (24,560) |
| Net cash acquired from the purchase of a subsidiary | 6,805 | — | 12,432 |
| Dividends from an associated company | — | 42,434 | 22,225 |
| Increase in investments in associated companies | (480,000) | (16,635) | (60,613) |
| Decrease (Increase) in advances to associated companies | 269,170 | (241,299) | (24,870) |
| Net cash used in investing activities | (1,398,816) | (2,833,243) | (2,894,203) |
| Cash flows from financing activities: | | | |
| (Decrease) Increase in short-term bank loans | (641,729) | (543,631) | 908,433 |
| Increase in advances from affiliated companies | 1,965 | 30,656 | 20,882 |
| Capital injection by a minority shareholder | — | — | 31,006 |
| Proceeds from issuance of common stock | 716,266 | 345,190 | 655,550 |
| Payment in lieu of stock split | — | — | (4) |
| Dividends paid | (35,306) | (21,690) | (4,043) |
| Dividends paid to joint venture partners | (169,630) | (28,692) | (122,139) |
| Net cash (used in) provided by financing activities | (128,434) | (218,167) | 1,489,685 |
| Net (decrease) increase in cash and cash equivalents | (117,812) | (34,038) | 655,466 |
| Cash and cash equivalents, beginning of year | 1,338,038 | 1,372,076 | 716,610 |
| Cash and cash equivalents, end of year | 1,220,226 | 1,338,038 | 1,372,076 |

The accompanying notes are an integral part of these consolidated statements of cash flows.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2001, 2000 and 1999

| <i>(Expressed in thousands of RMB, except for share data)</i> | Supervoting Common Stock | | Common Stock | | | Deferred Compensation RMB | Accumulated foreign currency translation adjustment RMB | Dedicated Capital RMB | Retained Earnings RMB | Total RMB |
|--|-----------------------------|---------------|-----------------------------------|---------------|--------------------------------------|---------------------------------|---|-----------------------------|-----------------------------|--------------|
| | Number of Shares Issued | Amount RMB | Number of Shares Issued RMB | Amount RMB | Additional Paid-in Capital RMB | | | | | |
| | | | | | | | | | | |
| Balance at December 31, 1998 | 12,328,304 | 813 | 5,063,000 | 362 | 618,933 | — | 39,179 | 5,191 | 592,212 | 1,256,690 |
| Capitalization of additional paid-in capital for stock split on July 12, 1999 | 6,164,125 | 510 | 2,531,500 | 210 | (720) | — | — | — | — | — |
| Payment in lieu of stock split | — | — | — | — | (4) | — | — | — | — | (4) |
| Capitalization of additional paid-in capital for stock split on September 24, 1999 | 73,969,716 | 6,123 | 30,378,000 | 2,514 | (8,637) | — | — | — | — | — |
| Conversion of Supervoting Common Stock | (92,462,145) | (7,446) | 92,462,145 | 7,446 | — | — | — | — | — | — |
| Issuance of new shares | — | — | 21,750,000 | 1,800 | 653,750 | — | — | — | — | 655,550 |
| Net income | — | — | — | — | — | — | — | — | 649,019 | 649,019 |
| Dividends declared | — | — | — | — | — | — | — | — | (12,258) | (12,258) |
| Balance at December 31, 1999 | — | — | 152,184,645 | 12,332 | 1,263,322 | — | 39,179 | 5,191 | 1,228,973 | 2,548,997 |
| Deferred compensation related to stock options | — | — | — | — | 88,264 | (88,264) | — | — | — | — |
| Amortization of deferred compensation expenses | — | — | — | — | — | 88,264 | — | — | — | 88,264 |
| Stock split of 19 shares for 1 share on April 14, 2001 | — | — | 2,891,508,255 | 239,370 | (239,370) | — | — | — | — | — |
| Exercise of employee stock options | — | — | 304,360,000 | 25,189 | 320,001 | — | — | — | — | 345,190 |
| Net income | — | — | — | — | — | — | — | — | 870,030 | 870,030 |
| Dividend declared | — | — | — | — | — | — | — | — | (16,176) | (16,176) |
| Balance at December 31, 2000 | — | — | 3,348,052,900 | 276,891 | 1,432,217 | — | 39,179 | 5,191 | 2,082,827 | 3,836,305 |
| Issuance of shares | — | — | 318,000,000 | 26,303 | 689,963 | — | — | — | — | 716,266 |
| Deferred compensation related to stock options | — | — | — | — | 15,461 | (15,461) | — | — | — | — |
| Amortization of deferred compensation expenses | — | — | — | — | — | 15,461 | — | — | — | 15,461 |
| Net income | — | — | — | — | — | — | — | — | 887,077 | 887,077 |
| Transfer to dedicated capital | — | — | — | — | — | — | — | 66,165 | (66,165) | — |
| Dividend declared | — | — | — | — | — | — | — | — | (35,306) | (35,306) |
| Balance at December 31, 2001 | — | — | 3,666,052,900 | 303,194 | 2,137,641 | — | 39,179 | 71,356 | 2,868,433 | 5,419,803 |

The accompanying notes are an integral part of these consolidated statements of changes in shareholders' equity.

Notes to Consolidated Financial Statements

(Amounts expressed in RMB unless otherwise stated)

1. ORGANIZATION, PRINCIPAL ACTIVITIES AND OPERATING ENVIRONMENT

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 are manufacturing and selling of minibuses and automotive components.

