

# CHANGCHAI COMPANY, LIMITED

## 2001 ANNUAL REPORT

**Important:** Board of Directors of the Changchai Company, Limited (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.

Being on the business trip, Dir. Li Hanhua, Dir. Sun Jian and Dir. Wang Jiaze were absent from the Board meeting. Dir. Li Hanhua entrusted Chairman of the Board, Mr. Zhang Junyuan, to vote on his behalf.

Arthur Andersen & Company Certified Public Accountants issued an Auditors' Report with explanatory notes for the Company, to which the Board of Directors and the Supervisory Committee will make explanation in details. Investors are minded to notice.

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## I. COMPANY PROFILE

### 1. Legal Name of the Company

In Chinese: 常柴股份有限公司

In English: CHANGCHAI COMPANY, LIMITED

Abbr.: CHANGCHAI CO., LTD.

### 2. Legal Representative: Mr. Zhang Junyuan

### 3. Secretary of the Board of Directors: Mr. Zhang Jianhe

Liaison Address: No. 123, Huaide Middle Rd., Changzhou, Jiangsu, China

Tel: (86) 519-6600448

Fax: (86) 519-6630954

E-mail: zjh00057@163.com

### 4. Registered Address and Office Address:

No. 123, Huaide Middle Rd., Changzhou, Jiangsu, China

Post Code: 213002

Internet Website: <http://www.changchai.com.cn>

E-mail: cctqm@public.cz.js.cn

### 5. Newspapers Chosen for Disclosing Information:

Securities Times and Ta Kung Pao

The Place Where the Annual Report is Prepared and Placed:

Office of the Company

Internet Website Designated by CSRC for Publishing the Annual Report of the Company: <http://www.cninfo.com.cn>

### 6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock:	Suchangchai A	Stock Code: 000570
	Suchangchai B	200570

### 7. Other Information about the Company

#### (1) The initial registration date: May 5, 1994;

The authority registered with: Changzhou Municipal Administration for Industry and Commence

#### (2) The changed registration date: June 7, 2001

The authority registered with: Jiangsu Provincial Administration for Industry and Commence

#### (3) The entity business license registration number: 3200001103367 (1/2)

#### (4) The tax registration number: 320403100121023

#### (5) Name of the domestic certified public accountants engaged by the Company:

Domestic: Anderson · Huaqiang Certified Public Accountants

Office address: 11/F, 1/Block, International Trade Bldg., No.1, Jianguo Men Wai Avenue, Beijign, China

International: Arthur Andersen & Company (HK) Certified Public Accountants  
 Address: 21<sup>st</sup> Floor Edinburgh Tower, the Landmark 15 Queen's Road Central,  
 Hong Kong

## II. ABSTRACT OF FINANCIAL HIGHLIGHTS AND BUSINESS DATA

(I) Total profit and its composing as of the year 2001 (In RMB'000)

Total profit	-435,573
Net profit	-381,429
Net profit after deducting non-recurring gains and losses	-380,150
Profit from main business lines	164,046
Profit from other business lines	4,823
Operating profit	-399,510
Investment income	-37,567
Subsidy income	6,386
Net income / expenditure from non-operating	-4,883
Net cash flows arising from operating activities	166,168
Net increase in cash and cash equivalent	99,228

Note: Net profit after deducting non-recurring gains and losses = Net profit – (income from non-operating – expenditure from non-operating + subsidy income – impact on income tax) = -381,429,000 – (4,171,000 – 9,053,000 + 6,386,000 – 225,000) = -380,150,000

Impact of International Accounting Standard (“IAS”) on net profit and net assets: (Unit: In RMB' 000)

	Net (loss) profit		Net assets	
	2001	2000	2001	2000
As reported in the statutory accounts of the Group	(381,428)	34,988	1,239,420	1,627,951
Adjustments under IAS:				
- Provision for impairment losses of property, plant and equipment	(39,537)	-	-	62,231
- Write off of pre-operating expenses and reversal of amortization	802	267	-	(802)
- Write off of housing fund	(621)	(22,074)	-	(22,074)
- Others	-	(1,594)	-	-
As reported under IAS	<u>(420,784)</u>	<u>11,587</u>	<u>1,239,420</u>	<u>1,667,306</u>

(II) Principal accounting data and financial index over previous three years ended the report year

Items	(In RMB'000)		
	2001	2000	1999
Income from main business lines	1,743,487	2,240,847	3,092,750

Net profit	-381,429	39,687	98,972
Total assets	2,926,504	3,530,311	3,414,050
Shareholders' equity	1,239,421	1,627,951	1,460,480
Earnings per share (diluted) (RMB)	-1.02	0.11	0.28
Earnings per share (weighted) (RMB)	-1.02	0.11	0.28
Earnings per share after deducting non-recurring gains and losses (RMB)	-1.02	0.07	0.27
Net assets per share (RMB)	3.31	4.53	4.15
Net assets per share after adjustment (RMB)	3.19	4.41	4.03
Net cash flows per share arising from operating activities (RMB)	0.44	-0.47	-0.55
Return on equity (%) (diluted)	-30.8	2.34	6.78

(III) The profit are calculated according to Regulations on the Information Disclosure of Companies Publicly Issuing Shares (No. 9) released by CSRC  
Supplementary statement of profit:

Profit as of the report period	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main business lines	13.2	11.4	0.44	0.44
Operating profit	-32.2	-27.8	-1.07	-1.07
Net profit	-30.8	-26.5	-1.02	-1.02
Net profit after deducting non-recurring gains and losses	-30.9	-26.6	-1.02	-1.02

Note: Formula for Calculating Major Financial Indexes:

Earnings per share = net profit / total number of ordinary shares at the end of the year

Net assets per share = shareholders' equity at the end of the year / total number of ordinary shares at the end of the year

Net assets per share after adjustment = [shareholders' equity at the end of the year – accounts receivable over 3 years – deferred expenses – long term deferred expenses] / total number of ordinary shares at the end of the year

Net cash flows per share arising from operating activities = net cash flows arising from operating activities / total number of ordinary shares at the end of the year

Return on equity = net profit / shareholders' equity at the end of the year × 100%

Weighted average net assets-income ratio =  $P \div (E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0)$

Interpretation: P stands for profit as of the report year; NP stands for net profit as of the report year; E<sub>0</sub> stands for net assets at the beginning of the report year; E<sub>i</sub> stands for

increased net assets due to issue of new share or share transformed from bond in the report year;  $E_j$  stands for decreased net assets due to counter purchase or distribute of cash bonus in the report year;  $M_o$  stands for number of months in the report year;  $M_i$  stands for number of months from the next month of increased assets to the end of the report year;  $M_j$  stands for number of months from the next month of decreased assets to the end of the report year.

$$\text{Earnings per share (EPS)} = P \div [S_o + S_1 + S_i \times M_i \div M_o - S_j \times M_j \div M_o]$$

Interpretation: P stands for profit as of the report year;  $S_o$  stands for total number of shares at the beginning of report year;  $S_1$  stands for number of increased shares due to capital public reserve transferring into share capital or distribution of dividend in the report year;  $S_i$  stands for number of increase shares due to issue of new share or share transformed from bond in the report year;  $S_j$  stands for number of decreased shares due to counter purchase or distribute of dividend in the report year;  $M_o$  stands for number of months in the report year;  $M_i$  stands for number of months from the next month of increased shares to the end of the report year;  $M_j$  stands for number of months from the next month of decreased shares to the end of the report year.

#### (IV) Changes in shareholders' equity in the report year

(Unit: in RMB'000)

Items	Share capital (share)	Capital public reserve	Surplus public reserve	Statutory public welfare fund	Retained profit	Total shareholder s' equity
Amount at year-begin	374,249,551	857,417	237,016	89,426	159,268	1,627,951
Increase in the report year		762				762
Decrease in the report year		163,997	58,163		159,268	389,292
Amount at year-end	374,249,551	694,182	178,853	89,426	0	1,239,421

Reason for the changes:

- (1) Decrease in capital public reserve is due to making up the deficits of the year 2001.
- (2) Decrease in surplus public reserve is due to making up the deficits of the year 2001.
- (3) Decrease in retained profit is due to the deficits suffered in 2001.
- (4) Decrease in shareholders' equity is due to the deficits suffered in 2001.

### III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

#### (I) Changes in share capital

##### 1. Changes in share capital

Items	Amount at year-begin	Amount at year-end
<b>I. Unlisted Shares</b>		
1. Promoters' shares	153,160,000	153,160,000
Including:		
State-owned shares	153,160,000	153,160,000
Domestic juristic person's shares		
Foreign juristic person's shares		
Others		
2. Raised juristic person's shares	10,064,000	10,064,000
3. Employee's shares		
4. Preference shares and others		
Total unlisted shares	163,224,000	163,224,000
<b>II. Listed Shares</b>		
1. RMB ordinary shares	111,025,551	111,025,551
2. Domestically listed foreign shares	100,000,000	100,000,000
3. Overseas listed foreign shares		
4. Others		
Total listed shares	211,025,551	211,025,551
<b>III. Total shares</b>	<b>374,249,551</b>	<b>374,249,551</b>

## 2. Issuance and Listing of Shares

(1) The Company conducted 1999 Share Allotment from Mar. 1, 2000 to Mar. 22, 2000. Based on total share capital before allotment, 352,000,000 shares, rights shares totaling 22,249,551 shares were allotted on the basis of 3 for 10 at the price of RMB 9 per share. Totally 22,249,551 rights shares were allotted in the share allotment activity including 2,260,000 shares subscribed by shareholders of state-owned shares with cash; 987,500 shares subscribed by juristic person shareholders with cash; 102,054 shares subscribed by Shareholders of previous transferred allotted shares and 18,899,997 shares subscribed by shareholders of public shares (including senior executives).

(2) In the report year, there is no change in share capital of the Company.

(3) There exist no employee's shares in the Company.

## (II) About Shareholders

1. Ended Dec. 31, 2001, the Company had totally 95,344 shareholders, of them, 77,738 shareholders with totally 274,249,551 domestic shares and 17,606 shareholders with totally 100,000,000 foreign shares.

## 2. Particulars about shares held by the top ten shareholders at the end of the report year

No.	Shareholder's name	Number of holding shares (share)	Proportion in total shares (%)
(1)	Changzhou State Assets Administrative Bureau	153,160,000	40.92
(2)	Wujin Diesel Engineer Block Factory	5,330,000	1.42
(3)	KUBOTA CORPORATION	5,000,000	1.34
(4)	CBNY S/A PNC/SKANDIA SELECT FUND/CHINA EQUITY AC	2,349,181	0.63
(5)	WEN HAI GEN	1,993,466	0.53
(6)	Benniu Agricultural Machinery Factory	1,760,000	0.47

(7)	WEN PEI RONG	1,555,423	0.42
(8)	WEN CAN RONG	1,317,564	0.35
(9)	KWONG, LIN KUI	687,900	0.18
(10)	Tongzhi Securities Investment Fund	640,000	0.17

Notes: (1) Changzhou State Assets Administrative Bureau (“the Bureau”) is the largest shareholder of the Company, holding 153,160,000 shares on behalf of the state. In the report period, Shares held by the Bureau were not pledged or frozen. No. 2 and 6 were the domestic juristic person shareholders; No. 10 was shareholder of domestic circulating shares; and No. 3, 4, 5, 7, 8, 9 were shareholders of foreign shares.

(2) There existed no associated relationship among the top ten shareholders.

