NOTES TO FINANCIAL STATEMENTS

31 December 2000
(Amounts expressed in Renminbi unless otherwise stated)

1. ORGANISATION AND OPERATIONS

Guangdong Kelon Electrical Holdings Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 16 December 1992. Its H shares were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996 and the A shares were listed on the Shenzhen Stock Exchange on 13 July 1999. The directors consider Shunde Rongtu Investment Holdings Company Limited, a company incorporated in the PRC, to be the ultimate holding company.

The Group is principally engaged in the manufacture and sale of refrigerators and air-conditioners, moulds and plastic.

2. BASIS OF PRESENTATION

The consolidated financial statements included the results of operations of the Company and its subsidiaries for the year ended 31 December 2000 and the assets and liabilities of the Group as of 31 December 2000.

As of 31 December 2000, the Company had the following subsidiaries and associates:

Name of the entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Company				Issued capital/ Registered capital	Principal activities
		2000		1999			
		Directly	**Indirectly**	Directly	Indirectly		
Subsidiaries							
Kelon Development Company Limited	Hong Kong 17 August 1993	**100%**	**–**	100%	—	HK$5,000,000	Investment holding
Guangdong Kelon Refrigerator Co., Ltd.	PRC (i) 25 December 1995	**70%**	**30%**	70%	30%	US$26,800,000	Manufacture and sale of refrigerators
Guangdong Kelon Air-Conditioner Co., Ltd.	PRC (i) 19 March 1996	**60%**	**–**	60%	—	US$36,150,000	Manufacture and sale of air-conditioners
Shunde Rongsheng Plastic Products Co., Ltd.	PRC (i) 18 October 1991	**45%**	**25%**	45%	25%	US$14,800,000	Manufacture of plastic parts
Chengdu Kelon Refrigerator Co., Ltd.	PRC (i) 19 November 1996	**45%**	**25%**	45%	25%	RMB200,000,000	Manufacture and sale of refrigerators
Yingkou Kelon Refrigerator Co., Ltd.	PRC (i) 15 December 1996	**42%**	**25%**	42%	25%	RMB200,000,000	Manufacture and sale of refrigerators

NOTES TO FINANCIAL STATEMENTS

31 December 2000
(Amounts expressed in Renminbi unless otherwise stated)

2. BASIS OF PRESENTATION *(Cont'd)*

Name of the entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Company 2000 Directly	2000 Indirectly	1999 Directly	1999 Indirectly	Issued capital/ Registered capital	Principal activities
Subsidiaries							
Guangdong Kelon Mould Co., Ltd.	PRC (i) 20 July 1994	**40%**	**30%**	40%	30%	US$15,000,000	Manufacture of moulds
Pearl River Electric Refrigerator Company Limited	Hong Kong 26 July 1985	**–**	**100%**	—	100%	HK$400,000	Trading in materials and parts for refrigerators
Wetherell Development Limited	British Virgin Islands 1 July 1997	**–**	**100%**	—	100%	US$1	Advertising agency
Kelon Financial Services Limited	British Virgin Islands 13 January 1999	**–**	**100%**	—	100%	US$50,000	Investment holdings
Kelon Electric Appliances Co., Ltd.	Hong Kong 29 August 1991	**–**	**100%**	—	100%	HK$10,000	Property investment
Kelon (Japan) Limited	Japan 22 May 1996	**–**	**90%**	—	90%	JPY1,100,000,000	Technical research and trading of electrical household appliances
Shunde Rongqi Fittings Co. Ltd.	PRC (i) 24 November 1999	**70%**	**30%**	—	—	US$5,620,000	Manufacturer and sale of spare parts for air-conditioner and refrigerator
Kelondotcom Limited	British Virgin Islands 21 February 2000	**–**	**100%**	—	—	US$50,000	Dormant
Kelondotcom (Hong Kong) Limited	Hong Kong 7 June 1999	**–**	**100%**	—	—	HK$2	Dormant
EDAS Development (BVI) Limited	British Virgin Islands 1 March 2000	**–**	**100%**	—	—	US$50,000	Dormant
EDAS.com (Shenzhen) Limited	PRC (iv) 28 June 2000	**–**	**100%**	—	—	US$600,000	Operation of an internet portal

NOTES TO FINANCIAL STATEMENTS

31 December 2000
(Amounts expressed in Renminbi unless otherwise stated)

2. BASIS OF PRESENTATION *(Cont'd)*

Name of the entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Company 2000 Directly	2000 Indirectly	1999 Directly	1999 Indirectly	Issued capital/ Registered capital	Principal activities
Associated companies							
Guangdong Sanyo-Kelon Refrigerator Co., Ltd.	PRC (i) 25 December 1995	**44%**	**–**	44%	—	RMB237,000,000	Manufacture and sale of freezers
Huayi Compressor Holdings Company Limited	PRC (ii) 13 June 1996	**24.99%**	**–**	24.99%	—	RMB237,250,000	Manufacture and sale of compressors
Shunde Kelon Household Electrical Appliance Company Limited (Formerly known as "Shunde Kelon Industrial Development Company Limited")	PRC (iii) 16 July 1999	**25%**	**–**	25%	—	RMB10,000,000	Manufacture and sale of electrical household appliances
Chongqing Kelon Electrical Appliance Company Limited	PRC (iii) 10 November 1999	**–**	**20%**	—	—	RMB1,000,000	Sale of electrical household appliances
Communication and You Holdings Company Limited	Hong Kong 14 August 2000	**–**	**25%**	—	—	HK$ 100	Advertising business

(i) These companies were established as sino-foreign equity joint ventures in the PRC.

(ii) These companies were established as joint stock limited company in the PRC.

(iii) These companies were established as limited liability company in the PRC.

(iv) EDAS.com (Shenzhen) Limited is a wholly foreign owned enterprise established in the PRC with an operating period of 20 years up to 2020.

The financial statements have been prepared in accordance with International Accounting Standards ("IAS"). This basis of accounting differs from that used in the management accounts of the Company and its Group's PRC subsidiaries which were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises. The financial statements of the Group's overseas subsidiaries have been prepared based on the accounting standards of the respective countries, which are similar to IAS. Adjustments have been made to the accounts of the Company and the Group to ensure they comply with IAS.

Adjustments made to conform to IAS are described in Note 34 below.

NOTES TO FINANCIAL STATEMENTS

31 December 2000
(Amounts expressed in Renminbi unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES

The following principal accounting policies are adopted by the Group in preparing the financial statements to comply with IAS:

a. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, together with the Group's share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

b. Basis of presentation

The accompanying financial statements are prepared under the historical cost convention, as modified by revaluation of fixed assets.

c. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% interest in its issued voting share capital as a long-term investment and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable. An assessment of investment in subsidiaries is performed when there is indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

d. Associates

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

In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alternations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

(Amounts expressed in Renminbi unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

d. Associates *(Cont'd)*

Where, in the opinion of the directors, the value of an associate has been permanently reduced below its carrying value, provision is made for such impairment in value.

In the Company's financial statements, investment in associates is carried at cost less provision for impairment in value where considered necessary by the directors. The results of the associates are included in the income statement to the extent of dividends declared.

e. Goodwill

Goodwill represents the difference between the fair value of the consideration given and the Group's share of the aggregate fair values of the identifiable net assets acquired.

Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its useful life. The amortisation period is 20 years which was determined at the time of the acquisition. The unamortised 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 carrying amount is more than the recoverable amount, an impairment loss is recognised.

f. Fixed assets and depreciation

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

Independent valuations are performed periodically with the last valuation performed on 30 April 1996. In the intervening years, the directors review the carrying value of fixed assets and adjustment is made where in the directors' opinion there has been a material change in value. Any increase in the valuation of fixed assets is credited to the fixed asset revaluation reserve; any decrease is first offset against an increase on earlier valuation in respect of the same asset and is thereafter charged to the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2000
(Amounts expressed in Renminbi unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

f. Fixed assets and depreciation *(Cont'd)*

Depreciation is provided using the straight-line method over their estimated useful lives, after deducting the estimated residual value. The estimated useful lives are as follows:

Land and buildings in the PRC	20 to 50 years
Land and buildings in Hong Kong	50 years
Land and buildings in Japan	10 years
Plant, machinery and equipment	10 years
Moulds	3 years
Motor vehicles	5 years

When assets are sold or retired, their cost or valuation and accumulated depreciation and amortisation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement. The relevant portion of the revaluation surplus realised in respect of previous valuation is released from the fixed asset revaluation reserve directly to retained earnings.

g. Construction-in-progress

Construction-in-progress represents buildings, plant, machinery and equipment and other fixed assets under construction, and is stated at cost. This includes the costs of construction, interest charges and exchange differences arising from borrowings used to finance these assets during the period of construction, installation and testing. When the assets concerned are brought into use, the costs are transferred to fixed assets and depreciated in accordance with the policy as stated above.

No depreciation is provided for buildings, plant, machinery and equipment and other fixed assets under construction.

h. Cash and cash equivalents

Cash includes cash and bank deposits or other financial instruments which are repayable on demand.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

(Amounts expressed in Renminbi unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

i. Receivables

Receivables are stated at face value, after provision for doubtful accounts.

j. Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and bank deposits, accounts receivable and payable, notes receivable and payable, balances with holding company and related companies, deposits and other receivables, accruals and other payables, trade deposits from customers, short-term and long-term bank loans.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interests, 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. 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 realise the asset and settle the liability simultaneously.

k. Provisions

A provision is recognised when the Group 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.

l. 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. Capitalisation 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 ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowing used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

NOTES TO FINANCIAL STATEMENTS

31 December 2000
(Amounts expressed in Renminbi unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

m. Impairment of assets

Fixed assets and intangible 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. 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 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 it is not possible, for the cash-generating unit.

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 has decreased. The reversal is recorded in income.

n. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials computed using the weighted average method of costing and, in cases of work-in-progress and finished goods, also direct materials, direct labor and an attributable proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. When inventories are sold, carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. Provision is made for obsolete, slow-moving or defective items where appropriate.

o. Pre-operating expenditures

Prior to 1 January 2000, expenditures incurred prior to commencement of business operations of individual subsidiaries are deferred and amortised on a straight-line basis over a period of five years starting from the commencement of their operations. With the adoption of IAS 38 "Intangible Assets" during the year ended 31 December 2000, the Group changed its accounting policy whereby all pre-operating expenditure are expensed as incurred. The effect of change in accounting policy had been accounted for retroactively as prior year adjustment.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

(Amounts expressed in Renminbi unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

p. Turnover

Turnover represents gross invoiced sales, net of discounts and returns.

q. Revenue recognition

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

(i) Sales of goods

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

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(iii) Dividend income

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

r. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items, which are not assessable, or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

(Amounts expressed in Renminbi unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

s. Warranty

The Group provides free repairing services for its products and free replacement of the major components of its products for three years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation, including handling and transportation costs. The costs are estimated by management based on past experience. The assumptions used to estimate warranty provision are reviewed periodically in light of actual results.

t. Operating lease

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

u. Pension costs

The Group manages a defined contribution pension scheme for its employees. Contributions are made based on a percentage of the eligible employees' salaries plus a pre-determined amount funded by the Group and are charged to the income statement as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme before his/her interest in the employer contributions is fully vested, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

In addition, pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are to be made monthly to a government agency based on 16% of the standard salary set by the provincial government, of which 10% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accrual basis.

Accrued contributions are shown as pension liabilities in the balance sheet.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

(Amounts expressed in Renminbi unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

v. Research and development expenses

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

(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) 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.

Capitalised development costs are amortised on a straight-line basis over their expected useful lives. The period of amortisation does not normally exceed five years. All research and development costs have been expensed as no expense satisfied the criteria for capitalisation as asset.

w. Foreign currency

The Company and its subsidiaries and associates established in the PRC maintain their books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing at the first day of the month of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable PBOC rates in effect at the year-end date. Exchange differences arising from changes of exchange rates subsequent to the dates of transactions for monetary assets and liabilities denominated in other currencies are included in the income statement.

The Group's overseas subsidiaries maintain their books and records in the respective reporting currency, which is generally the currency of the country of incorporation of the Group's overseas subsidiaries. Foreign currency transactions of the Group's overseas subsidiaries are translated into their respective reporting currency at the applicable rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the reporting currency at the applicable exchange rates in effect at the year-end. Exchange differences arising from changes of exchange rates subsequent to the date of transactions for monetary assets and liabilities denominated in foreign currencies are included in the income statement of the Group's overseas subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2000
(Amounts expressed in Renminbi unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

w. Foreign currency *(Cont'd)*

On consolidation, all of the assets and liabilities of the Group's overseas subsidiaries are translated into RMB at the applicable PBOC rates prevailing at the balance sheet date and all of the income and expense items are translated into RMB at the applicable PBOC average rates during the year. Exchange differences arising on the translation of the accounts of the Group's overseas companies are taken directly to cumulative translation reserve. Exchange differences arising on the translation of intra-group balances which are in effect an extension to or deduction from the Group's net investment in the foreign entity are also taken directly to the cumulative translation reserve. Where foreign currency borrowings have been used to finance, or provide a hedge against the Group's net investments in foreign enterprises, exchange gains or losses on these borrowings are offset as reserve movements against cumulative translation reserve arising on the translation of the net investments.

x. Segments

Business segments: for management purposes the Group is organised into two major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in Note 35.

Intersegment transactions: segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

y. Contingencies

Contingent liabilities are not recognised 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 recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

z. Subsequent events

Post-year-end events that provide additional information about a company'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.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

(Amounts expressed in Renminbi unless otherwise stated)

4. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The following is a summary of significant transactions carried out in the ordinary course of business between the Group and related parties and the respective balance with the related parties for the year ended 31 December 2000:

a. Transaction with related parties

	2000 **RMB'000**	1999 RMB'000
Prepayment granted to Chengdu Xinxing (Note i)	**34,000**	34,000
Sales of refrigerators to GKG	**—**	20,572
Sales to Shunde Cheung Tat (Note iii)	**246,178**	342,005
Buy-back of good from Shunde Cheung Tat (Note iii)	**98,292**	—
Advertising fee paid to Kelon Advertising (Note iv)	**88,065**	18,723
Sale of goods to		
— Shunde Kelon (Note v)	**2,096**	3,225
— Shunde Huaao (Note vi)	**5,716**	—
— Guangdong Sanyo-Kelon (Note vii)	**36,120**	14,980
— Chongqing Kelon (Note vii)	**50,864**	—

b. Balances due from (to) related parties

	Group		**Company**	
	2000 **RMB'000**	1999 RMB'000	**2000** **RMB'000**	1999 RMB'000
Balance due from holding company (Note ii)	**280,612**	—	**23,645**	—
Balances due from related companies				
— Shunde Cheung Tat (Note iii)	**121,429**	20,646	**—**	—
— Others (Note viii)	**75,333**	66,975	**12,634**	13,475
	196,762	87,621	**12,634**	13,475
Balance due to holding company	**—**	(32,435)	**—**	(87,722)
Balance due to related companies				
— Others	**(148)**	—	**—**	—

Except for prepayment paid to Xinxing in Note i, all balances with related parties are non-interest bearing, unsecured and has no fixed repayment terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

(Amounts expressed in Renminbi unless otherwise stated)

4. RELATED PARTY TRANSACTIONS *(Cont'd)*

Note i: The Company made prepayments amounting to an aggregate sum of RMB34,000,000 indirectly through its subsidiary, Chengdu Kelon to Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing"), which is an associate of Chengdu Engine (Group) Company Limited ("Chengdu Engine"), the minority investor of Chengdu Kelon. As consideration for such prepayment, Chengdu Xinxing has agreed to repay Chengdu Kelon by supplying an agreed number of refrigeration parts together with interest payments at an annual rate of approximately 9%. The prepayment was guaranteed by Chengdu Engine and Chengdu Kelon has the right to deduct from any dividends payable to Chengdu Engine the outstanding amount of any payments (in whatever form) due from Chengdu Xinxing directly or indirectly to the Company. As security for Chengdu Engine's performance of its obligations under the above guarantee, Chengdu Engine has charged its entire interests in Chengdu Kelon in favour of the Company.

