

Notes to the Financial Statements

(prepared in accordance with accounting principles generally accepted in Hong Kong)

(For the year ended 31st December, 2000)

1. GENERAL

The Company was established in the People's Republic of China (the "PRC") on 29th April, 1992, as a joint stock limited company by way of private subscription with Panda Electronics Group Company ("PEGC"), a State-owned enterprise, as the sole promoter. In July 1999, PEGC was re-organised into a company with limited liability and was renamed as "Panda Electronics Group Company Limited" ("PEGCL").

The Company was listed on The Stock Exchange of Hong Kong Limited ("The Hong Kong Stock Exchange") and the Shanghai Stock Exchange on 2nd May, 1996 and 18th November, 1996 respectively.

The principal activities of the Group are the development, manufacture and sale of electronics and telecommunications products.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately RMB426 million as at 31st December, 2000. The Group is dependent upon its existing bank facilities which are of a short term nature. The directors consider that the Group will be able to maintain its existing bank facilities to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing the financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal as appropriate.

All significant transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value of the Group's share of net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On the disposal of an investment in a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in value of the subsidiary that is other than temporary.

Associated companies

An associated company is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium/less any discount arising on acquisition in so far as it has not already been written off or amortised. Premium or discount represents the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associated company at the date of acquisition.

When the Group transacts with its associated companies, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year in the Company's balance sheet, investments in associates are stated at cost, as reduced by any decline in the value of the associate that is other than temporary.

Property, plant and equipment

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

It is the Group's policy to determine the carrying amount of the property, plant and equipment on the historical cost basis. However, in compliance with the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange, property, plant and equipment of the Group were revalued on listing of the Company's shares on The Hong Kong Stock Exchange in 1995 and stated in the financial statements at such valuation.

The Group does not intend to revalue these assets in the future and they will continue to be carried at their 1995 valuation less subsequent depreciation.

The surplus arising on the 1995 revaluation of these assets was credited to the assets revaluation reserve. Any future decrease in value of these assets will be charged to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to the previous revaluation of the same asset. On the subsequent disposal or retirement of such assets, the attributable revaluation surplus not yet transferred to retained profits in prior years will be transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight-line method, on the following bases:

	Over the term of the lease
Land use rights	
Buildings	15 to 35 years
Plant, machinery and equipment	6 to 11 years
Transportation equipment and motor vehicles	5 to 6 years

Construction in progress

Construction in progress represents buildings and machinery under construction or installation and is stated at cost less any impairment. Cost comprises direct and indirect costs of acquisition or construction as well as borrowing costs capitalised. Construction in progress is transferred to property, plant and equipment when they are completed. No depreciation is provided on construction in progress.

INVESTMENTS IN SECURITIES

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Inventories

Inventories, are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents 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.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expenses in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries maintained in foreign currencies are translated at exchange rates ruling on the balance sheet date. Exchange differences arising on consolidation, if any, are dealt with in reserves.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessary take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefit scheme

Payments to retirement benefits scheme are charged to the income statement.

Research and development costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation.

OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Trademarks

Trademarks are stated at cost less provision, if necessary, for any impairment loss.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Recognition of income

Sales are recognised when goods are delivered to customers.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from unlisted investments is recognised when the shareholders' right to receive payment is established.

4. TURNOVER

Turnover represents the invoiced value of goods sold to outside customers, net of sales taxes.

5. OTHER REVENUE

	2000 RMB'000	1999 RMB'000
Continuing operations:		
Gain on Assets Reorganisation (Note 26)	147,092	168,605
Interest on bank deposits	3,328	2,677
Release of bad debts provision (Note)	124	-
Dividends from unlisted equity investments	-	92
Exchange gain	-	76
Gain on disposal of associates	3,687	-
Gain on disposal of investments	452	-
	154,683	171,450
Discontinued operations:		
Release of bad debts provision (Note)	88,829	-

Interest on bank deposits	3,310	2,683
Dividends from unlisted equity investments	970	-
	93,109	2,683

Note: The Company obtained a written undertaking from PEGCL under which PEGCL undertake that the Disposed companies in Assets Re-organisation would be able to recover their trade receivables as at 30 June 2000 for at least the amount as stated in the accounting records prepared under PRC accounting standards. Any shortfall in the amount which the Disposed companies is unable to recover would be compensated by PEGCL. Accordingly, provision for bad and doubtful debts made in accordance with HKGAAP over and above the provision made under PRC accounting standards were written back as income in the income statement.