3. Changzhou State Assets Management Bureau is the holding shareholder of the Company as non-juristic person organization.

#### IV. PARTICULARS ABOUT DIRECTOR, SUPERVISOR AND SENIOR EXECUTIVE AND STAFF

(I) Particulars about the directors, supervisors and senior executives

1. Directors, supervisors and senior executives

Name	Title	Gender	Age	Office term	Number of holding shares at year-end (share)
Zhang Junyuan	Chairman of the Board	Male	47	Jun. 2001-Jun. 2003	0
Xue Guojun	Director, General Manager	Male	38	Apr. 2001-Apr. 2003	0
Li Hanhua	Director	Male	56	Jun. 2000-Jun. 2003	22179
Xu Zhenping	Director	Male	44	Jun. 2000-Jun. 2003	0
Sun Jian	Director	Male	43	Jun. 2000-Jun. 2003	0
Xuan Tingpu	Director	Male	58	Jun. 2000-Jun. 2003	0
Wang Jiize	Director	Male	52	Jun. 2000-Jun. 2003	0
Lu Jin	Chairman of the Supervisory Committee	Male	51	Jun. 2000-Jun. 2003	18483
Li Zhengguo	Supervisor	Male	56	Jun. 2000-Jun. 2003	0
Yin Lihou	Supervisory	Male	37	Jun. 2000-Jun. 2003	0
Ni Mingliang	Supervisory	Male	34	Jun. 2000-Jun. 2003	0
Cao Huiming	Supervisory	Male	52	Jun. 2000-Jun. 2003	0
Zhu Xinmin	Deputy General Manager	Male	52	Jun. 2000-Jun. 2003	0
Shi Jianchun	Deputy General Manager	Male	39	Jun. 2000-Jun. 2003	0
He Jianguang	Chief Engineer	Male	37	Jun. 2000-Jun. 2003	0
Zhang Jianhe	Secretary of the Board	Male	44	Nov. 2001-Jun. 2003	0

2. Particulars about directors, supervisors or senior executives holding the position in Shareholding Company

Directors, supervisors and senior executives of the Company have not hold the position in Shareholding Company.

(II) Particulars about the annual salary

1. In 2001, the annual salary received by directors, supervisors and senior executives from the Company are paid in monthly based on the management regulation of wage established by Changchai Co., Ltd.. Chairman of the Board Mr. Zhang Junyuan, Director Mr. Xuan Tingpu, Mr. Wang Jiaze, Mr. Sun Jian and Supervisor Mr. Cao Huiming receive no pay from the Company.
2. The total annual salary of directors, supervisors and senior executives received from the Company is RMB 590,000. The total amount of the top three directors is RMB 200,000. The total amount of the top three senior executives is RMB 210,000.
3. In 2001, of directors, supervisors and senior executives, seven enjoy their annual salary from RMB 50,000 to RMB 80,000 respectively; three enjoy their annual salary under RMB 50,000 respectively.

(III) Directors, supervisors and senior executives leaving the office and the reason in the report year

In the report year, Mr. Li Hanhua no longer hold the position of Chairman of the Board of the Company due to work transfer; Mr. Wang Qiuping no longer hold the position of Vice Chairman of the Board and General Manager of the Company due to work transfer. Mr. Zhang Junyuan was elected as Chairman of the Board; Mr. Xue Guojun was elected as Director and General Manager.

Mr. Lv Xiaoping no longer hold the position of Secretary of the Board of Directors of the Company due to work transfer and Mr. Zhang Jianhe was engaged instead.

The aforesaid matters were published in Securities Times and Ta Kung Pao dated April 30, 2001 and Nov. 30, 2001 respectively.

(IV) About staff

By the end of the year 2001, the Company has totally 4444 registered employees, including 2964 production personnel; 341 salespersons; 430 technicians; 72 financial personnel, 110 administration personnel.

Education Background: 9 postgraduate; 210 persons graduated from bachelor's degree; 328 persons graduated from 3-years regular college; 214 persons graduated from Polytechnic school; 1885 persons graduated from senior high school and 1798 persons graduated from junior high school or lower. The Company need not bear the costs of retiree because that the Company.

## **V. ADMINISTRATIVE STRUCTURE**

(I) Particulars about Company Administration

The Company strictly implements the PRC Company Law, the Securities Law and the relevant laws and regulations issued by CSRC; continuously improves the legal person administration system, has establishes modern enterprise system, and operates the Company in a standardized way. The Company makes self- scrutiny according to the Regulations of Administration of Listed Companies released by China Securities Regulatory Commission and State Economic and Trade Commission dated Jan. 7, 2002. Details are set out as follows:

1. Shareholders and Shareholders' General Meeting: The company is able to ensure all

shareholders, especially safeguard the interests of small or medium shareholders could fully conduct their rights. The Company has established the Rules of Procedures of the Shareholders' General Meeting, calls and holds shareholders' general meeting strictly according to the rules for shareholders' general meeting. The Company conducted the related transactions in a fair and reasonable way. At present, the Company is positively solving the arrears arising from related transaction over previous year. Ended by the report year, the said matter was making obviously progress.

2. The control shareholder and the public Company: The Company's important decision-making was made by Shareholders' General Meeting and the Board of Directors according to relevant laws, regulations and Articles of Association of the Company. The Company is absolutely independent in personnel, assets, finance, organization and business from its control shareholder. The Board of Directors, the Supervisory Committee and the management perform their respective functions in an independent way.

3. Directors and the Board of Directors: The Company has elected directors strictly according to the engaging procedures stipulated in the Articles of Association. The Company is positively promoting accumulative voting system according to the Regulations of Administration of Listed Companies. All the directors have been performing the duties in a faithful, truthful and diligent way based on the maximum interest of the Company and the whole shareholders. The Company is positively looking for the candidate of independent director and establishing the independent director system and the special committee of the Board of Directors.

4. Supervisors and the Supervisory Committee: The Supervisory Committee has supervised financial affairs, performance of the Company's directors, managers and other senior executives in terms of compliance with the laws and regulations, and safeguarded the legal rights and interest of the Company and the shareholders.

5. Performance Valuation, Encouragement and Binding Mechanism: The Company is positively establishing the standards and Procedures of performance valuation and encouragement and binding mechanism for directors, supervisors and executives.

6. Relations with the Relevant Beneficiaries: The Company has been respecting the legal rights and interests of the banks and other creditors, staff, consumers, suppliers and other parties of related interests.

7. Information Disclosure and Transparency: In accordance with the information disclosure system established by CSRC, the Company has been disclosing the relevant information in a real, accurate, complete and timely way strictly according to the law, regulations and the Articles of Association of the Company. The Company has authorized the secretary of the Board of Directors to take charge of disclosing information, receiving the visit and inquiry of the shareholders, providing the open information to investors.

## (II) Performance of Independent Directors

The Company is positively establishing the independent director system, and drafting and amending the relevant rules in terms of the relevant regulations. The Company will establish the independent director system before June 30, 2002 according to the

relevant regulations.

## **VI. BRIEF INTRODUCTION OF SHAREHOLDERS' GENERAL MEETING**

In the report year, the Company held one annual Shareholders' General Meeting. 2000 Shareholder General Meeting was held at the meeting room of trade union of the Company in the morning of May 30, 2001.

The Company published the Announcement on holding 2000 Shareholders' General Meeting was published in Securities Times and Ta Kung Pao dated April 30, 2001 and May 15, 2001 respectively.

Totally 54 shareholders/shareholder's proxies and senior executives attended the meeting, representing 162,500,914 shares, taking 43.42% of total shares of the Company, including 161,894,112 A shares, taking 43.26% of total shares of the Company, 606,802 B shares. The following proposals were examined and approved by means of voting at the meeting:

1. 2000 Annual Report and its Summary;
2. 2000 Work Report of the Board of Directors;
3. 2000 Work Report of General Manager;
4. 2000 Work Report of the Supervisory Committee;
5. 2000 Profit Distribution Preplan and 2001 Profit Distribution Policies, namely, the Company has decided to conduct neither profit distribution nor capitalization of capital public reserve for the year 2000.
6. The proposal on engaging domestic and overseas auditors for the Company in 2001
7. The proposal on reelecting director of the Company. The Company agreed to the application of Mr. Wang Qiuping for resignation from the post of director and elected Mr. Zhang Junyuan as Director of the Company.

The relevant Public Notice of the meeting was published in Securities Times and Ta Kung Pao dated May 31, 2001.

## **VII. REPORT OF THE BOARD OF DIRECTORS**

### **(I) Business Highlights**

#### **1. Main Business Lines and Business Highlights**

(1) The Company is mainly engaged in manufacturing and sales of diesels for agricultural use, combines and transport vehicles for agricultural use.

The Company belongs to the industry of machinery manufacturing.

The formation of revenues from the main business lines according to the classification of products in the report year is as follows:

Index Product name	Income from main business lines		Profit of main business lines	
	Amount (In RMB)	Percentage %	Amount (In RMB)	Percentage %
Diesels	1,513,452,591	86.80	161,869,971	98.67
Spare parts	175,375,876	10.06	-2,557,259	-1.56
Transport vehicles for agricultural use & combines	54,658,967	3.14	4,732,817	2.89
Total	1,743,487,434	100.00	164,045,529	100.00

The formation of revenues from the main business lines according to the classification of districts in the report year is as follows:

Index District	Income from main business lines		Profit of main business lines	
	Amount (In RMB)	Percentage %	Amount (In RMB)	Percentage %
Jiangsu	1,614,371,356	92.60	146,579,866	89.36
Southwest	62,160,422	3.56	8,074,269	4.92
Northwest	955,636,	3.84	9,391,394	5.72
Total	1,743,487,434	100	164,045,529	100

## (2) About Diesels Income – the Biggest Proportion in the Main Business Lines' Income

Sales income RMB 1,513,452,591 Cost of sales RMB 1,351,582,620 Gross profit: 10.7%

## 2. Business Highlights of the Company's Main Subsidiaries and Controlling Subsidiaries

(Unit: RMB '000)

Names of Companies	Main products	Registered capital	Total assets	Net profit
Changchai Yinchuan Diesel Engine Co., Ltd.	Diesels	34,842.10	1,264,443,420	-146,170,880
Changchai Wanxian Diesel Engine Co., Ltd.	Diesels	35,000.00	1,168,145,180	-184,090,410
Changchai Benniu Diesel Engine Parts Co., Ltd.	Diesels and spare parts	33,786.40	1,242,044,340	-30,538,430
Changzhou Vehicle Co., Ltd.	Four-wheel transport vehicles for agricultural use	50,000.00	1,013,407,900	-119,794,080
Changchai Combine Harvesters Co., Ltd.	Combine harvesters	48,500.00	2,232,759,520	-469,659,220
Changchai Jintan Diesel Engine Co., Ltd.	Diesels	63,292.30	1,823,707,840	-377,589,000

## 3. Main Suppliers and Customers:

In 2001, the purchase amount of the first five suppliers made up 25.7% of the annual total purchase amount; the sales amount of the first five customers made up 25% of the Company's total sales amount.

## 4. Problems and Difficulties Occurred in the Operation and the Solutions

In 2001, the operation condition of small diesel industry got further worse after its universal descent in 2000. Adjustments of agriculture structure and descent in farmers' purchasing capability have prevented market effective demands from increasing. Meanwhile, the rapid emerging of local enterprises, imperfectness of the market management system and the increasing intension of illegitimate competition all led to protrusive conflicts between supplying and demanding. The further decrease in the sales prices directly resulted in the huge deficits in 2001. Subsidiary companies that produce terminal agricultural machinery also suffered from drastic impact and suffered comprehensive deficits, which increased the losses after consolidation of financial statements. Facing such difficult operation environment, the Company adopted various measures and tried hard to raise the competitiveness of products.

