

GZITIC HUALING HOLDINGS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER, 2000

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

GZITIC Hualing Holdings Limited (the "Company") was incorporated in Hong Kong on 23 December, 1992, and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sale of household electrical appliances, which include refrigerators, air conditioners and mini-refrigerators.

The directors of the Company consider Guangzhou International Trust and Investment Corporation ("GZITIC"), a company incorporated in the People's Republic of China (the "PRC"), to be the ultimate holding company.

As at 31 December, 2000, the Group had accumulated losses of approximately \$54,952,000 and net current liabilities of approximately \$54,447,000. As the operating results for the year ended 31 December, 2000 remained at a profitable level for the second year, the directors are optimistic about the outlook of the Company and the Group's ability to further improve their results in the future, and consider the net deficiency in working capital no longer raises significant uncertainty about the Company and the Group's ability to continue as a going concern.

On 1 December, 2000, GZITIC entered into a debt restructuring agreement (the "Debt Restructuring Agreement") with its creditors for a restructuring of its debt repayment obligations. The directors also consider the uncertainty regarding GZITIC's viability to remain as a going concern no longer exists.

2. PRINCIPAL ACCOUNTING POLICIES

a. Basis of presentation

The financial statements are prepared in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong ("HK GAAP"), the disclosure requirements of the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This basis of accounting differs from that used in the financial statements of the group companies not incorporated in Hong Kong, which are prepared in accordance with the accounting standards of their respective countries. Adjustments have been made to these financial statements for compliance with HK GAAP.

b. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. All significant intra-group transactions and balances are eliminated on consolidation.

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

c. Turnover

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

d. 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 revenues are recognised on the following basis:

(i) Sale of goods

Sale 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. Interest income from investments in securities is accounted for to the extent of interest received or receivable.

(iii) Dividend income

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

(iv) Rental income

Rental income under operating leases is recognised on a straight-line basis over the period of the relevant leases.

e. Fixed assets and depreciation

Fixed assets, other than investment properties and freehold land, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditures are capitalised as additional costs of the fixed asset.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

Buildings	5% to 9%
Plant and machinery	5% to 9%
Furniture and fixtures and electronic equipment	18%
Motor vehicles	18%
Moulds and other equipment	18% to 45%

The costs incurred in the acquisition of land use rights in the PRC are amortised over the duration of the land use rights which is approximately 50 years.

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

f. Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and for the long-term.

Investment properties are included in the balance sheet at their open market value, on the basis of an annual valuation by professionally qualified executives of the Company and independent valuers at intervals of not more than three years. Changes in the value of investment properties are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a reduction in the open market value on a portfolio basis, the excess is charged to the consolidated income statement.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to the consolidated income statement as part of the profit or loss on disposal of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on their carrying value over the unexpired lease term.

g. Construction-in-progress

Construction-in-progress is carried at cost which includes development and construction expenditures incurred and interest and other direct costs attributable to the development. On completion, the properties are transferred to fixed assets.

h. Subsidiaries

A company is a subsidiary company if more than 50% of the issued voting capital is held long-term directly or indirectly.

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

i. Associates

An associate is an enterprise in which the Group has significant influence, but not control or joint control and thereby has the abilities to participate in their 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 alterations 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 consolidated income statement.

j. Goodwill

Goodwill arising from the acquisition of subsidiaries or associates is stated at cost and amortised over a period of 10 years. Any unamortised goodwill is charged to the consolidated income statement upon disposal of the relevant subsidiaries or associates.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

k. Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is based on the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is 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.

l. Deferred taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of the timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

m. Warranty

Two subsidiaries of the Group, China Refrigeration Industry Co., Ltd. ("China Refrigeration") and Guangzhou Hualing Air conditioning and Equipment Co., Ltd. ("Hualing Air conditioning"), provide free repair services over the life of its products and one year after sales respectively. Free replacement of the major components is provided for periods ranging from one year to three years after sales. The cost of the warranty obligation under which China Refrigeration and Hualing Air conditioning agree to remedy defects in its products is accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligations, including handling and transportation costs. The costs are estimated by the directors based on historical experience and industry information. The assumptions used to estimate warranty accruals are re-evaluated periodically in light of actual experience.

n. Borrowing costs

Interest is expensed as incurred, except for interest directly attributable to the construction of property under development which is capitalised as part of the cost of that property. Interests are capitalised at the weighted average cost of the related borrowing up to the date of completion of the property.

o. Operating leases

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

p. Pension scheme

Contributions to pension schemes are charged to the consolidated income statement as incurred.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

q. Cash and cash equivalents

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

r. Foreign currency

The books and records of the Company and its subsidiaries, except for subsidiaries in the PRC, are maintained in Hong Kong dollars. The books and records of subsidiaries in the PRC are maintained in Renminbi.