6. PROFIT/(LOSS) FROM OPERATIONS

	2000 RMB'000	1999 RMB'000
Profit/(loss) from operations has been arrived at after charging (crediting):		
Depreciation	50,831	47,171
Amortisation of development costs	-	2,431
Provision for bad and doubtful debts (included in administrative expenses)	10,120	33,074
Provision for inventories (included in administrative expenses)	23,921	67,258
Research expenses	-	10,319
Staff costs		
Retirement benefit scheme contributions	12,515	12,989
Directors' remuneration:		
Independent non-executive directors		
Fees	80	280
Other emoluments	-	-
Executive director		
Fees	-	-
Basic salaries, housing allowances, other allowances and benefits in kind	535	231
Contributions to pension schemes	2	12

Discretionary bonus	-	1
Supervisors' remuneration:		
Fees	-	-
Basic salaries, housing allowances, other allowances and benefits in kind	100	53
Contributions to pension schemes	1	3
Discretionary bonus	-	1
Others	40,565	43,885
	53,798	57,455
Auditors' remuneration	4,558	2,000
Operating lease rentals in respect of land and buildings	6,717	20,777
Loss on disposal of subsidiaries	2,783	3,130
Loss on disposal of property, plant and equipment	11,420	4,919
Construction in progress written off	136	1,483
Net exchange gain	-	(76)

(i) The aggregate emoluments of each of the directors during the relevant periods were under HK\$1,000,000.

(ii) The five highest paid individuals include:

	The Group	
	Year ended December 31,	
	2000	1999
	Number of Individuals	Number of individuals
Five highest paid individuals		
Directors	1	1
Supervisors	-	-
Employees	4	4
	5	5

Of the five individuals with the highest emoluments in the Group, one (1999 : one) was a director of the Company whose emoluments are included above. The aggregate emoluments of each of the remaining four individuals (1999 : four) during the relevant periods were under HK\$1,000,000.and as follows:

	2000	1999
	RMB'000	RMB'000
Salaries and other benefits	388	177
Retirement benefits scheme contributions	1	1
Discretionary bonuses	-	-
	389	178

7. FINANCE COSTS

	2000	1999
	RMB'000	RMB'000
Interest on bank and other loans		
wholly repayable within five years	59,933	73,660
Less: Amounts capitalised in		
construction in progress	-	(2,274)
	59,933	71,386

8. INCOME TAX EXPENSES

	2000	1999
	RMB'000	RMB'000
Taxation charge comprises:		
PRC income tax		
Company and its subsidiaries	3,190	140
Associates	23,061	18,490
	26,251	18,630

In 1995, the Company changed the place of its registration to Pukou, Nanjing, which is a High and New Technology Zone. On 29th August, 1995, the Company was recognised by the Jiangsu Science and Technology Commission as a High and New Technology Enterprise and such status has enabled the Company to pay income tax at the rate of 15 per cent of its assessable profit with effect from 1st January, 1995.

All subsidiaries of the Company pay income tax at rates between 15 and 33 per cent.

The Company's principal associated company, namely Nanjing Ericsson Communication Co., Ltd. ("Nanjing Ericsson"), is a Sino-foreign equity joint venture and is subject to income tax at a rate of 10 per cent since Nanjing Ericsson has been recognised by the Jiangsu Science and Technology Commission as a High and New Technology Enterprise.

	2000	1999
	RMB'000	RMB'000
Tax effect of timing differences arising from:		
Utilised tax losses	(20,718)	(5,562)
General provisions for bad and doubtful debts and inventories	52	(4,359)
Revaluation of fixed assets	905	1,688
	(19,761)	(8,233)

The major components of the net deferred tax asset unprovided for at the balance sheet date are as follows:

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Tax effect of timing differences arising from:				
Unutilised tax losses	78,815	122,134	79,707	120,995
General provisions for bad and doubtful debts and inventories	5,158	7,748	2,881	(17,268)
Revaluation of fixed assets	(5,925)	(6,830)	(4,529)	(4,558)
	78,048	123,052	78,059	99,169

A deferred tax asset has not been recognised in the financial statements as it is not certain that the benefits of the deferred tax asset will be utilised in the foreseeable future.

9. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of RMB178,460,000 (1999: RMB10,436,000), profit of RMB108,905,000 (1999: loss of RMB199,431,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

No interim dividend was paid (1999 : Nil) and no final dividend is proposed (1999 : Nil) for the year.

11. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit attributable to shareholders of RMB178,460,000 (1999 : profit of RMB10,436,000) and on the 655,015,000 shares in issue throughout both of 2000 and 1999.