Details of the Company’s principal subsidiaries as of December 31, 2001 are as follows:

| Name | Place of establishment/ incorporation | Percentage of equity interest/voting right attributable to the Company | | Principal activities |
|---|--|--|------------|--|
| | | Directly | Indirectly | |
| Shenyang JinBei Passenger Vehicle Manufacturing Company Limited (“Shenyang Automotive”) | Shenyang, the PRC | 51% | — | Minibus manufacturing, assembly and sales |
| Ningbo Yuming Machinery Industrial Co., Ltd. (“Ningbo Yuming”) | Ningbo, the PRC | — | 51% | Manufacturing and sales of automotive components |
| Shenyang XingYuanDong Automobile Component Co., Ltd. (“Xing Yuan Dong”) | Shenyang, the PRC | 100% | — | Manufacturing and trading of automotive components |
| Shenyang Jianhua Motors Engine Co., Ltd. | Shenyang, the PRC | — | 100% | Manufacturing and trading of automotive components |
| Ningbo Brilliance Ruixing Auto Components Co., Ltd. (“Ningbo Ruixing”) | Ningbo, the PRC | 100% | — | Manufacturing of automotive components |
| Mianyang Brilliance Ruian Automotive Components Co., Ltd. (“Mianyang Ruian”) | Mianyang, the PRC | 100% | — | Manufacturing and trading of automotive components |
| Shenyang Brilliance Dongxing Automotive Component Co., Ltd. (“Dongxing Automotive”) | Shenyang, the PRC | — | 100% | Manufacturing and trading of automotive components |
| Shenyang Xingchen Automotive Seats Co., Ltd. (“Xingchen Automotive Seats”) | Shenyang, the PRC | — | 90% | Manufacturing and trading of automotive components |

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

In June 2000, the Company established Ningbo Ruixing in the PRC as a wholly-owned subsidiary of the Company. Ningbo Ruixing is principally engaged in the manufacturing and trading of automotive components. In 2000, 100% of Ningbo Ruixing's 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 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 Xincheng Engine Co., Ltd. ("Mianyang Xincheng"), an associated company.

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"). 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 Shenyang Xinguang Brilliance Automotive Engine Co., Ltd. ("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.

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 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.

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.

Details of the Group's investment in associated companies are included in Note 13.

For the years ended December 31, 2001 and 2000, approximately 42% and 1% respectively of the consolidated revenue was generated from Shanghai Yuantong Automobile Sales and Service Company Limited, an affiliated company. For the year ended December 31, 2001, 2000 and 1999, approximately 15%, 76% and 65% of the consolidated revenue was generated from Shanghai Brilliance Group Co., Ltd., also an affiliated company.

The Company's operations consist mainly of its equity interests in subsidiaries which conduct their operations in China and accordingly are subject to certain risks not typically associated with companies operating in the United States of America or other western economies. These include risks associated with the political and economic environment, availability of domestic components, foreign currency exchange, import restrictions and the tax and legal systems in China. These are described further in the following paragraphs:

Political and Economic Environments

The value of the Company's investments in subsidiaries could be adversely affected by changes in the political, economic and social environments in China. Adverse changes in policies by the Government of China could include: changes in laws and regulations or their interpretations; changes in taxation; and restrictions on currency conversion or on importation of critical supplies.

While the economy of China is undergoing a transitional period towards becoming a market economy, it still differs significantly from the United States economy. The Government of China retains control over certain key

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

aspects of the economy of China. In addition, any depreciation of the Renminbi against foreign currencies would significantly alter the purchasing capacity, cost of goods sold and profitability of Chinese enterprises.

Foreign Currency Exchange

The Government of China imposes control over its foreign currency reserves through control over imports and through regulation of the conversion of Renminbi into foreign currencies. Sino-foreign joint ventures, including the Company's subsidiaries, have historically been required to receive approval from the State Administration of Foreign Exchange ("SAFE") for each foreign exchange transaction. Since December 1, 1996, however, Sino-foreign joint ventures have been permitted to undertake current account foreign exchange transactions, without prior SAFE approval by producing relevant resolutions of its Board of Directors or valid commercial documents evidencing the transactions and by processing such transactions through certain banks and financial institutions in the PRC designated by SAFE. Prior SAFE approval, however, continues to be required for any capital account foreign exchange transaction.

Shenyang Automotive's revenues are primarily earned in Renminbi, whereas costs of imported components are denominated in foreign currencies, principally U.S. Dollars ("USD") and Japanese Yen; therefore, Shenyang Automotive requires access to foreign currencies to pay for imported components. To date, Shenyang Automotive has not encountered difficulties in acquiring foreign currency.

Import Restrictions

The Government of China imposes restrictions on the import of motor vehicle components and foreign-made motor vehicles, including minibuses. If such restrictions were removed, Shenyang Automotive could benefit from cost reductions; however, it could also face increased competition from foreign automotive companies. Shenyang Automotive is subject to an average tariff rate of 20.06% on imported components used in its minibuses for the year of

2001. During 2001, imported components comprised approximately 32.3% of the total cost of each Deluxe Minibus produced.

Tax and Legal Systems

Since 1979, many laws and regulations dealing with economic matters in general and foreign investment in particular have been promulgated in China; however, a comprehensive and clearly defined system of laws and regulations has yet to be fully developed. In addition, existing laws and regulations are often subject to differing interpretations and enforcement of such laws and regulations can be uncertain. Tax and other legal compliance areas are subject to review and investigation by a number of authorities who are enabled by law to impose extremely severe fines, penalties and interest charges.

As a result, these and other matters create risks in conducting business in China that are substantially more significant than typically faced in countries with more developed tax and legal systems.

2. BASIS OF PRESENTATION

The financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. This basis of accounting differs from that used in the statutory financial statements of the Company's subsidiaries, which were prepared in accordance with the relevant accounting principles and financial reporting regulations applicable to joint venture enterprises as established by the Ministry of Finance in the PRC. Certain accounting principles stipulated under U.S. GAAP are not applicable in the PRC.

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

The principal adjustments made to conform the statutory financial statements to U.S. GAAP included the following:

- Reclassification of certain items, designated as “prepayments” and “construction-in-progress” in the statutory financial statements, as property, plant and equipment;
- Reclassification of certain items, designated as “reserves appropriated from net income” in the statutory financial statements, as charges to income;
- Recognition of deferred income taxes; and
- Recognition of provision for impairment loss of long-lived assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 period 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. Unrealised 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 in similar circumstances.