(1) Quickened the internal reform pace, tried best to raise management efficiency, and reduced costs. Lat year, the Company successively implemented system reform of

motorcade, separation of social functions, and the work of simplifying organizational structure and personnel, etc. The Company also adjusted some organizations, re-allocated management functions, re-engaged mid-level cadres, delimited posts and organizational structure in management so that the management personnel decreased and work efficiency increased. The fees that occurred in various branch factories and departments were remarkably lowered compared with those of previous years. The Company achieved remarkable results in the work of reducing costs and saving expenditure, in which the costs for single S195 and S1100 from January to December were lowered 12% and 13% respectively compared with those of the same period.

(2) Improved the work of internal basic management and reinforced the enterprise administration system. In view of problems existing in the management work, the Company successively and respectively established and improved various system construction work, namely, the Work and Meeting System for General Manager, the Cadre Assessment System, the Management System of External Investment, the Contract Management System, the Management System of New Product Development Expenses and the Management System for Funds and Regular Meetings etc so as to make every management work more procedural and standardized.

(3) Improved the management of sales, reduced management risks and improved management quality. The Company established the management system of credit sales and risk assessment, and improved the examination and approval procedures of defining credit upper limit; gradually set up archives of bad customers, eliminated management risks and lowered or reduced management losses through various means according to classification. The Company reinforced dynamics in fund retrieval and debit clearing, and conducted clearing of debts of old accounts through various means. At the end of 2001, accounts receivable decreased by RMB 155.57 million compared with those at the beginning of the year, and were lowered by 12.9%. The money funds at the end of the year increased RMB 84.88 million compared with those at the beginning of the year, and net cash flow from the operating activities in the report year amounted to RMB 166 million.

(4) Expedited invitation of investors and funds, and tried best to seek break-through in adjustment of products' structure. The Company contacted and negotiated actively with domestic or foreign well-known diesel or automobile manufacturers to seek products that were technically advanced and had large market potential, strived to create Changchai's new point of economic growth in short term through means of joint ownership and cooperative management, and to free itself from the predicament of low grade, few technical content, and low competitiveness of prices to certain extent, and some machines were in stages of sample test and trial setting. At the time when inviting outside investors, the Company worked hard to carry out internal adjustment on products' structure. The 102 series diesel promoted on the market last year sold well with continuous enlargement in dimension of forming complete sets and became the emphasis of last year's promotion. The Company reduced the cost of diesel for three-wheel vehicle, and raised its reliability, and had produced nearly 100,000 sets. Multi-cylinders reached the standard of let index. The Company currently had four models reached let index of European 1 standard, and passed the test of let index with

some of factories producing main engines to form complete engine sets in the national test center.

(II) Investment in the Report Year

1. Application of Proceeds Raised Previously

Approved by China Securities Regulatory Commission ZJGSZ (2000) No. 7 Document, the Company allotted and sold shares to all shareholders at the rate of allotting 3 shares for every 10 shares taking the total share capital RMB 352,000,000 at end of 1999 as the base. The Company actually allotted and sold 22,249,551 shares in total and raised net funds amounting to RMB 194,713,059.00. The funds raised this time were collected on April 13, 2000, and the Company had announced change of shares in public and registered the change with the Industrial and Commercial Administration Bureau.

Particulars about using of the raised funds through share allotment in 1999 ended December 31, 2001 are as follow:

(Unit: RMB '000)

Names of items	Fixed assets input (Equity rights investment)	Auxiliary current funds input (Loans)	Total
Back-carried all-feeding combines	29100	30000	59100
Self-propelled all-feeding combines			
Self-propelled semi-feeding combines	24900	47410	72310
Total	54000	77410	131410

Remarks on investment projects funded with the raised proceeds:

(1) Harvest machinery developed rapidly since 1995, and up to 2000, great changes had taken place in terms of market situation and competition of the industry. In order to reduce investment risks and to safeguard interests of investors, the Company resolved to adjust investment ways of the promised investment projects, which was discussed in the 12<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors and disclosed later, and revised the fixed assets input to the equity rights investment and revised the input of auxiliary current funds to the loans to project companies. The change of investment ways was subject to discussion and approval by the Shareholders' Annual Meeting.

(2) The Company invested RMB 29.10 million in purchasing equity rights of Changchai Combine Harvesters Co., Ltd. and RMB24.90 million in equity rights of Jiangnan Transport Machinery Co., Ltd. with the raised funds; the Company offered RMB 30 million and RMB 43.91 million respectively as loans to the aforesaid two project companies. The development expenses for self-propelled semi-feeding combines in the earlier stage was RMB 3.50 million; total raised funds used up amounted to RMB 131.41 million, and the rest of raised funds RMB 63,303,100 was deposited in the bank.

(3) The Company implemented three projects, namely, to achieve an annual production capability of 7000 sets per year for back-carried all-feeding combines and 3000 sets for self-propelled all-feeding combines and to build basic production lines of self-propelled semi-feeding combines including processes of punching, welding, painting and assembling etc. Self-propelled semi-feeding combines developed through

trial production of small batches were tested and appraised for production in December 2001, and the Company further improved the quality and raised the reliability to create conditions of supplying the market in batches in 2002.

(4) Changchai Combine Harvesters Co., Ltd. that produces back-carried and self-propelled all-feeding combines sustained deficits in 2001 due to impact from market demand change, price war and product quality etc.

(5) Since self-propelled semi-feeding combine is complex in structure, highly consists of technologies, and requires long development period, Jiangnan Transport Machinery Co., Ltd. decided to utilize the existing production conditions to produce three-wheel vehicles for agricultural use in advance before mass production. However, as a result of drastic competition and reinforced integration in the industry of three-wheel transport vehicle, its price fell and the average profit ratio dropped to 1%, which made it difficult for successors to join in the industry and which made Jiangnan Transport Vehicle Co., Ltd. sustain great losses in 2001.

2. There were no non-raised fund investment projects in the report year.

### (III) Financial Status

#### 1. Financial Index (Unit: RMB'000)

Names of indexes	Year 2001	Year 2000	Increase/decrease (%) in 2001 compared with 2000
Total assets	2,926,504	3,530,311	-17.10
Long-term liabilities	318,323	169,721	87.56
Shareholder's equity	1,239,421	1,627,951	-23.87
Profits from main business lines	164,046	344,614	-52.40
Net profit	-381,429	34,988	-1190.17

#### 2. Explanation on Reasons of Financial Status Change

- (1) Increase in long-term liabilities is due to the additional long-term loan.
- (2) Decrease in shareholders' equity is due to the deficits suffered in 2001.
- (3) Decrease in profit from main business lines is due to the price falling of the Company's product on one hand and the reduction in turnover on the other hand.

### (IV) Business Plans for the New Year

To expedite modification of the three structures, and develop stably with agricultural machinery production as foothold; to do beneficial sales, reduce costs and save expenditure, and sort out integrated resources in an all-round way; to advance technology and constantly make renovation, and positively promote joint-ownership and cooperative management; to deepen reforms and operate effectively, and perform scientific management and step onto another level.

Business goal of 2002: To realize RMB1.5 billion sales revenue, and sell 1.06 million sets of diesels, emphasize on breakthrough in multi-cylinder production with full strength, check on performance and renovate mechanism, do accounting section by section and guarantee benefits, and try hard to eliminate losses and increase profits.

Focuses of Work in 2002:

1. To combine buy-off and expense evaluation for single-cylinder and multi-cylinder to

make them become market-oriented step by step.

2. To integrate the Company's resources in an all-round way, reduce costs, increase benefits and raise market competitiveness.

3. To positively adjust products structure, and try hard to seek new economic point of increase.

4. To further strengthen and perfect fundamental administration work, and to make the Company's various work fit in with the development structure of small diesel market which has many categories but small batch production.

#### (V) Daily Work of the Board of Directors

Particulars about meetings and resolutions of the Board of Directors in the report year

1. The 6<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors was held on April 8, 2001, which discussed and passed the following items:

(1) 2000 Work Report of the Board of Directors;

(2) 2000 Annual Report and its Summary;

(3) 2000 Profit Distribution Preplan;

(4) 2001 Profit Distribution Policies;

(5) The Company asked Changchai Group to return RMB134.93 million that it owned to the Company as soon as possible, and agreed to offset the aforesaid arrear with the assessed Changchai Mansion in principle, which needed to be approved by relevant authority.

2. The 7<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors was held on April 29, 2001, which reviewed and passed the following items:

(1) According to the proposal of the shareholder Changzhou State Property Administration Bureau: Since Mr. Li Hanhua resigned the post as chairman of the Board of Directors and Mr. Wang Qiuping resigned the posts as vice chairman of the Board of Directors, director and general manager both due to work change, it recommended Mr. Zhang Junyuan as the candidate of director. The Board of Directors agreed to Mr. Li Hanhua's resignation as chairman of the Board of Directors, Mr. Wang Qiuping's resignation as vice chairman of the Board of Directors, and decided to design the director Mr. Li Hanhua to perform duties of chairman of the Board of Directors within authorization of the Board of Directors; The Board of Directors agreed to Mr. Wang Qiuping's resignation as director, and nominated Mr. Zhang Junyuan as director candidate, which was submitted to the Shareholders' General Meeting for discussion; The Board of Directors agreed to Mr. Wang Qiuping's resignation as general manager, and engaged Mr. Xue Guojun as general manager who was exempted from the post as vice general manager.

(2) Proposal on engaging auditors for 2001: Agreed to re-engage Arthur Anderson and Anderson · Huaqiang as the Company's domestic and international auditor in 2001, and authorized the Board of Directors to make approval on annual auditing fees.

(3) Agreed to the items discussed in the 2000 Shareholders' General Meeting and the public notices.

3. The 8<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors was held on May 30, 2001, which decided to elect Mr. Zhang Junyuan as chairman of the Board of Directors.

4. The 9<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors was held on July 25, 2001, which

reviewed the Public Notice on 2001 Interim Pre-deficits.

5. The 10<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors was held on August 14, 2001, which reviewed and passed the following items:

- (1) 2001 Interim Report and its Summary;
- (2) 2001 Interim Profit Distribution Plan;
- (3) Report on Revision of the Company's Accounting System;
- (4) Resolution on Transferring Shares of Guotai Junan Securities;
- (5) Resolution on Engaging Xinda Lawyers' Firm as the Company's Lawyer;
- (6) Resolution on Performance Evaluation and Encouragement System for Senior Executives.

6. The 11<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors was held on September 4, 2001, which reviewed and passed the Company's offering of guarantee to Shuangli Company for RMB30 million of loans. The period of guarantee is from September 18, 2001 to September 17, 2008.

7. The 12<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors was held on November 29, 2001, which reviewed and passed the following item:

- (1) Seriously studied the relevant stipulations of the PRC Company Law, Securities Law and the Rules of Shenzhen Stock Exchange for Stock Listing etc, reviewed and passed the rectification and reform measures and plans in view of problems raised by CSRC Nanjing Special Office during its inspection tour in the Company.
- (2) Reviewed and passed the proposal on engaging the secretary of the 3<sup>rd</sup> Board of Directors;
- (3) Reviewed and passed the proposal on canceling of Huading Science & Technology Industrial Co., Ltd.;
- (4) Reviewed and passed the proposal on adjusting investment modes of 1999 raised capital projects;
- (5) Reviewed and passed the proposal on supplemental disclosure of offering of guarantee to Shenzhen Jinbeishen Investment Co., Ltd.