Transactions in currencies other than the book currencies during the year are translated into the book currencies at exchange rates at the time of the transactions. For the subsidiaries in the PRC, applicable rates of exchange represent those quoted by the People's Bank of China ("PBOC"). Monetary assets and liabilities denominated in currencies other than the book currencies at the balance sheet date are translated into the book currencies at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the consolidated income statement.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, the financial statements of subsidiaries in the PRC are translated into Hong Kong dollars using the closing rate method, whereby assets, liabilities, income and expenses are translated at the applicable rates of exchange quoted by the PBOC prevailing at the balance sheet date. Translation differences arising therein are dealt with as movements in reserves (refer to Note 25 for details).

3. TURNOVER

Substantially all turnover of the Group is attributable to the sales of household electrical appliances in the PRC.

4. OTHER REVENUES

	2000	1999
	\$'000	\$'000 (Note 32)
Rental income from investment properties (Note a)	5,194	15,400
Write back of non-recovery of rental receivable GZITIC (Note 27)	8,253	–
	13,447	15,400
Value Added Tax ("VAT") refund (Note b)	3,933	7,525
Gain on disposal of an associate (Note c)	–	21,273
Others	1,802	5,808
	19,182	50,006

Notes:

- a. Pursuant to an agreement entered into in 1998 with GZITIC, GZITIC had guaranteed the Group that the gross annual rental income of an investment property acquired from GZITIC will amount to not less than \$15,400,000 per annum for the two years commencing 10 June, 1998. Rental income of approximately \$5,194,000 was recognised in the consolidated income statement of the Group for the year ended 31 December, 2000 (see Note 27).
- b. Pursuant to the document (Yue Jing Ke [1999] 234) issued by the Guangdong Provincial Economic Committee, Guangdong Finance Bureau, Guangdong State Tax Bureau, Guangdong Local Tax Bureau and Guangdong Land and Resource Bureau, China Refrigeration was granted the status of Technological Renovation Enterprise. Accordingly the net VAT payable retained by local authorities for 1999 is subject to refund. During the year ended 31 December, 2000, VAT refund of approximately \$3,933,000 was obtained by China Refrigeration from the Guangzhou Finance Bureau and recognised in the consolidated income statement of the Group for the year ended 31 December, 2000.
- c. In January 1999, the Group signed a Sale and Purchase Agreement with Mitsubishi Electric Corporation of Japan to dispose of the Group's entire interest in Guangzhou Mitsubishi Electric-Hualing Compressors Co., Ltd., an associate. The transaction was approved by the relevant PRC authority in January 1999 and the transaction was completed in March 1999. The selling price was in excess of the Group's carrying value of the investment in associate and a gain of approximately \$21,273,000 was recognised in the consolidated income statement of the Group for the year ended 31 December, 1999.

5. PROFIT BEFORE TAXATION

Profit before taxation is determined after crediting and charging the following:

	2000 \$'000	1999 \$'000
Crediting:		
Rental income from investment properties (Note 27)	5,194	15,400
Less: Write back of (provision for) non-recovery of rental receivable from GZITIC (Note 27)	8,253	(15,400)
	13,447	–
Write back of provision for doubtful receivables	9,415	–
Interest income from banks	1,560	4,270
Exchange gain	2,779	863
Charging:		
Interest expenses in respect of bank loans repayable with 5 years	38,709	46,486
Less: Interest capitalised	(2,827)	–
	35,882	46,486
Staff costs, including directors' emoluments	84,744	48,516
Depreciation and amortisation of fixed assets	60,764	54,802
Loss on disposals of fixed assets	58,237	61,837
Provision for products warranty costs	4,000	–
Provision for doubtful receivables	–	18,634
Provision for staff welfare and bonus	7,160	6,381
Auditors' remuneration	1,507	1,395
Operating lease rentals in respect of land and buildings	11,359	9,624
Exchange loss	3,522	1,563
Technology transfer fees to Mitsubishi Electric Corporation of Japan	11,112	19,431

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are as follows:

	2000 \$'000	1999 \$'000
Fees for executive directors	–	–
Fees for non-executive directors	250	150
Salaries and allowances	4,987	947
Pension scheme contributions	109	331
	<u>5,346</u>	<u>1,428</u>

None of the directors waived any emoluments during the year.