12. INTANGIBLE ASSETS

	The Group and the Company	
	2000	1999
	RMB'000	RMB'000
Trademarks, at cost	155,140	155,140
Impairment loss recognised	(64,867)	-
	90,273	155,140

Pursuant to a trademark assignment agreement dated 18th March, 1996 between the Company and PEGC, the Company acquired certain trademarks from PEGC at a consideration of RMB155,140,000 payable in cash over three years by way of three yearly instalments without interest. The consideration was determined by reference principally to the value attributable to the use of the trademarks as valued by Weiming (Shenzhen) Appraisal Firm (which is the same as that valued by Vigers Hong Kong Limited).

The trademark was revalued on 30th September, 2000 by Sallmanns (Far East) Limited ("Sallmanns"), Chartered Surveyors, Property Consultants, Plant and Machinery Valuers and Financial and Intangible Asset Valuers, at RMB90,273,000 on a market value basis. A revaluation deficit of RMB64,867,000 resulting from the above valuation has been charged to the income statement.

13. PROPERTY, PLANT AND EQUIPMENT

The Group	Land use rights RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment and motor vehicles RMB'000	Total RMB'000
COST OR VALUATION					
At 1st January, 2000	42,416	359,039	261,652	32,394	695,501
Additions	-	834	4,872	3,980	9,686
Acquisition of subsidiaries	-	22,503	17,544	820	40,867
Transfer from construction in progress	-	-	337	207	544
Disposals as part of Assets Reorganisation(12,216)		(50,004)	(130,109)	(26,551)	(218,880)
Other disposals	-	(2,628)	(20,711)	(4,352)	(27,691)
Disposal of subsidiaries	-	(227)	(7,554)	(205)	(7,986)
At 31st December, 2000	30,200	329,517	126,031	6,293	492,041
DEPRECIATION					
At 1st January, 2000	4,150	29,490	98,449	8,840	140,929
Charge for the year	1,032	15,926	27,571	6,302	50,831
Acquisition of subsidiaries	-	4,028	12,228	551	16,807
Eliminated on disposal as part of					
Assets Reorganisation	(1,407)	(17,075)	(71,095)	(9,562)	(99,139)
Eliminated on other disposal	-	(32)	(13,716)	(2,276)	(16,024)
Eliminated on disposal of subsidiaries	-	(30)	(1,074)	(59)	(1,163)
At 31st December, 2000	3,775	32,307	52,363	3,796	92,241
NET BOOK VALUES					
At 31st December, 2000	26,425	297,210	73,668	2,497	399,800
At 31st December, 1999	38,266	329,549	163,203	23,554	554,572

An analysis of cost and valuation of the Group's property, plant and equipment comprises:

At cost	-	270,622	82,707	6,263	359,592
At 1995 professional valuation	30,200	58,895	43,324	30	132,449
	30,200	329,517	126,031	6,293	492,071

At historical cost less accumulated depreciation of the revalued property, plant and equipment

As at 31st December, 2000	-	18,326	56,366	13	74,705
As at 31st December, 1999	-	18,714	61,941	1,775	82,430

The Company	Land use rights RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment and motor vehicles RMB'000	Total RMB'000
COST OR VALUATION					
At 1st January, 2000	42,416	307,979	115,849	12,372	478,616
Additions	-	834	2,405	138	3,377
Disposals as part of Assets Reorganisation	-	(8,675)	(9,080)	(17,755)	
Other disposals	(12,216)	-	(19,229)	(2,988)	(34,433)
At 31st December, 2000	30,200	308,813	90,350	442	429,805
DEPRECIATION					
At 1st January, 2000	4,150	16,995	45,280	2,925	69,350
Charge for the year	1,032	9,400	10,591	2,334	23,357
Eliminated on disposal as part of Assets Reorganisation	-	(4,847)	(4,442)	(9,289)	
Eliminated on other disposal	(1,407)	-	(16,083)	(564)	(18,054)
At 31st December, 2000	3,775	26,395	34,941	253	65,364
NET BOOK VALUES					
At 31st December, 2000	26,425	282,418	55,409	189	364,441
At 31st December, 1999	38,266	290,984	70,569	9,447	409,266

An analysis of cost and valuation of the Group's property, plant and equipment comprises:

At cost	-	255,947	49,563	424	305,934
At 1995 professional valuation	30,200	52,866	40,787	18	123,871
	30,200	308,813	90,350	442	429,805
At historical cost less accumulated depreciation of the revalued property, plant and equipment					
As at 31st December, 2000	-	17,305	38,648	8	55,961
As at 31st December, 1999	-	17,580	47,612	1,430	66,622

Notes:

- (a) All of the Group's land use rights and buildings are located in the PRC and the land use rights have remaining lease terms of approximately 45 years.
- (b) The valuations of the land and buildings, plant, machinery and equipment were based on professional valuations made as at 30th September, 1995 on an open market value basis by Vigers Hong Kong Limited, chartered surveyors.

14. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	20,388	55,566	18,420	54,633
Add : Additions during the year	897	34,969	234	28,842
	21,285	90,535	18,654	83,475
Less : Transfer to fixed assets	(544)	(68,664)	-	(63,860)
Less : Written off	(136)	(1,483)	-	(1,195)
At 31st December	20,605	20,388	18,654	18,420

No interest was capitalised in construction in progress.

15. INVESTMENTS IN SUBSIDIARIES

	2000 RMB'000	1999 RMB'000
Unlisted shares, at cost	104,589	393,569
Impairment loss recognised	(11,500)	(275,500)
	93,089	118,069

Particulars of the subsidiaries of the Company, all of which are limited liability companies directly held by the Company and were established/registered and operated in the PRC, are as follows:

Name of subsidiary	Date of establishment/registration	Registered capital	Proportion of Nominal value of issued capital/ registered capital held by the Company directly	Principal activities
Nanjing Panda Electronics Materials Company	27th April, 1998	RMB530,000	100%	Sourcing raw materials, components and parts, equipment and machinery for production
Nanjing Panda Electronics Systems Engineering Company	12th September, 1988	RMB300,000	100%	Design, production, installation, sale and distribution and repair of communication and television broadcasting systems
Shenzhen Panda Electronics Company	21st December, 1992	RMB6,175,000	100%	Trading of electronics products and components
Nanjing Panda Technology Equipment Co., Ltd.	15th October, 1999	RMB5,000,000	90%	Manufacture and sale of equipment for production of television sets
Nanjing Huage Plastic Co., Ltd.	31st August, 1999	RMB8,000,000	Indirectly held 89.25%	Production and sale of plastic fibres
Nanjing Panda Information Industry Co. Ltd.	20th July, 1998	US\$3,400,00	72%	Development, production and sale of electronics information products

Name of subsidiary	Date of establishment/registration	Registered capital	Proportion of Nominal value of issued capital/ registered capital held by the Company directly	Principal activities
Panda International Communications Systems Company Limited, Nanjing	12th October, 1993	US\$1,000,000	72%	Sale and distribution of cellular mobile telephones and pagers
Nanjing Guanghua Electronics Plastic Casings Factory (Note)	20th December, 1984	RMB12,250,000	71.94%	Manufacture and processing of television cases
Nanjing Panda Mechanical Engineering Plant	12th May, 1995	RMB45,000,000	99.11%	Manufacture and sale of communication equipment and electronic equipment
*	10th February, 1999	RMB1,000,000	Indirectly held 69.3%	Manufacture and sale of specialised Electronic equipment

Note: The Company has a subsidiary, Nanjing Guanghua Electronics Plastic Casings Factory which operated as a joint venture between the Company and a joint venture partner. The principal activity of this subsidiary is manufacture and processing of television cases. Under the joint venture agreement entered into between the Company and joint venture partner in 1987, the joint venture partner has agreed to receive a guaranteed return on an annual basis of RMB350,000 with an annual increase of RMB20,000 up to RMB750,000 in the year of 2007. The Company is entitled to 100 per cent of all profits and will bear 100 per cent of all losses remaining after paying the annual guaranteed return to the joint venture partner. Upon expiry of the joint venture agreement, the joint venture partners will be entitled to share the net assets, after excluding the retained earnings to which the Company is entitled, in accordance with their respective shareholders.

16. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	-	-	370,204	217,051
Share of net assets	644,198	387,993	-	-
Premium/(discount) on acquisition	618	(11,414)	-	-
	644,816	376,579	370,204	217,051

Particulars of the associates of the Group, all of which were established/registered in the PRC, are as follows:

Name of associates	Date of establishment/ registration	Equity interest attributable to the Group	Principal activities
Nanjing Ericsson Communication Company Limited	15th September, 1992	43%	Manufacture and sales of cellular mobile telephone system products and digital switching system products
Nanjing Ericsson Panda Mobile Terminals Co., Ltd.	20th November, 1998	35%	Production, development and sale of data communication terminal equipment
Nanjing Sharp Electronics Co., Ltd.	29th March, 1996	30%	Design, development, manufacture and sale of televisions

Name of associates	Date of establishment/ registration	Equity interest attributable to the Group	Principal activities
Nanjing Sharp Audio Co., Ltd.	28th March, 1996	30%	Development, manufacture and sale of audio-visual products
Nanjing Lingyun Information Co., Ltd.	6th August, 1998	30%	Provision of frequency modulation
Shenzhen Jinghua Electronic Company Limited	9th July, 1993	38.03%	Development, manufacture and sale of communication equipment and electronic equipment
Nanjing Lianhua Nap New Coating & Decorating Company Limited	14th March, 1996	33.33%	Development, manufacture and sale of coating products

The financial statements of the above associates are not audited by Horwath Hong Kong CPA Limited.

The following details have been extracted from the audited financial statements of Nanjing Ericsson Communication Company Limited ("Nanjing Ericsson"), the Company's major associate, for the year ended 31st December, 2000. The financial statements were prepared in accordance with International Accounting Standards and audited by PricewaterhouseCoopers Zhong Tian, Shanghai.

	2000	1999
	RMB'000	RMB'000
Turnover	9,873,048	6,033,742
Profit before tax	512,101	457,898
Taxation	(53,561)	(42,999)
Profit after tax	458,470	414,899
Profit after tax attributable to the Group	197,142	178,407
Financial position		
Non-current assets	138,946	179,981
Current assets	5,889,507	2,969,402
Current liabilities	(5,126,489)	(2,484,412)
Net assets	901,964	664,971
Net assets attributable to the Group	387,845	285,938

17. INVESTMENTS

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity securities, at fair value	6,815	8,419	6,815	8,419

18. SHORT TERM INVESTMENTS

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Trading securities - listed	881	-	-	-
Unlisted equity securities	106	-	-	-
Other investment, at cost (Note)	120,000	-	120,000	-
	120,987	-	120,000	-
Market value of trading securities	859	-	-	-

Note: The Company has entered into an investment agreement with an investment management company whereby the investment management company will invest an amount of RMB120,000,000 on behalf of the company for a term of one and half year. According to the agreement, the investment management company guarantees the annual rate of return on such investment will not be less than 10%. The directors consider no provision for impairment in value of the investment is necessary at 31st December.2000.

19. INVENTORIES

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	24,509	120,456	745	5,961
Work in progress	12,133	62,389	8,095	22,942
Finished goods	103,830	438,683	2,786	4,858
Spare parts and consumables	496	3,427	237	256
	140,968	624,955	11,863	34,017

Amount carried at net realisable value

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	8,305	7,075	263	705
Work in progress	8,388	5,758	8,388	3,707
Finished goods	4,464	142,010	1,434	4,228
Spare parts and consumables	-	-	-	-
	21,157	154,843	10,085	8,640

20. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured and interest-free.

The Company has obtained a written undertaking from PEGCL whereby PEGCL undertakes that all of the fellow subsidiaries will fully repay all of their outstanding balances within the next six months. Any irrecoverable balances would be compensated by PEGCL.

21. BORROWINGS

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings				
- Short term loans				
- unsecured	439,030	440,447	316,100	286,277
- secured	91,400	85,000	85,000	85,000
- Bills payable	722,441	717,156	595,000	215,000
Other loan, unsecured	3,000	3,100	3,000	3,100
	1,255,871	1,245,703	999,100	589,377

The above bank borrowings are secured on the Group's land and buildings of a net book value of approximately RMB20,481,000 (1999 : RMB20,481,000) and bank balance with a carrying amount of approximately RMB6,622,480 (1999 : RMB249,525,000) as at the balance sheet date.

22. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company is unsecured and interest-free.

23. SHARE CAPITAL

	2000 RMB'000	1999 RMB'000
Registered, issued and paid up capital of RMB1.00 each at beginning and at end of year:		
State-owned legal person shares	355,015	355,015
A shares (held by PRC public investors)	58,000	58,000
H shares	242,000	242,000
	655,015	655,015

24. SHARE PREMIUM AND RESERVES

The Group	Share premium RMB'000	Capital reserve RMB'000	Statutory common reserve* RMB'000	Asset revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Deficit RMB'000	Total RMB'000
Balance at 1st January, 2000	389,338	6,138	189,850	45,535	(822)	(743,959)	(113,920)
Goodwill arising on acquisition of subsidiaries	-	(949)	-	-	-	-	(949)
Amount realised on disposal of a subsidiary	-	(79)	-	-	-	-	(79)
Profit for the year	-	-	-	-	-	178,460	178,460