Note ii: Under the licence agreement ("Licence Agreement") dated 6 July 1996 made between Guangdong Kelon (Rongsheng) Group Company Limited ("GKG"), the holding company of the Group, and the Company, GKG granted to the Company an exclusive right to use for the trademarks "Kelon" and "Rongsheng" for no consideration (i) as registered in the PRC and Hong Kong, and/or (ii) as may from time to time be registered and/or in respect of which applications for registration may be made with the trademarks registry of any other territory by GKG and/or (iii) all "Kelon" or "Rongsheng" trademark registrations as may be assigned to GKG from time to time on freezers, refrigerators and other similar or related products and such other products as may be requested by the Company from time to time which are not objected by GKG, on a worldwide basis, for a term equivalents to the period of validity of the relevant registration. GKG may use and, with the prior written consent of the Company, allow third party to use, such trademarks on production other than the types of products covered by the Licence Agreement. At present, the Group has used the trademarks of "Kelon" and "Rongsheng" on the refrigerators' products and "Kelon" on the air-conditioners products under the above-mentioned Licence Agreement.

Guangdong Kelon Refrigerator Co., Ltd ("Kelon Refrigerator"), Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-conditioner") and GKG have an agreement ("Cost Sharing Agreement") whereby GKG agreed to share part of the advertising and promotional costs incurred by Kelon Refrigerator and Kelon Air-conditioner in promoting the brand names of "Kelon" and "Rongsheng" which are owned by GKG as referred above. According to the Cost Sharing Agreement, GKG agreed to share advertising costs of RMB93,240,000 and RMB235,000,000 for 1999 and 2000 respectively.

The Group had made payments on behalf of GKG in the settlement of GKG's operating expenses. On the other hand, GKG also made payments on behalf of the Group in the settlement of the Group's purchase of material and other operating expenses.

As of 31 December 2000, long-term bank loan of RMB200,000,000 of the Company was guaranteed by GKG.

NOTES TO FINANCIAL STATEMENTS

31 December 2000

(Amounts expressed in Renminbi unless otherwise stated)

4. RELATED PARTY TRANSACTIONS *(Cont'd)*

Note iii: The Group sold refrigerators to Shunde Cheung Tat Household Appliance Co. Ltd ("Shunde Cheung Tat"). Shunde Cheung Tat is a PRC registered company and obtained significant financial support from GKG. For the year ended 31 December 2000, the sale of refrigerators to Shunde Cheung Tat amounted to RMB246,178,000 (1999 — RMB342,005,000). Prior to 31 December 2000, the Group entered into agreement and bought back certain unsold refrigerators from Shunde Cheung Tat for RMB98,292,000. The amount represents the lower of cost and net realisable value of the unsold refrigerators at the time of buy-back. As of 31 December 2000, the balance due from Shunde Cheung Tat amounted to approximately RMB121,429,000 (1999 — RMB20,646,000), which is non-interest bearing, unsecured and is due for payment within one year.

Note iv: The Group engaged Kelon Advertising Company ("Kelon Advertising") as one of its advertising agency. Kelon Advertising Company is a wholly-owned subsidiary of GKG. For the year ended 31 December 2000, the Group made payment of RMB88,065,000 (1999 — RMB18,723,000) to Kelon Advertising in connection with advertising activities in respect of Kelon brands.

Note v: Shunde Kelon Household Electrical Appliance Limited ("Shunde Kelon") is a company which is 75% and 25% held by GKG and the Company, respectively. During the year ended 31 December 2000, Shunde Kelon purchased refrigerators and air-conditioners from the Group and sold them in the market. During the year ended 31 December 2000, the total sale amount of the Group to Shunde Kelon amounted to approximately RMB2,096,000.

Note vi: Shunde Huaao Electrical Company Limited ("Shunde Huaao") is a subsidiary of GKG, the holding company of the Group.

Note vii: Guangdong Sanyo-Kelon Refrigerator Co., Ltd. ("Guangdong Sanyo-Kelon") and Chongqing Kelon Electrical Appliance Company Limited ("Chongqing Kelon") are associates of the Group (Note 2).

Note viii: The Group has advanced money to certain related parties of GKG. The advances outstanding from these related parties as of 31 December, 2000 amounted to approximately RMB28,551,000 (1999 — RMB18,111,000). All of these advances are guaranteed by GKG.

Note ix: Kelon Air-Conditioner is a 60% owned subsidiary of the Company. The minority shareholder of Kelon Air-Conditioner is Grand Moment Investments Holdings Limited, a company incorporated in the British Virgin Islands, which is 37.5% held by GKG. One of the non-executive director of the Company is also a director of Grand Moment Investments Holdings Limited.

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4. RELATED PARTY TRANSACTIONS *(Cont'd)*

Note x: Kelon Development Company Limited ("KDC"), a subsidiary of the Company, had entered into an agreement with Qin Jia Yuan Shares Company Limited ("QJY") on 23 September 2000 regarding the subscription of shares by KDC in Communication and You Holdings Company Limited ("C&Y") as well as setting out the respective rights and obligations of QJY and KDC as shareholders of C&Y and setting out the basis on which the business and affairs of C&Y would be managed and controlled.

C&Y is principally engaged in the media advertising and marketing business, including but not limited to:

(a) the provision of production support on audio-visual program;

(b) marketing of shows to overseas broadcasting entities;

(c) provision of promotion, public relations, advertising consultancy services to advertisers and factory owners;

(d) production of special audio-visual programmes for advertisers and factory owners; and

(e) obtaining advertising air time from various media and selling such air time to advertising clients.

In accordance with the agreement, KDC subscribed for 25 shares in C&Y at a consideration of HK$12,000,000 and QJY subscribed for 73 shares in C&Y at a consideration of HK$2,000,000 and the assignment of certain advertising and business contracts to C&Y. QJY also acquired 1 share in C&Y from each of C&Y's initial subscribers for cash at par.

KDC also agreed with C&Y to purchase HK$20,000,000 worth of advertisement and/or sponsorship air time. As of 31 December 2000, no payment has been made to C&Y on the advertising fee.

As the sole shareholder of QJY is the spouse of Dr. Philip Yu Hong Wong, a non-executive director of the Company, QJY is a connected person of the Company under the Listing Rules.

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5. OTHER REVENUE

Other revenue consisted of:

	2000 RMB'000	1999 RMB'000
Sales of scrap materials	**12,537**	21,721
VAT refund (Note i)	—	80,463
VAT and income tax refund on sales of national new products (Note ii)	—	61,231
Subsidy for electricity charges	—	913
Other tax benefits	—	1,216
Grant from United Nations	—	5,308
Others	**175**	29,446
	12,712	200,298

Note i: On 1 January 1994, a new system on Value-added Tax ("VAT") was introduced by the PRC government to replace the old Industrial and Commercial Consolidated Tax ("ICCT") system. According to the prevailing tax regulations, excess tax burden borne by the Company due to the change of ICCT system to VAT system during the period from 1 January 1994 to 31 December 1998 was subject to refund. VAT refund for the year ended 31 December 1999 represented the remaining portion of the VAT refund relating to 1998. There was no VAT refund during the year ended 31 December 2000.