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

	2000	1999
Executive directors		
– Nil to \$1,000,000	3	6
– \$1,500,001 to \$2,000,000	2	–
	<u>5</u>	<u>6</u>
Non-executive directors		
– Nil to \$1,000,000	6	7
	<u>11</u>	<u>13</u>

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

	2000 \$'000	1999 \$'000
Basic salaries and allowances	5,933	2,193
Bonus paid and payable	–	–
Pension scheme contributions	116	331
	<u>6,049</u>	<u>2,524</u>
Number of directors	3	2
Number of employees	2	3
	<u>5</u>	<u>5</u>

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 other than statutory compensation.

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

	2000	1999
– Nil to \$1,000,000	3	5
– \$1,500,000 to \$2,000,000	2	–
	<u>5</u>	<u>5</u>

7. TAXATION

No Hong Kong profits tax has been provided as the Group did not have any assessable income under Hong Kong profits tax. Overseas taxation has been calculated on the estimated assessable profit for the year at the rates prevailing in the respective jurisdictions.

	2000	1999
	\$'000	\$'000
PRC taxation	895	682

In accordance with the PRC Laws of Enterprise Income Tax ("EIT") for Enterprises with Foreign Investment and Foreign Enterprises and an approval document (No.010399) from Guangzhou State Tax Bureau, China Refrigeration is entitled to a 50% reduction and is therefore subject to EIT at a rate of 12% in the period from January 1998 to December 2000.

Pursuant to the PRC Laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and an approval document (No.259) from Panyu State Tax Bureau, Hualing Air conditioning is entitled to full exemption from EIT for two years starting from the first year of profitable operation and a 50% reduction at a rate of 15% in the next three years. Year 2000 is Hualing Air conditioning's second profitable year, no provision for EIT was made accordingly.

There was no significant unprovided deferred taxation as at 31 December, 2000 (1999: nil).

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders for the year ended 31 December, 2000 included a profit of approximately \$119,861,000 (1999: loss of approximately \$6,901,000) dealt with in the financial statements of the Company. A loss of approximately \$1,742,000 (1999: nil) was attributable to the associates.

9. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December, 2000 (1999: nil).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders for the year of approximately \$90,389,000 (1999: \$55,138,000) divided by the weighted average of 1,176,374,216 shares (1999: 1,165,853,668 shares) in issue during the year.

The calculation of diluted earnings per share is based on the consolidated profit attributable to shareholders for the year of approximately \$90,389,000 (1999: \$55,138,000) adjusted for the income effect of approximately \$507,000 (1999: nil) of the assumed conversions of all dilutive potential ordinary shares and divided by 1,187,602,210 shares (1999: 1,166,055,137 shares) which is the weighted average number of shares in issue during the year plus the weighted average of 11,227,994 shares (1999: 201,469 shares) deemed to be issued at the agreed exercise prices as if all outstanding share options had been exercised.

11. FIXED ASSETS, NET

	Group							1999
	2000							
				Furniture, fixtures and electronic equipment	Motor vehicles	Moulds and other equipment		
	Land use rights	Buildings	Plant and machinery				Total	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	Total \$'000
COST								
Beginning of year	60,489	130,552	459,023	47,618	21,868	101,913	821,463	844,307
Additions	–	4,936	21,550	6,178	2,275	58,440	93,379	23,660
Transfer from construction-in-progress (Note 13)	–	9,637	6,419	–	–	4,069	20,125	23,614
Disposals	–	(17,846)	(69,516)	(507)	(4,075)	(29,047)	(120,991)	(73,019)
Translation differences	242	494	1,867	105	89	521	3,318	2,901
End of year	60,731	127,773	419,343	53,394	20,157	135,896	817,294	821,463
ACCUMULATED DEPRECIATION								
Beginning of year	(7,061)	(32,099)	(212,365)	(20,274)	(15,083)	(70,561)	(357,443)	(312,265)
Provision for the year	(1,195)	(8,023)	(17,444)	(5,052)	(2,190)	(26,860)	(60,764)	(54,802)
Disposals	2,785	2,019	23,505	1,305	3,529	29,611	62,754	11,182
Translation differences	(31)	(129)	(1,619)	(12)	(22)	373	(1,440)	(1,558)
End of year	(5,502)	(38,232)	(207,923)	(24,033)	(13,766)	(67,437)	(356,893)	(357,443)
NET BOOK VALUE								
End of year	55,229	89,541	211,420	29,361	6,391	68,459	460,401	464,020
Beginning of year	53,428	98,453	246,658	27,344	6,785	31,352	464,020	532,042

All the land use rights of the Group have lease terms of 50 years and are related to land located in the PRC where no individual land ownership rights exist.

