

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Guangdong Kelon Electrical Holdings Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 16 December 1992. The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of refrigerators and air-conditioners, manufacture and purchase of moulds and plastic.

The Company's 459,589,808 overseas public shares ("H Shares") were listed on the Stock Exchange of Hong Kong Limited on 23 July 1996. In 1998, the Company obtained approval to issue 110 million domestic shares ("A Shares") which were listed on the Shenzhen Stock Exchange on 13 July 1999.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

(a) Accounting policies

The accounting policies adopted by the Group are in accordance with "Accounting Standards for Business Enterprises", "Accounting Regulations for Joint Stock Limited Company", "Temporary Regulations for Consolidated Financial Statements" and other relevant policies and regulations in the PRC.

(b) Accounting year

The accounting period covers the calendar year from 1 January to 31 December.

(c) Reporting currency

The reporting currency is Chinese Renminbi ("RMB").

(d) Accounting principles and basis of valuation

The Group maintains its accounting records on accrual basis. Assets are recorded at cost, unless a valuation was performed in accordance with the relevant regulations and in such case, assets are recorded at valued amounts.

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(Cont'd)*

(e) Foreign exchange translation

The Company and its PRC subsidiaries and associates maintain their books and records in RMB. Foreign currency transactions are translated into RMB at the applicable exchange rates prevailing at the first day of the month of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable rates in effect at the year end date; non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Exchange differences arising from changes of exchange rates subsequent to the dates of transactions for monetary assets and liabilities denominated in foreign currencies, unless capitalised, are included in the determination of the results of operations.

The Group's overseas subsidiaries maintain their books and records in the respective functional 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 functional currency at the applicable average exchange rate prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. 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 determination of the results of operations of the Group's overseas subsidiaries.

(f) Method for translation of foreign currency financial statements

The financial statements of the Group's overseas subsidiaries are translated into RMB for consolidation according to the following methods:

Balance sheet

Assets and liabilities are translated into RMB at the applicable exchange rates quoted by the People's Bank of China ("PBOC") prevailing at the balance sheet date. Retained earnings or accumulated deficits are stated as those translated in the statement of income and profit appropriation. Other equity items are translated into RMB at the applicable PBOC rates prevailing at the dates of the transactions. Exchange differences arising from the translation of balance sheet items are included in shareholders' equity.

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

(f) Method for translation of foreign currency financial statements (Cont'd)

Statement of income and profit appropriation

Transactions of the Group's overseas subsidiaries are translated into RMB at the applicable average PBOC rates, except that retained earnings or accumulated deficits at the beginning of year are carried forward from the prior year financial statements.

(g) Consolidation of financial statements

The financial statements of the Company and its subsidiaries are included in the consolidated financial statements.

A subsidiary is an enterprise in which the Company, directly or indirectly holds more than 50% of the issued share capital as a long-term investment, 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. Investment in subsidiaries are included in the Company's financial statements on equity basis.

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

Name of the entity	Place and date of incorporation	Investment cost	Percentage of equity interest attributable to the Company		Registered capital	Principal activities
			Directly	Indirectly		
<i>Subsidiaries</i>						
Kelon Development Company Limited ("Kelon Development")	Hong Kong 17 August 1993	HK\$10,000,000	100%	–	HK\$5,000,000	Investment holding
Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Refrigerator") (i)	PRC 25 December 1995	US\$26,800,000	70%	30%	US\$26,800,000	Manufacture and sale of refrigerators

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

(g) Consolidation of financial statements (Cont'd)

Name of the entity	Place and date of incorporation	Investment cost	Percentage of equity interest attributable to the Company		Registered capital	Principal activities
			Directly	Indirectly		
<i>Subsidiaries</i>						
Guangdong Kelon Air-Conditioner Co. Ltd. ("Kelon Air-Conditioner") (i)	PRC 19 March 1996	RMB281,000,000	60%	–	US\$36,150,000	Manufacture and sale of air-conditioners
Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic") (i)	PRC 18 October 1991	RMB85,780,000	45%	25%	US\$14,800,000	Manufacture of plastic parts
Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon") (i)	PRC 19 November 1996	RMB140,000,000	45%	25%	RMB200,000,000	Manufacture and sale of refrigerators
Yingkou Kelon Refrigerator Co., Ltd. ("Yingkou Kelon") (i)	PRC 15 December 1996	RMB134,000,000	42%	25%	RMB200,000,000	Manufacture and sale of refrigerators
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould") (i)	PRC 20 July 1994	RMB86,940,000	40%	30%	US\$15,000,000	Manufacture of moulds
Pearl River Electric Refrigerator Company Limited ("Pearl River")	Hong Kong 26 July 1985	HK\$400,000	–	100%	HK\$400,000	Trading in materials and parts for refrigerators
Wetherell Developments Limited	The British Virgin Islands 1 July 1997	US\$1	–	100%	US\$1	Advertising agency

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

(g) Consolidation of financial statements (Cont'd)

Name of the entity	Place and date of incorporation	Investment cost	Percentage of equity interest attributable to the Company		Registered capital	Principal activities
			Directly	Indirectly		
<i>Subsidiaries</i>						
Kelon Financial Services Limited	The British Virgin Islands 13 January 1999	US\$50,000	–	100%	US\$50,000	Investment holding
Kelon Electric Appliances Co., Ltd. ("Kelon Electric")	Hong Kong 29 August 1991	HK\$10,000	–	100%	HK\$10,000	Property Investment
Kelon (Japan) Limited	Japan 22 May 1996	JPY990,000,000	–	90%	JPY1,100,000,000	Technical research and trading of electrical household appliances
Shunde Rongqi Fittings Co. Ltd. ("Rongqi Fittings") (i)	PRC 24 November 1999	US\$5,620,000	70%	30%	US\$5,620,000	Manufacture and sale of spare parts for refrigerators and air-conditioners
Kelondotcom Limited	The British Virgin Islands 21 February 2000	US\$50,000	–	100%	US\$50,000	Dormant
Kelondotcom (Hong Kong) Limited	Hong Kong 7 June 1999	HK\$2	–	100%	HK\$2	Dormant

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

(g) Consolidation of financial statements (Cont'd)

Name of the entity	Place and date of incorporation	Investment cost	Percentage of equity interest attributable to the Company		Registered capital	Principal activities
			Directly	Indirectly		
<i>Subsidiaries</i>						
EDAS Developments (BVI) Limited	The British Virgin Islands 1 March 2000	US\$50,000	–	100%	US\$50,000	Dormant
EDAS.com (Shenzhen) Limited (iv)	PRC 28 June 2000	US\$600,000	–	100%	US\$600,000	Operation of an internet portal
<i>Associates</i>						
Guangdong Sanyo-Kelon Refrigerator Co., Ltd. ("Sanyo-Kelon") (i)	PRC 25 December 1995	RMB104,280,000	44%	–	RMB237,000,000	Manufacture and sale of freezers
Huayi Compressor Holdings Company Limited ("Huayi Compressor") (ii)	PRC 13 June 1996	RMB255,360,000	24.99%	–	RMB237,250,000	Manufacture and sale of compressors
Shunde Kelon Household Electrical Appliances Company Limited ("Shunde Kelon") (formerly known as "Shunde Kelon Industrial Development Company Limited") (iii)	PRC 16 July 1999	RMB2,500,000	25%	–	RMB10,000,000	Manufacture and sale of electrical household appliances

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

(g) Consolidation of financial statements (Cont'd)

Name of the entity	Place and date of incorporation	Investment cost	Percentage of equity interest attributable to the Company		Registered capital	Principal activities
			Directly	Indirectly		
<i>Associates</i>						
Chongqing Kelon Electrical Appliance Company Limited ("Chongqing Kelon") (iii)	PRC 10 November 1999	RMB200,000	-	20%	RMB1,000,000	Sale, installation and maintenance of air-conditioners
Communication and You Holdings Company Limited ("C&Y")	Hong Kong 14 August 2000	HK\$12,000,000	-	25%	HK\$100	Advertising business

- (i) Established as sino-foreign equity joint venture.
- (ii) Established as joint stock limited company.
- (iii) Established as limited liability company.
- (iv) EDAS.com (Shenzhen) Limited is a wholly foreign owned enterprise operated in the PRC for a term of 20 years up to 2020.

The consolidated financial statements are prepared in accordance with the "Temporary Regulations for consolidated Financial Statements" as follows:

- (1) Differences arising from the adoption of different accounting policies by holding company and subsidiaries are adjusted.
- (2) Major intercompany transactions between holding company and subsidiaries or among subsidiaries are eliminated.
- (3) Equity investments, intercompany balances and unrealised profits are fully eliminated.

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(Amounts expressed in Renminbi Yuan unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(Cont'd)*

(h) Cash and cash equivalents

Cash and bank deposits represent cash on hand and deposits with banks which can be withdrawn on demand.