Reserve realised on disposal of property, plant and equipment	-	-	-	(6,035)	-	6,035	-
Movements on revaluation reserve	-	-	-	-	(44)	-	(44)
Loss realised on disposal of investments	-	-	-	-	791	(791)	-
Balance at 31st December, 2000	389,338	5,110	189,850	39,500	(75)	(560,255)	63,468
Including retained reserves of associates	-	-	-	-	-	274,612	274,612

* As at the balance sheet date, there was a statutory public welfare fund amounting to approximately RMB38,597,000 (1999: RMB38,597,000) included in the statutory common reserve of the Group.

The Company	Share premium RMB'000	Capital reserve RMB'000	Statutory common reserve* RMB'000	Asset revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Deficit RMB'000	Total RMB'000
Balance at 1st January, 2000	389,338	3	181,468	30,387	(822)	(911,819)	(311,445)
Profit for the year	-	-	-	-	-	108,905	108,905
Reserve realised on disposal of property, plant and equipment	-	-	-	(194)	-	194	-
Movements on revaluation reserve	-	-	-	-	(44)	-	(44)
Loss realised on disposal of investments	-	-	-	-	791	(791)	-
Balance at 31st December, 2000	389,338	3	181,468	30,193	(75)	(803,511)	(202,584)

* As at the balance sheet date, there was a statutory public welfare fund amounting to approximately RMB37,419,000 (1999 : RMB37,419,000) included in the statutory common reserve of the Company.

The statutory common reserve represents the appropriation of 10% of profit after taxation calculated in accordance with PRC accounting standards and the Company's Articles of Association. The appropriation will no longer be required if the balance of the common reserve fund has reached 50% of the Company's registered capital. According to the Company's Articles of Association, statutory common reserve can be used to offset prior year losses, to expand production and operation facilities of the Company or to increase share capital. When the statutory common reserve is used to increase share capital, the amount of such reserve remaining unconverted shall not be less than 25% of the registered capital of the Company.

Statutory public welfare fund represents the appropriation of profit after taxation according to the requirements of the Company's Articles of Association and Company Law in the PRC. According to the requirements, the Company will transfer 5% to 10% of profit after taxation calculated in accordance with PRC accounting standards. The fund can only be utilised for capital expenditure on employee's collective welfare facilities and cannot be used in staff welfare expenses. Such employee welfare facilities are owned by the Company. The public welfare fund is not distributable to shareholders. There has been no utilisation of the public welfare fund during the year.

Statutory common reserve and public welfare fund are part of shareholders' equity.

In accordance with the Company's Articles of Association, the profit available for distribution reserve is the amount which is the lesser of the profit determined in accordance with PRC accounting standards and profit determined in accordance with accounting principles generally accepted in Hong Kong. there was no distributable reserve available for distribution as at 31st December, 2000 and 1999.

25. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2000 RMB'000	1999 RMB'000
Profit before taxation	210,405	6,808
Share of results of associates	(238,266)	(203,408)
Interest income	(6,638)	(5,360)
Interest expenses	59,933	71,386
Dividend income from unlisted investments	(970)	(92)
Profit on Assets Reorganisation	(147,092)	-
Loss on disposal of subsidiaries	5,303	3,130
(Gain)/loss on disposal of associates	(3,687)	1,879
Gain on disposal of other investments	(452)	-
Depreciation and amortisation	50,831	49,602
Loss on disposal of property, plant and equipment and construction in progress	11,420	6,402
Provision for impairment in value of intangible assets	64,867	-
Increase in amounts due from fellow subsidiaries	(318,217)	(47,116)
(Decrease)/increase in amounts due to fellow subsidiaries	(2,699)	38,312
Decrease/(increase) in inventories	24,462	(352,042)
(Increase)/decrease in trade debtors	(266,701)	215,521
(Increase)/decrease in other debtors, deposits and prepayments	(57,844)	51,961
Decrease in bills receivable	5,365	20,725
Increase/(decrease) in other creditors, customers' deposits and accrued charges	251,976	(104,061)
Increase/(decrease) in trade creditors	90,941	(278,199)
Net cash outflow from operating activities	(267,063)	(524,552)

26. ASSETS REORGANISATION

Details of the Assets Reorganisation are as follows:

	RMB'000
Net assets injected:	
Investments in subsidiaries (Note 28)	30,670
Investment in an associated company	81,703
	112,373
Cash consideration	55,543
	167,916
Net assets/(liabilities) transferred:	
Share of net assets in subsidiaries completely disposed of (Note 27)	31,330
Share of net assets in subsidiaries partially disposed of	979
Net liabilities in the Group's operation units	(15,685)
	16,624
	151,292
Less: Cost on Assets Reorganisation	(4,200)
Gain on Assets Reorganisation	147,092

An analysis of the net outflow of cash and cash equivalents in respect of the Assets Reorganisation is as follows:

2000
RMB'000

Cash consideration	55,543
Bank balances and cash on acquisition of subsidiaries	445
Bank balances and cash on disposal of subsidiaries	(306,672)
Bank balances and cash on disposal of operation units	(1,055)
	(251,739)
Cash used in Assets Reorganisation	(4,200)
Net outflow of cash and cash equivalents in respect of the Assets Reorganisation	(255,939)

27. DISPOSAL OF SUBSIDIARIES

<i>Net assets disposed of:</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	111,274	6,823	118,097
Trade debtors	455,998	17,463	473,461
Other debtors, deposits and prepayments	97,608	6,227	10,310,835
Inventories	452,861	2,991	455,852
Short-term investments	95,361	-	95,361
Bank balances and cash	306,672	2,118	308,790
Bank loan	(569,430)	(5,480)	(574,910)
Trade creditors	(468,076)	(11,777)	(479,853)
Other creditors and accrued charges	(449,536)	(12,118)	(461,654)
Minority interests	(1,323)	(944)	(2,267)
	31,409	5,303	36,712
Capital reserve realised	(79)	-	(79)
	31,330	5,303	36,633

The subsidiaries disposed of during the year utilised RMB21,278,000 of the Group's net operating cash flows, paid RMB17,616,000 in respect of returns on investments and servicing of finance, did not pay any taxes and paid RMB4,573,000 in respect of investing activities.

The subsidiaries disposed of during the year contributed RMB675,612,000 of revenue and RMB7,705,000 of profit before taxation for the year.

Other than the subsidiaries disposed of in the Assets Reorganisation as disclosed in note 26, an analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2000 RMB'000	1999 RMB'000
Bank balances and cash disposed of	(2,118)	-
Net outflow of cash and cash equivalent in respect of the disposal of subsidiaries	(2,118)	-

28. ACQUISITION OF SUBSIDIARIES

	2000 RMB'000
Net assets acquired	
Property, plant and equipment	24,060
Interests in associates	1,098
Trade debtors	12,700
Other debtors, deposits and prepayments	12,132
Inventories	11,135
Bank balances and cash	445
Bank loan - due within one year	(6,330)
Trade creditors	(7,852)
Other creditors and accrued charges	(16,309)
Taxation	(381)
Minority interests	(977)

	29,721
Goodwill	949
	30,670

During the period since acquisition, the subsidiaries contributed RMB1,811,000 to the Group's net operating cash flows, paid RMB62,000 in respect of the net returns on investments and servicing of finance and RMB240,000 in respect of investing activities for the year ended 31st December, 2000.

The subsidiaries acquired contributed RMB2,255,000 to the Group's turnover and RMB45,000 to the Group's loss before taxation for the year ended 31st December, 2000.

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and capital reserves RMB'000	Bank and other loans RMB'000	Amounts due to ultimate holding company RMB'000
Balance at 1st January, 1999	661,153	1,316,674	61,494
Decrease as part of Assets			
Reorganisation	-	(808,514)	(61,494)
New bank loan raised	-	1,627,364	14,329
Disposal of subsidiaries	-	(2,000)	-
Repayment of amount borrowed	-	(887,821)	-
Balance at 31st December, 1999	661,153	1,245,703	14,329
New bank loan raised	-	996,713	-
Advances from ultimate holding company	-	-	65,904
Assets Reorganisation			
- Acquisition of subsidiaries	(949)	6,330	-
- Disposal of subsidiaries	(79)	(569,430)	-
Disposal of other subsidiaries	-	(5,480)	-
Repayment of amount borrowed	-	(417,965)	-
Balance at 31st December, 2000	660,125	1,255,871	80,233

30. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	Fellow subsidiaries and associated companies		Ultimate holding company	
	2000	1999	2000	1999
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of components and parts (note 1)	11,567	1,082	1,641	-
Purchases of components and parts (note 1)	293,369	6,597	-	-
Fees paid for welfare and Support services (note 2)	-	-	6,671	9,623
Income for support services provided (note 2)	9,287	3,059	555	4,029
Sub-contracting charges paid (note 1)	-	442	-	771
Fees paid for import Services (note 2)	1,774	1,687	-	-
Rental paid (note 1)	1,162	-	-	-

Notes:

1. The above transactions were carried out at market price.
2. the transactions were carried out at cost plus a percentage profit mark-up.