As at 31 December, 2000, fixed assets of the Group with net book value of approximately \$194,000,000 (1999: \$163,000,000) were pledged as security for the Group's banking facilities (see Note 29).

11. FIXED ASSETS, NET (continued)

	Company		
	2000		
	Furniture, fixtures and electronic equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000
COST			
Beginning of year	351	1,869	2,220
Additions	235	–	235
Disposals	–	–	–
End of year	586	1,869	2,455
ACCUMULATED DEPRECIATION			
Beginning of year	(133)	(1,267)	(1,400)
Provision for the year	(86)	(144)	(230)
Disposals	–	–	–
End of year	(219)	(1,411)	(1,630)
NET BOOK VALUE			
End of year	367	458	825
Beginning of year	218	602	820

12. INVESTMENT PROPERTIES

The investment properties represent 11 floors and 12 carparking spaces in Guo Xin Building, which is located in Guangzhou of the PRC with lease terms of 50 years.

The investment properties were revalued on 31 December, 1998 by Vigers Hong Kong Limited, independent qualified valuers, to be approximately \$181,000,000.

The directors were of the opinion that the carrying value of the investment properties as at 31 December, 2000 approximated the open market value.

13. CONSTRUCTION-IN-PROGRESS

	Group	
	2000	1999
	\$'000	\$'000
Beginning of year	51,400	49,933
Additions	36,286	25,081
Transfer to fixed assets (Note 11)	(20,125)	(23,614)
End of year	67,561	51,400

Construction-in-progress as at 31 December, 2000 mainly represented machinery under installation in the PRC. Additions to construction-in-progress included interest capitalised of approximately \$2,827,000 (1999: nil).

The capitalised interest rate represents the cost of capital from raising the related borrowings externally and varies from 5.94% to 7.56% (1999: nil) for the year ended 31 December, 2000.

14. INVESTMENTS IN SUBSIDIARIES

In the balance sheet of the Company, investments in subsidiaries comprised :

	Company	
	2000	1999
	\$'000	\$'000
Unlisted equity interests, at cost	20,997	20,997
Due from subsidiaries	523,668	536,303
	544,665	557,300
Less: Provision for impairment in value	–	(120,000)
	544,665	437,300

Amounts due from subsidiaries were unsecured, non-interest bearing and with no fixed repayment terms.

As the operating results of the subsidiaries for the year ended 31 December, 2000 had resumed to a profitable level, the directors have reversed the provision of \$120,000,000 for impairment in value of investments in subsidiaries and such reversal has been eliminated on consolidation.

The directors are of the opinion that the underlying value of investments in subsidiaries is not less than the carrying value as at 31 December, 2000.

14. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries:

Name	Place and date of incorporation/ establishment	Company's equity interest held	Issued and paid-up capital	Principal activities
DIRECTLY HELD				
China Refrigeration	The PRC 25 March, 1985 to 25 March, 2005 (period of the equity joint venture)	95%	US\$10,000,000	Manufacture and sale of refrigerators
Hualing Technology Limited ("Hualing Technology")	Hong Kong, 23 December, 1992	100%	\$10	Investment holding
Hualing Investments Limited ("Hualing Investments")	Hong Kong 18 February, 1993	100%	\$2	Investment holding
Hualing International Limited	Hong Kong 4 March, 1993	100%	\$2	Trading
Hualing Refrigerant Engineering Limited	Hong Kong 28 February, 1995	100%	\$2	Investment holding
Hualing (Far East) Limited	The British Virgin Islands 10 September, 1993	100%	US\$1	Investment holding
INDIRECTLY HELD				
Hualing Air conditioning	The PRC 10 May, 1993 to 10 May, 2013 (period of the wholly foreign owned enterprise)	100%	US\$20,000,000	Manufacture and sale of Air conditioners and electronic appliances
Guangzhou Hualing Electrical Household Appliance Enterprise Co. Ltd.	The PRC 28 March, 1995 to 28 March, 2005 (period of the equity joint venture)	95.5%	RMB3,000,000	Distributor of HUALING brand products in the PRC
Hefei Hualing Electrics Co. Ltd. ("Hefei Hualing")	The PRC 20 June, 1993 to 20 June, 2004 (period of the equity joint venture)	55%	\$29,596,588	Manufacture and sale of mini- refrigerators
Guangzhou Hualing Refrigerator Co. Ltd.	The PRC 21 March, 1996 to 21 March, 2006 (period of the equity joint venture)	96.25%	US\$1,441,715	Manufacture and sale of refrigerators
Growth Plus Properties Ltd.	The British Virgin Islands, 1 July, 1997	100%	US\$1	Investment holding
China Appliances.com Limited	The British Virgin Islands, 2 March, 2000	100%	US\$1	Investment holding