8. The 13<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors was held on December 29, 2001, which reviewed and passed the following items:

- (1) Reviewed and passed the proposal on 2000 Management Policies and Goals;
- (2) Reviewed and passed the proposal on Liquidation of Changwan Company's Accounts Receivable and Clarification of Relevant Policies;
- (3) Reviewed and passed the proposal on Transferring Shares of Share Purchasing Project – i.e. Yihuai Railway. etc.

(VI) Profit Distribution Preplan or Preplan of Transferring of Capital Public Reserves to Share Capital

The Company realized net profit of RMB -381,429,000 and RMB -420,784,000 thousand respectively in 2001 as audited by the domestic and international auditors according to Chinese Accounting Standards and International Accounting Standards respectively. Total profits available for distribution in the year plus the retained profit RMB 159,268,000 at the beginning of the year amounted to RMB -222,161,000. The Board of Directors decided neither to distribute profits of 2001 nor to transfer capital

public reserve to share capital. In view of large deficits that occurred in 2001, the Company proposed to make up the deficits with the retained profit RMB 159,268,031 at the beginning of the year based on the lower profit of the parent company and the Company, arbitrary surplus public reserve RMB 58,163,488 and capital public reserve RMB 163,997,127. The aforesaid distribution preplan and plan of making up deficits are subject to discussion in the 2001 Shareholders' General Meeting.

(VII) Other Report Items

The designated newspapers for the Company to disclose information are Securities Times and Hong Kong Ta Kung Pao.

**VIII. REPORT OF THE SUPERVISORY COMMITTEE**

In the report year, according to relevant laws and regulations such as the PRC Company Law and the Articles of Association etc., the Supervisory Committee seriously performed its duties, strictly supervised the significant decisions made by the Board of Directors and management as well as the Company's operation according to law, production management and financial management in an all-round way, boosted the Company's standardized operation, and ensured veracity and legitimacy of its economic operation.

(I) The Meeting of the Supervisory Committee

The Company held four meetings of the Supervisory Committee in the report year.

1. The 2<sup>nd</sup> Meeting of the 3<sup>rd</sup> Supervisory Committee was held on April 8, 2001, which reviewed and passed the following items:

(1) In the report year, the Board of Directors and management operated in a standardized way and strictly according to the PRC Company Law and the Articles of Association, and basically established the internal control system. The decision-making procedures were legal

(2) In the report year, the Certified Public Accountants issued the unqualified auditors' report that objectively and factually reflected the Company's financial status and business results.

(3) The latest capital raised was from the share allotment in 1999, of which net raised capital amounted to RMB 194,713,059.00 after deduction of issuing expenses RMB 5,532,900.00. And actual investment projects were in line with the promised ones.

(4) In the report year, neither inside trading was found, nor was damage of the interests and rights of part of shareholders or runoff of the Company's assets.

(5) The Company's correlative transactions were fair and reasonable, and haven't damaged the interests of listed companies and of shareholders.

(6) The measure and ratio for provision of assets devaluation were same as those of 1999.

2. The 3<sup>rd</sup> Meeting of the 3<sup>rd</sup> Supervisory Committee was held on May, 28, 2001, which reviewed and passed the 2000 Work Report of the Supervisory Committee.

3. The 4<sup>th</sup> Meeting of the 3<sup>rd</sup> Supervisory Committee was held on August 14, 2001, which reviewed and passed the following items:

(1) 2001 Interim Report and its Summary;

- (2) 2001 Interim Profit Distribution Plan;
- (3) Agreed to the Report on Modification of the Company's Accounting System;
- (4) Agreed to the proposal on transferring of Guotai Junan Securities shares;
- (5) Agreed to the proposal on engaging Xinda Lawyers' Firm as the Company's Lawyer;
- (6) Agreed to the proposal on performance evaluation and encouragement system for senior executives.

4. The 5<sup>th</sup> Meeting of the 3<sup>rd</sup> Supervisory Committee was held on November 29, 2001, which reviewed and passed the following items:

- (1) Seriously studied the relevant stipulations of the PRC Company Law, Securities Law and the Rules of Shenzhen Stock Exchange for Stock Listing etc, and defined detailed rectification and reform measures concerning the inspection tour of CSRC Nanjing Special Office in the Company.
- (2) Reviewed and passed the proposal on canceling of Huading Science & Technology Industrial Co., Ltd.;
- (3) Reviewed and passed the proposal on adjusting investment modes of 1999 raised capital projects;
- (4) Reviewed and passed the proposal on supplemental disclosure of offering of guarantee to Shenzhen Jinbeishen Investment Co., Ltd.

5. The 6<sup>th</sup> Meeting of the 3<sup>rd</sup> Supervisory Committee was held on December 29, 2001, which reviewed and passed the following items:

- (1) Reviewed and passed the proposal on 2000 Management Policies and Goals;
- (2) Reviewed and passed the proposal on Liquidation of Changwan Company's Accounts Receivable and Clarification of Relevant Policies;
- (3) Reviewed and passed the proposal on Transferring Shares of Four Share Purchasing Project – shares of Futian, of Commercial Bank, of Yilai Genes and of Yihuai Railway.

## (II) Independent Opinions from the Supervisory Committee

1. Operation According to Law: In the report year, the main leaders of the Board of Directors and management changed. In the 2000 Shareholders' General Meeting, Mr. Zhuang Junyuan was elected as chairman of the Board of Directors and Mr. Xue Guojun was engaged as general manager, and they were finally decided in the 7<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors. The Supervisory Committee believed that the members of the Board of Directors and management staff worked seriously and responsibly, had been operating in a standardized way and strictly according to the PRC Company Law, Securities Law and the Articles of Association, and basically established a good internal control system while decision-making procedures were legitimate.

2. Financial Inspection: The Supervisory Committee seriously and deliberately inspected the Company's financial systems and financial status, believed that the financial report of 2001 factually reflected the Company's financial status and management results, and the opinions of auditors and assessment towards relevant events from Arthur Anderson Certified Public Accountants Certified Public

Accountants were objective and fair.

3. Actual Investment Project with Funds Raised Last Time:

The latest capital-raising was 1999 share allotment, in which a total net amount of RMB 194,713,059.00 was raised. Ended December 31, 2001, the Company invested RMB 29.10 million in purchasing equity rights of Changchai Combine Harvester Co., Ltd, and invested RMB 24.90 million in purchasing equity rights of Jiangnan Transport Machinery Co., Ltd; The Company provided current funds RMB 30 million and RMB 43.91 million respectively in the manner of loan to the aforesaid two projects. The Company also invested RMB 3.5 million in the initial stage of developing self-propelled semi-feeding combines. The total raised fund used was RMB 131.41 million. The Company collected all inputs for the three projects by the end of the report year. Since the input mode was not in compliance with that in the prospectus, resolutions on adjusting investment mode were made in the 12<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors and the 5<sup>th</sup> Meeting of the 3<sup>rd</sup> Supervisory Committee respectively, and information on it was disclosed.

The Supervisory Committee believed the actual input mode of investment project was different from what was promised, and the procedures of changing was legitimate.

4. Purchase and sales of assets. In 2001, the Company transferred equity rights of 5 million shares it held in Guotai Junan Securities Co., Ltd. to Shanghai State-owned Property Management Company at the rate of RMB 1.3 per share. The total amount RMB 6.5 million was transferred to the Company's bank account in October 2001. The Company signed an equity right transfer agreement on transferring RMB 28.32 million of equities of Changchai Engine Machinery Co., Ltd. that it held in 2000 to Wujin Diesel Machine Company and Shi Jianfang. The Supervisory Committee believed that transactions of assets were reasonable in price, procedures of transferring were legitimate, and there was no inside trading, no damage of shareholders' equities or runoff of the Company's assets.

5. The correlative transactions were fair and reasonable, and didn't damage the interests and rights of the listed companies or shareholders.

6. The company suffered deficits in 2001, details of which were disclosed in the annual report. The deficits were mainly resulted from intense competition on the market of diesels for agriculture use and decrease of products prices. Now the Company's production and management were normal.

## **IX. SIGNIFICANT EVENTS**

(I) The Company had no material lawsuits or arbitration.

(II) In the report year, the Company transferred 52% of share equities of Changchai Engine Machinery Co., Ltd – its control subsidiary to Wujin Diesel Engine Body and Shi Jianfang. Assessed by Changzhou Zhongtian Assets Assessment Firm taking February 28, 2001 as the standard date, the equity of Changchai Engine Machinery Co., Ltd as shown in the book was RMB 28.32 million. The Company signed an equity right transfer agreement with Wujin Diesel Engine Body and Shi Jianfang in the actual assessment price of RMB28.32.

(III) In the report year, the Company's controlling subsidiary Huading Science &

Technology Industrial Investment Co., Ltd (abbreviated as “Huading” company) was terminated due to being unable to sustain management in 2000 according to the resolution of the Shareholders’ General Meeting as concluded jointly by the Company and Changzhou New District Development (Group) Head Office - the second large shareholder of Huading company. The detailed clearing report was subject to confirmation in the Shareholders’ General Meeting. Since Huading company terminated, the consolidated financial statement of the report year will change. For details, please refer to Public Notice in Securities Times and Ta Kung Pao dated Dec. 1, 2001.

(IV) In the report year, the Company had never kept as custodian, contracted or leased any other company’s assets and vice versa.

(V) In the report year, the Company provided RMB 70 million’s guarantee for Changzhou Gear Wheel Factory, among which there was still RMB 61.20 million unfinished at the end of the report year. RMB 88 million’s guarantee provided for Changzhou Tractor Plant hadn’t been finished yet.

(VI) In the report year, the Company hadn’t entrusted others to manage assets.

(VII) In the report year, there was additional RMB 30 million of debts owned to the Company aroused in the correlative transactions between Changchai Group and the Company. This amount was the loan that the Company’s controlling subsidiary Huading Company provided to Changchai Group in 2001, and since Huading company terminated, the amount was transferred to the Company. The 6<sup>th</sup> Meeting of the 3<sup>rd</sup> Board of Directors discussed and agreed to offsetting of the debts that occurred in the correlative transactions as conducted between Changchai Group Co., Ltd and the Company with Changchai Building. On March 28, 2002, the two sides signed a formal agreement on transferring the building at the assessment price of RMB 100,036,000. The process of transferring ownership was finished.

(VIII) In the report year, the Company paid RMB 820,000 of auditing fees to Arthur Anderson Certified Public Accountants. In 2002, the Company will re-engage Anderson · Huaqiang Certified Public Accountants and Arthur Anderson Company as its domestic and foreign auditors.

(IX) In 2001, the Company received internal circular notices of criticism from Shenzhen Stock Exchange for its delay in disclosing of the guarantee for Changzhou Gear Wheel Factory.

(X) CSRC’s Nanjing special office made inspection tour in the Company in the second half of year 2001, and issued the Notification on Rectification Within Stated Time as per NZJGSZ [2001] No.267 Document dated November 23, 2001. The directors, supervisors and senior executives discussed and studied it seriously, and implemented rectification measures one by one. After a period time of rectification, the Company made remarkable improvement in its standardized administration in the following terms:

A. In respect of the “Three Meeting”

1. As per requirements of the supervision and administration authority, the Company modified the Articles of Association, formulated the Rules of Procedures of the Shareholders’ General Meeting, the Rules of Procedures of the Board of Directors, the Rules of Procedures of the Supervisory Committee and the Detailed Working Rules for

General Manager (relevant documents are subject to discussion and approval of the Shareholders' General Meeting, and made detailed regulations on authorization limitation approval authorization of each power organization.