Cash equivalents represents short-term, highly liquid investments which are readily convertible into known amounts of cash and are exposed to a low risk of change in value.

(i) Provision for doubtful accounts

Provision for doubtful accounts are set aside against possible debts losses and is reasonably determined based on the aging analysis and review of the financial and operational performance of the debtors.

(j) Inventories

Inventories include raw materials, work-in-progress and finished goods. Raw materials and finished goods are stated at actual cost, calculated on a weighted-average basis. Cost of work-in-progress and finished goods comprises direct materials, direct labour and other manufacturing overhead.

Provision for inventory obsolescence is made on defective and slow-moving items or when the net realisable value is less than the cost. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and disposal.

(k) Long-term equity investments

Long-term equity investments include investments in subsidiaries, associates and other investments that are stated at cost.

Long-term equity investments in subsidiaries

Long-term equity investments in subsidiaries represent investments in companies in which the Company holds more than 50% of the investees' issued share capital and has substantial control of the financial and operating policies. The Company adopts equity method of accounting to account for the results of subsidiaries. In preparing the consolidated financial statements of the Group, the accounts of subsidiaries are included in the consolidated financial statements.

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(Amounts expressed in Renminbi Yuan unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(Cont'd)*

(k) Long-term equity investments *(Cont'd)*

Long-term equity investments in associates

Associates are those companies in which the Company holds more than 20% but less than 50% of the issued share capital. The equity method of accounting is adopted to record the investments.

Other long-term equity investments

Long-term investments in which the Company has no control, joint control and significant influence are accounted for using the cost method. Investment income is recognised to the extent of dividend declared. If the dividend declared subsequent to the acquisition exceeds the post-acquisition profit, the excess of dividend declared is charged against the investment cost.

Discount or premium of long-term equity investments represents the difference between the investment cost and the net sharing of the investee's equity, and is amortised on a straight-line basis over 20 years.

The carrying amounts of long-term investments are periodically reviewed by the Group to assess whether there is a significant decline in the value of long-term investments. When such a decline has occurred, provision for impairment in value of long-term investments is charged to the statement of income and profit appropriation.

(l) Fixed assets and depreciation

Fixed assets represents buildings, machinery and equipment, motor vehicles and office equipment which are related to operation and have a useful life of more than one year; and those which are not relating to operation and have a useful life of more than two years and unit cost of more than RMB2,000.

Major expenditure which has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets is capitalised.

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(Cont'd)*

(l) Fixed assets and depreciation *(Cont'd)*

Fixed assets are stated at cost, or valuation which was conducted in connection with the restructuring of the Company. Depreciation of fixed assets is provided on a straight-line basis. The depreciation rate of each asset is determined based on the category of fixed assets, estimated useful life and estimated residual value (5% on cost) as follows:

Categories	Estimated useful lives	Annual depreciation rates
Buildings	20 to 50 years	1.9% to 4.75%
Machinery and equipment	10 years	9.5%
Motor vehicles	5 years	19.0%
Office equipment	5 years	19.0%

(m) Construction-in-progress

Construction-in-progress represents plant under construction, machinery and equipment and other fixed assets pending for installation and testing, 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.

(n) Intangible assets

Intangible assets represent land use rights, which is stated at cost less accumulated amortisation. Land use right is amortised on a straight-line basis over the useful lives of 20 to 50 years.

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(Cont'd)*

(o) Pre-operating expenditures and long-term deferred expenditures

Pre-operating expenditures and long-term deferred expenditures are recorded at cost. The amortisation method is as follows:

- a. Pre-operating expenditures are amortised on a straight-line basis over 5 years starting from the commencement of the operation;
- b. Long-term deferred expenditures are amortised on a straight-line basis over a reasonable period.

(p) Borrowing cost

Borrowing costs represent costs incurred in connection with the Group's borrowing of funds, including interest charges and exchange differences, normally expensed as incurred. For borrowing costs that are directly attributable to the acquisition or construction of fixed assets, they are capitalised as part of the cost of that asset.

(q) Revenue recognition

- (i) Revenue from principal activities

Revenue from principal activities represents the net amount of sales invoices (excluding value-added tax) after deducting all discounts and allowances. Revenue from principal activities is recognised when the following conditions are fulfilled:

- the title to the goods and its major risks and rewards are passed to customers;
- the Group ceases to have control over the goods;
- the economic benefits associated with the transaction will flow to the Group; and
- the revenue and the cost of sale can be reasonably estimated.

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2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(Cont'd)*

(q) Revenue recognition *(Cont'd)*

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis at the applicable interest rates.

(r) Taxation

The Group provides for taxation on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes after considering all available tax benefits.

Deferred taxation is provided under the liability method in respect of significant temporary differences between profit as stated in the financial statements and profit as computed for income tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax asset is not recognised unless the related benefit will be crystallised in the foreseeable future.

(s) Pension scheme

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 related to such staff on their retirement. The Group accounts for these contributions on accrual basis.

(t) Staff welfare

Staff welfare is accrued at a rate of 14% of the total salaries.

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3. TAXATION

(a) Value-added tax ("VAT")

The Group is subject to VAT, which is charged at a rate of 17%. Pursuant to VAT regulation, input VAT paid on purchases of raw materials, can be used to offset the output VAT on sales.

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 enterprise income tax paid relating to the operating results of this refrigerators business for 1998 is subject to refund (*Note 35(b)*).

Pursuant to the document (Yue Jing Ke [1999] 234) issued by Guangdong Provincial Economic Committee, Guangdong Finance Bureau, Guangdong State Tax Bureau, Guangdong Local Tax Bureau and Guangdong State Land Office, Guangdong Kelon (Rongsheng) Group Company Limited ("GKG") was designated as an Advanced Technological Innovation Enterprise in Guangdong Province. Hence, the Group, as subsidiaries of GKG, was approved that net VAT payable retained by local authorities is subject to refund from the effective year of the above document. No such VAT refund was received during the years ended 31 December 2000 and 1999.

(b) Enterprise income tax ("EIT")

The Company is established in Shunde, Guangdong Province. It is subject to 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 subject to a preferential rate of 15% for the year ended 31 December 2000. The Directors of the Company has not been informed of any change in the preferential tax rate and consider that any change in the preferential tax treatment will not have material impact to the Company.

The Group's subsidiaries, Kelon Refrigerator, Kelon Air-Conditioner, Rongsheng Plastic and Kelon Mould 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 2000 and 1999, Rongsheng Plastic and Kelon Mould were subject to an EIT rate of 12% and 7.5% respectively. Kelon Refrigerator and Kelon Air-conditioner were exempt from EIT.

NOTES TO THE FINANCIAL STATEMENTS

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3. TAXATION (Cont'd)

(b) Enterprise income tax ("EIT") (Cont'd)

Chengdu Kelon and Yingkou Kelon 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 was exempted from EIT in the 1999 and 2000. Yingkou Kelon 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.

4. CASH AND BANK DEPOSITS

The Group

	Currency	31 December 2000			31 December 1999		
		Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Cash	RMB	160,295	—	160,295	—	—	—
	HKD	42,076	1.0606	44,626	42,100	1.065	44,837
				204,921			44,837
Bank deposits	RMB	646,235,531	—	646,235,531	686,597,681	—	686,597,681
	HKD	8,582,752	1.0606	9,102,867	19,692,719	1.065	20,972,750
	USD	20,503,141	8.2782	169,729,103	5,387,765	8.253	44,463,518
	JPY	131,490,751	0.0719	9,454,185	14,712,325	0.072	1,054,229
	DM	997,320	3.9308	3,920,264	—	—	—
	Others	—	—	63,161	—	—	7,469
				838,505,111			753,095,647
				838,710,032			753,140,484

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4. CASH AND BANK DEPOSITS (Cont'd)

The Company

	Currency	31 December 2000			31 December 1999		
		Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Bank deposits	RMB	360,488,267	—	360,488,267	564,703,106	—	564,703,106
	HKD	112,566	1.0606	119,388	112,288	1.065	119,587
	USD	12,229,019	8.2782	101,234,268	172,321	8.253	1,422,165
	Others	—	—	873	—	—	6,085
				461,842,796			566,250,943

