

Notes to the Financial Statements

For the year ended 31st December, 2000

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 13th May, 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 17th November, 1999.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Stock Exchange, the Company issued shares in exchange for the entire issued share capital of Coslight International (B.V.I.) Company Limited (“CICL”) and thereby became the holding company of the Group on 26th October, 1999. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 30th October, 1999.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group. The combined income statement for the year ended 31st December, 1999 includes the results of the companies comprising the Group as if the current group structure had been in existence throughout that year, or since the dates of incorporation of the companies where this is a shorter period. All significant intercompany transactions within the Group were eliminated on combination.

In the opinion of the Company’s directors, the income statement and the statement of cash flows, prepared on the above basis, present fairly the results and cash flows of the Group as a whole for the year ended 31st December, 1999.

The Company acts as an investment holding company and the principal activities of its subsidiaries are set out in note 13.

The financial statements have been prepared in Renminbi, the currency in which the majority of the Group’s transactions are denominated.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain property, plant and equipment, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers.

Revenue recognition

Sales of goods are recognised when the goods are delivered and the significant risks and rewards of the goods have been transferred.



Notes to the Financial Statements

For the year ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

Investments in subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost as reduced by any decline in the value of the subsidiary that is other than temporary. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Patents

Patents are stated at cost less amortisation and any impairment losses recognised, where necessary. Amortisation is provided to write off the cost of patents on a straight line basis over their estimated useful lives, which is 5 to 20 years.

Property, plant and equipment

The property, plant and equipment other than construction in progress are stated at cost or valuation less depreciation and amortisation at the balance sheet date.

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

Buildings and land use rights, plant and machinery and motor vehicles are stated in the balance sheet at cost or their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.



Notes to the Financial Statements

For the year ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Any revaluation increase arising on revaluation of property, plant and equipment is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Construction in progress represents buildings and machinery under construction and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. No depreciation or amortisation is provided on construction in progress until the relevant asset is ready for its intended use. When the assets concerned are brought into use, the carrying value are transferred from the construction in progress to the appropriate category of property, plant and equipment.

Depreciation and amortisation is charged so as to write off the cost or valuation of property, plant and equipment other than construction in progress, over their estimated useful lives, using the straight line method, as follows:

Buildings and land use rights	20 to 50 years or over the remaining term of the relevant land use rights, if shorter
Plant and machinery	10 years
Furniture, fixtures and equipment	10 years
Motor vehicles	5 years

Inventories

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

Pension costs

Payments to defined contribution plan are charged as an expense as they fall due.



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

Taxation

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

Foreign currencies

Transactions in currencies other than Renminbi are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement. Exchange rates used are the unified exchange rates quoted by the People's Bank of China.

On consolidation, the assets and liabilities of the Group's operations denominated in currencies other than Renminbi are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average rates for the period. All exchange differences arising on consolidation are dealt with in reserves and are recognised as income or expenses in the period in which the operation is disposed.

Operating leases

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

Cash equivalents

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

3. SEGMENTAL INFORMATION

The Group is principally engaged in the sales of batteries and battery-related accessories and substantially all of its activities are based in the People's Republic of China (the "PRC") including Hong Kong.



Notes to the Financial Statements

For the year ended 31st December, 2000

4. PROFIT FROM OPERATIONS

	2000 RMB'000	1999 RMB'000 (note 1)
Profit from operations has been arrived at after charging:		
Directors' emoluments (note 6)	295	215
Retirement benefit scheme contributions (excluding contributions for directors)	170	78
Other staff costs	14,027	6,959
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Total staff costs	14,492	7,252
	<hr/>	
Auditors' remuneration	850	850
Depreciation and amortisation of property, plant and equipment	10,168	6,672
Loss on disposal of property, plant and equipment	–	14
Operating lease rentals paid in respect of land and buildings	1,601	153
Research and development costs expensed	1,500	1,194
and after crediting:		
Bank interest income	1,628	701
Other interest income	1,701	–
Property rental income (note 26(a))	160	160
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5. FINANCE COSTS

	2000 RMB'000	1999 RMB'000 (note 1)
Interest payable on:		
Bank loans wholly repayable within five years	8,435	3,705
Other loans wholly repayable within five years	116	77
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	8,551	3,782
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Notes to the Financial Statements

For the year ended 31st December, 2000

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid employees are as follows:

(a) Directors' emoluments

	2000 RMB'000	1999 RMB'000 (note 1)
Directors' fees	–	–
Other emoluments for Executive directors		
Salaries and other benefits	283	206
Retirement benefit scheme contributions	12	9
	<hr/> 295	<hr/> 215

The aggregate emoluments of each of the directors during the years ended 31st December, 2000 and 1999 were less than RMB1,000,000.