2. Standardized the operation of the Board of Directors and the Supervisory Committee, and asked the directors, supervisors and recorders to sign on the meeting minutes of each meeting.

3. Reinforce construction of the Supervisory Committee, and gave full play to the supervision functions in terms of the standardized operation, financial management, application of raised funds and relevant information disclosure etc.

B. In respect of application of raised funds

1. Formulated the Methods for Raised Capital Management according to CSRC requirements.

2. According to the requirements, the Company changed the investment mode of 1999 raised capital investment project in the statutory procedures and disclosed relevant information.

C. In respect of information disclosure

1. Formulated the Management Methods of Information Disclosure according to CSRC requirements.

2. The Company made detailed supplementary disclosure for the issues that were found in the inspection tour but were not disclosed in time.

D. Other important respects

1. The Company had formulated the Policy of Decision-making for Correlative Transactions to standardize correlative trading and its corresponding information disclosure action.

2. The Company had reinforced administration of external guarantee and strictly controlled new guarantee action.

The concrete rectification reports were published in Securities Times and Hong Kong Ta Kung Pao dated December 29, 2001.

## **X. FINANCIAL REPORT**

(I) Auditors' Report (please refer to the attachment)

(II) Consolidated Financial Statements (please refer to the attachment)

(III) Notes to the Consolidated Financial Statements (please refer to the attachment)

## **XI. CONTENTS OF DOCUMENTS FOR REFERENCE**

Documents including:

1. The master copy of 2001 Annual Report carried with the Chairman's signature.

2. The financial statement carried with signatures and seals of legal representative, financial person in charge, and accounting clerk.

3. The body text of the auditors' report carried with seals of Certified Public Accountants as well as signatures and seals of the certified public accountants.

4. The master copies of documents and the original copies of public notices that were disclosed in Securities Times and Hong Kong Ta Kung Pao designated by CSRC in the report year.

## 5. The Articles of Association.

The aforesaid complete reference documents were placed in the Company's office. This annual report is prepared in both Chinese and English. Should there be any difference in interpretation between the two versions, the Chinese version shall prevail.

**Board of Directors of  
Changchai Co., Ltd.**  
April 12, 2002

### **Attachment:**

#### **AUDITORS' REPORT TO THE SHAREHOLDERS OF CHANGCHAI CO., LTD.**

We have audited the accompanying consolidated balance sheet of Changchai Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as of December 31, 2001 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2001, and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. The Group incurred a loss of approximately RMB 421 million for the year ended December 31, 2001. The Group's ability to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities as they fall due depends on the Group's future successful operations.

Hong Kong, the People's Republic of China  
April 10, 2002

**CHANGCHAI CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2001**

(Amounts expressed in thousands of Renminbi (“RMB”))

	Note	2001	2000
			(Note 31)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land	4	84,393	78,853
Property, plant and equipment	5	727,183	843,108
Investments in associates	7	77,669	93,481
Other long-term investments	8	101,392	105,443
Prepayment for investment	9	57,000	-
Total non-current assets		<u>1,047,637</u>	<u>1,120,885</u>
<b>Current assets</b>			
Inventories	10	452,247	699,207
Value-added tax recoverable		42,082	64,745
Due from CGC	11	137,323	191,369
Due from related parties	23	201,063	202,805
Receivables	12	727,494	1,057,031
Prepayments and other current assets		15,492	21,200
Short-term investment		-	14,000
Pledged bank deposits		13,949	28,294
Cash and cash equivalents	13	309,924	210,697
Total current assets		<u>1,899,574</u>	<u>2,489,348</u>
<b>TOTAL ASSETS</b>		<u><u>2,947,211</u></u>	<u><u>3,610,233</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	14	374,250	374,250
Reserves	15	873,034	1,293,056
Unrecognized investment losses		(7,864)	-
Total equity		<u>1,239,420</u>	<u>1,667,306</u>
<b>Minority interests</b>		<u>46,013</u>	<u>119,601</u>
<b>Non-current liabilities</b>			
Long-term bank loans, less current portion	16	293,500	153,000
<b>Current liabilities</b>			
Current portion of long-term bank loans	16	20,000	83,500
Short-term bank loans	16	425,990	522,750
Other payables, advances from customers and accruals		208,485	178,827
Taxes payable		4,631	28,771
Dividends payable		4,810	4,810

Due to related parties	23	27,186	81,208
Notes and trade payables		677,176	770,460
Total current liabilities		1,368,278	1,670,326
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,947,211</b>	<b>3,610,233</b>

**CHANGCHAI CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

(Amounts expressed in thousands of RMB, except earnings per share)

	Note	2001	2000
Revenue	17	1,743,487	2,240,847
Cost of sales		(1,579,442)	(1,896,233)
Gross profit		164,045	344,614
Other operating income		19,567	47,038
Unrecognized investment losses		7,864	-
Selling expenses		(190,343)	(170,606)
General and administrative expenses		(347,335)	(209,629)
Other operating expenses		(53,754)	(28,253)
Loss from operations		(399,956)	(16,836)
Finance (cost) income, net	18	(30,057)	18,105
Share of losses from associates	7	(40,052)	(8,514)
Other investment income		2,485	3,744
Gain on disposal of property, plant, equipment and leasehold land		442	16,383
Other income (expenses), net		74	(3,796)
(Loss) profit from ordinary activities	19	(467,064)	9,086
Income tax expense	20	(2,195)	(5,622)
Net (loss) profit after taxation but before minority interests		(469,259)	3,464
Minority interests		48,475	8,123
Net (loss) profit after taxation and minority interests		(420,784)	11,587
(Loss) earnings per share			
- Basic	21	RMB (1.13)	RMB 0.03

**CHANGCHAI CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

(Amounts expressed in thousands of RMB)

	Reserves							Un-recog- ned investment loss	Total equity
	Share capital	Capital surplus	Statutory surplus reserve fund	Statutory public welfare fund	Discretionary surplus reserve fund	Retained earnings	Total Reserves		
	Note 14	Note 15(a)	Note 15(b)	Note 15(b)	Note 15(b)				
Balance, January 1, 2000	352,000	684,953	86,422	86,422	56,709	194,499	1,109,005	-	1,461,005
Provision for discretionary surplus reserve fund after January 1, 2000	-	-	-	-	1,453	(1,453)	-	-	-
Rights issue	22,250	177,996	-	-	-	-	177,996	-	200,246
Expenses on rights issue	-	(5,532)	-	-	-	-	(5,532)	-	(5,532)
Net profit for 2000	-	-	-	-	-	11,587	11,587	-	11,587
Profit appropriations from net profit 2000									
- Statutory surplus reserve fund	-	-	3,005	-	-	(3,005)	-	-	-
- Statutory public welfare fund	-	-	-	3,005	-	(3,005)	-	-	-
Balance, December 31, 2000	374,250	857,417	89,427	89,427	58,162	198,623	1,293,056	-	1,667,306
Net loss for 2001	-	-	-	-	-	(420,784)	(420,784)	(7,864)	(428,648)
Other	-	762	-	-	-	-	762	-	762
Balance, December 31, 2001	374,250	858,179	89,427	89,427	58,162	(222,161)	873,034	(7,864)	1,239,420

**CHANGCHAI CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

(Amounts expressed in thousands of RMB)

	Note	2001	2000
			(Note 31)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash generated from (used in) operations	22(a)	175,210	(196,563)
Interest paid		(45,057)	(40,096)
Income tax paid		(3,838)	(10,583)
Net cash generated from (used in) operating activities		126,315	(247,242)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Disposal of Changchai Dongli Machinery Co., Ltd. ("CCDL"), net of cash disposed	22(b)	(6,149)	-
Disposal of Huading Technology Xinye Investment Co., Ltd. ("Huading"), net of cash acquired	22(b)	6	-
Acquisition of leasehold land		(9,780)	-

Acquisition of property, plant and equipment	(29,985)	(90,174)
Increase in investments in associates	(24,240)	(87,200)
Return of entrusted investments	-	40,000
Decrease (increase) in other long-term investments	4,051	(16,764)
Decrease (increase) in pledged bank deposits	14,345	(28,294)
Proceeds from disposal of property, plant, equipment and leasehold land	37,467	28,518
Interest received	5,840	6,915
Dividends received	4,717	2,414
Entrusted investment income	-	1,330
Net cash used in investing activities	<u>(3,728)</u>	<u>(143,255)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net decrease in short-term bank loans	(96,760)	(19,290)
(Decrease) increase in loan from CGC	(3,600)	10,760
Increase in loans from related parties	-	60,000
Proceeds from long-term bank loans	233,480	254,470
Repayment of long-term bank loans	(156,480)	(162,470)
Contribution from a minority shareholder	-	5,400
Proceeds from rights issue	-	200,246
Expenses on rights issue	-	(5,532)
Dividends paid to minority shareholders	-	(509)
Net cash (used in) generated from financing activities	<u>(23,360)</u>	<u>343,075</u>
Net increase (decrease) in cash and cash equivalents	99,227	(47,422)
Cash and cash equivalents, beginning of year	210,697	258,119
Cash and cash equivalents, end of year	<u>13</u> 309,924	<u>210,697</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

(Amounts expressed in thousands of RMB unless otherwise stated)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Changchai Co., Ltd. (the “Company”) was established as a joint stock limited company in the People’s Republic of China (the “PRC”) in 1994. The address of the Company’s registered office is No.123 Huai De Zhong Rd., Changzhou, Jiangsu Province. As of December 31, 2001, the Company had employees of 4,188 (2000: 4,560). The Company’s domestic investment ordinary shares (“A shares”) and domestically listed foreign investment ordinary shares (“B shares”) have been listed on the Shenzhen Stock Exchange since 1994 and 1996 respectively.

The Company is principally engaged in the manufacture and sale of small and medium diesel engines under “Changchai” brand name for use in agricultural machinery such as tricycles, tractors and water pumps, and agricultural product processing machinery such as rice mills, oil presses and pulverising machinery. The principal activities of its subsidiaries are shown

in Note 6.

The Company together with its subsidiaries listed in Note 6 are hereinafter collectively referred to as the “Group”.

## **2. GOING CONCERN**

The Group incurred a loss of approximately RMB 421 million for the year ended December 31, 2001. The Group’s ability to realize the carrying amount of its assets and discharge its liabilities as they fall due depends on the Group’s future successful operations. The consolidated financial statements were prepared on the assumption that the Group will continue as a going concern.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in preparing the consolidated financial statements of the Group is as follows:

### **(a) Basis of preparation**

The financial statements are prepared under the historical cost convention and are also prepared in accordance with International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board, effective as of December 31, 2001. This basis of accounting differs from that used in the statutory accounts of the Group, prepared in accordance with accounting principles and accounting standards applicable to joint stock limited companies in the PRC (“statutory accounts”). The principal adjustments made to conform the statutory accounts of the Group to IFRS are shown in Note 24.

### **(b) Principles of consolidation**

The consolidated financial statements of the Group include the Company and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 per cent of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheets and income statements, respectively.