5. NOTES RECEIVABLE

(a) Breakdown of notes receivable

The Group

Nature	Accepting bank	Term	31 December 2000	31 December 1999
Bank acceptance	Industrial and Commercial Bank of China ("ICBC")	One to nine months	43,870,882	352,697,150
Bank acceptance	Agricultural Bank of China ("ABC")	One to nine months	68,860,555	388,344,998
Bank acceptance	Bank of China ("BOC")	One to nine months	48,509,151	110,384,938
Bank acceptance	China Construction Bank ("CCB")	One to nine months	19,005,250	83,460,393
Bank acceptance	Communication Bank of China ("CBC")	One to nine months	5,768,927	12,621,652
Bank acceptance	CITIC Industrial Bank ("CITIC Bank")	One to nine months	2,270,000	6,200,000
Bank acceptance	China Merchant Bank ("CMB")	One to nine months	11,260,882	27,300,000
Bank acceptance	Guangdong Development Bank ("GDB")	One to nine months	8,420,000	5,000,000
Bank acceptance	China Everbright Bank	One to nine months	56,000,000	—
Bank acceptance	Yantai Commercial Bank	One to nine months	1,000,000	—
Bank acceptance	Hua Xia Bank	One to nine months	13,290,000	—
Bank acceptance	Fujian Industrial Bank	One to nine months	2,000,000	—
			280,255,647	986,009,131

NOTES TO THE FINANCIAL STATEMENTS

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5. NOTES RECEIVABLE (Cont'd)

(a) Breakdown of notes receivable (Cont'd)

The Company

Nature	Accepting bank	Term	31 December 2000	31 December 1999
Bank acceptance	ICBC	One to nine months	1,673,740	99,417,150
Bank acceptance	ABC	One to nine months	—	333,846,599
Bank acceptance	BOC	One to nine months	2,350,000	67,134,938
Bank acceptance	CCB	One to nine months	—	33,070,392
Bank acceptance	CBC	One to nine months	—	5,421,652
Bank acceptance	CITIC Bank	One to nine months	—	6,200,000
Bank acceptance	CMB	One to nine months	—	7,200,000
Bank acceptance	GDB	One to nine months	100,000	—
			4,123,740	552,290,731

Balances of notes receivable do not comprise any amount due from shareholders who held more than 5% of the Company's share capital.

(b) Notes receivable discounted

As of 31 December 2000, details of notes receivable discounted to banks are as follows:

Issuing banks	Amount	Due Date
GDB	3,000,000	April to June 2001
CBC	4,000,000	April to June 2001
ICBC	30,350,000	April to June 2001
CCB	4,200,000	April to June 2001
ABC	52,130,000	April to June 2001
BOC	206,450,000	April to June 2001
CITIC	300,000	April to June 2001
	300,430,000	

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6. ACCOUNTS RECEIVABLE

		31 December 2000		31 December 1999	
		The Group	The Company	The Group	The Company
Accounts receivable	(a)	456,598,949	6,424,447	684,832,860	483,446,687
Less: Provision for doubtful accounts		(159,056,119)	—	(99,435,892)	(81,255,717)
Net		297,542,830	6,424,447	585,396,968	402,190,970
Other receivables	(b)	460,048,067	2,279,594,405	184,336,092	1,079,323,870
Less: Provision for doubtful accounts		—	—	—	—
Net		460,048,067	2,279,594,405	184,336,092	1,079,323,870
Receivables, net		757,590,897	2,286,018,852	769,733,060	1,481,514,840

(a) Accounts receivable

(i) Aging analysis of accounts receivable of the Group is as follows:

Aging	31 December 2000				31 December 1999			
	Balance	Percentage (%)	Provision	Net	Balance	Percentage (%)	Provision	Net
Within one year	375,590,411	82	(78,047,581)	297,542,830	627,845,769	92	(42,448,801)	585,396,968
One to two years	79,097,944	17	(79,097,944)	—	56,987,091	8	(56,987,091)	—
Two to three years	1,910,594	1	(1,910,594)	—	—	—	—	—
Total	456,598,949	100	(159,056,119)	297,542,830	684,832,860	100	(99,435,892)	585,396,968

As of 31 December 2000, the Group's five largest debtors were as follows:

Name	Outstanding balance	Aging	Nature
Shunde Cheung Tat	121,429,165	Within one year	Trade receivable
Sanyo-Kelon	28,484,336	Within one year	Trade receivable
Harbin Hei Tiane Company Limited	11,812,990	Within one year	Trade receivable
Jiangsu Suning Household Appliance Co., Ltd	8,400,317	Within one year	Trade receivable
Shunde Huao Electrical Company Limited	5,716,018	Within one year	Trade receivable

Balances of accounts receivable do not comprise any amount due from shareholders who held more than 5% of the Company's share capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

6. ACCOUNTS RECEIVABLE (Cont'd)

(a) Accounts receivable (Cont'd)

(ii) Aging analysis of accounts receivable of the Company is as follows:

Aging	31 December 2000				31 December 1999			
	Balance	Percentage (%)	Provision	Net	Balance	Percentage (%)	Provision	Net
Within one year	6,424,447	100	—	6,424,447	435,125,946	90	(32,934,976)	402,190,970
One to two years	—	—	—	—	48,320,741	10	(48,320,741)	—
Total	6,424,447	100	—	6,424,447	483,446,687	100	(81,255,717)	402,190,970

(b) Other receivables

(i) Aging analysis of other receivables of the Group is as follows:

Aging	31 December 2000				31 December 1999			
	Balance	Percentage (%)	Provision	Net	Balance	Percentage (%)	Provision	Net
Within one year	416,006,393	90	—	416,006,393	184,336,092	100	—	184,336,092
One to two years	44,041,674	10	—	44,041,674	—	—	—	—
Total	460,048,067	100	—	460,048,067	184,336,092	100	—	184,336,092

The majority of the other receivable balances were within 1 year. No provision for doubtful accounts is made as the management considers the risk of bad debts is low.

As of 31 December 2000, the Group's five largest other receivable balances were as follows:

Name	Outstanding balance	Aging	Nature
GKG	280,612,660	Within one year	Advances
Shunde Export Tax Refund Bureau	40,810,554	One to two years	Refund of export VAT
Chengdu Xinxing Electrical Appliance Holdings Company Limited	34,000,000	One to two years	Advances
Heavenly King Company Limited	11,971,464	Within one year	Advances
Ronggui Custom Department	1,919,229	One to two years	Import and export deposits

Except for the amount of RMB280,612,660 due from GKG (Note 38), balance of other receivables do not comprise any amount due from shareholders who held more than 5% of the Company's share capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

6. ACCOUNTS RECEIVABLE (Cont'd)

(b) Other receivables (Cont'd)

(ii) Aging analysis of other receivables of the Company is as follows:

Aging	31 December 2000				31 December 1999			
	Balance	Percentage (%)	Provision	Net	Balance	Percentage (%)	Provision	Net
Within one year	2,271,934,988	99	—	2,271,934,988	1,079,323,870	100	—	1,079,323,870
One to two years	7,659,417	1	—	7,659,417	—	—	—	—
Total	2,279,594,405	100	—	2,279,594,405	1,079,323,870	100	—	1,079,323,870

Other receivables of the Company mainly comprise intercompany balances between the Company and its subsidiaries.

7. PREPAYMENTS

As of 31 December 2000, the Group's five largest balances of prepayments were as follows:

Name	Outstanding balances	Aging	Nature
Beijing Shi Chuang Hi-Tech Development Company Limited	7,955,675	Within one year	Prepayment for purchase of properties
Guizhou Shunlian Metal and Plastic Company Limited	5,272,565	Within one year	Prepayment for purchase of materials
Dongguan Daxiang Company Limited	3,871,500	Within one year	Prepayment for moulds
Boluo Yuanzhou Dongjiang Trading Company	2,571,400	One to two years	Prepayment for moulds
Asia Television Broadcast Limited	2,204,100	Within one year	Prepayment for advertisements

Balance of the Group's prepayments do not comprise any amount due from shareholders who held more than 5% of the Company's share capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

8. SUBSIDIES RECEIVABLE

The Group and the Company

	31 December 2000	31 December 1999
VAT and EIT refund on sales of national new products (Note 35(b))	—	10,846,636
Subsidy for electricity charges	—	8,669,208
	—	19,515,844

9. INVENTORIES AND PROVISION FOR INVENTORY OBSOLESCENCE

The Group

	31 December 2000			31 December 1999		
	Balance	Provision	Net	Balance	Provision	Net
Raw materials	435,022,820	(32,264,408)	402,758,412	811,785,043	(39,651,892)	772,133,151
Work-in-progress	69,242,467	(1,968,783)	67,273,684	77,667,790	(3,793,708)	73,874,082
Finished goods	1,430,914,435	(164,305,420)	1,266,609,015	670,901,672	(32,770,400)	638,131,272
Total	1,935,179,722	(198,538,611)	1,736,641,111	1,560,354,505	(76,216,000)	1,484,138,505

The Company

	31 December 2000			31 December 1999		
	Balance	Provision	Net	Balance	Provision	Net
Raw materials	3,326,297	—	3,326,297	154,359,704	(10,005,121)	144,354,583
Work-in-progress	4,878,503	—	4,878,503	17,022,558	(1,103,350)	15,919,208
Finished goods	12,981,621	—	12,981,621	171,367,725	(11,107,529)	160,260,196
Total	21,186,421	—	21,186,421	342,749,987	(22,216,000)	320,533,987