Note ii: Pursuant to the document (Yue Ke Cheng Zi [1999] 68) issued by the Guangdong Finance Bureau, Guangdong Provincial Science and Technology Committee, Guangdong State Tax Bureau and Guangdong Local Tax Bureau, non-CFC refrigerators produced by the Company was granted the status of national new product. Accordingly the net VAT payable retained by local authorities and EIT paid relating to the operating results of these refrigerators business for the year ended 31 December 1998 is subject to refund. During the year ended 31 December 1999, tax refund relating to the non-CFC refrigerators sold during the year ended 31 December 1998 approximately RMB61,231,000 had been approved by the Finance Bureau and recorded in income statement. There was no tax refund on sales of national new products during the year ended 31 December 2000.

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6. DISTRIBUTION COSTS

Distribution costs consisted of:

	2000 RMB'000	1999 RMB'000
Staff costs	**112,815**	63,767
Depreciation	**6,183**	1,582
Advertising costs	**227,848**	267,871
Transportation costs	**111,530**	134,312
Installation costs	**110,979**	83,513
Warranty costs	**143,912**	85,523
Insurance expenses	**7,678**	5,072
Storage costs	**27,201**	27,378
Entertainment expenses	**19,660**	20,801
Others	**150,390**	66,884
	918,196	756,703

7. ADMINISTRATIVE EXPENSES

Administrative expenses consisted of:

	2000 RMB'000	1999 RMB'000
Staff costs	**145,009**	146,360
Provision for inventory obsolescence	**163,067**	43,929
Provision for doubtful accounts	**59,620**	14,286
Pension costs	**14,724**	14,707
Depreciation	**105,315**	85,004
Amortisation of goodwill	**10,197**	6,191
Repairing costs	**3,490**	4,730
Research and development costs	**30,270**	14,422
Auditors' remuneration	**3,674**	1,548
Others	**100,740**	76,077
	636,106	407,254

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8. PERSONNEL EXPENSES AND AVERAGE NUMBER OF EMPLOYEES

Personnel expenses consisted of:

	2000	1999
	RMB'000	RMB'000
Wages and salaries		
— capitalised as cost of inventories	**98,078**	109,585
— included in distribution costs	**112,815**	63,767
— included in administrative expenses	**145,009**	146,360
Pension costs	**14,724**	14,707
	370,626	334,419

Substantially all of the Group's employees are located in the PRC. Average number of employees for the year was:

	2000	1999
Employees located in the PRC	**8,550**	7,514
Employees located in countries outside the PRC	**35**	54
	8,585	7,568

9. DEPRECIATION AND AMORTISATION

During the year ended 31 December 2000, the Group had depreciation and amortisation expenses of approximately RMB407,094,000 (1999 — RMB325,422,000) which were analysed as follows:

	2000	1999
	RMB'000	RMB'000
Depreciation expenses capitalised as cost of inventories	**285,399**	232,645
Depreciation expenses included as distribution costs	**6,183**	1,582
Depreciation and amortisation expenses included as administrative expenses	**115,512**	91,195
	407,094	325,422

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10. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' and senior executives' emoluments were as follows:

	2000 **RMB'000**	1999 RMB'000
Fees for executive directors	**699**	884
Fees for non-executive directors	**120**	90
Fees for supervisors	**—**	—
Other emoluments for executive directors		
— Basic salaries and allowances	**589**	884
— Bonus	**—**	8,800
— Retirement benefits	**15**	53
— Others	**2,096**	345
Other emoluments for non-executive directors	**—**	—
Other emoluments for supervisors	**1,012**	2,233
	4,531	13,289

None of the directors waived any emoluments during the year.

b. Analysis of directors' emoluments by number of directors and emolument ranges was as follows:

	2000	1999
Executive directors		
— Nil to RMB1,000,000	**5**	—
— RMB1,000,001 to RMB1,500,000	**—**	—
— RMB1,500,001 to RMB2,000,000	**—**	2
— RMB2,000,001 to RMB2,500,000	**—**	3
Non-executive directors		
— Nil to RMB1,000,000	**4**	4
	9	9

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10. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Cont'd)*

c. Details of emoluments paid to the five highest paid individuals (including directors and employees) were as follows:

	2000	1999
	RMB'000	RMB'000
Basic salaries and allowances	**5,105**	2,793
Bonus	**—**	8,900
Retirement benefits	**15**	130
Others	**107**	359
	5,227	12,182

	2000	1999
Number of directors	**3**	3
Number of employees	**2**	2
	5	5

During the year, no emolument was paid to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

d. Analysis of emoluments paid to the five highest paid individuals (including directors and employees) by number of individuals and emolument ranges was as follows:

	2000	1999
	RMB'000	RMB'000
Nil to RMB1,000,000	**3**	—
RMB1,000,001 to RMB1,500,000	**2**	—
RMB2,000,001 to RMB2,500,000	**—**	4
RMB3,500,001 to RMB4,000,000	**—**	1
	5	5

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11. OTHER OPERATING EXPENSES

Other operating expenses consisted of:

	2000 RMB'000	1999 RMB'000
Loss on disposals of fixed assets	**5,544**	6,531
Others	**8,443**	11,161
	13,987	17,692

12. FINANCE COSTS

Finance costs consisted of:

	2000 RMB'000	1999 RMB'000
Interest expenses on		
— bank overdrafts and bank borrowings wholly repayable within five years	**49,261**	80,270
— bank borrowings not wholly repayable within five years	**4,383**	451
— discounted notes receivable	**25,031**	12,130
Interest income	**(12,578)**	(24,593)
Net exchange losses (gains)	**3,672**	(570)
Others	**3,262**	4,573
	73,031	72,261

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13. TAXATION

Taxation consisted of:

	2000 RMB'000	1999 RMB'000
Company and subsidiaries		
PRC enterprise income tax	**5,429**	6,380
Hong Kong profits tax	**—**	788
Overseas tax	**65**	68
	5,494	7,236
Associates		
PRC enterprise income tax	**2,331**	—
	7,825	7,236

Major components of tax expense are as follows:

	2000 RMB'000	1999 RMB'000
Tax expense at the domestic rate of 24%	**(243,268)**	163,683
Effect of tax losses of individual companies	**257,749**	—
Tax effect of income not assessable and expense not deductible for tax purposes	**(396)**	(9,789)
Effect of preferential tax treatment applicable to the Company and its PRC subsidiaries	**(10,870)**	(146,264)
Effect of different tax rates in overseas countries	**12**	(394)
Under-provision in prior years	**4,598**	—
	7,825	7,236

The Company is established in Shunde, Guangdong Province. It is subject to an enterprise income tax ("EIT") at a rate of 24% which is applicable to enterprises located in coastal open economic zone. As the Company is designated as a key enterprise in Guangdong Province, pursuant to the document Yue Fu Han [1997] 157 issued by Guangdong Provincial Government, the Company is entitled to a preferential EIT rate of 15% for the year ended 31 December 2000. The Company has not been informed of any change in the preferential EIT treatment applicable to the Company and considers that any change in the preferential tax treatment will not have material impact to the Company.

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13. TAXATION *(Cont'd)*

The Group's subsidiaries, Guangdong Kelon Refrigerator Co., Ltd, Guangdong Kelon Air-Conditioner Co., Ltd, Shunde Rongsheng Plastic Products Co., Ltd and Guangdong Kelon Mould Co., Ltd, are subject to an EIT rate of 24%. Pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", they are entitled to preferential tax treatment with full exemption from EIT for two years starting from the first profitable year of operations, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction in tax rate for the next three years. For the years ended 31 December 1999 and 2000, Shunde Rongsheng Plastic Products Co., Ltd. and Guangdong Kelon Mould Co. Ltd. were subject to an EIT rate of 12% and 7.5% respectively. Guangdong Kelon Refrigerator Co., Ltd. and Guangdong Kelon Air-Conditioner Co., Ltd. were exempt from EIT.