Investments in subsidiaries are accounted for using equity method in the Company’s financial statements. The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Investments in associated companies (generally investments of between 20 per cent to 50 per cent in a company’s equity) where significant influence is exercised by the Company are accounted for using the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

When the Group’s share of losses exceeds the carrying amount of the investment, the

investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment.

All other investments are accounted for in accordance with IAS 39 as further disclosed in Note 3(e).

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associate, against the investment in the associate. Unrealised losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

**(c) Leasehold land**

Leasehold land represented land use fees paid for leasehold land and is classified as operating leases. The pre-paid lease payments are amortized over the lease period (twenty-five to fifty years) on a straight-line basis.

**(d) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial 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 property, plant and equipment have been put into operation such as repairs and maintenance and overhaul costs is normally charged to income statement in the period in which it is incurred. In situations where it is probable that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalized as an additional cost of property, plant and equipment.

Depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value, of each asset over its expected useful life. The expected useful lives are as follows:

Buildings	20-30 years
Plant and machinery	6-15 years
Motor vehicles	5-10 years
Furniture, fixtures and equipment	5-10 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

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

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes costs of construction, plant and equipment, attributable borrowing costs, which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs, and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

**(e) Investments**

The Group adopted IAS 39 on 1st January, 2001. Accordingly, investments, other than interests in subsidiaries, associates and joint ventures which are accounted for under IAS 27, IAS 28 and IAS 31 respectively, are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale. As of December 31, 2001, the Group has only available-for-sale investments.

All purchases and sales of investments are recognised on the trade date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Changes in the fair values of trading investments are included in financial expense.

Available-for-sale investments are carried at cost less impairment. The presumption that fair value can be reliably measured is overcome and therefore, the Group measures such financial instrument at amortized cost (see Note 8).

**(f) Goodwill**

Goodwill represents the excess of the costs of acquisitions of associates over the Company's interest in the fair value of the net identifiable assets and liabilities acquired as at the date of the exchange transaction. Goodwill is carried at cost less accumulated amortisation and accumulated impairment loss. Cost is amortized on a straight line basis over its estimated useful life of 3 to 10 years.

The unamortized balances are reviewed at each balance sheet date to assess the probability of continuing future benefits. If there is an indication that goodwill may be impaired, the recoverable amount is determined for the cash-generating unit to which the goodwill belongs. If the carrying amount is more than the recoverable amount, an impairment loss is recognized.

**(g) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average basis, 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 cost of sales in the year in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and any losses of inventories are recognized as expenses in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the year in which the reversal occurs.

**(h) Receivables**

Receivables are stated at fair value of the consideration given and are carried at cost, after provision for impairment.

**(i) Cash and cash equivalents**

Cash represents cash on hand and deposits with banks (or 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 originally maturity of three months or less and that are subject to an insignificant risk of change in value.

**(j) Liabilities and equity**

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement on initial recognition.

Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instruments is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity.

**(k) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of sales taxes and discounts.

Revenue from sales of goods are recognised when delivery has taken place and transfer of risks and rewards has been completed.

Revenue from rendering of services is recognised upon the delivery of services.

Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

**(l) Income taxes**

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Group reassesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

A deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortisation is not deductible for tax purposes.

**(m) Provisions**

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

Gains from the expected disposal of assets are not taken into account in measuring the provision. Property, plant and equipment that is retired from active use is carried at the lower of the carrying amount or estimated net selling price less costs of disposal.

When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is not recognised until it is virtually certain that reimbursement will be received.

**(n) Foreign currency translation**

Companies within the Group maintain their books and accounting records in their measurement currency – Renminbi (“RMB”), which is not a freely convertible currency. Each entity within the Group translates its foreign currency transactions and balances into its measurement currency by applying to the foreign currency amount the exchange

rate between the measurement currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements are recognised in the income statement in the period in which they arise.

**(o) Borrowing costs**

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs may include:

- (i) interest on bank overdrafts and short-term and long-term borrowings;
- (ii) amortisation of discounts or premiums relating to borrowings;
- (iii) amortisation of ancillary costs incurred in connection with the arrangements of borrowings;
- (iv) finance charges in respect of finance leases recognised in accordance with IAS 17 “Leases”; and
- (v) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowings are initially recognised at the proceeds received, net of transaction costs. They are subsequently carried at amortised costs using the effective interest rate method, the difference between net proceeds and redemption value being recognised in the net profit or loss for the period over the life of the borrowings.

**(p) Research and development costs**

Expenditure for research is recognised as an expense when incurred. Expenditure on development is charged against income in the period incurred except for project development costs which comply strictly with all of the following criteria:

- (i) the product or process is clearly defined and costs are separately identified and measured reliably;

- (ii) the technical feasibility of the product is demonstrated;
- (iii) the product or process will be sold or used in-house;
- (iv) the assets will generate future economic benefits (e.g. a potential market exists for the product or its usefulness in case of internal use is demonstrated); and
- (v) adequate technical, financial and other resources required for completion of the project are available.

Capitalization of costs starts when the above criteria are first met. Expenditure recognised as an expense in previous accounting periods is not reinstated.

Capitalised development costs are amortised on a straight-line basis over their expected useful lives.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

**(q) Employee benefits**

**Staff welfare**

Provision for staff welfare is made based on 14% of the standard salaries specified by local regulations.

**Defined contribution plans**

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are to be made to a government agency based on 27%-28% of the standard salary set by the provincial government, of which 21% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement.

The Group has no obligation for the payment of pension benefits beyond the contribution described above.

**(r) Financial instruments**

(i) Definition

A financial instrument is any contract that gives rise to both a financial asset of one

enterprise and a financial liabilities or equity instrument of another enterprise.

A financial asset is any asset that is:

- (a) cash;
- (b) a contractual right to receive cash or another financial asset from another enterprise;
- (c) a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable; or
- (d) an equity instrument of another enterprise.

A financial liabilities is any liability that is a contractual obligation:

- (a) to deliver cash or another financial asset to another enterprise; or
- (b) to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

The financial assets and financial liabilities of the Group include cash and cash equivalents, receivables, investments, payables and borrowings.

(ii) Recognition and measurement

Financial assets are initially recognised at cost which is the fair value of the consideration given. They are subsequently carried at either fair value, cost or amortized cost (using the effective interest rate method) according to IAS 39. A “regular way” purchase or sale of financial assets is recognized using trade date accounting. Gains and losses arising from changes in the fair value of those available-for-sale financial assets that are measured at fair value subsequent to initial recognition are included in net profit or loss for the period. The accounting policies on recognition and measurement of the major items are disclosed in the respective accounting policies found in this Note.

(iii) Presentation

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

(s) **Impairment of Assets**

**Financial instruments**

Financial instruments are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed what amortised cost would have been had the impairment not been recognised.

### **Other assets**

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income or treated as a revaluation decrease for property, plant and equipment that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

### **(t) Contingencies**

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

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

### **(u) Subsequent events**

Post-year-end events that provide additional information about the Group's position at the balance sheet date ("adjusting events") are reflected in the financial statements.

Post-year-end events that are not adjusting events are disclosed in the notes when material.

#### 4. LEASEHOLD LAND

	2001	2000
<u>Cost</u>		
Beginning of year	89,097	89,097
Additions	9,780	-
Disposal of CCDL (Note 6)	(2,377)	-
End of year	96,500	89,097
<u>Accumulated amortization</u>		
Beginning of year	10,244	7,606
Additions	2,394	2,638
Disposal of CCDL (Note 6)	(531)	-
End of year	12,107	10,244
<u>Net book value</u>		
End of year	84,393	78,853
Beginning of year	78,853	81,491

Leasehold land represented land use fees paid for the acquisition of right to use the parcel of land where the Company and its subsidiaries' factory buildings are located.

Since all land in the PRC is owned by the state or is subject to collective ownership, the risks and rewards of the parcel of land remain with the State. As a result, such lease payment is accounted for under operating lease and is amortized to the income statement on a straight-line basis over the lease term of twenty five to fifty years.

#### 5. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment for the year ended December 31, 2001 were follows:

	2001					2000	
	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction-in -progress	Total	Total
<u>Cost</u>							
Beginning of year	449,902	516,912	46,075	31,272	129,862	1,174,023	1,102,439
Additions	9,588	2,470	1,056	4,371	39,886	57,371	93,394
Reclassifications	15,613	23,019	336	709	(39,677)	-	-
Disposals of CCDL (Note 6)	(41,954)	(45,578)	(3,036)	-	(1,042)	(91,610)	-
Disposal of Huading (Note 6)	-	(79)	-	-	-	(79)	-
Other disposals	(697)	(36,900)	(4,110)	(107)	-	(41,814)	(21,810)
End of year	432,452	459,844	40,321	36,245	129,029	1,097,891	1,174,023

Accumulated Depreciation

Beginning of year	76,002	215,937	25,271	13,705	-	330,915	267,958
Charge for the year	18,806	40,362	4,907	4,244	-	68,319	70,229
Disposals of CCDL (Note 6)	(12,676)	(34,191)	(2,257)	(74)	-	(49,198)	-
Disposal of Huading (Note 6)	-	(68)	-	-	-	(68)	-
Other disposals	(15)	(1,690)	(2,612)	(480)	-	(4,797)	(7,272)
End of year	82,117	220,350	25,309	17,395	-	345,171	330,915

Impairment Loss

Beginning of year	-	-	-	-	-	-	-
Additions	-	9,537	-	-	16,000	25,537	-
End of year	-	9,537	-	-	16,000	25,537	-

Net book value

End of year	350,335	229,957	15,012	18,850	113,029	727,183	843,108
Beginning of year	373,900	300,975	20,804	17,567	129,862	843,108	834,481

Analysis of construction-in-progress is as follows:

	2001	2000
Cost of construction, plant and equipment and other direct cost	113,029	129,862
Interest capitalized	-	-
	<u>113,029</u>	<u>129,862</u>

As of December 31, 2001, machinery and equipment with an aggregate net book value of approximately RMB 50 million (2000: RMB 44 million) had been pledged as collateral for certain short-term bank loans (see Note 16(b)).

## 6. INVESTMENTS IN SUBSIDIARIES

As of December 31, 2001, the Company had the following significant subsidiaries, all of which are companies incorporated in the PRC.

Name	Percentage of equity interest		Principal activity
	2001	2000	
Changchai Wanxian Diesel Engines Co., Ltd.	60%	60%	Manufacture and sale of diesel engines
Changchai Yinchuan Diesel Engines Co., Ltd.	60%	60%	Manufacture and sale of diesel engines
Changzhou Changchai Benniu Diesel Engines Spare Parts Co., Ltd.	75%	75%	Manufacture and sale of spare parts for diesel engines
Jiangsu Changchai United Harvest Machinery Co., Ltd.	60%	60%	Manufacture and sale of harvest machinery and spare parts
Changchai Jin Tan Diesel Engines Co., Ltd. ("JTDEC")	71%	71%	Manufacture and sale of diesel engines

Changzhou Vehicle Co., Ltd.	50%	50%	Manufacture and sale of agricultural vehicles and spare parts
Huading Technology Xinye Investment Co., Ltd. (“Huading”)	-	63%	Investment in information technology and environment protection projects
Changchai Dongli Machinery Co., Ltd. (“CCDL”)	-	52%	Manufacture and sale of spare parts of diesel engines

Huading and CCDL were disposed of during 2001. The disposal of Huading and CCDL does not have any material impact on the financial position as of December 31, 2001 and results of operations for the year then ended as well as that of the preceding year. For further details of disposal, please refer to Note 22(b).