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

10. LONG-TERM EQUITY INVESTMENTS

The Group

Movement of long-term equity investments is as follows:

	31 December 1999	Increase	Decrease	31 December 2000
Investments in associates (a)	194,642,641	21,287,992	—	215,930,633
Other long-term equity investments	8,071,443	2,028,252	(639,000)	9,460,695
Premium on equity investments (b)	197,196,430	—	(10,197,000)	186,999,430
	399,910,514	23,316,244	(10,836,000)	412,390,758
Provision for impairment in value of investments in associates	(74,129,000)	—	—	(74,129,000)

(a) Investments in associates

Company	Operating period	Investment cost			Share of profit			Total	
		31 December 1999	Increase (Decrease) during the year	31 December 2000	31 December 1999	Increase (Decrease) during the year	31 December 2000	31 December 1999	31 December 2000
Sanyo-Kelon Huayi	25 years	104,280,000	—	104,280,000	(30,151,000)	—	(30,151,000)	74,129,000	74,129,000
Compressor	Unlimited	118,013,641	—	118,013,641	—	8,368,000	8,368,000	118,013,641	126,381,641
Shunde Kelon	Unlimited	2,500,000	—	2,500,000	—	—	—	2,500,000	2,500,000
Chongqing Kelon	2 years	—	200,000	200,000	—	—	—	—	200,000
C&Y	Unlimited	—	12,719,992	12,719,992	—	—	—	—	12,719,992
		224,793,641	12,919,992	237,713,633	(30,151,000)	8,368,000	(21,783,000)	194,642,641	215,930,633

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

10. LONG-TERM EQUITY INVESTMENTS (Cont'd)

(b) Premium on equity investments

Company	Original value		Accumulated amortisation			Balance		
	31 December 1999	Increase (Decrease) during the year	31 December 2000	31 December 1999	Increase (Decrease) during the year	31 December 2000	31 December 1999	31 December 2000
Kelon Air-conditioner	66,596,234	—	66,596,234	(3,884,781)	(3,329,812)	(7,214,593)	62,711,453	59,381,641
Huayi Compressor	137,346,359	—	137,346,359	(2,861,382)	(6,867,188)	(9,728,570)	134,484,977	127,617,789
	203,942,593	—	203,942,593	(6,746,163)	(10,197,000)	(16,943,163)	197,196,430	186,999,430

The Company

Movement of long-term equity investments is as follows:

		31 December 1999	Increase	Decrease	31 December 2000
Investments in subsidiaries	(c)	1,410,575,579	32,634,554	(611,055,656)	832,154,477
Investments in associates	(d)	194,642,641	8,368,000	—	203,010,641
Other long-term equity investments		7,249,048	2,000,000	—	9,249,048
Premium on equity investments	(b)	197,196,430	—	(10,197,000)	186,999,430
		1,809,663,698	43,002,554	(621,252,656)	1,231,413,596
Provision for impairment in value of investments in associates		(74,129,000)	—	—	(74,129,000)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

10. LONG-TERM EQUITY INVESTMENTS (Cont'd)

(c) Investments in subsidiaries

Company	31 December 1999	Increase	Decrease	31 December 2000
Investment cost				
Kelon Development	11,200,000	—	—	11,200,000
Kelon Refrigerator	155,552,426	—	—	155,552,426
Kelon Air-Conditioner	214,403,766	—	—	214,403,766
Rongsheng Plastic	49,544,640	—	—	49,544,640
Chengdu Kelon	90,000,000	—	—	90,000,000
Yingkou Kelon	84,000,000	—	—	84,000,000
Kelon Mould	49,860,000	—	—	49,860,000
Rongqi Fittings	—	32,634,554	—	32,634,554
	654,560,832	32,634,554	—	687,195,386
Share of profit				
of subsidiaries	756,014,747	—	(611,055,656)	144,959,091
	1,410,575,579	32,634,554	(611,055,656)	832,154,477

(d) Investments in associates

Investee	Operating period	Investment cost		Share of profit		Total			
		31 December 1999	Increase (Decrease) during the year	31 December 1999	Increase (Decrease) during the year	31 December 1999	31 December 2000		
Sanyo-Kelon	25 years	104,280,000	—	104,280,000	(30,151,000)	(30,151,000)	74,129,000	74,129,000	
Huayi Compressor	Unlimited	118,013,641	—	118,013,641	—	8,368,000	8,368,000	118,013,641	126,381,641
Shunde Kelon	Unlimited	2,500,000	—	2,500,000	—	—	2,500,000	2,500,000	2,500,000
		224,793,641	—	224,793,641	(30,151,000)	8,368,000	(21,783,000)	194,642,641	203,010,641

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

11. FIXED ASSETS

The Group

	2000					1999
	Buildings	Machinery and equipment	Motor vehicles	Office equipment	Total	Total
COST						
Beginning of year	1,316,209,103	1,854,164,633	73,853,542	39,755,191	3,283,982,469	2,370,400,511
Effect of acquisition of subsidiary	—	—	—	—	—	106,500,000
Additions	17,822,107	46,082,815	18,302,882	16,776,402	98,984,206	752,886,788
Transfer from construction-in-progress	1,550,000	8,345,110	132,797	—	10,027,907	73,940,645
Disposals	(4,976,437)	(13,646,078)	(1,690,954)	(1,235,080)	(21,548,549)	(19,745,475)
Exchange difference	(2,469,173)	(1,106,107)	(445,257)	(22,574)	(4,043,111)	—
End of year	1,328,135,600	1,893,840,373	90,153,010	55,273,939	3,367,402,922	3,283,982,469
ACCUMULATED DEPRECIATION						
Beginning of year	144,765,294	596,081,002	31,505,187	23,941,126	796,292,609	604,084,336
Effect of acquisition of subsidiary	—	—	—	—	—	461,500
Charge for the year	57,131,448	192,487,904	18,593,259	9,062,163	277,274,774	199,482,069
Written back on disposals	(609,852)	(6,809,229)	(1,537,322)	(929,185)	(9,885,588)	(7,735,296)
Exchange difference	123,917	34,396	(285,699)	1,433	(125,953)	—
End of year	201,410,807	781,794,073	48,275,425	32,075,537	1,063,555,842	796,292,609
NET BOOK VALUE						
End of year	1,126,724,793	1,112,056,300	41,877,585	23,198,402	2,303,847,080	2,487,689,860
Beginning of year	1,171,443,809	1,258,083,631	42,348,355	15,814,065	2,487,689,860	1,766,316,175

Buildings comprise buildings, factories, office premises, staff quarters situated in the PRC, Hong Kong and Japan. Machinery and equipment 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 16). Buildings in Hong Kong with 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 24).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

11. FIXED ASSETS (Cont'd)

The Company

	2000					1999
	Buildings	Machinery and equipment	Motor vehicles	Office equipments	Total	Total
COST						
Beginning of year	772,052,547	697,030,418	25,840,063	13,913,881	1,508,836,909	997,076,087
Additions	9,031,240	789,805	—	11,767,509	21,588,554	690,384,618
Transfer from						
construction-in-progress	—	54,500	—	—	54,500	52,487,858
Transfer to subsidiaries	—	(167,468,035)	(22,285,020)	—	(186,916,789)	—
Disposals	—	(3,166,997)	(188,537)	—	(3,355,534)	(231,111,654)
End of year	781,083,787	530,075,957	3,366,506	25,681,390	1,340,207,640	1,508,836,909
ACCUMULATED DEPRECIATION						
Beginning of year	90,220,490	184,456,275	13,532,045	7,265,957	295,474,767	342,877,603
Charge for the year	28,571,013	48,780,438	986,662	4,079,381	82,417,494	61,764,834
Transfer to subsidiaries	—	(63,412,966)	(11,639,220)	—	(75,052,186)	—
Written back on disposals	—	(1,765,903)	(179,110)	—	(1,945,013)	(109,167,670)
End of year	118,791,503	168,057,844	2,700,377	11,345,338	300,895,062	295,474,767
NET BOOK VALUE						
End of year	662,292,284	362,018,113	666,129	14,336,052	1,039,312,578	1,213,362,142
Beginning of year	681,832,057	512,574,143	12,308,018	6,647,924	1,213,362,142	654,198,484