Chengdu Kelon Refrigerator Co., Ltd. and Yingkou Kelon Refrigerator Co., Ltd. are also entitled to preferential tax treatment, with full exemption from income tax for two years starting from the first profitable year of operations, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction in tax rate for the next three years according to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises". Chengdu Kelon Refrigerator Co., Ltd. was exempt from EIT in 1999 and 2000. Yingkou Kelon Refrigerator Co., Ltd. was exempt from EIT in 1999 and was subject to an EIT rate of 12% in 2000.

Hong Kong profits tax for the Company's subsidiaries in Hong Kong has been provided at a rate of 16% (1999-16%) on estimated assessable profit which was earned in or derived from Hong Kong.

As of 31 December 2000, deferred tax assets not recognised in the financial statements were analysed into:

	2000 **RMB'000**	1999 RMB'000
Accelerated depreciation allowances	**(1,346)**	(2,216)
Tax losses	**129,367**	3,047
Fixed assets revaluation	**(3,321)**	(5,107)
	124,700	(4,276)

14. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders for the year ended 31 December 2000 included loss of approximately RMB82,083,000 (1999 — profit of RMB84,978,000) dealt with in the financial statements of the Company.

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15. PRIOR YEAR ADJUSTMENTS

In accordance with the revised IAS 10 "Events After the Balance Sheet Date", dividends proposed or declared after the balance sheet date are no longer permitted to be recognised as a liability as at the balance sheet date. This change in accounting policy has been applied retrospectively with the result that the retained earnings of the Group and the Company as at 31 December 1998 and 1999 were increased by approximately RMB188,749,000 and RMB212,289,000, respectively, representing the dividends declared by the Company after the respective balance sheet dates.

In addition, prior to 1 January 2000, expenditures incurred prior to commencement of business operations of individual subsidiaries and certain of the pension costs are deferred and amortised on a straight-line basis over a period of five and twenty years, respectively. With the adoption of IAS 38 "Intangible Assets" for the year ended 31 December 2000, the Group changed its accounting policy whereby all pre-operating expenditures and pension costs are expensed as incurred.

The effect of changes in accounting policies had been accounted for retrospectively as prior year adjustments as follows:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Retroactive effect of change of accounting policies on beginning retained earnings				
— dividends	**212,289**	188,749	**212,289**	188,749
— write-off of pre-operating expenditures	**(13,267)**	(17,167)	**—**	—
— write-off of deferred pension costs	**(10,875)**	(11,625)	**(10,875)**	(11,625)
	188,147	159,957	**201,414**	177,124

Had the accounting policies of the Group remained the same as those in the prior years, the Group's profit attributable to shareholders for the year ended 31 December 1999 would have decreased by approximately RMB4,650,000 and loss attributable to shareholder of the Group for the year ended 31 December 2000 would have increased by approximately RMB5,881,000, representing amortisation of pre-operating expenditure and deferred pension costs.

16. (LOSS) EARNINGS PER SHARE

The calculation of (loss) earnings per share on a weighted average basis is based on the consolidated loss attributable to shareholders of approximately RMB688,001,000 (1999: profit of RMB632,771,000) and on the weighted average number of 992,007,000 shares (1999 — 943,486,003 shares) in issue during the year.

No diluted earnings per share is presented as there was no diluted potential ordinary shares outstanding during the year.

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17. FIXED ASSETS

	Group							
	2000							1999
	Land and buildings in the PRC RMB'000	**Land and buildings in Hong Kong RMB'000**	**Land and buildings in Japan RMB'000**	**Plant, machinery and equipment RMB'000**	**Mould RMB'000**	**Motor vehicles RMB'000**	**Total RMB'000**	Total RMB'000
Cost/Valuation								
Beginning of year	**1,491,459**	**134,744**	**43,984**	**2,019,714**	**441,279**	**93,042**	**4,224,222**	3,149,941
Effect of acquisition of subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	106,500
Additions	**16,489**	**13,176**	**—**	**129,209**	**101,434**	**4,819**	**265,127**	913,585
Transfer from construction-in-progress(Note 18)	**1,550**	**—**	**—**	**8,345**	**—**	**133**	**10,028**	73,941
Disposals	**(209)**	**(4,767)**	**—**	**(14,881)**	**—**	**(1,691)**	**(21,548)**	(19,745)
Translation adjustment	**—**	**(655)**	**(1,814)**	**(1,129)**	**—**	**(445)**	**(4,043)**	—
End of year	**1,509,289**	**142,498**	**42,170**	**2,141,258**	**542,713**	**95,858**	**4,473,786**	4,224,222
Representing:								
At cost	**751,346**	**122,816**	**42,170**	**1,292,992**	**542,713**	**78,687**	**2,830,724**	2,564,381
At valuation	**757,943**	**19,682**	**—**	**848,266**	**—**	**17,171**	**1,643,062**	1,659,841
	1,509,289	**142,498**	**42,170**	**2,141,258**	**542,713**	**95,858**	**4,473,786**	4,224,222
Accumulated depreciation								
Beginning of year	**(208,074)**	**(4,166)**	**(780)**	**(700,001)**	**(296,511)**	**(43,684)**	**(1,253,216)**	(941,259)
Effect of acquisition of subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	(461)
Charge for the year	**(57,634)**	**(16,856)**	**(628)**	**(228,527)**	**(81,808)**	**(11,444)**	**(396,897)**	(319,231)
Written back on disposals	**22**	**588**	**—**	**7,738**	**—**	**1,537**	**9,885**	7,735
Translation adjustment	**—**	**21**	**(145)**	**(36)**	**—**	**286**	**126**	—
End of year	**(265,686)**	**(20,413)**	**(1,553)**	**(920,826)**	**(378,319)**	**(53,305)**	**(1,640,102)**	(1,253,216)
Net book value								
End of year	**1,243,603**	**122,085**	**40,617**	**1,220,432**	**164,394**	**42,553**	**2,833,684**	2,971,006
Beginning of year	**1,283,385**	**130,578**	**43,204**	**1,319,713**	**144,768**	**49,358**	**2,971,006**	2,208,682

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts of each class of fixed assets would have been included at the following amounts:

	Group							
	2000							1999
	Land and buildings in the PRC RMB'000	**Land and buildings in Hong Kong RMB'000**	**Land and buildings in Japan RMB'000**	**Plant, machinery and equipment RMB'000**	**Mould RMB'000**	**Motor vehicles RMB'000**	**Total RMB'000**	Total RMB'000
Cost	**1,179,740**	**147,325**	**42,170**	**1,948,066**	**542,713**	**92,589**	**3,952,603**	3,703,039
Accumulated depreciation	**(158,965)**	**(20,645)**	**(1,553)**	**(791,959)**	**(378,319)**	**(49,389)**	**(1,400,830)**	(1,049,254)
	1,020,775	**126,680**	**40,617**	**1,156,107**	**164,394**	**43,200**	**2,551,773**	2,653,785

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17. FIXED ASSETS *(Cont'd)*

	Company					
	2000					1999
	Land and buildings RMB'000	Plant, machinery and equipment RMB'000	Moulds RMB'000	Motor vehicles RMB'000	Total RMB'000	Total RMB'000
Cost/Valuation						
Beginning of year	1,044,365	850,258	30,931	42,761	1,968,315	1,464,215
Additions	9,030	12,557	34,456	—	56,043	774,867
Transfer from construction-in-progress (Note 18)	—	54	—	—	54	52,488
Transfer to group companies	—	(164,632)	—	(22,285)	(186,917)	(92,143)
Disposals	—	(3,167)	—	(188)	(3,355)	(231,112)
End of year	1,053,395	695,070	65,387	20,288	1,834,140	1,968,315
Representing:						
At cost	506,402	455,418	65,387	6,750	1,033,957	1,164,776
At valuation	546,993	239,652	—	13,538	800,183	803,539
	1,053,395	695,070	65,387	20,288	1,834,140	1,968,315
Accumulated depreciation						
Beginning of year	(147,247)	(280,023)	(9,310)	(23,152)	(459,732)	(494,567)
Charge for the year	(37,414)	(66,416)	(16,860)	(2,558)	(123,248)	(96,190)
Transfer to group companies	—	63,413	—	11,639	75,052	—
Written back on disposals	—	1,766	—	179	1,945	131,025
End of year	(184,661)	(281,260)	(26,170)	(13,892)	(505,983)	(459,732)
Net book value						
End of year	868,734	413,810	39,217	6,396	1,328,157	1,508,583
Beginning of year	897,118	570,235	21,621	19,609	1,508,583	969,648