(b) Sales

Sales represent the invoiced value of goods, net of sales tax, discounts and returns. Sales are recognized when the significant risks and rewards of ownership of the goods have been transferred to customers. Provisions for allowances and the rebates are made at the time of sales.

(c) Cash, 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 original maturity between three and twelve months are classified as short-term deposits.

(d) 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.

(e) Property, plant and equipment

Property, plant and equipment 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 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

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

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 assets beyond its originally assessed standard of performance, the expenditure is capitalized as an additional cost of the assets.

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.

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

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.

(f) Intangible asset

Intangible asset represents certain rights, titles and interests in certain design and engineering agreements and technical assistance agreement relating to a sedan and multi-purpose vehicle project.

Intangible assets are stated at cost less accumulated amortization. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or production. Amortization is calculated on a straight-line basis over its estimated useful life.

(g) Impairment of Long-lived Assets

Statement of Financial Accounting Standard (“SFAS”) No. 121, “Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of” requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(h) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets resulting from the Company’s acquisitions of interests in its subsidiaries. Goodwill arising from acquisitions prior to July 1, 2001 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 subsidiaries.

On July 1, 2001, the Company adopted SFAS No. 141 “Business Combinations”. In accordance with SFAS No. 141, the Company ceased amortizing goodwill arising from acquisitions after July 1, 2001.

(i) Investments in associated companies

An associated company is a company in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in the investees’ financial and operating policy decisions. Investments in associated companies are accounted for using the equity method. Goodwill arising on the acquisition of interests in associated companies is included in the carrying cost of the

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

investment and 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 associated companies for acquisitions prior to July 1, 2001. The Company ceased amortizing goodwill arising from the acquisitions of associated companies after July 1, 2001.

(j) Taxation

Income Tax

The Company was incorporated under the laws of Bermuda and has received an undertaking from the Minister 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 the rate of 16% based on estimated assessable profit arising in Hong Kong.

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 its 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 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 years ended December 31, 2001, December 31, 2000 and December 31, 1999.

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 Enterprises”. In 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 combined state and local enterprise income tax rate for Xing Yuan Dong was 7.5%, 33% and 33% respectively for the years ended December 31, 2001, 2000 and 1999.

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 ended December 31, 2001, 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 Mianyang Ruian is exempted from state and local 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. As a result, Mianyang Ruian was exempted from income tax for the year ended December 31, 2001. For the year ended December 31, 2000, Mianyang Ruian was subject to state and local income taxes at the standard rates.

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

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

income tax for the next three years. In addition, Dongxing Automotive is also fully exempted from local enterprise income tax for the five-year period. As a result, the effective tax rate for Dongxing Automotive was 7.5% for the year ended December 31, 2001.

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 is 17%.

Shenyang Automotive is also subject to Consumption Tax at standard rates of 3% to 5%.

(k) Deferred taxation

Deferred income taxes are provided using the liability method in which deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities. The tax consequences of those differences expected to occur in subsequent years are recorded as assets and liabilities on the balance sheets. To the extent that deferred tax assets are more likely than not to be unrealized, a valuation allowance is established.

(l) 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.

Foreign currency translation adjustments in other comprehensive income arose from the Company's change in functional currency in previous year.

(m) Warranty

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 obligations. 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 as selling expenses 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.

(n) Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2001, 2000 and 1999, advertising costs of approximately RMB35.7 million, RMB126.7 million and RMB114.4 million, respectively, have been charged to selling expense.

(o) Operating Leases

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

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

(p) Financial Instruments

The Company determines and discloses the fair values of its financial instruments as required by SFAS No. 107 “Disclosures about Fair Value of Financial Instruments”. The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of amounts that the Company could realize in a current market exchange.

The carrying amounts for cash and cash equivalents and receivables approximate their fair values because of the short maturity of those instruments. The carrying amounts of the bank loans approximate their face values based on borrowing rates currently available for bank loans with similar terms and maturities.

In 2001, 2000 and 1999, approximately 59%, 90% and 67% of the consolidated revenues was generated from affiliated companies. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

(q) Derivative Instruments and Hedging Activities

On January 1, 2001, the Company adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended by SFAS No. 137 and No. 138. SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities in the consolidated balance sheets with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 on January 1, 2001 did not have any impact on the Company’s financial statements.

(r) Stock Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board (“APB”) Opinion No. 25 “Accounting for Stock Issued to

Employees.” Compensation expense related to employee stock options is recorded only if, on the date of grant, the fair value of the underlying stock exceeds the exercise price. The Company adopted the disclosure-only requirements of SFAS No. 123 “Accounting for Stock-Based Compensation,” which allows entities to continue to apply the provisions of APB Opinion No. 25 for transactions with employees and provide pro-forma net income or loss and pro-forma earnings or loss per share disclosures for employee stock grants as if the fair-value-based method of accounting as prescribed in SFAS No. 123 had been applied to these transactions.

(s) Earnings Per Share and Earnings Per ADS

The calculation of earnings per share is based on the weighted average number of shares of common stock outstanding during the year.

The diluted earnings per share for the year 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 effect of the stock split on April 14, 2000 has been reflected retrospectively for the purpose of earnings per share computation.

A reconciliation of the weighted average number of common stock outstanding for calculation of basic and diluted earnings per share is as follows:

| | 2001 | 2000 | 1999 |
|---|---------------|---------------|---------------|
| Weighted average number of common stock used in calculation of basic earnings per share | 3,533,552,900 | 3,151,418,900 | 2,695,692,900 |
| Dilutive effect of stock options | — | 94,562,903 | — |
| Weighted average number of common stock used in calculation of diluted earnings per share | 3,533,552,900 | 3,245,981,803 | 2,695,692,900 |

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

The effect of the assumed conversion of the potential common stock outstanding for the year ended December 31, 2001 is anti-dilutive. There were no dilutive potential common stocks outstanding for the year ended December 31, 1999.