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

12. CONSTRUCTION-IN-PROGRESS

Project name	31 December 1999	Additions	Transfer to fixed assets	Other transfers	31 December 2000	Source of capital	Project status
The Company							
Renovation of staff quarters	3,151,927	5,515,439	—	—	8,667,366	Working capital	Under construction
Huabao project Factory No. 1	6,850,000	—	—	(6,850,000)	—	Working capital	Completed
Kelon Beijing	637,067	4,454,457	(54,500)	(305,267)	4,731,757	Working capital	Under construction
Research Centre	—	1,535,080	—	—	1,535,080	Working capital	Under construction
Office building of Sanda Centre	—	4,692,313	—	—	4,692,313	Working capital	Under construction
Others	39,768	—	—	(39,768)	—	Working capital	Completed
	10,678,762	16,197,289	(54,500)	(7,195,035)	19,626,516		
Chengdu Kelon							
Others	521	—	—	(521)	—	Working capital	Completed
Yingkou Kelon							
Others	—	1,483,253	—	—	1,483,253	Working capital	Under construction
Kelon Refrigerator							
Huabao Research Centre	1,054,091	48,775	—	—	1,102,866	Working capital	Under construction
Machinery and equipment	3,503,130	7,622,027	(8,236,650)	(157,864)	2,730,643	Working capital	Under construction
	4,557,221	7,670,802	(8,236,650)	(157,864)	3,833,509		
Rongsheng Plastic							
Others	703,960	900,000	(1,603,960)	—	—	Working capital	Completed
Rongqi Fittings							
Machinery and equipment	—	1,510,393	(132,797)	(149,869)	1,227,727	Working capital	Under construction
Total	15,940,464	27,761,737	(10,027,907)	(7,503,289)	26,171,005		

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

13. INTANGIBLE ASSETS

Nature	Original cost	31 December 1999	Addition	Amortisation	31 December 2000	Residual useful life
Land use rights of the Group	373,484,114	323,955,581	—	(9,985,843)	313,969,738	23-41 years
Land use rights of the Company	250,505,358	220,670,507	—	(6,671,543)	213,998,964	11-19 years

14. PRE-OPERATING EXPENDITURES

The Group

Nature	31 December 1999	Addition	Amortisation	31 December 2000
Pre-operating expenditures	13,267,283	—	(5,131,102)	8,136,181

15. LONG-TERM DEFERRED EXPENDITURES

The Group

Nature	31 December 1999	Addition	Amortisation	31 December 2000
Moulds and spare parts Expenses incurred in upgrading leased fixed assets	144,767,901	101,434,323	(81,808,352)	164,393,872
Deferred pension costs	—	64,708,988	(12,743,118)	51,965,870
Advertising expenditures	10,875,000	—	(750,000)	10,125,000
Costs of computer software	29,247,906	—	(29,247,906)	—
Others	1,902,039	—	(1,122,689)	779,350
	7,481,315	—	(1,559,805)	5,921,510
	194,274,161	166,143,311	(127,231,870)	233,185,602

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

15. LONG-TERM DEFERRED EXPENDITURES (Cont'd)

The Company

Nature	31 December 1999	Addition	Amortisation	31 December 2000
Moulds and spare parts	21,620,983	34,456,538	(16,860,052)	39,217,469
Deferred pension costs	10,875,000	—	(750,000)	10,125,000
Advertising expenditures	29,247,906	—	(29,247,906)	—
	61,743,889	34,456,538	(46,857,958)	49,342,469

16. SHORT-TERM BANK LOANS

The Group

Nature	31 December 2000		Interest rate per annum
	Currency	Amount	
Bank loans			
— Mortgage loans*	RMB	22,000,000	5.3625% — 6.43%
— Guarantee loans**	RMB	60,000,000	5.85%
— Credit loans	RMB	355,700,000	5.58% — 6.435%
		437,700,000	

* Mortgage loans were secured by machinery and equipments with net book value of approximately RMB38,378,000 (Note 11).

** Guarantee loans represent borrowings of Chengdu Kelon which were guaranteed by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

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

The Group

Nature	Currency	31 December 1999 Original currency amount	RMB equivalent	Interest rate per annum
Bank loans				
— Mortgage loans*	RMB	14,500,000	14,500,000	6.435% — 7.56%
	USD	8,135,453	67,061,350	Hong Kong Interbank Offer Rate plus 1%
	JPY	86,723,800	6,537,668	Hong Kong Interbank Offer Rate plus 1%
— Guarantee loans**	RMB	80,000,000	80,000,000	5.58% — 7.62%
— Credit loans	RMB	715,700,000	715,700,000	4.77% — 5.85%
			883,799,018	

* Mortgage loans denominated in RMB were secured by machinery and equipment with net book value of approximately RMB47,000,000. (Note 11)

Mortgage loans denominated in USD and JPY were mainly trust receipts and import loans which were secured by floating charges on the Group's inventories released under such loans.

** Guarantee loans were borrowed by Chengdu Kelon and Yingkou Kelon and were guaranteed by the Company.

The Company

Nature	Currency	31 December 2000 Amount	Interest rate per annum
Bank loans			
— Credit loans	RMB	355,700,000	5.58% — 6.435%

Nature	Currency	31 December 1999 Amount	Interest rate per annum
Bank loans			
— Credit loans	RMB	375,700,000	4.77% — 5.85%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

17. NOTES PAYABLE

The Group

Nature	Accepting bank	Term	31 December 2000	31 December 1999
Commercial acceptance	—	One to nine months	133,203,183	—
Bank acceptance	BOC	One to nine months	35,806,400	—
Bank acceptance	Shenzhen Development Bank	One to nine months	47,345,096	—
			216,354,679	—

The Company

Nature	Accepting bank	Term	31 December 2000	31 December 1999
Commercial acceptance	—	One to nine months	133,203,183	—
Bank acceptance	BOC	One to nine months	18,000,000	—
			151,203,183	—

Balances of notes payable do not comprise any amount due to shareholders who held more than 5% of the Company's share capital.

18. ACCOUNTS PAYABLE

Balances of accounts payable do not comprise any amount due to shareholders who held more than 5% of the Company's share capital.

19. TRADE DEPOSITS FROM CUSTOMERS

Balances of trade deposits from customers do not comprise any amount due to shareholders who held more than 5% of the Company's share capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

20. DIVIDEND PAYABLE

The Directors of the Company do not recommend the payment of dividend for the year ended 31 December 2000.

As of 31 December 1999, the balance of dividend payable represented the unpaid final dividend for the year ended 31 December 1999.

21. TAX PAYABLE

	The Group		The Company	
	31 December 2000	31 December 1999	31 December 2000	31 December 1999
EIT	(9,075,568)	47,167,683	(6,557,769)	35,516,326
VAT	(177,869,135)	(43,387,674)	(9,821,473)	(4,439,978)
Business tax	—	1,738,032	—	1,738,032
Others	102,252	106,234	—	—
	(186,842,451)	5,624,275	(16,379,242)	32,814,380

22. OTHER PAYABLES

Balances of other payables do not include any amount due to shareholders who held more than 5% of the Company's share capital.

23. ACCRUALS

	The Group		The Company	
	31 December 2000	31 December 1999	31 December 2000	31 December 1999
Provision for warranty costs	164,616,546	120,653,065	—	68,563,065
Provision for installation costs	36,665,832	89,088,024	—	48,403,334
Provision for utility expenses	1,205,986	—	—	—
Provision for interest expenses	1,284,005	2,301,187	1,045,907	1,899,782
Provision for subcontracting fees	6,166,282	1,397,224	3,288,852	1,397,224
Provision for sales discounts	218,473,969	10,725,620	—	—
Provision for advertising costs	90,603,990	837,260	3,313,589	837,260
Others	18,891,290	36,514,654	6,775,530	8,856,823
	537,907,900	261,517,034	14,423,878	129,957,488

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

24. LONG-TERM BANK LOANS

The Group

Nature	Currency	31 December 2000		Term	Interest rate per annum
		Original currency amount	RMB equivalent		
Bank loans					
— Mortgage loans*	HKD	53,852,510	57,083,661	One to seven years	8.625% — 12.25%
— Guarantee loans**	RMB	200,000,000	200,000,000	One to two years	4.77%
			257,083,661		
Less: Amount payable within one year			(19,777,334)		
			237,306,327		

* Mortgage loans were secured by buildings in Hong Kong with net book value of approximately RMB118,820,000 (Note 11).

** Guarantee loans were guaranteed by GKG.

Nature	Currency	31 December 1999		Term	Interest rate per annum
		Original currency amount	RMB equivalent		
Bank loans					
— Mortgage loans*	HKD	32,360,112	34,463,521	One to ten years	8.375% — 11.25%
— Guarantee loans**	RMB	200,000,000	200,000,000	Two years	5.94%
			234,463,521		
Less: Amount payable within one year			(17,342,657)		
			217,120,864		

* Mortgage loans were secured by buildings in Hong Kong with net book value of approximately RMB127,228,000 (Note 11).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

24. LONG-TERM BANK LOANS (Cont'd)

The Company

Nature	Currency	31 December 2000	
		Amount	Interest rate per annum
Bank loans			
Guarantee loans	RMB	200,000,000	4.77%
Less: Amount payable within one year		—	
		200,000,000	

Nature	Currency	31 December 1999	
		Amount	Interest rate per annum
Bank loans			
Guarantee loans	RMB	200,000,000	5.94%
Less: Amount payable within one year		—	
		200,000,000	

25. LONG-TERM PAYABLES

	The Group		The Company	
	31 December 2000	31 December 1999	31 December 2000	31 December 1999
Pension liabilities	113,621,705	122,111,939	113,621,705	122,111,939
Others	3,526,080	3,281,115	—	—
	117,147,785	125,393,054	113,621,705	122,111,939

Contributions to the Group's pension scheme withheld from the employees' salaries will be payable upon the retirement of the employees.