Hualing Air conditioning is a wholly foreign owned enterprise. Other subsidiaries established in the PRC are Sino-foreign equity joint ventures.

14. INVESTMENTS IN SUBSIDIARIES (continued)

On 22 December, 1999, Hualing Technology, entered into an agreement with Panyu Dashi Economic Development Holding Company for the acquisition of 20% equity interest in Hualing Air conditioning, an indirectly 80% owned subsidiary of the Company, for a consideration of RMB43,800,000 (approximately \$42,460,000). Upon completion of the acquisition on 1 February, 2000, Hualing Air conditioning became an indirectly wholly-owned subsidiary of the Company and a wholly-foreign owned enterprise in the PRC.

15. INVESTMENTS IN ASSOCIATES

	Group	
	2000	1999
	\$'000	\$'000
Unlisted equity interests, at cost	24,641	23,625
Share of post-acquisition reserves	(1,180)	–
Less: Provision for impairment in value	(467)	(467)
	<u>22,994</u>	<u>23,158</u>

The directors are of the opinion that the underlying value of the associates is not less than the carrying amount of associates as at 31 December, 2000.

The following is a list of the principal associates:

Name	Place and date of incorporation/ establishment/ operation	Company's equity interest held	Issued and paid-up capital	Principal activities
INDIRECTLY HELD				
Xian Dongling Refrigerating Compressors Co., Ltd.	The PRC 27 September, 1995 to 26 September, 2015 (period of the equity joint venture)	25%	US\$10,400,000	Manufacture and sale of refrigerator compressors
Guangzhou Hualing Polyfoam Co., Ltd. ("Hualing Polyfoam")	The PRC 28 December, 1991 to 28 December, 2004 (period of the equity joint venture)	19%	US\$1,000,000	Manufacture and sale of polyfoam products
Beijing Wide Vision Network Co., Ltd. ("Beijing Wide")	The PRC 18 December, 2000 to 17 December, 2010 (period of the equity joint venture)	33%	RMB3,000,000(*)	Not yet commenced business

* Pursuant to shareholders' agreement of Beijing Wide, the Group paid up RMB990,000 capital of Beijing Wide, being 33% of the total issued capital in January 2001. As of 31 December, 2000, no capital of Beijing Wide was paid by the Group.

All associates in the PRC are sino-foreign equity joint venture enterprises.

16. GOODWILL, NET

	Group	
	2000	1999
	\$'000	\$'000
Beginning of year	–	–
Arising on acquisition of a subsidiary	6,801	–
Amortisation for the year	(680)	–
End of year	6,121	–

Goodwill was recognised on the acquisition of 20% equity interest in Hualing Air conditioning (see Note 14).

17. INVENTORIES, NET

	Group	
	2000	1999
	\$'000	\$'000
Raw materials	284,100	214,813
Work-in-progress	37,475	48,787
Finished goods	334,125	220,104
	655,700	483,704
Less : Provision for obsolete inventories	(28,729)	(28,729)
	626,971	454,975

Included above are raw materials and finished goods of approximately \$273,236,000 and \$316,260,000 (1999: \$203,949,000 and \$202,239,000) respectively, carried at net realisable value.