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. The calculation of earnings per ADS is based on the weighted average number of ADSs outstanding during the years presented. The weighted average number of ADSs outstanding is calculated based on the assumptions that the ADSs had been in existence throughout all the years presented and that all of the outstanding ordinary shares were held in the form of ADSs (at the ratio of 100 shares for each ADS).

A reconciliation of the weighted average number of ADSs for calculation of basic and diluted earnings per ADS is as follows:

| | 2001 | 2000 | 1999 |
|---|------------|------------|------------|
| Weighted average number of ADSs used in calculation of basic earnings per ADS | 35,335,529 | 31,514,189 | 26,956,929 |
| Dilutive effect of stock options | — | 945,629 | — |
| Weighted average number of ADSs used in calculation of diluted earnings per ADS | 35,335,529 | 32,459,818 | 26,956,929 |

(t) Comprehensive income

The Company adopted SFAS No. 130 "Reporting Comprehensive Income" which requires the components of comprehensive income to be disclosed in the financial statements. Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles, are excluded from net income. For the Company, comprehensive income only represents its net income and foreign currency translation adjustments. The adoption of SFAS No. 130 did not have a material effect on the Company's primary financial statements, but did affect the presentation of the accompanying consolidated statements of changes in shareholders' equity.

There was no other comprehensive income or loss for the years ended December 31, 2001, 2000 and 1999 other than net income for the three years.

(u) Other new accounting pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 142 addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that goodwill and intangible assets which have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets with a finite life shall continue to be amortized over the estimated useful lives. The Company adopted SFAS No. 142 effective January 1, 2002, the first day of its fiscal year 2002. Upon adoption, the Company ceased amortization of goodwill. Currently the Company has not completed impairment review in accordance with SFAS No. 142 but does not expect any material impact upon adoption.

During 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations" and SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" which are applicable to the Company starting from January 1, 2002. The Company does not believe that the adoption of the statements will have a material impact on its financial position or results of operations.

4. SUBSIDY INCOME

Xing Yuan Dong was granted a subsidy of approximately RMB181,600,000 by the Administrative Committee of Shenyang New and High-Tech Industrial Development Zone for the year ended December 31, 2000. During 2000, approximately RMB88 million was received by the Company and the remaining balance was received in 2001.

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

5. INCOME TAXES

For the years ended December 31, 2001, 2000 and 1999, certain of the Company's subsidiaries were subject to income taxes in China at the applicable statutory tax rates on taxable income as reported in the statutory financial statements adjusted for the reduced tax rates and exemptions described in Note 3 (j).

The reconciliation of the Group's statutory income tax rate to its effective income tax rate (based on income before taxes and minority interests) for years ended December 31, 2001, 2000 and 1999 are as follows:

| | 2001 | 2000 | 1999 |
|---|---------|---------|---------|
| Average statutory tax rate (including state and local income tax) for foreign-invested enterprise | 18.93% | 26.26% | 23.5% |
| Effect of statutory tax holiday | (7.72%) | (1.67%) | (5.2%) |
| Effect of financial subsidies granted | — | — | (12.1%) |
| Effect of permanent difference relating to non-taxable subsidy | — | (3.10%) | — |
| Others, not individually significant | (1.63%) | 0.19% | 0.9% |
| Effective tax rate | 9.58% | 21.68% | 7.1% |

The average statutory tax rates for the relevant periods represented the weighted average tax rates of the Company's subsidiaries calculated on the basis of the relative amount of net income and the applicable statutory tax rate of each subsidiary.

As of December 31, 2001 and 2000, there were no material deferred tax assets or liabilities.

6. SHORT-TERM BANK DEPOSITS

As of December 31, 2001 and 2000, approximately RMB1,925.8 million and RMB905.5 million of the short-term bank deposits were pledged as security for banking facilities respectively.

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of:

| | 2001 RMB'000 | 2000 RMB'000 |
|------------------------------------|-----------------|-----------------|
| Accounts receivable | 77,166 | 85,661 |
| Less: Allowance for doubtful debts | (53,059) | (58,624) |
| | 24,107 | 27,037 |

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

8. NOTES RECEIVABLE

Notes receivable are primarily notes received from customers for settlement of trade receivable balances. As of December 31, 2001 and 2000, all notes receivable were guaranteed by established banks in the PRC and have maturity of between one to six months. The fair value of the notes receivable approximated their carrying value.

9. OTHER RECEIVABLES

Other receivables are primarily advances to third parties and subsidy receivables from the Administrative Committee of Shenyang New and High-Tech Industrial Development Zone. As of December 31, 2001, the advances to third parties of approximately RMB23.4 million are guaranteed by Shenyang Brilliance Automotive Company Limited (formerly known as JinBei Automotive Company Limited) ("JinBei"), a joint venture partner of Shenyang Automotive and bears interest at 6.1% per annum and repayable within one year.

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

As of December 31, 2000, the advances to third parties of approximately RMB710.0 million were unsecured, interest bearing at 6.1% per annum and repayable within one year.

10. INVENTORIES

Inventories consist of:

| | 2001 | 2000 |
|----------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Raw materials and supplies | 306,769 | 280,698 |
| Work-in-progress | 46,783 | 115,411 |
| Finished goods | 273,417 | 399,522 |
| | 626,969 | 795,631 |

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

| | 2001 | 2000 |
|--|------------------|-----------|
| | RMB'000 | RMB'000 |
| Buildings | 624,783 | 306,052 |
| Machinery and equipment | 2,247,392 | 791,032 |
| Motor vehicles | 67,900 | 51,545 |
| Furniture, fixtures and office equipment | 96,071 | 66,822 |
| Construction-in-progress | 738,931 | 1,852,858 |
| | 3,775,077 | 3,068,309 |
| Less: Accumulated depreciation | (640,121) | (580,381) |
| Less: Provision for impairment losses | (30,950) | — |
| Net book value | 3,104,006 | 2,487,928 |

During 2001, certain obsolete moulds were written down to their estimated residue value and the related impairment losses were charged to selling and administrative expenses during the year.