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For the year ended 31 December 2000 and 1999

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26. MINORITY INTEREST

As of 31 December 2000, cumulative losses of Kelon Air-Conditioner applicable to the minority shareholder exceeded the minority interest in the equity of Kelon Air-Conditioner by approximately RMB158,115,000. As of 31 December 2000, the balance of approximately RMB158,115,000 was charged to the minority interest in the Group's 31 December 2000 consolidated financial statements.

27. SHARE CAPITAL

Movement of share capital from 1 January 2000 to 31 December 2000 is as follow:

Unit: share

	Beginning of year	Placement	Increase (Decrease)			Sub-total	End of year
			Bonus issue	Transfer from statutory common reserve fund	Other		
(1) Unlisted shares							
1. Founder shares:							
State-owned shares	—	—	—	—	—	—	—
PRC domestic shares in form of domestic legal person shares	337,915,755	—	—	—	—	—	337,915,755
PRC domestic shares in form of foreign legal person shares	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
2. PRC domestic shares in form of subscriber shares	—	—	—	—	—	—	—
3. PRC domestic shares held by employees	84,501,000	—	—	—	—	—	84,501,000
4. Preference shares and others	—	—	—	—	—	—	—
Total unlisted shares	422,416,755	—	—	—	—	—	422,416,755
(2) Listed shares							
1. Domestic shares listed in the PRC	110,000,000	—	—	—	—	—	110,000,000
2. Overseas shares listed in the PRC	—	—	—	—	—	—	—
3. Overseas shares listed outside the PRC	459,589,808	—	—	—	—	—	459,589,808
4. Others	—	—	—	—	—	—	—
Total listed shares	569,589,808	—	—	—	—	—	569,589,808
(3) Total shares	992,006,563	—	—	—	—	—	992,006,563

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For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

27. SHARE CAPITAL (Cont'd)

Movement of share capital from 1 January 1999 to 31 December 1999 is as follows:

Unit: share

	Beginning of year	Placement	Increase (Decrease)			Sub-total	End of year
			Bonus issue	Transfer from statutory common reserve fund	Other		
(1) Unlisted shares							
1. Founder shares:							
State-owned shares	—	—	—	—	—	—	—
PRC domestic shares in form of domestic legal person share	337,915,755	—	—	—	—	—	337,915,755
PRC domestic shares in form of foreign legal person shares	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
2. PRC domestic shares in form of subscriber shares	—	—	—	—	—	—	—
3. PRC domestic shares held by employees	84,501,000	—	—	—	—	—	84,501,000
4. Preference shares and others	—	—	—	—	—	—	—
Total unlisted shares	422,416,755	—	—	—	—	—	422,416,755
(2) Listed shares							
1. Domestic shares listed in the PRC	—	—	—	—	110,000,000	—	110,000,000
2. Overseas shares listed in the PRC	—	—	—	—	—	—	—
3. Overseas shares listed outside the PRC	459,589,808	—	—	—	—	—	459,589,808
4. Others	—	—	—	—	—	—	—
Total listed shares	459,589,808	—	—	—	110,000,000	—	569,589,808
(3) Total shares	882,006,563	—	—	—	110,000,000	—	992,006,563

In accordance with the capital verification report issued by Arthur Andersen•Hua Qiang Certified Public Accountants dated 10 June 1999, the Company received A Share issue proceeds amounting to RMB1,067,038,500, of which RMB110,000,000 was recorded as share capital and RMB957,038,500 was recorded as capital reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

28. CAPITAL RESERVE

Movement of capital reserve is as follows:

	Share premium		Assets received as donation	Total
	H Share and PRC domestic shares	A Share		
1 January 1999	1,499,662,592	—	17,696,745	1,517,359,337
Increase for the year	—	957,038,500	—	957,038,500
Decrease for the year*	—	(23,175,000)	—	(23,175,000)
31 December 1999	1,499,662,592	933,863,500	17,696,745	2,451,222,837
Increase/(Decrease)	—	—	—	—
31 December 2000	1,499,662,592	933,863,500	17,696,745	2,451,222,837

* Decrease in capital reserve represented A Share promotion and road show expenses. As the nature of the expenses were related to A Share offering, the Company recorded the expenses as a reduction of share premium.

According to the Company's Articles of Association, (i) share premium from issuance of share; (ii) surplus arising from revaluation of assets; and (iii) other items specified by the relevant PRC regulations, should be recorded as capital reserve. Capital reserve can be utilised to offset prior year's deficit or increase share capital.

Share premium represents (i) the difference between the value of net assets acquired from holding company and the par value of the domestic shares issued to holding company and (ii) the difference between proceeds from issuance of H Shares and A Shares (net of share issuance expenses) and the par value of the H Shares and A Share issued.

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For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

29. REVENUE RESERVE

Movement of revenue reserve is as follows:

	Statutory common reserve fund (a)	Statutory common welfare fund (b)	Total
1 January 1999	161,161,802	80,580,901	241,742,703
Addition	68,000,000	34,000,000	102,000,000
31 January 1999	229,161,802	114,580,901	343,742,703
Addition	—	—	—
31 December 2000	229,161,802	114,580,901	343,742,703

(a) Statutory common reserve fund

In accordance with the relevant PRC regulations and the Company's Articles of Association, the Company shall appropriate 10% of its annual statutory net profit (after offsetting prior years' losses) to the statutory common reserve fund. When the balance of statutory common reserve fund reaches 50% of share capital, any further appropriation is optional. The statutory common reserve fund can be utilised to offset prior years' losses or to increase capital. However, the statutory common reserve fund must be maintained at a minimum of 25% of share capital after such usage.

(b) Statutory common welfare fund

According to the relevant financial regulations, the Company is also required to appropriate 5% to 10% of its annual statutory net profit (after offsetting any prior years' losses) to a statutory common welfare fund to be utilised to build or acquire capital items for the common benefits of the employees.

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(Amounts expressed in Renminbi Yuan unless otherwise stated)

30. RETAINED EARNINGS

	2000	1999
Retained earnings at beginning of year	1,029,461,787	700,166,875
Net (loss)/profit for the year	(678,418,823)	643,584,316
Less: Transfer to statutory common reserve fund	—	(68,000,000)
Transfer to statutory common welfare fund	—	(34,000,000)
Dividends	—	(212,289,404)
Retained earnings, end of year	351,042,964	1,029,461,787

According to the Company's Articles of Association, the amount of profit available for distribution will be determined based on the lower of retained earnings in the financial statements prepared in accordance with the PRC Accounting Standards and International Accounting Standards.

The directors do not recommend any dividend payment for the year. No revenue reserve was used to offset deficits or paid as dividends. This recommendation is subject to approval by shareholders.

31. SALES AND COST OF SALES FROM PRINCIPAL ACTIVITIES

The Group

Line of business	2000		1999	
	Sales	Cost of sales	Sales	Cost of Sales
Sales of refrigerators	2,149,212,825	1,730,286,503	3,419,731,684	2,294,704,851
Sales of air-conditioners	1,574,493,175	1,468,613,719	2,155,861,250	1,552,872,262
Others	145,796,617	51,632,945	22,287,337	—
	3,869,502,617	3,250,533,167	5,597,880,271	3,847,577,113

The Company

Line of business	2000		1999	
	Sales	Cost of sales	Sales	Cost of Sales
Sales of refrigerators	142,811,543	136,006,123	3,310,682,859	2,841,962,528

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For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

32. OTHER OPERATING (LOSS) PROFIT

	The Group		The Company	
	2000	1999	2000	1999
<i>Other operating income</i>				
Processing income	—	—	—	128,786,366
Sales of raw materials	595,861,842	111,216,312	525,291,148	67,160,813
Others	13,200	21,337,831	—	12,485,138
Sub-total	595,875,042	132,554,143	525,291,148	208,432,317
<i>Other operating cost</i>				
Processing cost	—	—	—	(112,665,964)
Cost of sales of raw materials	(583,324,636)	(89,495,608)	(525,739,283)	(51,196,690)
Others	(1,216,629)	(11,770,978)	—	(11,217,521)
Sub-total	(584,541,265)	(101,266,586)	(525,739,283)	(175,080,175)
	11,333,777	31,287,557	(448,135)	33,352,142