Pursuant to the Assets Reorganisation Agreement dated 9th October, 2000 which was approved by the members of the Company on 27th November 2000, the Company agreed to transfer certain of its subsidiaries and businesses to PEGCL in exchange for two subsidiaries and an associate of PEGCL, together with a cash consideration of RMB55,543,000. The gain of RMB147,092,000 arising on the Assets Reorganisation is set out in note 26.

31. CONTINGENT LIABILITIES

As at 31st December, 2000, the Group and the Company had the following outstanding contingent liabilities not provided for in the financial statements in respect of:

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Discounted bills with recourse	15,500	238,673	-	232,173
Guarantees given in respect of banking facilities made available to subsidiaries	-	-	112,100	104,361
Guarantees given in respect of banking facilities made available to fellow subsidiaries	170,380	-	170,000	-
Guarantees given in respect of banking facilities made to third parties	175,000	88,000	130,000	83,000
	360,880	326,673	427,600	419,534

32. COMMITMENTS

(i) At the balance sheet date, the Group and the Company had the following capital commitments in respect of:

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for				
- property, plant and equipment	60,045	60,045	60,045	60,045
- investments in subsidiaries and an associate	100,563	120,586	100,563	120,586
- short term investment	30,000	-	30,000	-
	190,608	180,631	190,608	180,631

(ii) At the balance sheet date, the Group and the Company had outstanding commitments under non-cancellable operating leases in respect of rented premises as follows:

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Operating leases which expire:				
Within one year	-	7,266	-	4,701
In the second to fifth years inclusive	-	1,131	-	512
Over five years	119	-	119	-
	119	8,397	119	5,213

33. DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG AND PRC ACCOUNTING STANDARDS AS APPLICABLE TO THE GROUP

The financial statements prepared under accounting principles generally accepted in Hong Kong and those prepared under PRC accounting standards have the following major differences:

Impact on the consolidated income statement

	2000 RMB'000	1999 RMB'000
Profit attributable to shareholders as per financial statements prepared under the accounting principles generally accepted in Hong Kong	178,460	10,436
Add: Provision for impairment in value of trademarks	64,867	-
Provision for bad and doubtful debts	-	56,281
Provision for inventories	10,405	16,584
Share of profits of associates	3,248	-
Share of profits of other investments	60	-
Other assets written off	16,498	12,116
Minority interest	3,532	-

Others	-	1,748
Less: Reverse of provision for bad and doubtful debts	(103,104)	-
Amortisation on trademarks	(15,514)	(15,514)
Amortisation of unrecognised intangible assets	(1,141)	(1,141)
Other assets written off previously	(20,427)	-
Share of profit of associates	-	(20,741)
Share of loss of other investments	-	(571)
Minority interest	-	(4,952)
Others	(4,061)	-
Profit attributable to shareholders as per financial statements prepared under PRC accounting standards	132,823	54,246

Impact on the consolidated balance sheet as at 31st December

	2000	1999
	RMB'000	RMB'000
Net assets as per financial statements prepared under the accounting principles generally accepted in Hong Kong	714,483	541,095
Add: Provision for impairment in value of trademarks	64,867	-
Provision for bad and doubtful debts	12,039	82,321
Provision for obsolete inventories	22,353	77,459
Share of reserves of associates	13,322	12,789
Unrecognised intangible assets	918	6,554
Other assets written off	29,001	12,116
Others	12,805	-
Less: Amortisation on trademarks	(73,692)	(58,178)
Minority interests	(3,930)	(5,540)
Other investments	-	(1,681)
Others	-	(3,616)

Net assets as per financial statements prepared under PRC accounting standards	796,166	663,319
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Notes:

- (1) There are also other differences in balance sheet items due to differences in classification between accounting principles generally accepted in Hong Kong and PRC accounting standards.
- (2) Utility rights included under intangible assets reported in the financial statements prepared under PRC accounting standards are stated at valuation and amortised using the straight line method over their estimated useful lives of 10 years. However, such rights have not been recognised in the financial statements prepared under accounting principles generally accepted in Hong Kong in accordance with the historical cost convention.

34. ULTIMATE HOLDING COMPANY

The ultimate holding company is PEGCL, a limited liability company established in the PRC.