18. ACCOUNTS RECEIVABLE, NET

	Group	
	2000	1999
	\$'000	\$'000
Accounts receivable	281,519	260,591
Less: Provision for doubtful receivables	(80,256)	(89,671)
	201,263	170,920

The aging analysis of accounts receivable was as follows:

	Group	
	2000	1999
	\$'000	\$'000
Within 1 year	187,618	175,530
Over 1 year but within 2 years	28,631	22,759
Over 2 years	65,270	62,302
	281,519	260,591

19. DUE FROM THE ULTIMATE HOLDING COMPANY

As more fully disclosed in Note 27, there was a receivable from GZITIC in connection with the guarantee granted by GZITIC. The details were as follows:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Rental receivable from GZITIC (Note 27)	26,894	21,700	26,894	21,700
Provision for doubtful debt (Note 27)	(13,447)	(21,700)	(13,447)	(21,700)
	<u>13,447</u>	<u>-</u>	<u>13,447</u>	<u>-</u>

Amounts due from the ultimate holding company were unsecured, non-interest bearing and repayable on demand.

20. DUE TO RELATED COMPANIES

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Due to Yungang Plastic Company Ltd. ("Yungang Plastic"), a company in which the Group had a 14.25% equity interest	8,201	4,969	-	-
Due to Hualing Polyfoam	3,314	1,917	-	-
Due to Guangzhou Finance Company Limited, a wholly-owned subsidiary of GZITIC	2,517	2,992	2,510	2,985
	<u>14,032</u>	<u>9,878</u>	<u>2,510</u>	<u>2,985</u>

Amounts due to related companies arose in the ordinary course of business and were unsecured, non-interest bearing and repayment on demand.

21. TAXES PAYABLE

	Group	
	2000	1999
	\$'000	\$'000
VAT	60,192	59,724
Others	1,408	1,254
	<u>61,600</u>	<u>60,978</u>

22. ACCOUNTS PAYABLE

The aging analysis of accounts payable was as follows:

		Group	
		2000	1999
		\$'000	\$'000
Within 1 year		395,206	201,314
Over 1 year but within 2 years		26,534	14,531
Over 2 years		1,603	1,513
		<u>423,343</u>	<u>217,358</u>

23. BANK BORROWINGS

		Group		Company	
		2000	1999	2000	1999
		\$'000	\$'000	\$'000	\$'000
Bank overdrafts (unsecured)		–	139	–	139
Short-term bank borrowings (secured)		457,430	528,799	–	–
Long-term bank borrowings (secured)		82,972	–	–	–
		<u>540,402</u>	<u>528,938</u>	<u>–</u>	<u>139</u>

The maturity of the above bank overdrafts and bank borrowings was as follows:

		Group		Company	
		2000	1999	2000	1999
		\$'000	\$'000	\$'000	\$'000
On demand or within one year		457,430	528,938	–	139
Over one year but within two years		82,972	–	–	–
		<u>540,402</u>	<u>528,938</u>	<u>–</u>	<u>139</u>
Less: Amount due within one year shown under current liabilities		<u>(457,430)</u>	<u>(528,938)</u>	<u>–</u>	<u>(139)</u>
Long-term bank borrowings		<u>82,972</u>	<u>–</u>	<u>–</u>	<u>–</u>

As at 31 December, 2000, there was no amount repayable within three months from the dates of advances (1999: approximately \$6,573,000) included in the short-term bank borrowings.

Details of the banking facilities are set out in Note 29.

24. SHARE CAPITAL

	Number of shares		Nominal value	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Authorised :				
Ordinary shares of \$0.10 each	1,600,000	1,600,000	160,000	160,000
Issued and fully paid :				
Ordinary shares of \$0.10 each	1,179,056	1,174,456	117,906	117,446

During the year, 4,600,000 ordinary shares of 0.10 each were issued upon the exercise of share options (see Note 26), including:

- 600,000 shares at a premium of \$0.144 each issued on 5 May, 2000;
- 4,000,000 shares at a premium of \$0.093 each issued on 14 August, 2000.

25. RESERVES

	2000						1999
	Share premium \$'000	General reserve fund \$'000	Enterprise expansion fund \$'000	Exchange reserve \$'000	Property revaluation reserve \$'000	Accumulated losses \$'000	Total \$'000 (Note 32)
Group							
Beginning of year	446,081	25,315	16,726	27,449	13,000	(137,751)	325,615
Issue of ordinary shares	452	—	—	—	—	—	1,469
Profit appropriation	—	7,590	—	—	—	(7,590)	—
Share of post-acquisition reserves of associates	—	239	232	—	—	—	—
Profit attributable to shareholders	—	—	—	—	—	90,389	55,138
Translation differences during the year	—	—	—	1,048	—	—	932
Transfer from housing fund	—	—	—	—	—	—	7,666
End of year	446,533	33,144	16,958	28,497	13,000	(54,952)	390,820
Attributable to:							
The Company and subsidiaries	446,533	32,905	16,726	28,406	13,000	(53,181)	390,820
Associates	—	239	232	91	—	(1,771)	—
	446,533	33,144	16,958	28,497	13,000	(54,952)	390,820
Company							
Beginning of year	446,081	—	—	—	—	(127,328)	324,185
Issue of ordinary shares	452	—	—	—	—	—	1,469
Profit for the year	—	—	—	—	—	119,861	(6,901)
End of year	446,533	—	—	—	—	(7,467)	318,753