33. FINANCIAL COSTS

	The Group		The Company	
	2000	1999	2000	1999
Interest expenses	(78,675,496)	(92,851,475)	(32,805,075)	(39,166,820)
Interest income	12,577,944	24,592,476	9,198,266	19,698,392
Exchange (loss) gain, net	(3,671,640)	570,431	(3,415,304)	(744,539)
Bank charges	(3,261,562)	(4,571,846)	(275,071)	(2,890,120)
	(73,030,754)	(72,260,414)	(27,297,184)	(23,103,087)

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Renminbi Yuan unless otherwise stated)

34. (LOSS) PROFIT FROM INVESTMENTS

	The Group 2000	1999	The Company 2000	1999
Share of (loss) profit of subsidiaries	—	—	(611,055,656)	548,247,797
Share of profit of associates	8,368,000	—	8,368,000	—
Amortisation of premium on equity investments	(10,197,000)	(6,191,194)	(10,197,000)	(6,191,194)
	(1,829,000)	(6,191,194)	(612,884,656)	542,056,603

35. SUBSIDY INCOME

	The Group 2000	1999	The Company 2000	1999
VAT refund (a)	—	80,463,389	—	75,658,285
VAT and EIT refund on sales of national new products (b)	—	61,230,754	—	61,230,754
Subsidy for electricity charges	175,300	913,034	175,300	913,034
Other tax benefits	—	1,216,404	—	—
	175,300	143,823,581	175,300	137,802,073

(a) On 1 January 1994, a new system on 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.

(b) During the year ended 31 December 1999, tax refund relating to non-CFC refrigerators sold in 1998 of RMB61,230,754 had been approved by the Finance Bureau and recorded in the statement of income and profit appropriation in 1999. There was no such refund for the year ended 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

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36. NON-OPERATING EXPENSES

	The Group		The Company	
	2000	1999	2000	1999
Loss on disposal of fixed assets	5,544,048	6,531,448	1,653,069	1,091,933
Others	14,961,773	11,159,474	3,740,155	8,894,986
	20,505,821	17,690,922	5,393,224	9,986,919

37. INCOME TAX

	The Group		The Company	
	2000	1999	2000	1999
PRC enterprise income tax	5,429,722	6,380,214	4,597,211	1,171,704
Hong Kong profits tax	—	787,700	—	—
Others	64,952	68,110	—	—
	5,494,674	7,236,024	4,597,211	1,171,704

38. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(a) Related party with controlling relationship

Name	Place of incorporation	Principal activity	Relationship	Nature	Legal representative
GKG	Shunde, PRC	Investment holding	Shareholder	Limited liability	Li Zhen Hua

(b) Movements of registered capital of related party with controlling relationship

Name	Beginning of year	2000		End of year
		Increase	Decrease	
GKG	30,000,000	—	—	30,000,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

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38. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Cont'd)

(c) Movements of the Company's share capital held by related party with controlling relationship

Name	Beginning of year		Increase		Decrease		End of year	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
GKG	337,915,755	34.06%	—	—	—	—	337,915,755	34.06%

(d) Nature of related parties without controlling relationship

Name	Relationship
Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")	Associate of minority shareholder of Chengdu Kelon
Shunde Cheung Tat Household Appliance Co., Ltd. ("Shunde Cheung Tat")	Financially supported by GKG
Shunde Kelon Advertising Company ("Kelon Advertising")	Subsidiary of shareholder
Shunde Kelon	Associate of the Company
Sanyo-Kelon	Associate of the Company
Shunde Huaao Electrical Company Limited ("Shunde Huaao")	Subsidiary of shareholder
Chongqing Kelon	Associate of the Company
Kelon Refrigerator	Subsidiary of the Company
Kelon Air-conditioner	Subsidiary of the Company
Chengdu Kelon	Subsidiary of the Company
Yingkou Kelon	Subsidiary of the Company
Rongqi Fittings	Subsidiary of the Company
Rongsheng Plastic	Subsidiary of the Company
Pearl River	Subsidiary of the Company
Kelon Electric	Subsidiary of the Company
Kelon Mould	Subsidiary of the Company

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38. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Cont'd)

(e) Related party transactions

The Group	2000	1999
Transactions with GKG (i)		
— Sale of refrigerators	—	20,571,975
— Corporate guarantee from GKG (Note 24)	200,000,000	—
Other related party transactions		
Sale of goods to related parties		
— Shunde Cheung Tat (ii)	246,177,855	342,004,819
— Shunde Kelon (v)	2,095,601	3,224,884
— Sanyo-Kelon	36,119,549	14,980,270
— Shunde Huaao	5,716,018	—
— Chongqing Kelon	50,864,328	—
	340,973,351	360,209,973
Buy-back of goods from related party		
— Shunde Cheung Tat (ii)	98,292,212	—
Prepayment granted to related party		
— Chengdu Xinxing (iii)	34,000,000	34,000,000
Payment of advertising fees to related party		
— Kelon Advertising (iv)	88,065,439	18,723,191

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38. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Cont'd)

(e) Related party transactions (Cont'd)

The Company	2000	1999
Sale of refrigerators to related parties		
— GKG	—	20,571,975
— Kelon Refrigerator	154,670,280	—
	154,670,280	20,571,975
Purchase of refrigerators from related parties		
— Chengdu Kelon	—	276,641,225
— Yingkou Kelon	—	229,090,393
— Kelon Refrigerator	—	1,767,225,411
	—	2,272,957,029
Processing income received from related party		
— Kelon Air-conditioner	—	16,120,401
Sale of fixed assets to related party		
— Rongqi Fittings	(139,100,770)	—
Acquisition of fixed assets from related parties		
— Kelon Air-conditioner	6,850,000	
— Kelon Refrigerator	20,386,167	
Transfer of assets, net	(111,864,603)	—
Purchase of mould from related party		
— Kelon Mould	4,962,352	8,549,452
Purchase of raw materials from related parties		
— Rongsheng Plastic	1,360,991	14,952,277
— Pearl River	—	240,196,914
— Rongqi Fittings	7,962,641	—
	9,323,632	255,149,191
Management fee income from related party		
— Kelon Air-conditioner (vii)	125,000,000	—
Corporate guarantee from related party (i)		
— GKG (Note 24)	200,000,000	—
Corporate guarantee granted to related parties		
— Chengdu Kelon	60,000,000	60,000,000
— Yingkou Kelon (Note 16)	22,000,000	20,000,000
— Kelon Electric*	42,000,000	—
— Pearl River*	269,686,000	—
	393,686,000	80,000,000

* As of 31 December 2000, bank facilities of Kelon Electric and Pearl River guaranteed by the Company amounted to approximately RMB39,000,000 and RMB8,000,000, respectively.

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38. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Cont'd)

(f) Balances with related parties

The Group	31 December 2000	31 December 1999
Accounts receivable		
— Shunde Cheung Tat (ii)	121,429,165	20,645,638
— Sanyo-Kelon	28,484,336	11,051,253
— Shunde Huaao	5,716,018	—
	155,629,519	31,696,891
Other receivables		
— GKG (i)	280,612,660	—
— Chengdu Xinxing (iii)	34,000,000	34,000,000
— Others (viii)	35,617,050	32,975,252
	350,229,710	66,975,252
Trade deposits from customers		
— Chongqing Kelon	22,154,008	—
— Others	160,995	—
	22,315,003	—
The Group	31 December 2000	31 December 1999
Other payables		
— GKG	—	32,435,538
The Company	31 December 2000	31 December 1999
Other receivables		
— GKG	23,645,296	—
— Subsidiaries of the Company	2,212,064,054	971,805,249
— Sanyo-Kelon	—	14,224,691
— Others	12,634,000	6,779,403
	2,248,343,350	992,809,343
Other payables		
— Subsidiaries of the Company	169,131,792	87,721,912

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

38. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Cont'd)*

(f) Balances with related parties *(Cont'd)*

- (i) Under the licence agreement ("Licence Agreement") dated 6 July 1996 made between GKG 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 equivalent 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.

Kelon Refrigerator, 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, the balance due from GKG under the above-mentioned arrangements amounted to approximately RMB280,612,000.