## 7. INVESTMENTS IN ASSOCIATES

	2001	2000
The Group’s share of the net identifiable assets of associates	34,629	83,481
Loan to Jiangnan Vehicle	43,040	10,000
	77,669	93,481

Loan to Jiangnan Vehicle bore interest at a rate of 5.75% (2000: 2.93%) per annum and will be due on December 30, 2002.

As of December 31, 2001, the Group had the following associates, all of which are incorporated in the PRC:

Name	Investment period	Percentage of equity interest held				Carrying value		Principal activities
		2001		2000		2001	2000	
		Direct	Indirect	Direct	Indirect			
Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd.	September 20, 1999 to September 19, 2049	33%	-	33%	-	11,622	12,142	Manufacture and sale of gasoline engines and relevant components
Beijing Tsinghua Xing Ye Investment Management Co., Ltd.	September 29, 1999 to September 28, 2049	25%	-	25%	-	2,449	2,420	Project investment, business administration consulting and investment consulting
Shenzhen Gamma Web System Co., Ltd. (“Shenzhen Gamma”)	October 9, 1999 to October 9, 2014	34%	-	34%	-	-	6,236	Provision of internet service, development and sale of computer software and hardware
Changchai Group Jiangnan Vehicle Co., Ltd. (“Jiangnan Vehicle”)	August 10, 2000 to August 9, 2025	34.9%	5%	34.9%	15%	43,369	44,513	Manufacture and sale of vehicles and agricultural machinery
Nanjing Yilai Genetic Medical Co., Ltd. (“Nanjing Yilai”)	December 9, 1999 to December 8, 2014	33%	-	33%	-	20,229	28,170	Research of diagnostic technology, manufacture and sale of genetic medical equipment
						77,669	93,481	

The Group's share of losses in associates:

	<u>2001</u>	<u>2000</u>
Losses before taxation	(19,589)	(6,782)
Impairment of investment in associates	(20,463)	-
Amortization of goodwill	<u>-</u>	<u>(1,732)</u>
	<u>(40,052)</u>	<u>(8,514)</u>

## 8. OTHER LONG-TERM INVESTMENTS

As of December 31, 2001, other long-term investments represented investments in the following companies' legal person shares which are not publicly tradable. They are classified as available-for-sale investments and carried at cost less impairment as there is no quoted market price for such instruments and other methods of reasonably estimating the fair values are inappropriate or unworkable.

<u>Name of investee company</u>	<u>Share of equity interest</u>		<u>Carrying amount</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Bei Qi Fu Tian Vehicle Co., Ltd.	7.3%	7.3%	53,350	53,350
Changzhou Commercial Bank	17.7%	17.7%	38,000	38,000
Guotai Junan Securities Co., Ltd.	-	0.1%	-	5,000
Lan Zhou North-west Vehicle Co., Ltd.	5%	5%	5,000	5,000
Others	-	-	<u>5,042</u>	<u>4,093</u>
			<u>101,392</u>	<u>105,443</u>

## 9. PREPAYMENT FOR INVESTMENT

	<u>2001</u>	<u>2000</u>
Lanzhou North-west Vehicle Co., Ltd.	<u>57,000</u>	<u>-</u>

The Group is planning to invest in Lanzhou North-west Vehicle Co., Ltd, in which the Group will contribute RMB 57 million for an equity interest of 57%. As of balance sheet date, the Group is in the process of finalizing legal procedures. The business scope of Lanzhou North-west Vehicle Co., Ltd. includes manufacture and sale of agricultural vehicles and machineries.

## 10. INVENTORIES

	2001	2000
Raw materials	218,345	289,513
Work in process	102,599	134,625
Finished goods	168,483	285,525
	489,427	709,663
Less: Provision for inventory obsolescence	(37,180)	(10,456)
	<u>452,247</u>	<u>699,207</u>

Inventories expensed during the 2001 amounted to approximately RMB 1,579 million (2000: RMB 1,896 million). As of December 31, 2001, inventories of approximately RMB 157 million were carried at net realizable value (2000: nil).

## 11. DUE FROM CGC

As of December 31, 2001, 40.92% (2000: 40.92%) of the Company's share capital (the "State-owned shares") was registered in the name of Changzhou State Assets Bureau ("CSAB"). Pursuant to documents issued by Changzhou municipal government and CSAB, Changchai Group Company Limited ("CGC") is entitled to dividends derived from the State-owned shares. The Company's management is of the view that CGC is able to exercise control over the Company.

Breakdown of due from CGC is as follows:

	Note	2001	2000
Construction of Changchai Mansion	(a)	36,974	19,471
Receivables from to CGC	(b)	41,167	116,316
Consideration receivable from assets exchange scheme	(c)	79,142	79,142
Payables to CGC	<b>(d)</b>	<u>(19,960)</u>	<u>(23,560)</u>
		<u>137,323</u>	<u>191,369</u>

(a) In August 1996, CSAB appointed the Company to construct Changchai Mansion, an office building, on behalf of CGC. The receivable balance was unsecured, interest free and had no fixed repayment terms.

(b) RMB 5.87 million (2000: RMB 8.23 million) bore interest at a rate of 6.72% (2000: 6.72%) per annum. Others were unsecured, interest free and had no fixed repayments terms.

(c) Amounts receivable from CGC at the balance sheet date represented cash consideration receivable from CGC in connection with an asset exchange scheme with CGC effective July 16, 1999. They were unsecured and interest free.

(d) Payables to CGC represent loans from CGC and bore interest at rates ranging from

5.94% to 8.61% (2000: 5.94% to 8.61%) per annum.

## 12. RECEIVABLES

	2001	2000
Accounts receivables	934,676	1,102,244
Other receivables	38,569	71,247
Notes receivables	39,776	29,313
	1,013,021	1,202,804
Less: provision for doubtful debts	<b>(285,527)</b>	<b>(145,773)</b>
Receivables, net	<u>727,494</u>	<u>1,057,031</u>

Included in other receivables were loans to third parties amounting to RMB 11.7 million (2000: RMB 17.7 million). These loans bore interest at rates ranging from 0% to 10% (2000: 0% to 10%) per annum.

## 13. CASH AND CASH EQUIVALENTS

	2001	2000
Cash on hand	202	142
Current deposits	<b>295,932</b>	<b>203,824</b>
Fixed deposits	13,790	6,731
	<u>309,924</u>	<u>210,697</u>

## 14. SHARE CAPITAL

	Number of shares outstanding		Share capital (RMB)	
	2001	2000	2001	2000
Stated-owned shares	153,160,000	153,160,000	153,160,000	153,160,000
Legal person shares	10,064,000	10,064,000	10,064,000	10,064,000
A shares	111,025,551	111,025,551	111,025,551	111,025,551
B shares	100,000,000	100,000,000	100,000,000	100,000,000
	<u>374,249,551</u>	<u>374,249,551</u>	<u>374,249,551</u>	<u>374,249,551</u>

The B shares rank pari passu in all respects with the A shares except that the A shares can only be purchased and traded by domestic investors.

## 15. RESERVES

### (a) Capital surplus

In accordance with PRC accounting regulations and the provisions of the Company's articles of association, the Company shall record the following as capital surplus:

- (i) share premium arising from the issue of shares in excess of par value;
- (ii) surplus arising from revaluation of assets; and
- (iii) other items in accordance with the Company's articles of association and relevant regulations in the PRC.

Capital surplus can be utilised to offset prior years' losses or to increase the share capital.

**(b) Statutory surplus reserve fund, statutory public welfare fund and discretionary surplus reserve fund**

In accordance with the PRC Company Law and the Company and its subsidiaries' articles of association, the Company and its subsidiaries shall appropriate 10 percent of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve fund reaches 50 percent of each entity's share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such statutory surplus reserve must be maintained at a minimum of 25 percent of share capital after such usage.

According to the relevant financial regulations of the PRC and the Company and its subsidiaries' articles of association, the Company and its subsidiaries are also required to appropriate 5 percent to 10 percent of their annual statutory net profit (after offsetting any prior years' losses) to a statutory public welfare fund. This fund can be utilized to build or acquire capital items, such as dormitories and other facilities for the Company and its subsidiaries' employees, but can not be used to pay for staff welfare expenses. Titles of these capital items will remain with the Company and its subsidiaries.

As stated in the Company and its subsidiaries' articles of association, the Company and its subsidiaries can appropriate their annual statutory net profit to the discretionary surplus reserve fund after the appropriation of statutory surplus reserve fund and statutory public welfare fund are made.

The Group did not make any appropriation to reserves or declare dividends in 2001 as it is in a loss making position.

## **16. BANK LOANS**

- (a) Long-term bank loans

The repayment terms of long-term bank loans are analysed as follows:

	2001	2000
Amounts repayable		
- no later than one year	20,000	83,500
- between one and two years	248,500	20,000
- between two and five years	45,000	133,000
Total long-term bank loans	313,500	236,500
Less: current portion of long-term bank loans	(20,000)	(83,500)
Long-term bank loans, less current portion	<u>293,500</u>	<u>153,000</u>

Long-term bank loans bore interest at rates ranging from 4.77% to 6.534% (2000: 6.03% to 7.12%) per annum. As of December 31, 2001, the long-term bank loans amounting to RMB 115 million (2000: 115 million) were guaranteed by CGC and other long-term bank loans were guaranteed by a related party of the Group.

(b) Short-term bank loans

Details of short-term bank loans are as follows:

Type of loans	Currency	2001		2000	
		Amount	Guarantee/Security	Amount	Guarantee/Security
Secured loans	RMB	55,940	Secured by plant and equipment with net book value of approximately RMB 50 million (Note 5)	47,210	Secured by plant and equipment with net book value of approximately RMB 44 million (Note 5)
Guaranteed loans	RMB	222,500	Guaranteed by a related party	304,500	Guaranteed by a related party
Guaranteed loans	RMB	94,260	Guaranteed by third parties	44,100	Guaranteed by third parties
Unsecured loans	RMB	53,290	-	126,940	-
Total		<u>425,990</u>		<u>522,750</u>	

Short-term bank loans bore interest at rates ranging from 5.11% to 7.92% (2000: 4.77% to 8.61%) per annum.

**17. REVENUE**

	2001	2000
Diesel engines	1,513,452	1,958,307
Agricultural machinery	54,659	192,356
Spare parts	175,376	90,184
	<u>1,743,487</u>	<u>2,240,847</u>

## 18. FINANCE COST (INCOME)

	2001	2000
Finance expenses		
- Interest expenses on bank loans	45,057	40,096
- Cash discounts on receivables	35,346	9,258
	<u>80,403</u>	<u>49,354</u>
Finance income		
- Interest income from bank deposits	(5,840)	(6,481)
- Cash discounts on payables		
- third parties	(10,296)	(57,324)
- a related party(Note 23(b))	(34,210)	-
- Other interest income	-	(434)
	<u>(50,346)</u>	<u>(64,239)</u>
Less: amount capitalized as cost of property, plant and equipment	-	(3,220)
	<u>30,057</u>	<u>(18,105)</u>

## 19. (LOSS) PROFIT BEFORE TAX AND MINORITY INTERESTS

(Loss) profit before tax and minority interests was determined after crediting and charging the following:

	2001	2000
Crediting:		
Income from other long-term investments	-	3,744
Reversal of provision for inventory obsolescence	-	356
Gain on disposals of property, plant, equipment and leasehold land	442	16,383
	<u>442</u>	<u>16,383</u>
Charging:		
Staff costs		
- salaries and wages	101,722	144,620
- staff welfare expenses	18,718	22,748
- contribution to statutory pension scheme	19,762	18,750
	<u>140,202</u>	<u>186,118</u>
Depreciation of property, plant and equipment	68,319	70,229
Amortization of leasehold land	2,394	2,638
Provision for doubtful debts	139,754	13,992
Provision for inventory obsolescence	26,724	-
Provision for impairment of property, plant and equipment	25,537	-
Write-off of deferred asset	-	14,576
Research and development expenses	1,521	701

Exchange losses	-	607
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## 20. TAXATION

### (a) Value-added tax (“VAT”)

VAT is charged on top of selling price and is levied at general rate of 13% on gross sales of diesel engines for agriculture use and 17% on gross sales of others. An input credit is available whereby VAT previously paid on the purchase of semi-finished products, raw materials etc. can be used to offset the VAT on sales to determine the net VAT payable.