(b) Employees' emoluments

During the year, the five highest paid individuals of the Group included two directors (1999: four directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid individuals are as follows:

	2000 RMB'000	1999 RMB'000 (note 1)
Salaries and other benefits	<hr/> 988	<hr/> 328

The aggregate emoluments of each of the employees during the years ended 31st December, 2000 and 1999 were less than RMB1,000,000.

During the years ended 31st December, 2000 and 1999, no emoluments were paid by the Group to any of the directors or 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. In addition, during the years ended 31st December, 2000 and 1999, no directors waived any emoluments.



Notes to the Financial Statements

For the year ended 31st December, 2000

7. TAXATION

	2000 RMB'000	1999 RMB'000 (note 1)
The charge comprises:		
PRC income tax	6,499	3,838
Under-provision in prior years	809	–
Deferred tax charge (note 22)	299	2,070
	7,607	5,908

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's income neither arises in, nor is derived from, Hong Kong.

One of the major operating subsidiaries of the Company is subject to income tax in the PRC. The charge of PRC income tax for the year is subject to a rate of 7.5%. Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. Accordingly, these PRC subsidiaries were exempted from PRC income tax. PRC income tax is calculated at the applicable rates relevant to the PRC subsidiaries.

Details of deferred taxation are set out in note 22.

8. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of RMB80,708,000 (1999: RMB67,811,000), a profit of RMB28,414,000 (1999: RMB20,941,000) has been dealt with in the financial statements of the Company.

9. DIVIDENDS

	2000 RMB'000	1999 RMB'000 (note 1)
Interim dividend paid		
– HK\$0.02 per share (shown as RMB0.0214 per share) (1999: Nil)	7,769	–
Final dividend proposed		
– HK\$0.05 per share (1999: HK\$0.05 per share) (shown as RMB0.0535 per share (1999: RMB0.0535 per share))	19,425	19,425
	27,194	19,425



Notes to the Financial Statements

For the year ended 31st December, 2000

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of RMB80,708,000 (1999: RMB67,811,000) and on the number of 363,080,000 shares in issue (1999: weighted average number of 284,744,247 shares that would have been in issue throughout the year on the assumption that the Group Reorganisation has been completed on 1st January, 1999).

Diluted earnings per share has not been presented because there were no dilutive potential ordinary shares in issue during either year.

11. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings and medium-term land use rights situated in the PRC	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construc- tion in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST OR VALUATION						
At 1st January, 2000	44,498	55,091	1,197	3,533	19,883	124,202
Additions	–	24,955	1,813	3,598	56,490	86,856
Transfer	34,413	15,817	–	193	(50,423)	–
At 31st December, 2000	78,911	95,863	3,010	7,324	25,950	211,058
Comprising:						
At cost	27,280	40,772	3,010	3,791	25,950	100,803
At valuation – 1999	51,631	55,091	–	3,533	–	110,255
	78,911	95,863	3,010	7,324	25,950	211,058
DEPRECIATION AND AMORTISATION						
At 1st January, 2000	867	1,629	161	246	–	2,903
Provided for the year	2,356	6,589	239	984	–	10,168
At 31st December, 2000	3,223	8,218	400	1,230	–	13,071
NET BOOK VALUES						
At 31st December, 2000	75,688	87,645	2,610	6,094	25,950	197,987
At 31st December, 1999	43,631	53,462	1,036	3,287	19,883	121,299



Notes to the Financial Statements

For the year ended 31st December, 2000

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment other than furniture, fixtures and equipment and construction in progress were revalued at 31st August, 1999 by Greater China Appraisal Limited, a firm of professional valuers, using the depreciated replacement cost method. Greater China Appraisal Limited is not connected with the Group. The surplus arising on revaluation of RMB27,366,000 was credited to the revaluation reserve (note 21) in the year ended 31st December, 1999.

The surplus was incorporated in the financial statements of the Group to comply with the Rules Governing the Listing of Securities on the Stock Exchange as stated in the Company's prospectus dated 30th October, 1999.

In the opinion of the directors, the carrying amounts of the property, plant and equipment as at 31st December, 2000 did not differ material from that would be determined using fair value at the same date.