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17. FIXED ASSETS *(Cont'd)*

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts of each class of fixed assets would have been included at the following amounts:

	Company					
	2000					1999
	Land and buildings RMB'000	**Plant, machinery and equipment RMB'000**	**Moulds RMB'000**	**Motor vehicles RMB'000**	**Total RMB'000**	Total RMB'000
Cost	**734,771**	**541,842**	**65,387**	**17,281**	**1,359,281**	1,493,455
Accumulated depreciation	**(73,577)**	**(158,214)**	**(26,170)**	**(10,094)**	**(268,055)**	(252,748)
	661,194	**383,628**	**39,217**	**7,187**	**1,091,226**	1,240,707

Land and buildings comprised land use rights, factories and office buildings, and staff quarters situated in the PRC, Hong Kong and Japan.

All land in the PRC is state-owned and no individual land ownership right exists. The land use rights owned by the Company were granted by the relevant PRC authorities for a period of 50 years.

On 31 May 1993 and 30 April 1996, the Group's land and buildings, plant and machinery and motor vehicles were valued by AA Property Services Ltd. and Sallmanns (Far East) Ltd., independent valuers, respectively, using replacement cost approach and open market value approach.

Land and buildings in Hong Kong with net book value of approximately RMB110,440,000 (1999 -RMB115,712,000) and RMB11,645,000 (1999 — RMB14,866,000) were held under long-term leases and medium-term leases, respectively. Land and building in Japan were held under a lease with a term of 10 years.

Production lines, land use right and buildings with net book value of approximately RMB38,378,000 (1999 — RMB47,000,000) were mortgaged as security for the Group's short-term bank loans (Note 26). Land and buildings with a net book value of approximately RMB118,820,000 (1999 — RMB127,228,000) were mortgaged as security for the Group's long-term bank loans (Note 27).

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18. CONSTRUCTION-IN-PROGRESS

Movement in construction-in-progress were as follows:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of year	**15,940**	60,495	**10,679**	47,342
Additions	**27,762**	36,820	**16,197**	18,846
Transfer to fixed assets (Note 17)	**(10,028)**	(73,941)	**(54)**	(52,488)
Transfer to other assets	**(7,503)**	(7,434)	**(7,195)**	(3,021)
End of year	**26,171**	15,940	**19,627**	10,679

No capitalised interest was included in the balance of construction-in-progress.

19. INVESTMENTS IN SUBSIDIARIES

In the Company's balance sheet, investments in subsidiaries consisted of:

	2000	1999
	RMB'000	RMB'000
Unlisted shares, at cost	**753,792**	721,157
Due from subsidiaries (Note i)	**2,042,932**	965,109
	2,796,724	1,686,266

Note i: The Company has entered into management agreement with Guangdong Kelon Air-Conditioner Co., Ltd. in 2000. In accordance with the agreement, Guangdong Kelon Air-Conditioner Co., Ltd. is required to reimburse management overhead expenses and interest cost to the Company for the use of the Company's resources and funds for its operation. The management fee and interest costs charged by the Company to Guangdong Kelon Air-Conditioner Co., Ltd. in 2000 amounted to RMB125,000,000.

Except for the transaction above, the balances with subsidiaries were unsecured, non-interest bearing and had no fixed repayment date.

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20. INVESTMENTS IN ASSOCIATES

Investments in associates consisted of:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Investment in associates, at cost	**375,060**	362,140	**362,140**	362,140
Goodwill on acquisition	**(137,346)**	(137,346)	**—**	—
Share of results of associates	**(95,912)**	(104,280)	**—**	—
Provision for impairment in value	**—**	—	**(104,280)**	(104,280)
Due from associates	**6,317**	11,051	**—**	14,224
	148,119	131,565	**257,860**	272,084

21. GOODWILL

Movements in goodwill were as follows:

	Group	
	2000	1999
	RMB'000	RMB'000
Cost		
Beginning of year	**203,942**	66,596
Addition	**—**	137,346
End of year	**203,942**	203,942
Accumulated amortisation		
Beginning of year	**6,746**	555
Charge for the year	**10,197**	6,191
End of year	**16,943**	6,746
Net book value		
End of year	**186,999**	197,196
Beginning of year	**197,196**	66,041

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(Amounts expressed in Renminbi unless otherwise stated)

22. OTHER ASSETS

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Properties for resale (Note i)	**23,912**	23,912	**23,912**	23,912
Long-term investments	**9,461**	8,074	**9,249**	7,249
Others	**6,701**	38,629	**—**	29,248
	40,074	70,615	**33,161**	60,409

Note i: Properties for resale are held by the Company in relation to its employee housing scheme. The Company has an incentive scheme with the objective of retaining middle management and technical staff. Under the scheme, the Company can at its discretion sell residential flats to the employees selected by the Company at book value. The employees pay the purchase price by monthly instalments for ten years. Such monthly installments carried no interest element before 1997 but was subsequently revised so that effective 1997 they all carried interest charges. The monthly installments are deducted automatically from the employees' monthly salaries. Title of the properties will remain with the Company until the instalments are fully paid by the employees. If an employee leaves the Company or is dismissed by the Company during the repayment period, the instalment payments already made by the employee will be treated as rental payment with no refund of instalment payments.

As of 31 December 2000, a total of 571 (1999-311) employees participated in this scheme. During the year ended 31 December 2000, no employees had fully paid the instalments and accordingly the titles of the properties remained with the Company.

23. ACCOUNTS RECEIVABLE

There was no specific credit terms granted to the Group's customers. As of 31 December 2000, the age of accounts receivable was analysed as follows:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**219,961**	607,200	**6,424**	435,126
Over one year	**81,008**	56,987	**—**	48,321
	300,969	664,187	**6,424**	483,447
Less: Provision for doubtful accounts	**(159,056)**	(99,436)	**—**	(81,256)
	141,913	564,751	**6,424**	402,191

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24. INVENTORIES

Inventories consisted of:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**435,023**	811,785	**3,326**	154,360
Work-in-progress	**69,243**	77,668	**4,879**	17,022
Finished goods	**1,430,914**	670,902	**12,981**	171,368
	1,935,180	1,560,355	**21,186**	342,750
Less: Provision for inventory obsolescence	**(198,539)**	(76,216)	**—**	(22,216)
	1,736,641	1,484,139	**21,186**	320,534

The cost of inventories (excluding provision for slow-moving and obsolete inventory) recognised as expense during the year ended 31 December 2000 amounted to approximately RMB3,265,210,000 (1999 — RMB3,862,254,000). As of 31 December 2000, inventories amounting to approximately RMB721,063,000 (1999 — RMB149,879,000) were recorded at net realisable value.

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Deposits, prepayments and other receivables consisted of:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayment for purchase of raw materials	**110,650**	36,698	**21,216**	25,585
Prepayment for purchase of fixed assets	**20,033**	20,146	**713**	9,015
Value-added tax refundable in respect of export sales	**48,456**	10,991	**7,659**	7,659
Others	**5,685**	157,200	**27,962**	98,077
	184,824	225,035	**57,550**	140,336

NOTES TO FINANCIAL STATEMENTS

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26. SHORT-TERM BANK LOANS

All short-term bank loans bore interests at prevailing market interest rates. Trust receipt and import loans were secured by floating charges on the Group's inventories released under such loans. Bank loans, together with other banking facilities, were secured by mortgage of production line, land use right and properties with net book value amounting to approximately RMB38,378,000 (1999 — RMB47,000,000) (Note 17) and guaranteed by certain of the Group's subsidiaries.