25. RESERVES (continued)

The Company had no reserves as at 31 December, 2000 available for distribution to shareholders (1999: nil).

The Company's PRC subsidiaries need to follow the laws and regulations of the PRC and their articles of association. These subsidiaries are required to provide for certain statutory funds, namely, general reserve fund, enterprise expansion fund, staff and workers' bonus and welfare fund which are appropriated from net profit after taxation but before dividend distribution. These PRC subsidiaries are required to allocate at least 10% of its net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriation to staff and workers' bonus and welfare fund is charged to expenses as incurred. Such appropriations are determined at the discretion of their directors. The general reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The staff and workers' bonus and welfare fund can only be used for special bonus or collective welfare of its employees, and assets acquired through this fund shall not be treated as assets.

For the year ended 31 December, 2000, the appropriation to statutory funds of the Company's PRC subsidiaries are as follows:

	2000	1999
	\$'000	\$'000 (Note 32)
General reserve fund	7,590	–
Enterprise expansion fund	–	–
Staff and workers' bonus and welfare fund	–	–
	<u>7,590</u>	<u>–</u>

As at 31 December, 2000, the aggregate general reserve fund and the enterprise expansion fund of the Company's PRC subsidiaries amounted to approximately \$50,102,000 (1999: \$42,041,000). These reserve funds are not distributable in the form of dividends, except in limited circumstances as permitted by the relevant PRC authorities.

26. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme dated 26 November, 1993 with amendments made on 25 June, 1999, the Company is authorised to grant options to executive directors and employees of the Group to take up options to subscribe for shares in the Company, subject to a maximum of (i) 20% of the issued share capital of the Company in issue as at 25 June, 1999 plus (ii) the nominal amount of share capital of the Company repurchased by the Company subsequent to the amendments up to a maximum equivalent of 10% of the aggregate nominal amount of the share capital of the Company in issue, excluding shares issued on exercise of options. The subscription price would be determined by the directors, and would not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option.

Movements in share options during the year were as follows:

Date of grant	Subscription price per share	Number of share options				
		Beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	End of year
30 September, 1997	\$0.93	9,700,000	–	–	(6,900,000)	2,800,000
8 October, 1999	\$0.193	4,000,000	–	(4,000,000)	–	–
17 February, 2000	\$0.244	–	55,000,000	(600,000)	–	54,400,000
3 March, 2000	\$0.225	–	1,400,000	–	–	1,400,000
5 July, 2000	\$0.211	–	33,720,000	–	(220,000)	33,500,000
		<u>13,700,000</u>	<u>90,120,000</u>	<u>(4,600,000)</u>	<u>(7,120,000)</u>	<u>92,100,000</u>

27. RELATED PARTY TRANSACTIONS

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

The Group had the following material transactions with related parties during the year, which the directors considered were in the normal course of business and under normal commercial terms:

	2000 \$'000	1999 \$'000 (Note 32)
Purchases from Hualing Polyfoam	<u>8,773</u>	<u>6,074</u>
Purchases from and processing charges paid to Yungang Plastic	<u>14,884</u>	<u>7,897</u>
Rental income receivable from GZITIC (Notes 4 and 5)	<u>9,100</u>	<u>15,400</u>

Pursuant to a Sales and Purchase agreement, GZITIC had guaranteed the Group that the gross annual rental income of an investment property acquired from GZITIC would amount to approximately \$15,400,000 per annum for two years commencing 10 June, 1998 (the "Guaranteed Period"). The property was substantially unoccupied since its acquisition. In view of the financial difficulties of GZITIC, the Group had made full provision on the rental income in 1998 and 1999.