12. INTANGIBLE ASSETS

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 sedan and a multi-purpose vehicle. On December 28, 2000, Shenyang Automotive exercised the above mentioned option and acquired all of CAC's rights, titles and interest 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 for the year ended December 31, 2001 as the intangible asset has not been put into use.

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

13. INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies consist of:

| Name of company | Place of establishment/ incorporation | Percentage of equity interest/voting right held indirectly | Principal activities |
|--|--|---|---|
| Mianyang Xinchun | Mianyang, the PRC | 50% | Manufacturing and sales of automotive engines |
| Compass Pacific Holdings Limited ("Compass Pacific") | Bermuda | 12.89% | Investment holding |
| Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. ("Shenyang Aerospace") | Shenyang, the PRC | 12.77% | Manufacturing and sales of automotive engines |
| Xinguang Brilliance | Shenyang, the PRC | 50% | Manufacturing and sales of automotive engines |
| Zhengtong | Shenyang, the PRC | 47.06% | Investment holding |

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

| | 2001 RMB'000 | 2000 RMB'000 |
|-----------------------------------|------------------|-----------------|
| Investment in Xinguang Brilliance | 401,178 | 388,000 |
| Investment in Mianyang Xinchun | 248,846 | 214,813 |
| Investment in Compass Pacific | 29,793 | 33,169 |
| Investment in Shenyang Aerospace | 153,769 | 157,560 |
| Investment in Zhengtong | 480,000 | — |
| | 1,313,586 | 793,542 |
| Loan to an associated company | — | 269,170 |
| | 1,313,586 | 1,062,712 |

The loan to an associated company was unsecured, carried interest at 5.5% per annum and the full outstanding amount was repaid by the associated company in 2001.

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.

In December 2001, Xing Yuan Dong entered into agreement with two related companies to establish 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.

The acquisitions of associated companies have been accounted for using the purchase method of accounting. The tangible assets were valued in the acquisitions at their

estimated fair values. The excess of the purchase price over the fair values of the net assets acquired has been accounted for as goodwill.

The differences between the carrying amounts and underlying net assets of the associated companies are:

| | 2001 RMB'000 | 2000 RMB'000 |
|---------------------|-----------------|-----------------|
| Mianyang Xinchun | 91,410 | 93,920 |
| Compass Pacific | 10,285 | 10,562 |
| Shenyang Aerospace | 31,983 | 32,825 |
| Xinguang Brilliance | 299,694 | 307,378 |
| Zhengtong | — | — |
| | 433,372 | 444,685 |

The equity share in the income (loss) of the associated companies including goodwill amortization are:

| | 2001 RMB'000 | 2000 RMB'000 |
|---------------------|-----------------|-----------------|
| Mianyang Xinchun | 34,031 | 70,048 |
| Compass Pacific | (3,375) | (2,401) |
| Shenyang Aerospace | (3,791) | (5,383) |
| Xinguang Brilliance | 13,178 | — |
| Zhengtong | — | — |
| | 40,043 | 62,264 |

As the acquisition of Xinguang Brilliance was completed in December 2000, no equity share in the income of Xinguang Brilliance was accounted for in the financial statements of the Company and no amortization on the goodwill was provided for the year ended December 31, 2000.

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

Unaudited combined financial information on the associated companies are summarized as follows:

| | 2001 | 2000 |
|-----------------------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Revenue | 1,732,108 | 1,847,422 |
| Operating profit, net | 71,427 | 308,684 |
| Profit before taxation, net | 81,322 | 220,780 |
| Net profit | 70,678 | 209,468 |
| Current assets | 2,288,293 | 1,306,505 |
| Non-current assets | 1,344,050 | 1,527,258 |
| Total assets | 3,632,343 | 2,833,763 |
| Current liabilities | 572,000 | 586,920 |
| Long-term liabilities | 824,336 | 866,960 |
| Total liabilities | 1,396,336 | 1,453,880 |
| Total owners' equity | 2,236,007 | 1,379,883 |

14. GOODWILL

| | 2001 | 2000 |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Beginning of year | 248,316 | 248,316 |
| Additions from the acquisition of a subsidiary | 191,267 | — |
| Less: Accumulated amortization | (25,119) | (18,919) |
| | 414,464 | 229,397 |

15. NOTES PAYABLE

Notes payable consist of:

| | 2001 | 2000 |
|------------------|------------------|------------------|
| | RMB'000 | 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 and 2000, the notes payable have maturities within six months and were secured by bank deposits of approximately RMB1,925.8 million and RMB905.5 million respectively.

16. TAXES PAYABLE

Taxes payable consist of:

| | 2001 | 2000 |
|---|----------------|----------------|
| | RMB'000 | RMB'000 |
| VAT payable (net of deemed input VAT credits) | (7,119) | (17,955) |
| Income taxes payable | 70,833 | 137,953 |
| Others | 170,554 | 34,491 |
| | 234,268 | 154,489 |

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

17. INTEREST EXPENSE (INCOME), NET

Net interest expense (income) consists of:

| | 2001 | 2000 | 1999 |
|------------------|---------------|-----------------|---------------|
| | RMB'000 | RMB'000 | RMB'000 |
| Interest expense | 178,028 | 96,280 | 60,270 |
| Interest income | (110,735) | (116,029) | (41,758) |
| | 67,293 | (19,749) | 18,512 |

18. SHORT-TERM BANK LOANS

Short-term bank loans were drawn for working capital purposes and to finance construction-in-progress, and are denominated in Renminbi and U.S. Dollars. The loans are repayable within one year and bear interest at the prevailing lending rates in the PRC, which ranged from 5.58% to 8.53% per annum during the year ended December 31, 2001, 5.56% to 8.52% per annum during the year ended December 31, 2000 and from 5.56% to 8.71% per annum during the year ended December 31, 1999.