### (b) Enterprise income tax (“EIT”)

The Company is subject to an EIT rate of 33% on taxable income determined according to the PRC tax laws. With the approval from local authorities, the Company enjoys a financial refund equal to 18% of its tax expense.

With the approval from local tax authorities, some of the Company’s subsidiaries enjoy preferential EIT rates ranging from 0% to 15% on their taxable income or financial refund equal to 18% to 33% of their tax expense.

According to Circular Guofa [2000]No.2 issued on January 11, 2000, effective from January 1, 2001, the above tax benefits and financial refund would require approval from the State Council. There was no assurance that the above preferential tax treatment would be still available to the Company and its subsidiaries in the future. The financial refund of 2001 and 2000 represented cash received during the year.

Taxation provided during the year comprised:

	2001	2000
Current Taxation	1,746	11,137
Tax expense adjustment in relation to prior year profits	449	-
Financial refund	-	(5,515)
Total tax expenses	2,195	5,622

Deferred tax asset arising from tax losses or temporary differences are not accounted for as there is no reasonable assurance that these assets will realize in the foreseeable future.

## 21. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share was based on the net loss of RMB 420.78 million (2000: net profit of RMB 11.59 million) divided by the weighted average number of shares in issue during the year of 371,800,509 (2000: 371,800,509) shares.

## 22. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation from loss before taxation and minority interests to cash used in operations:

	<u>2001</u>	<u>2000</u>
(Loss) profit before taxation and minority interests	(467,064)	9,086
Adjustments for:		
Depreciation of property, plant and equipment	68,319	70,229
Amortisation of leasehold land	2,394	2,638
Write-off of deferred assets	-	14,576
Impairment loss of property, Plant and Equipment	25,537	-
Provision for doubtful debts	139,754	13,992
Provision for (Reversal of) inventory obsolescence	26,724	(356)
Gain on disposal of property, plant, equipment and leasehold land	(442)	(16,383)
Share of losses from associates	40,052	8,514
Unrecognized investment losses	(7,864)	-
Entrusted investment income	-	(1,330)
Dividend income	(4,717)	(2,414)
Interest income	(5,840)	(6,915)
Interest expenses	45,057	36,876
Decrease (increase) in inventories	220,236	(28,833)
Decrease in due from CGC	57,646	1,197
Net decrease (increase) in receivables, amounts due from related parties, VAT recoverable, prepayments and other current assets	150,055	(107,126)
Net decrease in amounts due to related parties, notes and trade payables, tax payable, advances from customers, other payables and accruals	(114,637)	(190,314)
Cash generated from (used in) operations	<u>175,210</u>	<u>(196,563)</u>

(b) Non-cash transaction

(i) Disposal of CCDL

	<u>As of February 28, 2001</u>
Property, plant, equipment and leasehold land	44,258
Inventories	31,573

Investment	11,801
Trade receivables	87,561
Cash	6,149
Trade payables	(45,400)
Tax payable, other payables and accruals	(62,093)
Short-term bank loans	(24,612)
Minority interests	<u>(12,977)</u>
Net assets at the date of disposal	36,260
Less: Waive of payables to acquirer as consideration received	<u><b>(36,260)</b></u>
Cash of CCDL disposed	<u>6,149</u>
Net outflow of cash from the disposal	<u><u>6,149</u></u>

(ii) Disposal of Huading

	As of December 20, 2001
Property, plant and equipment	<u>11</u>
Trade receivable	159,000
Cash	2,896
Minority interests	<u>(60,000)</u>
Net assets at the date of disposal	101,907
Less: Receivables acquired	<b>(45,000)</b>
Property, plant and equipment acquired	<b>(11)</b>
Other payables disposed	<u><b>(54,000)</b></u>
Consideration received	(2,902)
Cash of Huading disposed	<u>2,896</u>
Net cash inflow from the disposal	<u><u>(6)</u></u>

### 23. RELATED PARTY TRANSACTIONS

(a) Names of related companies and nature of relationship

Name	Nature of relationship
CGC	See Note 11
Changzhou Tractor Company Limited (“Changzhou Tractor”)	Controlled by CGC
Changzhou Wheel Gear Factory (“CWGF”)	Controlled by CGC
Changchai Industrial Company Limited (“CIC”)	Controlled by CGC
Changchai Technical Services Centre (“Service Centre”)	Controlled by CGC
Changchai Qifu Diesel Engine Co., Ltd. (“Qifu Diesel”)	Controlled by CGC
Changchai Changchun Diesel Engine Co., Ltd. (“Changchun Diesel”)	Controlled by CGC
Changchai Group I&E Co., Ltd. (“Changchai I&E”)	Controlled by CGC
Jiangnan Vehicle	Associate of the Company

(b) Related party transactions

In addition to related party transactions disclosed in Notes 11, the Group had the following material transactions with related parties for the year ended December 31, 2001:

(i) Sale of finished goods to related parties

	2001	2000
Changchai I&E	73,386	60,454
Changzhou Tractor	42,934	14,472
Service Centre	5,133	3,762
Changchun Diesel	-	538
Jiangnan Vehicle	10,217	851
	<u>131,670</u>	<u>80,077</u>

(ii) Purchase of raw materials from related parties

	2001	2000
CWGF	106,195	63,730
CIC	31,202	29,929
	<u>137,397</u>	<u>93,659</u>

(iii) Cash discount on purchase

	2001	2000
CWGF	34,210	-

(iv) Loan to a related party

	2001	2000
CWGF	-	50,000
Jiangnan Vehicle	43,910	10,000
	<u>43,910</u>	<u>60,000</u>

(v) Loan from a related party

	2001	2000
CWGF	-	60,000

Pursuant to an agreement, the Company received a cash discount on purchases from CWGF amounting to RMB 34 million and recorded this as financial income (Note 18).

(c) In addition to amounts due from CGC disclosed in Note 11, other balances with related

parties as of December 31, 2001 are as follows:

	<u>2001</u>	<u>2000</u>
<u>Due from related parties</u>		
Changchai I&E	93,867	88,754
CWGF	-	50,000
Service Centre	27,243	26,276
Changzhou Tractor	25,206	24,815
CIC	1,453	12,200
Jiangnan Vehicle	53,294	760
Total	<u>201,063</u>	<u>202,805</u>
<u>Due to related parties</u>		
CWGF	15,304	75,628
CIC	-	2,642
Qifu Diesel	11,882	<b>1,642</b>
Changchun Diesel	-	<b>1,296</b>
Total	<u>27,186</u>	<u><b>81,208</b></u>

Apart from transactions and balances with CGC, amounts due from/to related parties mainly arose from the transactions disclosed in Note 23(b) above and reimbursement of expenses on behalf of each other. These amounts were unsecured, interest free, and had no fixed repayment terms unless otherwise stated.

#### 24. IMPACT OF IAS ADJUSTMENTS ON NET (LOSS) PROFIT AND NET ASSETS

	<u>Net (loss) profit</u>		<u>Net assets</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
As reported in the statutory accounts of the Group	(381,428)	34,988	1,239,420	1,627,951
Adjustments:				
- Provision for impairment losses of property, plant and equipment	(39,537)	-	-	62,231
- Write off of pre-operating expenses and reversal of amortization	802	267	-	(802)
- Write off of housing fund	(621)	(22,074)	-	(22,074)
- Others	-	(1,594)	-	-
As reported under IFRS	<u>(420,784)</u>	<u>11,587</u>	<u>1,239,420</u>	<u>1,667,306</u>

#### 25. SEGMENT INFORMATION

The Group conducts the majority of its business activities in one geographic and one business segment.

## 26. FINANCIAL INSTRUMENTS

### (a) Financial risk factors and financial risk management

The Group's operation gives rise to exposure to credit risk, liquidity risk, interest rate risk and foreign exchange rate risk.

#### (i) Credit risk

The carrying amounts of cash and cash equivalents, trade receivables, and other current assets have reflected the Group's exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

Credit risks, or the risk of counterparty defaulting, are controlled by the application of credit terms and monitoring procedures.

#### (ii) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents to meet its commitments over the next year in accordance with its strategic plan.

#### (iii) Interest rate risk

The interest rates and terms of repayments of short-term bank loans and long-term bank loans are disclosed in Note 16.

As of December 31, 2001, change in interest rates would not have material impact on the Group's operating results and operating cash flows.

### (b) Estimation of fair value

#### (i) Cash and cash equivalent

The carrying amount approximates fair value because these assets either carry a current rate of interest or have a short period of time between the origination of the cash deposits and their expected maturity.

#### (ii) Trade and other receivables and payables

The carrying amount of receivables and payables approximates fair value because they are subject to normal trade terms.

**(iii) Balances with CGC and related parties**

No disclosure of fair values is made for balances with CGC and related parties as it is not practicable to determine their fair values with sufficient reliability since most of these balances are non-interest bearing and have no fixed repayment terms.

**(iv) Borrowings**

The carrying amount of borrowings approximates fair value based on current market interest rates for comparable instruments.

**27. SUBSEQUENT EVENTS**

- (a) On March 28, 2002, the Company signed an agreement with CGC to acquire the Changchai Mansion from CGC for a price of RMB 100.04 million to settle outstanding receivables from CGC.
- (b) Pursuant to a resolution made by the board of directors dated April 10, 2002, the board of directors of the Company proposed to utilize the Group's beginning retained earnings of RMB 199 million, discretionary surplus reserve fund of RMB 58 million and capital surplus of RMB 164 million respectively, to make up for accumulated losses. This resolution is subject to the approval by shareholders at the general shareholders' meeting.

**28. CONTINGENT LIABILITIES**

As of December 31, 2001, the Group had the following contingent liabilities:

- (a) Guarantee for bank loans

	2001	2000
Related parties	182,360	<b>140,500</b>
Third parties	37,050	51,800
	<u>219,410</u>	<u>192,300</u>

- (b) No notes discounted with recourse as of December 31, 2001 (2000: 12.7 million).

**29. COMMITMENTS**

As of December 31, 2001, the Group had capital commitments of 8.8 million (2000: 24.4 million).

**30. CHANGE IN ACCOUNTING POLICIES**

From January 1, 2001, the Group is subject to newly effective IAS 39 “Financial Instruments – Recognition and Measurement” and revised IAS 12 “Income Taxes”. There is no significant financial impact caused from adopting these standards on the opening balances of consolidated financial statements.

### **31. COMPARATIVE FIGURES**

Leasehold land is separated from property, plant and equipment in the 2001 financial statements. Accordingly, comparative figures have been reclassified to conform to the current year’s presentation.

### **32. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the board of directors on April 10, 2001.