On 1 December, 2000, the Company and other creditors entered into a Debt Restructuring Agreement with GZITIC under which, GZITIC agreed to pay approximately \$13,447,000 to the Company for full settlement of the guaranteed rental income on the unoccupied portion of the property of approximately \$26,894,000. Such payment will be made in full as soon as practicable after receipt by GZITIC of the People's Bank of China's approval of such payment but in any event no later than six months after 1 December, 2000. Accordingly, the Company recognised the net guaranteed rental income receivable of approximately \$13,447,000 (see Note 19) (1999: nil).

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash inflow from operating activities:

	2000 \$'000	1999 \$'000 (Note 32)
Profit before taxation	96,920	74,204
Adjustments for:		
Share of loss of associated companies	1,742	–
(Write back) provision for accounts receivable	(9,415)	18,634
Provision for staff welfare and bonus	2,324	6,381
(Write back of) provision for non-recovery of rental income receivable from GZITIC	(4,347)	15,400
Rental income from investment properties	(9,100)	(15,400)
Write back of provision for long-term deposit	–	(49,961)
Depreciation of fixed assets	60,764	54,802
Amortisation of goodwill	680	–
Loss on disposals of fixed assets	58,237	61,837
Interest income	(1,560)	(4,270)
Interest expenses	35,882	46,486
(Increase) decrease in inventories, net	(172,213)	22,097
Increase in accounts receivable, net	(20,928)	(64,962)
Decrease (increase) in prepayments and other assets	43	(8,704)
Decrease in provision for staff welfare and bonus	(6,804)	(7,237)
Increase (decrease) in due to related companies	4,154	(15,651)
Increase (decrease) in accounts payable	200,018	(154,569)
Increase in taxes payable	468	16,920
Increase in advances from customers and other liabilities	77,898	85,567
Decrease in other long-term liabilities	(4,931)	(33,247)
Effect of foreign exchange translation	(648)	232
Net cash inflow from operating activities	309,184	48,559

b. Analysis of changes in financing during the year was as follows:

	2000				1999
	Share capital and share premium	Long-term bank borrowings	Short-term bank borrowings repayable over three months from the dates of advances	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000 (Note 32)
Beginning of year	563,527	–	522,365	1,085,892	1,121,801
Issue of ordinary shares	912	–	–	912	3,169
New bank borrowings	–	82,972	–	82,972	–
Repayment of bank borrowings	–	–	(64,935)	(64,935)	(39,078)
End of year	564,439	82,972	457,430	1,104,841	1,085,892

29. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31 December, 2000, the Group had banking facilities of approximately \$540,402,000 (1999: \$565,000,000) for overdrafts, bank borrowings and trade financing. As at that date, all banking facilities were utilised (1999: \$36,062,000 banking facilities was utilised).

These facilities were secured by:

- corporate guarantees given by the subsidiaries of the Company;
- charges over certain fixed assets of China Refrigeration, Hualing Air conditioning and Hefei Hualing with a total net book value of approximately \$194,000,000 (1999: \$163,000,000) as at 31 December, 2000;
- charge over a fixed deposit of approximately \$23,178,000 (equivalent of US\$2,970,000) (1999: nil); and
- charges over the Company's interests in its subsidiaries.

30. COMMITMENTS

a. Capital commitments

As at 31 December, 2000, the Group had authorised and contracted capital commitments of approximately \$49,411,000 (1999: \$41,000,000).

As at 31 December, 2000, the Company had no capital commitment (1999: nil).

b. Operating lease commitments

As at 31 December, 2000, total rental commitments of the Group and the Company amounted to approximately \$15,464,000 and \$2,282,000 (1999: \$20,519,000 and \$3,131,000) respectively extending to March 2005. Approximately \$5,101,000 and \$1,116,000 (1999: \$10,777,000 and \$849,000) of these obligations were payable by the Group and the Company respectively in the coming year and were as follows:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Lease expiring				
– Within one year	484	4,110	–	–
– Within two to five years	4,617	6,667	1,116	849
	<u>5,101</u>	<u>10,777</u>	<u>1,116</u>	<u>849</u>

31. PENSION SCHEME

The Group participates in the local retirement schemes in the PRC. Pursuant to the relevant regulations, the Group is currently required to make a monthly contribution equivalent to 15% to 28% of the monthly salaries in respect of its full-time and temporary employees. The aggregate amount of the Group's contributions (net of forfeited contributions) for the year ended 31 December, 2000 was approximately \$5,401,000 (1999: \$8,403,000).

32. COMPARATIVE FIGURES

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