Land and buildings included assets carried at a cost of RMB3,407,000 (1999: RMB3,407,000) and accumulated depreciation and amortisation of RMB307,000 (1999: RMB17,000) in respect of assets held for use under operating leases.

If the Group's property, plant and equipment were stated at cost less accumulated depreciation and amortisation, the net book values thereof as at 31st December, 2000 would be as follows:

	Buildings and medium-term land use rights situated in the PRC RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construc- tion in progress RMB'000	Total RMB'000
Cost	65,175	91,408	3,010	6,953	25,950	192,496
Accumulated depreciation and amortisation	4,328	13,214	400	2,753	–	20,695
	<u>60,847</u>	<u>78,194</u>	<u>2,610</u>	<u>4,200</u>	<u>25,950</u>	<u>171,801</u>

12. PATENTS

THE GROUP
RMB'000

COST

Acquired during the year and as at 31st December, 2000

2,162

No amortisation has been charged in the current year because the patents were purchased in December 2000 and consequently any amortisation charged would be immaterial.



Notes to the Financial Statements

For the year ended 31st December, 2000

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	RMB'000	RMB'000
Unlisted investments, at cost	214,309	193,138
Amounts due from subsidiaries	75,061	40,126
	289,370	233,264

Amounts due from subsidiaries are unsecured and interest free. In the opinion of the Company's directors, the amounts will not be received within twelve months from the balance sheet date and, accordingly the balances are classified as non-current.

Details of the Company's subsidiaries at 31st December, 2000 are as follows:

Name of company	Place of incorporation or establishment/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
CICL	British Virgin Islands/ Hong Kong	US\$50,000	100	–	Investment holding
China Gold Profits Limited	Hong Kong	HK\$2	–	100	Provision of supporting services for the Group
哈爾濱光宇電池有限公司 Harbin Guangyu Battery Company Limited	PRC	US\$3,800,000	100	–	Manufacture and sale of lithium ion batteries



Notes to the Financial Statements

For the year ended 31st December, 2000

13. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation or establishment/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
哈爾濱科斯特實業有限公司 Harbin Coslight Industry Company Limited	PRC	US\$1,400,000	100	–	Manufacture and sale of sealed lead acid battery accessories
哈爾濱光宇蓄電池有限公司 Harbin Guangyu Storage Battery Manufacturing Company Limited (“HGSB”)	PRC (Note)	RMB66,120,000	–	100	Manufacture and sale of sealed lead acid batteries and accessories
哈爾濱光宇電氣自動化有限公司 Harbin Coslight Electric Automation Company Limited (“HCEA”)	PRC	RMB7,500,000	80	–	Manufacture of electricity control devices
北京光宇華夏科技有限責任公司 Beijing Guangyu Huaxia Technology Corporation Limited (“BJ GY Huaxia”)	PRC	RMB1,200,000	–	77	Web platform

Note: HGSB, formerly a limited liability company established under the laws of the PRC on 24th May, 1997, has since 27th May, 1999 been converted to a wholly foreign-owned enterprise under the laws of the PRC.

None of the subsidiaries had any loan capital outstanding at the end of the year.



Notes to the Financial Statements

For the year ended 31st December, 2000

14. INVENTORIES

	THE GROUP	
	2000	1999
	RMB'000	RMB'000
Raw materials	16,965	5,313
Work in progress	4,435	5,017
Finished goods	2,625	1,045
	<u>24,025</u>	<u>11,375</u>

The cost of inventories recognised as an expense during the year was approximately RMB115,224,000 (1999: RMB67,309,000).

15. TRADE AND OTHER RECEIVABLES

The credit terms given to the customers vary from 3 months to 9 months and are generally based on the financial strength of individual customer. The following is an aged analysis of accounts receivable at the balance sheet date:

	THE GROUP	
	2000	1999
	RMB'000	RMB'000
Within 90 days	110,718	89,186
More than 90 days, but not exceeding 180 days	142,996	36,673
More than 180 days, but not exceeding 270 days	12,793	17,524
More than 270 days, but not exceeding 360 days	12,797	18,938
More than 360 days	14,671	23,183
Trade receivables	<u>293,975</u>	<u>185,504</u>
Other receivables	<u>32,798</u>	<u>25,642</u>
	<u>326,773</u>	<u>211,146</u>



Notes to the Financial Statements

For the year ended 31st December, 2000

16. AMOUNT DUE FROM A DIRECTOR

Particulars of the amount due from a director disclosed under Section 161B of the Hong Kong Companies Ordinance are as follows:

Name of director	THE GROUP		
	Balance at 31.12.2000 RMB'000	Balance at 1.1.2000 RMB'000	Maximum amount outstanding during the year RMB'000
李克學 Li Ke Xue	344	–	344

The amount is a housing loan and is unsecured, interest free and has no fixed repayment terms.

17. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payable at the balance sheet date:

	THE GROUP	
	2000 RMB'000	1999 RMB'000
Within 30 days	10,713	40,127
More than 30 days, but not exceeding 60 days	3,417	880
More than 60 days, but not exceeding 90 days	1,994	716
Over 90 days	2,973	4,952
Trade payables	19,097	46,675
Other payables	59,080	9,613
	78,177	56,288



Notes to the Financial Statements

For the year ended 31st December, 2000

18. BORROWINGS

	THE GROUP	
	2000 RMB'000	1999 RMB'000
The borrowings comprise:		
Bank loans	172,880	98,960
Other loans	4,000	3,000
	176,880	101,960
Analysed as:		
secured	113,930	98,960
unsecured	62,950	3,000
	176,880	101,960
The borrowings are repayable as follows:		
Within one year or on demand	134,900	86,980
More than one year, but not exceeding two years	41,980	3,000
More than two years, but not exceeding five years	–	11,980
	176,880	101,960
Less: Amounts due within one year and shown under current liabilities	(134,900)	(86,980)
Amounts due after one year	41,980	14,980

The above bank loans were carried at the interest rate from 6.43% to 7.37% (1999: from 6.40% to 9.90%) per annum. The other loans were carried at 3.60% (1999: 4.00%) per annum.



Notes to the Financial Statements

For the year ended 31st December, 2000

19. SHARE CAPITAL

	Share capital					
	Number of shares		Amount in		Shown in the financial	
			Original Currency:		statements as:	
2000	1999	2000	1999	2000	1999	
'000	'000	HK\$'000	HK\$'000	RMB'000	RMB'000	
Ordinary shares of HK\$0.10 each						
Authorised:						
At beginning of year	1,000,000	–	100,000	–	107,000	–
On incorporation of the Company (note a)	–	1,000	–	100	–	107
Increase on 26th October, 1999 (note b(i))	–	999,000	–	99,900	–	106,893
At end of year	1,000,000	1,000,000	100,000	100,000	107,000	107,000
Issued and fully paid:						
At beginning of year	363,080	–	36,308	–	38,850	–
Issued as nil paid to the sole shareholder on incorporation (note a)	–	1,000	–	–	–	–
To paid up the nil paid shares by applying the contributed surplus (note b(ii))	–	–	–	100	–	107
Issued on 26th October, 1999 (note b (ii))	–	1,000	–	100	–	107
Other issues (note c)	–	361,080	–	36,108	–	38,636
At end of year	363,080	363,080	36,308	36,308	38,850	38,850



Notes to the Financial Statements

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19. SHARE CAPITAL (continued)

Notes:

- (a) The Company was incorporated in Bermuda under the Companies Act as an exempted company on 13th May, 1999 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares, all of which were allotted and issued nil paid on 22nd June, 1999.
- (b) Pursuant to written resolutions of the then sole shareholder of the Company on 26th October, 1999 to effect the Group Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange, the following movements in the authorised and issued share of the Company took place.
- (i) the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 new shares to rank pari passu with the then existing shares in all respects;
- (ii) the directors were authorised to allot and issue an aggregate of 1,000,000 shares, credited as fully paid, to the then shareholders of CICL as consideration for the exchange by the Company of the entire issued share capital of CICL. Conditional on the above-mentioned allotment and issue of 1,000,000 shares, the directors were authorised to apply a sum of HK\$100,000 being part of the amount credited to the contributed surplus account of the Company arising from the issue by the Company of the shares in exchange of the shares in CICL to pay up in full at par the 1,000,000 shares allotted and issued nil paid on 22nd June, 1999.
- (c) In addition, pursuant to the resolutions passed in a meeting of the Board of directors held on 26th October, 1999, 90,770,000 new ordinary shares of HK\$0.10 each were offered at HK\$1.25 per share under the prospectus dated 30th October, 1999 issued by the Company (the "Offer"). Conditional on the share premium account being credited as a result of the Offer, the directors were authorised to capitalise HK\$27,031,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 270,310,000 ordinary shares for allotment and issue to holder(s) of shares whose name(s) appear on the register of members of the Company at the close of business on 30th October, 1999 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing holdings in the Company.