As of December 31, 2001 and 2000, the Group's short-term bank loans were

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

19. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As of December 31, 2001, the Group had approximately RMB136.8 million (2000: RMB597.1 million) in outstanding commitments of which certain items are denominated in Deutsch Marks, U.S. Dollars and Euros, and the majority will be incurred in 2001.

(b) Product liability

Liability of manufacturers and sellers for loss and injury caused by defective products is governed by the General Principles of Civil Law of China and the Industrial Product Quality Regulations. Shenyang Automotive has never had a product liability claim brought against it and does not carry product liability insurance.

(c) Contingent liability

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

20. CAPITAL STOCK

By a resolution passed on March 13, 2000, the authorized capital stock was increased from US\$10,000,000 to US\$50,000,000 by the creation of 4,000,000,000 shares of common stock of US\$0.01 each.

On April 14, 2000, as a result of a nineteen for one stock split, the outstanding capital stock was increased to RMB251.7 million by the capitalization of RMB239.4 million of additional paid-in capital in full settlement of 2,891,508,255 common stock of US\$0.01 each on the basis of nineteen new shares for every then-existing share. These shares ranked pari passu with the existing shares.

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 Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

The effect of the stock splits on April 14, 2000 and the conversion of ADSs have been reflected retroactively for the purpose of all earnings per share and earnings per ADS computation.

During 2000, certain directors and employees exercised their stock options and as a result 304,360,000 shares of common stock of US\$0.01 each were issued at a price of HK\$1.059 per share. These new shares ranked pari passu with existing shares.

On May 25, 2001, arrangements were made for a private placement to professional and institutional investors of 318,000,000 share of common stock 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 per cent 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 shares of common stock of US\$0.01 each at a price of HK\$2.20 per share (the “Subscription”). The Subscription was completed in June 2001. All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

21. STOCK OPTIONS

Upon the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited, the Company adopted an employee share option scheme (the “Scheme”). Pursuant to the Scheme, the Company’s Board of Directors may grant options to employees of the Group to subscribe for the Company’s common stock at a price which shall be the higher of:

- (a) a price being not less than 80% of the average closing price of the common stock on the relevant Stock Exchange as stated in such Stock Exchange’s quotation sheets for the five trading days immediately preceding the relevant date in respect of such options; or

- (b) the nominal value of the shares.

On January 13, 2000, stock options were granted to certain directors and employees entitling them to subscribe for a total of 304,360,000 shares of common stock at HK\$1.059 per share (after taking into account the effect of the nineteen for one stock split on April 14, 2000). All the above share options vested immediately upon the date of grant and are exercisable within a period of 10 years. The compensation expense associated with these grants was approximately RMB88.3 million and was charged to the income during the year ended December 31, 2000. All of the above stock options were exercised by the respective directors and employees in 2000.

On June 2, 2001, share options were granted to certain directors and employees of the Company, entitling them to subscribe for a total of 31,800,000 shares of the Company’s common stock at HK\$1.896 per share. The exercisable period of these options is from June 2, 2001 to June 1, 2011. The compensation expense associated with these grants was approximately RMB15.5 million and was charged to the income during the year ended December 31, 2001. Up to December 31, 2001, none of the above share options was exercised.

| | No. of stock options (‘000) | Exercise price |
|-------------------------|-----------------------------------|-------------------|
| As of January 1, 2000 | — | — |
| Granted | 304,360 | HK\$1.059 |
| Exercised | (304,360) | HK\$1.059 |
| As of December 31, 2000 | — | |
| Granted | 31,800 | HK\$1.896 |
| Exercised | — | — |
| As of December 31, 2001 | 31,800 | |

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

As a result of these transactions, the outstanding share capital and additional paid-in capital increased by RMB25.2 million and RMB408.3 million respectively for the year ended December 31, 2000 and the additional paid-in capital for the year ended December 31, 2001 was increased by RMB15.5 million.

Had compensation costs for the Company's stock options issued been determined based on the fair value of the stock options at the grant date, consistent with the provision of SFAS No. 123, the Company's net income and earnings per share for the year ended December 31, 2001 and 2000 would have been adjusted to the pro forma amounts indicated below:

| | 2001 | 2000 |
|---------------------------|------------------|-----------|
| | RMB'000 | RMB'000 |
| Net income: | | |
| As reported | 887,077 | 870,030 |
| Pro forma | 825,681 | 852,988 |
| Basic earnings per share: | | |
| As reported | RMB0.2510 | RMB0.2761 |
| Pro forma | RMB0.2337 | RMB0.2707 |

The fair value of each option grant is estimated using the minimum value method of the Black-Scholes option pricing model. The weighted average assumptions used for grants made in 2001 and 2000 are as follows:

| | 2001 | 2000 |
|---|-------------------|------------|
| | RMB'000 | RMB'000 |
| Risk-free interest rate | 5.71% p.a. | 5.68% p.a. |
| Expected option life (days of share option outstanding) | | |
| — Exercised on August 12, 2000 | N/A | 211 days |
| — Exercised on August 18, 2000 | N/A | 217 days |
| — Exercised on August 29, 2000 | N/A | 228 days |
| — Issued on June 2, 2001 | 10 years | N/A |
| Expected dividend yield | 3.98% | 6.97% |
| Volatility | 75.88% | 84.79% |

22. 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 and recorded as a component of shareholders' equity as stipulated by statute or by the Board of Directors. Under U.S. GAAP, the appropriation for the staff welfare and incentive bonus fund is charged to income and any unutilized balance is included in current liabilities. Shenyang Automotive's appropriations to dedicated capital, which consisted solely of appropriations to the staff welfare and incentive bonus fund, amounted to nil, nil and RMB17.6 million for the years ended December 31, 2001, 2000 and 1999, respectively, and were charged to income in each respective year. As of December 31, 2001, 2000 and 1999, unutilized appropriations to the staff welfare and incentive bonus fund amounted to RMB14.7 million, RMB15.4 million and RMB22.8 million, respectively. For the year ended December 31, 2001, the subsidiaries of the Company appropriated approximately RMB66.2 million to the general reserve fund. No such appropriation was made by the subsidiaries for the year ended December 31, 2000 and 1999.