27. LONG-TERM BANK LOANS

Long-term bank loans consisted of:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Total outstanding bank loans repayable:				
Within one year	**19,777**	17,343	**—**	—
Between one and two years	**204,910**	207,548	**200,000**	200,000
Between two and five years	**17,419**	7,229	**—**	—
After five years	**14,977**	2,344	**—**	—
	257,083	234,464	**200,000**	200,000
Less: amounts repayable within one year included in current liabilities	**(19,777)**	(17,343)	**—**	—
Non-current portion	**237,306**	217,121	**200,000**	200,000

The Company's long-term bank loans of RMB200,000,000 bore annual interests at rates of 4.77% (1999-5.94%), and was guaranteed by GKG. The Group's other long-term bank loans of RMB57,083,000 (1999: RMB34,464,000) bore annual interests at rates ranging from 8.625% to 12.25% per annum, and were secured by land and buildings in Hong Kong (see Note 17).

NOTES TO FINANCIAL STATEMENTS

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27. LONG-TERM BANK LOANS *(Cont'd)*

Details of long-term bank loans as of 31 December 2000 were:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured				
Bank loan at fixed interest rate of 12% per annum maturing in 2000	**—**	174	**—**	—
Bank loans at fixed interest rate of 5.94% per annum maturing in 2001	**—**	200,000	**—**	200,000
Bank loan at floating interest rate with average rate for the year of 10.75% per annum maturing in 2001	**—**	20,716	**—**	—
Bank loan at fixed interest rate of 4.77% per annum maturing in 2002	**200,000**	—	**200,000**	—
Bank loan at fixed interest rate of 9.125% to 9.25% per annum maturing in 2004	**4,784**	5,796	**—**	—
Bank loan at floating interest rate with average rates for the year of 11.25% to 11.5% per annum maturing in 2004	**839**	1,028	**—**	—
Bank loan at floating interest rates with average rates for the year of 10.94% to 12.25% per annum maturing in 2006	**1,639**	3,885	**—**	—
Bank loan at floating interest rates with average rate for the year of 9.375% per annum maturing in 2007	**39,289**	—	**—**	—
Bank loans at floating interest rates with average rates for the year of 8.625% to 9% per annum maturing in 2007	**7,939**	2,865	**—**	—
Bank loan at floating rate with average rate for the year of 9.125% per annum maturing in 2008	**2,593**	—	**—**	—
	257,083	234,464	**200,000**	200,000

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27. LONG-TERM BANK LOANS *(Cont'd)*

Repayment of long-term bank loans were scheduled as follows:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
2000	**—**	17,343	**—**	—
2001	**19,777**	207,548	**—**	200,000
2002	**204,910**	2,303	**200,000**	—
2003	**5,404**	2,531	**—**	—
2004	**5,797**	2,395	**—**	—
2005	**6,218**	1,159	**—**	—
Thereafter	**14,977**	1,185	**—**	—
	257,083	234,464	**200,000**	200,000

28. ACCOUNTS PAYABLE

As of 31 December 1999 and 2000, all of the Group's accounts payable were aged for less than one year.

29. ISSUED CAPITAL

Issued capital consisted of:

	2000		1999	
	Number of shares	**Nominal value RMB**	Number of shares	Nominal value RMB
PRC domestic shares of RMB1 each, held by GKG in form of legal person shares	**337,915,755**	**337,915,755**	337,915,755	337,915,755
PRC domestic shares, of RMB1 each, held by employees	**84,501,000**	**84,501,000**	84,501,000	84,501,000
H shares, of RMB1 each	**459,589,808**	**459,589,808**	459,589,808	459,589,808
A shares, of RMB1 each	**110,000,000**	**110,000,000**	110,000,000	110,000,000
	992,006,563	**992,006,563**	992,006,563	992,006,563

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30. RESERVES

According to the Articles of Association of the Company, when distributing net profit of each year, the Company shall set aside 10% of its after tax profits for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% of after tax profits for the statutory common welfare fund. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividend.

In accordance with the Articles of Association of the Company, the retained earnings of the Company for the purpose of profit distribution will be deemed to be the lesser of (a) the amount determined in accordance with PRC accounting principles and financial regulations and (b) the amount determined in accordance with IAS.

For the year ended 31 December 2000, the directors resolved not to make appropriations to the statutory reserves (1999 — RMB102,000,000).

As of 31 December 2000, approximately RMB217,882,000 (1999- RMB512,254,000) of the Company's reserves were available for distribution to its shareholders.

31. MINORITY INTERESTS

As of 31 December 2000, cumulative losses applicable to the minority interest of one of the Group's subsidiary exceeded the minority interest in the equity of the subsidiary ("the excess loss") by approximately RMB158,115,000. Management is currently in discussion with the minority shareholder and believes that the minority shareholder will ultimately make additional financial contribution to absorb the excess loss, and accordingly, has charged the excess loss to the minority interest in the Group's 31 December 2000 consolidated financial statements.

32. DIVIDENDS

Dividends consisted of:

	2000 RMB'000	1999 RMB'000
1998 — Final dividends (RMB0.214 per share)	**—**	188,749
1999 — Final dividends (RMB0.214 per share)	**212,289**	—
	212,289	188,749

The Company declares dividends based on the lower of retained earnings as reported in the statutory accounts and the financial statements prepared under IAS. As the statutory accounts have been prepared on an accounting basis other than IAS, the retained earnings as reported in the statutory accounts are different from the amount reported in the accompanying consolidated income statement.

For the year ended 31 December 2000, the directors resolved not to pay any dividend.

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(Amounts expressed in Renminbi unless otherwise stated)

33. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of (loss) profit before tax but after minority interest to net cash inflow (outflow) from operating activities:

	2000	1999
	RMB'000	RMB'000
(Loss) Profit before tax but after minority interests	**(680,176)**	640,007
Adjustments for:		
Minority interests	**(333,440)**	42,007
Depreciation	**396,897**	319,231
Loss on disposal of fixed assets	**5,544**	6,531
Share of profit of associates	**(10,699)**	—
Provision for doubtful accounts	**59,620**	14,286
Provision for obsolescence	**163,067**	43,929
Interest income	**(12,578)**	(24,593)
Interest expenses	**78,675**	92,851
Amortisation of goodwill	**10,197**	6,191
	(322,893)	1,140,440
Decrease (Increase) in due from associates	**4,734**	(6,885)
Decrease (Increase) in notes receivable	**705,753**	(470,675)
Decrease (Increase) in accounts receivable	**363,218**	(136,311)
Increase in inventories	**(415,569)**	(296,663)
Increase in due from holding company	**(280,612)**	—
Increase in due from related companies	**(109,141)**	(79,501)
Decrease in deposits, prepayments and other receivables	**40,211**	124,368
Increase in value-added tax recoverable	**(134,481)**	(43,387)
Increase on notes payable	**216,355**	—
Increase in trade deposit from customers	**465,251**	—
Increase (Decrease) in accounts payable	**252,050**	(560,441)
Increase in accruals and other payables	**341,620**	25,056
Increase in warranty provision	**23,519**	—
Decrease in value-added tax payable	**—**	(186,175)
Decrease in business tax payable	**(1,738)**	(2)
(Decrease) Increase in other tax payable	**(4)**	106
(Decrease) Increase in due to holding company	**(32,435)**	35,312
Increase in due to related companies	**148**	—
(Decrease) Increase in pension liabilities	**(6,549)**	21,142
Net cash inflow (outflow) from operating activities	**1,109,437**	(433,616)

NOTES TO FINANCIAL STATEMENTS

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34. IMPACT OF IAS ADJUSTMENTS ON CONSOLIDATED (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS/NET ASSETS