The Offer was completed on 11th November, 1999 and the shares of the Company were listed on the Stock Exchange on 17th November, 1999.

All shares issued by the Company during the year ended 31st December, 1999 rank pari passu with the then existing shares in all respects.

20. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 26th October, 1999 (the "Scheme"), the directors of the Company may grant options to any executive director or full time employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

No option has been granted or agreed to be granted under the Scheme since its adoption.



Notes to the Financial Statements

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21. RESERVES

	THE GROUP						
	PRC						
	Share premium	Special reserve	statutory reserves	Revaluation reserve	Exchange reserve	Retained profits	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1st January, 1999	–	5,863	25,418	–	–	35,622	66,903
Premium arising from issue of shares to public, net of expenses	96,402	–	–	–	–	–	96,402
Capitalisation of share premium	(28,923)	–	–	–	–	–	(28,923)
Reserve arising from the Group Reorganisation	–	28,720	–	–	–	–	28,720
Revaluation surplus	–	–	–	27,366	–	–	27,366
Profit for the year	–	–	–	–	–	67,811	67,811
Transfer	–	–	10,855	–	–	(10,855)	–
Dividends (note 9)	–	–	–	–	–	(19,425)	(19,425)
At 31st December, 1999 and 1st January, 2000	67,479	34,583	36,273	27,366	–	73,153	238,854
Exchange realignment	–	–	–	–	150	–	150
Profit for the year	–	–	–	–	–	80,708	80,708
Transfer	–	–	22,676	–	–	(22,676)	–
Dividends (note 9)	–	–	–	–	–	(27,194)	(27,194)
At 31st December, 2000	67,479	34,583	58,949	27,366	150	103,991	292,518



Notes to the Financial Statements

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21. RESERVES (continued)

	THE COMPANY			
	Share premium	Contributed surplus	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Contributed surplus arising from the Group				
Reorganisation	–	169,764	–	169,764
Premium arising from issue of shares to public, net of expenses	96,402	–	–	96,402
Capitalisation of share premium	(28,923)	–	–	(28,923)
Net profit for the year (note 8)	–	–	20,941	20,941
Dividends (note 9)	–	–	(19,425)	(19,425)
At 31st December, 1999 and 1st January, 2000	67,479	169,764	1,516	238,759
Net profit for the year (note 8)	–	–	28,414	28,414
Dividends (note 9)	–	–	(27,194)	(27,194)
At 31st December, 2000	67,479	169,764	2,736	239,979

The special reserve represents the difference between the nominal value of the share capital of the subsidiary acquired and the nominal amount of the share capital issued for the acquisition at the time of the Group Reorganisation.

PRC statutory reserves are reserves required by the relevant PRC laws applicable to the Group's PRC subsidiaries.

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the Company's shares issued for the Group Reorganisation less the amount applied to pay up nil paid shares at the time of the Group Reorganisation.

In addition to retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st December, 2000 comprised contributed surplus and retained profits in aggregate amounting to RMB172,500,000 (1999: RMB171,280,000).



Notes to the Financial Statements

For the year ended 31st December, 2000

22. DEFERRED TAXATION

	THE GROUP	
	2000 RMB'000	1999 RMB'000
Balance at 1st January	4,384	2,314
Charge for the year (note 7)	299	2,070
Balance at 31st December	4,683	4,384

At the balance sheet date, the provided deferred taxation represents the tax effect of the timing difference on sales and related expenses which are recognised for accounting purpose during the current period but are not recognised for tax purpose until a later period.

The Group's property, plant and equipment are held for production and administrative purposes. In the opinion of the Company's directors, the Group does not have any intention to dispose these assets in the foreseeable future. Accordingly, no deferred taxation has been provided on the revaluation surplus of these assets.

Other than the above, neither the Group nor the Company had any significant unprovided deferred taxation for the year or at the respective balance sheet dates.