Dividends received by the Company from its subsidiaries are based on the distributable profits as reported in the statutory financial statements and amounted to RMB250.2 million, RMB905.2 million, and RMB238.4 million for the years ended December 31, 2001, 2000 and 1999 respectively. Distributions received from the Company's subsidiaries are denominated in U.S. Dollars at the prevailing unified exchange rate in the PRC. Total accumulated distributable profits of the Company's subsidiaries amounted to RMB1,313.6 million, RMB880.2 million and RMB1,136.2 million as of December 31, 2001, 2000 and 1999 respectively. The distributable profits of subsidiaries are different from the amounts reported under US GAAP.

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

Dividends declared by the Company during the years ended December 31, 2001 and 2000 consist of:

| | 2001 RMB'000 | 2000 RMB'000 |
|---|-----------------|-----------------|
| 2000 and 1999 final dividends of HK\$0.005 and HK\$0.0021 per share respectively | 19,762 | 6,497 |
| 2001 and 2000 interim dividends of HK\$0.004 and HK\$0.003 per share respectively | 15,544 | 9,679 |
| | 35,306 | 16,176 |

On April 25, 2002, the Company proposed a dividend of HK\$0.005 per share totaling approximately RMB19,605,000.

23. 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 interests 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.

Save as disclosed elsewhere in the financial statements, particulars of significant transactions with affiliated companies are summarized below:

| (a) Amounts due from affiliated companies arising from trading activities: | 2001 RMB'000 | 2000 RMB'000 |
|---|-----------------|-----------------|
| Due from Shanghai Yuantong Automobile Sales and Service Company Limited ("Shanghai Yuantong") (i) | 439,411 | 7,761 |
| Due from Shanghai Brilliance Group Co., Ltd. ("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 Xinguang Brilliance | — | 2,001 |
| | 596,937 | 113,993 |
| Provision for doubtful debts | — | (12,230) |
| | 596,937 | 101,763 |

(i) The amount due from Shanghai Yuantong during the year ended December 31, 2001 bears interest at a rate of 5.4% per annum. The balance of approximately RMB439 million as of year ended December 31, 2001 represents commercial notes issued by Shanghai Yuantong in settlement of the outstanding receivables.

(ii) As of December 31, 2001, included in the amounts due from affiliated companies of Brilliance Holdings Limited is approximately RMB56 million 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.

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

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

(b) Notes receivable from affiliated companies arising from trading activities consisted of the following:

| | 2001 RMB'000 | 2000 RMB'000 |
|---|-----------------|-----------------|
| 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. The fair value of the notes receivable approximates their fair value.

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

(d) Amounts due to affiliated companies arising from trading activities consisted of the following:

| | 2001 RMB'000 | 2000 RMB'000 |
|---|-----------------|-----------------|
| 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 Shanghai Brilliance and its affiliated companies | 173,636 | 71,118 |
| Due to affiliated companies of the joint venture partner in Ningbo Yuming | 6,287 | 3,584 |
| Due to affiliated companies of the joint venture partner in Xinguang Brilliance | 3,132 | — |
| Due to associated companies | 169,589 | 238,329 |
| | 492,079 | 429,606 |

The amounts due to affiliated companies are unsecured and non-interest bearing.

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

(e) Save as disclosed elsewhere in the financial statements, significant transactions with affiliated companies consisted of:

| | 2001 RMB'000 | 2000 RMB'000 | 1999 RMB'000 |
|---|-----------------|-----------------|-----------------|
| Sales to JinBei and its affiliated companies | 14,923 | 3,527 | 15,179 |
| Purchases from JinBei and its affiliated companies | 317,046 | 25,319 | 254,052 |
| Sales to Shanghai Brilliance and its affiliated companies | 907,232 | 4,821,322 | 2,818,409 |
| Purchases from Shanghai Brilliance and its affiliated companies | 164,323 | 153,933 | — |
| Sales to Shanghai Yuantong | 2,622,002 | 83,509 | — |
| Advertising expenses paid by Shanghai Yuantong | 64,070 | — | — |
| Sales to other affiliated companies of Brilliance Holdings Limited | 59,816 | 644,167 | 79,606 |
| Purchases from other affiliated companies of Brilliance Holdings Limited | 274,379 | 406,020 | 484,206 |
| Purchases from associated companies | 635,373 | 715,610 | 229,315 |
| 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 | 33,524 | 33,237 | 16,232 |
| Sales to associated companies | 61,683 | 98,546 | — |
| Sales to a joint venture partner in Shenyang Aerospace | — | 1,710 | — |
| Sales to affiliated companies of the joint venture partner in Mianyang Xincheng | — | 15,136 | — |
| Purchase of an intangible asset from an affiliated company of Brilliance Holdings Limited (see Notes 12 and 26) | — | 681,100 | — |
| Acquisition of Key Choices from Brilliance Holdings Limited | 278,213 | — | — |
| Acquisition of Automotive Components 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 | — | — |
| Purchase of fixed assets from other affiliated companies of Brilliance Holdings Limited | 41,984 | 24,498 | — |
| Purchases of moulds from an affiliated company of Shanghai Brilliance | 35,750 | — | — |
| Commission expenses paid to an affiliated company of Brilliance Holdings Limited | — | — | 1,653 |
| Management and consultancy fees charged by Brilliance Holdings Limited | 12,405 | 5,796 | 4,758 |
| Interest income from Shanghai Yuantong | 15,930 | — | — |
| Interest income from Brilliance Holdings Limited and its affiliated companies | 23,709 | 56,964 | 22,270 |
| Interest income from associated companies | — | 2,386 | 2,074 |

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. Other significant transactions with affiliated companies consisted of:

i. Trademark license

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.

ii. Guarantees provided to affiliated companies

The subsidiaries of the Group had provided the following guarantees:

- Corporate guarantees of approximately RMB1,114 million and RMB1,727.5 million for bank loans and notes drawn by affiliated companies of Shanghai Brilliance as of December 31, 2001 and 2000 respectively;
- Corporate guarantee of approximately RMB25 million for notes drawn by affiliated companies of the joint venture partner in Ningbo Yuming;
- Corporate guarantees of RMB50 million for bank loans drawn by Xinguang Brilliance as of December 31, 2000; and
- A joint and several proportional guarantee with the joint venture partners of Shenyang Aerospace on a long-term bank loan of approximately RMB540 million drawn by Shenyang Aerospace, which would expire in year 2008.