	Consolidated (loss) profit attributable to shareholders for the year ended 31 December		**Consolidated net assets as of 31 December**	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
As reported in management accounts of the Group	**(678,419)**	643,584	**4,134,257**	4,815,211
Impact of IAS adjustments:				
— Adjustments on fixed assets revaluation surplus and related depreciation	**(15,463)**	(15,463)	**32,534**	47,997
— Adjustment in respect of dividends	**—**	—	**—**	212,289
— Adjustment on the write-off of pre-operating expenses and capitalised pension costs in accordance with IAS 38	**5,881**	4,650	**(18,261)**	(24,142)
As restated for the Group	**(688,001)**	632,771	**4,148,530**	5,051,355

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31 December 2000

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35. SEGMENTAL INFORMATION

Analysis of financial information by business segment is as follow:

	Refrigerator business		Air-Conditioners business		Manufacture and sales of product components		Others		Elimination		Consolidated	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999	**2000**	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
External sales	**2,149,213**	3,419,731	**1,574,493**	2,155,862	**29,555**	1,588	**116,242**	20,699			**3,869,503**	5,597,880
Inter-segment sales	**4,033**	118,033	**–**	25,199	**499,741**	217,865	**16,400**	49,943	**(520,174)**	(411,040)	**–**	—
Turnover	**2,153,246**	3,537,764	**1,574,493**	2,181,061	**529,296**	219,453	**132,642**	70,642			**3,869,503**	5,597,880
Segment results	**(204,501)**	579,189	**(507,973)**	51,711	**36,546**	27,456	**(23,921)**	2,588	**11,848**	(28,173)	**(688,001)**	632,771
Segment assets	**4,567,224**	4,828,690	**1,716,715**	1,814,994	**453,458**	479,418	**344,210**	363,915			**7,081,607**	7,487,017
Segment liabilities	**1,520,060**	1,062,246	**1,090,288**	761,914	**57,937**	40,487	**202,181**	141,288			**2,870,466**	2,005,935
Capital expenditure	**220,491**	823,396	**32,582**	16,205	**29,567**	4,618	**23,169**	14,986			**305,809**	859,205
Depreciation and amortisation	**235,383**	188,160	**140,005**	111,917	**6,167**	4,930	**25,539**	20,415			**407,094**	325,422
Other non-cash expenses												
— Provision for inventory obsolescence	**59,900**	7,929	**103,167**	36,000	**–**	—	**–**	—			**163,067**	43,929
— Provision for doubtful debts	**54,560**	8,286	**(2,000)**	6,000	**–**	—	**7,060**	—			**59,620**	14,286
Share of profit of associates	**10,699**	—	**–**	—	**–**	—	**–**	—			**10,699**	—
Investment in associates	**135,199**	131,565	**200**	—	**–**	—	**12,720**	—			**148,119**	131,565
Cash flows arising from												
— Operating activities	**749,905**	(402,194)	**389,851**	(72,520)	**(38,998)**	36,805	**8,679**	4,293			**1,109,437**	(433,616)
— Investing activities	**(182,736)**	(660,448)	**(31,927)**	(115,391)	**(26,202)**	(94,700)	**(20,781)**	(75,107)			**(261,646)**	(945,646)
— Financing activities	**(30,500)**	79,942	**(340,000)**	891,160	**–**	—	**(52,980)**	138,864			**(423,480)**	1,109,966

No segmental information by geographical location is presented because substantially all of the Group's activities are carried out in the PRC.

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36. COMMITMENTS

Commitments not provided for in the financial statements as of 31 December 2000 were as follows:

	Group RMB'000	Company RMB'000
Authorised and contracted for		
— Purchase of property, plant and machinery	13,297	—
— Purchase of advertisement and sponsorship air-time (Note 4x)	21,200	—

37. CONTINGENT LIABILITIES

	Group RMB'000	Company RMB'000
Notes receivable discounted	300,430	—
Guarantees for loan facilities granted to subsidiaries	—	393,686
	300,430	393,686

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and bank deposit, short-term borrowings and other current financial assets and liabilities approximate their fair value due to the short-term maturity of these instruments.

The carrying amount of the long-term bank loans approximate the fair value of these loans.

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39. CONCENTRATIONS OF RISK

a. Credit risk

The carrying amounts of cash and bank deposits, accounts receivables, notes receivable, balances with holding company and related companies, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's accounts receivable relate to sales of refrigerators and air-conditioners to third parties. The Group performs ongoing credit evaluation of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains a provision for doubtful accounts and actual losses have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

b. Interest rate risk

The interest rates and terms of repayment of short-term and long-term bank loans of the Group are disclosed in Note 26 and 27.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 27 April 2001.

NOTES TO FINANCIAL STATEMENTS

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41. PRIOR YEAR COMPARATIVE FIGURES

The 1999 comparative figures presented herewith have incorporated the effect of prior year adjustments set out in Note 15 above. In addition, certain of the 1999 comparative figures have been reclassified to conform to current year's presentation. Details of the reclassifications were as follows:

BALANCE SHEETS	Fixed assets RMB'000	Deposits for purchase of fixed assets RMB'000	Accounts receivables RMB'000	Due from related companies RMB'000	Prepayments, deposits and other receivables RMB'000	Trade deposits from customers RMB'000	Accruals and other payables RMB'000	Pension liabilities RMB'000
GROUP								
Balance as of 31 December 1999								
As previously reported	2,826,238	78,208	585,397	49,975	321,279	—	(361,851)	(125,393)
— Reclassification of moulds to fixed assets	144,768	—	—	—	(144,768)	—	—	—
— Reclassification of deposits for purchase of fixed assets to prepayments, deposits and other receivables	—	(78,208)	—	—	78,208	—	—	—
— Reclassification of balances due from related companies	—	—	(20,646)	37,646	(17,000)	—	—	—
— Reclassification of trade deposits from customers	—	—	—	—	—	(65,706)	65,706	—
— Reclassification of pension payments	—	—	—	—	(12,684)	—	10,988	1,696
As restated	2,971,006	—	564,751	87,621	225,035	(65,706)	(285,157)	(123,697)
COMPANY								
Balance as of 31 December 1999								
As previously reported	1,486,962	36,614	402,191	13,475	138,027	—	(228,999)	(122,112)
— Reclassification of moulds to fixed assets	21,621	—	—	—	(21,621)	—	—	—
— Reclassification of deposits for purchase of fixed assets to prepayments, deposits and other receivables	—	(36,614)	—	—	36,614	—	—	—
— Reclassification of trade deposits from customers	—	—	—	—	—	(28,490)	28,490	—
— Reclassification of pension payments	—	—	—	—	(12,684)	—	10,988	1,696
As restated	1,508,583	—	402,191	13,475	140,336	(28,490)	(189,521)	(120,416)

INCOME STATEMENT

	Turnover	Distribution costs	Administrative expenses	Other operating expenses
For the year ended 31 December 1999				
As previously reported	5,621,644	(780,467)	(399,378)	(30,218)
— Reclassification of sales discounts	(23,764)	23,764	—	—
— Reclassification of pension costs	—	—	(12,526)	12,526
— Effect of prior year adjustment (Note 15)	—	—	4,650	—
As restated	5,597,880	(756,703)	(407,254)	(17,692)

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42. NEWLY ISSUED ACCOUNTING STANDARD

International Accounting Standards Committee ("IASC") issued IAS 39, "Financial Instruments: Recognition and Measurement". IAS 39 establishes accounting and reporting standards for recognising, measuring and disclosing information about financial instruments. It requires all financial instruments, including derivatives, to be recognised as either assets or liabilities on the balance sheet and measured at fair value except for specified categories of financial instruments. The accounting for the gains or losses resulting from changes in the fair values of those financial instruments depends on the intended use of the financial instrument and whether they qualify for hedge accounting. The standard will become effective for fiscal years beginning on or after 1 January 2001. Based on the current assessment of the Group, the impact of the adoption of this standard on the Group's operating results and financial position is not expected to be significant.