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

	2000 RMB'000	1999 RMB'000 (note 1)
Profit before taxation	87,955	73,719
Interest income	(3,329)	(701)
Interest on bank and other loans	8,551	3,782
Depreciation and amortisation of property, plant and equipment	10,168	6,672
Loss on disposal of property, plant and equipment	–	14
Increase in inventories	(12,650)	(2,714)
Increase in trade and other receivables	(115,477)	(84,364)
Increase in trade and other payables	21,889	263
(Decrease) increase in amounts due to related companies	(844)	5,870
Decrease in bills payable	–	(2,600)
Net cash outflow from operating activities	(3,737)	(59)



Notes to the Financial Statements

For the year ended 31st December, 2000

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium	Bank loans	Other loans	Minority interests
	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 1999	29,137	34,080	–	–
Eliminated on Group Reorganisation	(29,137)	–	–	–
Issue of shares and application of contributed surplus to pay up nil paid shares pursuant to the Group Reorganisation	214	–	–	–
Proceeds from issue of shares to public	121,405	–	–	–
Share issue expenses	(15,290)	–	–	–
New borrowings raised	–	108,780	3,000	–
Repayment of bank loans during the year	–	(43,900)	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 1999 and 1st January, 2000	106,329	98,960	3,000	–
New borrowings raised	–	160,820	4,000	–
Repayment of loans during the year	–	(86,900)	(3,000)	–
Funds contributed by minority shareholders in terms of cash	–	–	–	276
Contribution by a minority shareholder in terms of patents (note 25)	–	–	–	1,500
Share of loss by minority shareholders	–	–	–	(360)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2000	106,329	172,880	4,000	1,416

25. MAJOR NON CASH TRANSACTION

During the year, a minority shareholder of HCEA had contributed the patents amounting to RMB1,500,000 as the capital injection for the Company's subsidiary.



Notes to the Financial Statements

For the year ended 31st December, 2000

26. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had certain transactions with related parties. Details of transactions and balances with these related parties are as follows:

(a) Transactions

Name of related party	Nature of transactions	2000 RMB'000	1999 RMB'000 (note 1)
哈爾濱亞光新型隔板 有限公司 Harbin Ya Guang Modern Separators Company Limited ("HB Ya Guang")	Purchase of raw materials from HB Ya Guang	11,318	7,091
	Rental income in respect of leasehold land and buildings received from HB Ya Guang	160	160
	Electricity and water charged to HB Ya Guang	180	180
	Provision of sundry services to HB Ya Guang	10	10
北京兆唐科技有限公司 Beijing Zhaotang Science and Technology Company Limited ("BJ Zhaotang")	Purchase of raw materials from BJ Zhaotang	1,682	–

The transaction prices were determined by reference to market prices for similar transactions.

Certain directors of the Company have beneficial interests in HB Ya Guang and BJ Zhaotang.



Notes to the Financial Statements

For the year ended 31st December, 2000

26. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Balances

Name of related party	2000 RMB'000	1999 RMB'000
HB Ya Guang	4,517	5,870
BJ Zhaotang	509	–
	5,026	5,870

The amounts due to related companies are unsecured, non-interest bearing and repayable on demand. Details of the amount due from a director are set out in note 16.

(c) Others

- (1) One of the minority shareholders of the Company's subsidiary, BJ GY Huaxia, is 哈爾濱開關有限公司 Harbin Switch Company Limited, a company in which certain directors of the Company have beneficial interests.
- (2) RMB22,900,000 (1999: Nil) of the Group's bank loans were guaranteed by related parties in which certain directors of the Company have beneficial interests.

27. PENSION SCHEME

The Group participates in the central pension fund scheme organised by the relevant local government authority in the PRC. The Group is required to make contributions to the retirement scheme at a rate of 18% of the basic salaries of its qualifying employees. The total contributions made for the year amounted to RMB182,000 (1999: RMB78,000).

28. BANKING FACILITIES

At the balance sheet date, the Group's banking loans were secured by the followings:

- (i) certain of the Group's property, plant and equipment with a carrying value of approximately RMB128,744,000 (1999: RMB80,611,000);
- (ii) bank deposit of the Group of Nil (1999: RMB247,000);



Notes to the Financial Statements

For the year ended 31st December, 2000

28. BANKING FACILITIES (continued)

and guaranteed by the followings:

- (i) corporate guarantee given by a third party; and
- (ii) corporate guarantees given by related parties as set out in note 26(c)(2).

29. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding annual commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	2000 RMB'000	1999 RMB'000
Operating leases which expire:		
Within one year	215	102
In the second to fifth year inclusive	633	159
	848	261

The Company had no significant operating lease commitments as at the balance sheet date.

30. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Commitments for investments in subsidiaries contracted for but not provided in the financial statements	–	–	6,072	11,616
Commitments for the acquisition of property, plant and equipment:				
– contracted for but not provided in the financial statements	24,957	17,898	–	–
– authorised but not contracted for	24,430	47,453	–	–
	49,387	65,351	6,072	11,616