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

(f) 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 (i) | 256,223 | 407,639 |
| Advances to JinBei and its affiliated companies: | | |
| Non-interest bearing | 2,163 | 1,100 |
| | 298,386 | 608,807 |
| Long-term portion of 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 Xincheng.

(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.

(g) The advances from affiliated companies consisted of:

| | 2001 RMB'000 | 2000 RMB'000 |
|--|-----------------|-----------------|
| Due to affiliated companies of Brilliance Holdings Limited | 54,276 | 52,311 |

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

(h) As of December 31, 2001 and December 31, 2000, the Company had advanced approximately RMB1,869.9 million and RMB1,151.2 million respectively to its

subsidiaries of which approximately RMB1,200.1 million and RMB591.0 million respectively bears interest at 5.5% to 9% per annum.

24. RETIREMENT PLAN AND EMPLOYEES' BENEFIT

As stipulated by the regulations of the PRC government, the Company's subsidiaries 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% for 2001, 20% to 23.5% for 2000 and 20% for 1999. Commence from 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, 2001, 2000 and 1999 were approximately RMB21.2 million, 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 RMB10.4 million, RMB32.3 million and RMB22.7 million for 2001, 2000 and 1999, respectively, were calculated at a certain percentage (approximately 9.8% to 10.9% in 2001, 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 employees each makes monthly contribution to the scheme at 5% of the employees' cash income with maximum contribution by each of the Group and the employees limited to HK\$1,000 per month. The retirement benefits 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 were made.

Notes to Consolidated Financial Statements (Continued)

(Amounts expressed in RMB unless otherwise stated)

25. EXECUTIVE BONUS PLAN

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. All bonuses paid pursuant to the Plan must be distributed no later than 60 days after the end of the Company's fiscal year. For the year ended December 31, 2001 and 2000, no bonus was allocated. For the year ended December 31, 1999, the Company accrued RMB34.1 million under the Plan and distributed in year 2000.

26. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | Year ended December 31, | | |
|--|-------------------------|-----------------|-----------------|
| | 2001 RMB'000 | 2000 RMB'000 | 1999 RMB'000 |
| Cash paid for: | | | |
| Interest (net of amount capitalized — 2001: RMB49,164,000, 2000: RMB79,118,000; 1999: RMB28,056,000) | 178,028 | 96,280 | 60,270 |
| Income taxes | 183,845 | 369,373 | 54,988 |

Major non-cash transactions included:

- (i) During the year ended December 31, 2001, purchase consideration amounting to approximately RMB278 million for the acquisition of certain equity interest in a subsidiary was offset against certain receivable balances from affiliated companies. During the year ended December 31, 2000, purchase considerations amounting to approximately RMB681.1 million and RMB388 million for the acquisitions of an intangible asset and certain indirect equity interests in an associated company respectively were offset against certain receivable balances from affiliated companies and a portion of the proceeds from issuance of shares on exercise of share options which the Company directed to be paid to an affiliated company.
- (ii) During the year ended December 31, 2001, amounts due from and due to affiliated companies of approximately RMB87 million were offset after agreement among the parties. During the year

ended December 31, 2000, dividends of RMB609.7 million payable to the joint venture partner in Shenyang Automotive were offset against certain receivable balances from affiliated companies.

- (iii) During the year ended December 31, 2001, the Company acquired a 100% equity interest in Key Choices. In conjunction with the acquisition, assets and liabilities were assumed as follows:

| | RMB'000 |
|-----------------------------------|----------|
| Consideration for the acquisition | 278,213 |
| Fair value of net assets acquired | |
| 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) |
| | (86,946) |
| Goodwill arising from acquisition | 191,267 |

27. OTHER SUPPLEMENTAL INFORMATION

The following items are charged to the consolidated statements of income and comprehensive income:

| | Year ended December 31, | | |
|---|-------------------------|-----------------|-----------------|
| | 2001 RMB'000 | 2000 RMB'000 | 1999 RMB'000 |
| Import tariffs | 66,394 | 164,726 | 89,257 |
| Research and development costs | 26,825 | 7,623 | 1,261 |
| Foreign exchange losses | 11,608 | 5,413 | 1,395 |
| Provision for inventory obsolescence | 3,000 | 5,000 | 16,000 |
| Provision for impairments of tools and moulds | 30,950 | — | — |
| Bad debt expenses | 1,352 | 227 | 12,230 |

Notes to Consolidated Financial Statements *(Continued)*

(Amounts expressed in RMB unless otherwise stated)

28. SEGMENT INFORMATION

(a) Business segments

For 2001, 2000 and 1999, the Company's operating segment consists solely of manufacturing and selling of minibuses and automotive parts through its subsidiaries within the PRC.

(b) Geographical segments

The Group's activities are conducted predominantly in the PRC. No geographical segmentation analysis is provided.

Information for Investors

Annual General Meeting

June 28, 2002, 9:00 a.m.
Grand Hyatt Hong Kong
1 Harbour Road
Wanchai, Hong Kong

Stock Exchange Listing

New York Stock Exchange
Trading Symbol: CBA

Hong Kong Stock Exchange
Stock Code: 1114

The Annual Report on Form 20-F for Brilliance China Automotive Holdings Limited to be filed with the U.S. Securities and Exchange Commission will be available upon request. For a copy, please write or call Weber Shandwick Worldwide (HK) Ltd.

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