As of 31 December 2000, long-term bank loan of RMB200,000,000 of the Company was guaranteed by GKG (*Note 24*).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

38. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Cont'd)*

(f) Balances with related parties *(Cont'd)*

- (ii) The Group sold refrigerators to Shunde Cheung Tat, which 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 RMB246,177,855 (1999: RMB342,004,819). Prior to 31 December 2000, the Group entered into agreement and bought back certain unsold refrigerators from Shunde Cheung Tat for RMB98,292,212. 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 RMB121,429,165 (1999: RMB20,645,638), which is non-interest bearing, unsecured and is due for payment within one year.
- (iii) The Company made prepayments amounting to an aggregate sum of RMB34,000,000 indirectly through its subsidiary, Chengdu Kelon to Chengdu Xinxing, which is an associate of Chengdu Engine (Group) Company Limited ("Chengdu Engine"), the minority investor of Chengdu Kelon. 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. 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 9.504% of RMB30,000,000 and 9% of RMB4,000,000.
- (iv) The Group engaged Kelon Advertising as one of its advertising agency. Kelon Advertising is a wholly-owned subsidiary of GKG. For the year ended 31 December 2000, the Group made payment of RMB88,065,439 (1999: RMB18,723,191) to Kelon Advertising in connection with advertising activities in respect of Kelon brands.
- (v) 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 sell them in the market. During the year ended 31 December 2000, the total sales amount of the Group to Shunde Kelon amounted to approximately RMB2,095,601.

NOTES TO THE FINANCIAL STATEMENTS

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38. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Cont'd)

(f) Balances with related parties (Cont'd)

- (vi) Kelon Development, 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 Kelon Development in C&Y as well as setting out the respective rights and obligations of QJY and Kelon Development 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, Kelon Development 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.

Kelon Development 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.

The sole shareholder of QJY is the spouse of Dr. Philip Yu Hong Wong, a non-executive director of the Company.

- (vii) During the year, the Company has entered into a management services agreement with Kelon Air-conditioner. According to the agreement, Kelon Air-conditioner is required to pay management fee and interest to the Company for utilising its resources and working capital. The amount charged to Kelon Air-conditioner for the year ended 31 December 2000, amounted to RMB125,000,000.
- (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 RMB28,550,559 (1999: RMB18,111,401). All of these advances are guaranteed by GKG.
- (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.

In the opinion of the directors, the above transactions were conducted on normal commercial terms in the ordinary course of business of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

39. RETURN ON NET ASSETS AND EARNINGS PER SHARE

Return on net assets and earnings per share are prepared in accordance with PRC Accounting Rules and Regulations as required by "No. 9 Document of Regulations and Information Disclosure Requirements for Public Companies — Computation and Disclosure of Return on Net Assets and Earnings per Share". Methods of calculation are as follow:

Fully diluted return on net assets = profit for the reporting period/net assets as of the end of the period

Fully diluted earnings per share = profit for the reporting period/total number of shares as of the end of the period

$$\text{Weighted average return on net assets} = \frac{P}{(E_o + NP/2 + E_i * M_i/M_o)}$$

P: Profit for the reporting period

NP: Net profit for the reporting period

E_o: Net assets as of the beginning of the period

E_i: Increase in net assets by issue of new shares

M_o: Number of months for the reporting period

M_i: Number of months from the month immediately after the issue of new shares to the end of the reporting period

$$\text{Weighted average earnings per share} = \frac{P}{(S_o + S_i * M_i/M_o)}$$

P: Profit for the reporting period

S_o: Number of shares as of the beginning of the period

S_i: Increase in number of shares from issue of new shares

M_o: Number of months for the reporting period

M_i: Number of months from the month immediately after the issue of new shares to the end of the reporting period

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

40. CAPITAL COMMITMENT

As of 31 December 2000, the Group had the following commitment:

	31 December 2000	31 December 1999
Authorised and contracted for:		
– Purchase of advertisement and sponsorship air-time (Note 38(f)(vi))	21,200,000	—
– Purchase of fixed assets and construction-in-progress	13,297,000	11,483,000

41. CONTINGENT LIABILITIES

	The Group	
	31 December 2000	31 December 1999
Notes receivable discounted	300,430,000	22,500,000

	The Company	
	31 December 2000	31 December 1999
Notes receivable discounted	—	22,500,000
Guarantees for loan facilities granted to subsidiaries (Note 38(e))	393,686,000	80,000,000

42. POST BALANCE SHEET EVENT

The Group has no major post balance sheet event from 1 January 2001 to the issuance date of this report.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

43. IMPACT OF IAS ADJUSTMENT ON NET PROFIT (LOSS) AND NET ASSETS

The statutory financial statements of the Group was prepared in accordance with the PRC Accounting Standards. Due to the differences between PRC Accounting Standards and International Accounting Standard ("IAS"), the financial statements prepared under PRC Accounting Standards were different from those prepared under IAS. The significant differences are summarised as follows:

The Group	Net (loss) profit		Net assets	
	2000	1999	31 December 2000	31 December 1999
As reported in the financial statements prepared under PRC Accounting Standards	(678,418,823)	643,584,316	4,134,255,797	4,815,210,308
Impact of IAS adjustments				
– Adjustment on fixed asset revaluation surplus and related depreciation	(15,463,682)	(15,463,682)	32,533,359	47,997,041
– Adjustment in respect of dividends	–	–	–	212,289,404
– Adjustment in respect of pre-operating expenditure	5,131,102	3,900,029	(8,135,898)	(13,267,000)
– Adjustment in respect of capitalised pension costs	750,000	750,000	(10,125,000)	(10,875,000)
As stated in the financial statements prepared under IAS	(688,001,403)	632,770,663	4,148,528,258	5,051,354,753

The Company	Net (loss) profit		Net assets	
	2000	1999	31 December 2000	31 December 1999
As reported in the financial statements prepared under PRC Accounting Standards	(678,418,823)	643,584,316	4,138,015,067	4,816,433,890
Impact of IAS adjustments				
– Adjustment on fixed asset revaluation surplus and related depreciation	(17,299,585)	(17,299,585)	59,541,418	76,841,003
– Adjustment in respect of dividends	–	–	–	212,289,404
– Adjustment in respect of pre-operating expenditure	612,884,657	(542,056,603)	(136,383,926)	(749,268,583)
– Adjustment in respect of capitalised pension costs	750,000	750,000	(10,125,000)	(10,875,000)
As stated in the financial statements prepared under IAS	(82,083,751)	84,978,128	4,051,047,559	4,345,420,714

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

44. MAJOR CHANGES IN THE CONSOLIDATED FINANCIAL STATEMENTS

Balances in the consolidated financial statements as of and for the year ended 31 December 2000 which changed more than 30% compared to those as of and for the year ended 31 December 1999 and represented more than 5% of the total asset or 10% of the loss of the Group for the year ended 31 December 2000 are as follows:

	2000	1999	Changes	
			Amount	Percentage
Balances in the balance sheets:				
Notes receivable (a)	280,255,647	986,009,131	(705,753,484)	(72%)
Other receivables (b)	460,048,067	184,336,092	275,711,975	150%
Short-term bank loans (c)	437,700,000	883,799,018	(446,099,018)	(50%)
Trade deposits from customers (d)	553,272,123	65,706,445	487,565,678	742%
Minority interests (e)	104,993,526	439,220,182	(334,226,656)	(76%)
Balances in the statement of income and profit appropriation:				
Profit from principal activities (f)	618,969,450	1,750,303,158	(1,131,333,708)	(65%)
Provision for inventory obsolescence (g)	163,067,000	36,000,000	127,067,000	353%
Subsidy income (h)	175,300	143,823,581	(143,648,281)	(99%)
Minority interests (i)	334,226,656	(41,220,578)	375,447,234	911%
Net (loss) profit (j)	(678,418,823)	643,584,316	(1,322,003,139)	(205%)

- (a) Notes receivable decreased because the Group discounted a number of bank acceptance notes in order to maintain sufficient working capital for the year ended 31 December 2000.
- (b) Increase in other receivables was resulted from the increase in the amount due from GKG as of 31 December 2000 (Note 38(f)).
- (c) The Group had sufficient funds to repay its bank loans during the year ended 31 December 2000, resulting in the decrease in short-term bank loans.
- (d) Trade deposits from customers increased because the Group adopted a new marketing policy which required a majority of its customers to pay deposits to the Group prior to delivery of goods during the year ended 31 December 2000.
- (e) The loss applicable to the minority shareholder of one of the Group's subsidiaries was charged to the minority interest in the Group's 31 December 2000 consolidated balance sheet, resulting in the decrease in minority interest as of 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000 and 1999

(Amounts expressed in Renminbi Yuan unless otherwise stated)

44. MAJOR CHANGES IN THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

- (f) Profit from principal activities decreased as a result of the significant decrease in selling prices of the Group's products and the increase in the amount of sales discounts granted to customers during the year ended 31 December 2000.
- (g) In light of the significant decrease in selling prices of the Group's products, provision was made for out-dated models and slow-moving items.
- (h) Subsidy income decreased because a majority of the subsidy income for the year ended 31 December 1999 was non-recurring in nature.
- (i) Change in minority interests was resulted from the loss applicable to the minority shareholder of Kelon Air-Conditioner for the year ended 31 December 2000.
- (j) Refer to Notes (f), (g), (h) and (i) for explanation of the change in net (loss) profit.

45. COMPARATIVE FIGURES

Certain of the 1999 comparative figures have been reclassified to conform to the current year's presentation.