

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2001

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China Resources National Corp., a company established in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants, except as stated below, and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

As announced on 30th August, 2000, the Board of Directors of the Company resolved to change the financial year end date of the Company from 31st March to 31st December to bring the financial year end date into line with that of its holding company. The last set of audited financial statements therefore cover the nine-month period from 1st April, 2000 to 31st December, 2000. As a result of the change in financial year end date, the condensed financial statements for the current period cover the six-month period from 1st January, 2001 to 30th June, 2001. Accordingly, the comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of recognised gains and losses, condensed consolidated cash flow statement and related notes cover the six-month period from 1st April, 2000 to 30th September, 2000 and therefore may not be comparable with the amounts shown for the current period.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in the audited financial statements for the period from 1st April, 2000 to 31st December, 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of new SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new accounting policies.

Segment reporting

SSAP 26 "Segment reporting", which has been adopted for the first time in this interim reporting period, has established principles for reporting the segmental analysis of financial information.

The adoption of this standard does not change the basis of identification of reportable segments in prior period.

Goodwill

In the current period, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions of subsidiaries prior to 1st January, 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions of subsidiaries prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Intangible assets

In the current period, the Group has acquired technical know-how which is reported as intangible assets and carried at cost less amortisation and impairment losses. The cost of intangible assets are amortised over their estimated useful lives on a straight-line basis.

Impairment of assets

SSAP 31 "Impairment of assets" has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets other than financial assets and investment properties.

Provisions

In accordance with SSAP 28 "Provisions, contingent liabilities and contingent assets", provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

The adoption of the above new accounting policies has had no material effect on amounts reported in prior period/years.

4. SEGMENT INFORMATION

Business Segments

For the six months ended 30th June, 2001

	Compressor business	Semi- conductor business	Furniture business	Information technology business	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
External sales	438,364	85,289	75,389	20,864	—	619,906
Inter-segment sales	—	42	—	531	(573)	—
Total revenue	<u>438,364</u>	<u>85,331</u>	<u>75,389</u>	<u>21,395</u>	<u>(573)</u>	<u>619,906</u>
SEGMENT RESULT	<u>132,557</u>	<u>14,870</u>	<u>4,880</u>	<u>1,861</u>	<u>—</u>	<u>154,168</u>
Unallocated corporate expenses						(8,754)
Amortisation of goodwill arising on acquisition of subsidiaries						(3,868)
Profit from operations						<u>141,546</u>

For the six months ended 30th September, 2000

	Compressor business	Semi- conductor business	Furniture business	Information technology business	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
External sales	<u>—</u>	<u>—</u>	<u>83,213</u>	<u>—</u>	<u>—</u>	<u>83,213</u>
SEGMENT RESULT	<u>—</u>	<u>—</u>	<u>(9,875)</u>	<u>—</u>	<u>—</u>	<u>(9,875)</u>
Loss from operations						<u>(9,875)</u>

Geographical Segments*For the six months ended 30th June, 2001*

	PRC, including Hong Kong	Malaysia	Others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE					
External sales	587,720	24,923	7,263	—	619,906
Inter-segment sales	<u>573</u>	<u>—</u>	<u>—</u>	<u>(573)</u>	<u>—</u>
Total revenue	<u>588,293</u>	<u>24,923</u>	<u>7,263</u>	<u>(573)</u>	<u>619,906</u>
SEGMENT RESULT	<u>147,540</u>	<u>4,898</u>	<u>1,730</u>	<u>—</u>	154,168
Unallocated corporate expenses					(8,754)
Amortisation of goodwill arising on acquisition of subsidiaries					<u>(3,868)</u>
Profit from operations					<u>141,546</u>

For the six months ended 30th September, 2000

Over 90% of the Group's turnover and loss from operations for this period are derived from the PRC, including Hong Kong.

5. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations has been arrived at after charging (crediting):

	Six months ended	
	30th June, 2001 HK\$'000	30th September, 2000 HK\$'000
Depreciation and amortisation (other than goodwill):		
— property, plant and equipment	22,909	3,882
— Intangible assets	309	—
	<u>(3,846)</u>	<u>(3,355)</u>
Bank interest income		

6. TAXATION

	Six months ended	
	30th June, 2001 HK\$'000	30th September, 2000 HK\$'000
Hong Kong	3,008	—
Other jurisdictions	8,127	—
	<u>11,135</u>	<u>—</u>

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profits for the period.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

No provision for Hong Kong Profits Tax was made for the prior period as the Group did not have any assessable profit for that period.

7. DIVIDENDS

The Directors do not recommend the payment of dividend and there was no dividend paid during either periods.

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	Six months ended	
	30th June, 2001 HK\$'000	30th September, 2000 HK\$'000
Earnings (loss):		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (net profit (loss) for the period)	65,170	<u><u>(11,584)</u></u>
Effect of dilutive potential shares:		
Interest on convertible bonds	<u>17,744</u>	
	<u><u>82,914</u></u>	
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	1,508,832,261	<u><u>1,459,407,671</u></u>
Effect of dilutive convertible bonds	774,968,335	
Effect of dilutive share options	<u>8,852,242</u>	
Weighted average number of shares for the purposes of diluted earnings per share	<u><u>2,292,652,838</u></u>	

Because exercise of the Company's outstanding share options during the six-month period ended 30th September, 2000 would be anti-dilutive, no diluted loss per share is presented for that period.

9. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

As SSAP 25 does not require an enterprise to arrange for a revaluation to be made by professional qualified valuers on revalued assets held at the interim period end, accordingly, no professional valuation has been performed in respect of the Group's investment properties as at 30th June, 2001. However, the directors consider that the values of the Group's investment properties as at 30th June, 2001 would not differ materially from the professional valuation made as at 31st December, 2000 and, accordingly, no revaluation surplus or deficit has been recognised in the current period.

The significant increase in property, plant and equipment during the period is mainly attributable to the acquisition of subsidiaries (note 16).

10. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group generally allows credit period ranging from 30 to 180 days to its trade customers. The aged analysis of trade debtors of HK\$414,469,000 (12.31.2000: HK\$22,253,000) which are included in the Group's debtors, deposits and prepayments are as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
0-60 days	337,249	15,957
61-90 days	55,917	4,292
Over 90 days	21,303	2,004
	<u>414,469</u>	<u>22,253</u>

11. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors of HK\$199,771,000 (12.31.2000: HK\$11,535,000) which are included in the Group's creditors and accrued charges are as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
0-60 days	117,101	8,759
61-90 days	15,620	1,286
Over 90 days	67,050	1,490
	<u>199,771</u>	<u>11,535</u>

12. BORROWINGS

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Convertible bonds (<i>Note</i>)	851,715	—
Bank loans	184,990	—
	1,036,705	—
Less: Amount due within one year shown under current liabilities	(166,212)	—
Amount due after one year	870,493	—

Note: On 8th November, 2000, the Company entered into certain conditional subscription agreements (the "Subscription Agreements") with China Resources (Holdings) Company Limited ("CRH"), an intermediate holding company of the Company, and CRT (BVI) Limited, a then wholly owned subsidiary of CRH. Pursuant to the Subscription Agreements, the Company had conditionally agreed to subscribe for one share of US\$1 each in the capital of CRT (BVI) Limited at the consideration of HK\$851,715,000, which would be satisfied in full by way of the issue of the convertible bonds with an aggregate principal amount of HK\$851,715,000 to CRH by the Company upon completion of the Subscription Agreements. The Subscription Agreements was completed on 1st February, 2001 (note 16).

The convertible bonds bear interest at 2% per annum and with maturity at the third anniversary from the date of issuance. Details of the terms of the convertible bonds have been set out in a listing document of the Company dated 30th December, 2000 issued to the shareholders.

13. SHARE CAPITAL

	Number of shares		Amount	
	30th June, 2001	31st December, 2000	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Shares of HK\$0.10 each				
Authorised:				
At beginning of period	2,500,000,000	1,200,000,000	250,000	120,000
Increase during the period	3,500,000,000	1,300,000,000	350,000	130,000
At end of period	6,000,000,000	2,500,000,000	600,000	250,000
Issued and fully paid:				
At beginning of period	1,508,832,261	616,632,261	150,883	61,663
Shares issued pursuant to a subscription agreement dated 23rd February, 2000	—	884,000,000	—	88,400
Shares issued upon exercise of share options	—	8,200,000	—	820
At end of period	1,508,832,261	1,508,832,261	150,883	150,883

14. RESERVES

	Share premium HK\$'000	General reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP						
At 1st April, 2000	270,489	—	58,567	(265)	(460,232)	(131,441)
Premium on shares issued pursuant to a subscription agreement dated 23rd February, 2000	265,200	—	—	—	—	265,200
Expenses incurred in connection with the issue of shares	(1,958)	—	—	—	—	(1,958)
Premium on shares issued upon exercise of share options	638	—	—	—	—	638
Goodwill arising on acquisition of a subsidiary	—	—	(1,251)	—	—	(1,251)
Capital reserve arising on acquisition of additional interests in subsidiaries	—	—	594	—	—	594
Net loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(16,574)</u>	<u>(16,574)</u>
At 31st December, 2000	534,369	—	57,910	(265)	(476,806)	115,208
Other movement	—	212	—	—	—	212
Net profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>65,170</u>	<u>65,170</u>
At 30th June, 2001	<u>534,369</u>	<u>212</u>	<u>57,910</u>	<u>(265)</u>	<u>(411,636)</u>	<u>180,590</u>

15. COMMITMENTS

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Capital expenditure authorised but not contracted for in respect of property, plant and equipment	<u>802</u>	<u>909</u>
Capital expenditure contracted for but not provided in the financial statements in respect of property, plant and equipment	<u>—</u>	<u>507</u>

16. ACQUISITION OF SUBSIDIARIES

On 1st February, 2001, the Group completed the transactions contemplated under the Subscription Agreements (note 12) and acquired the underlying assets constituting CRT (BVI) Limited and its subsidiaries to expand the business scope of the Group to (i) manufacture air-conditioner compressors in the PRC; (ii) produce semiconductors in the PRC and Hong Kong; and (iii) provide information technology services in the PRC and Hong Kong.

The effect of the acquisition is summarised as follows:

	Six months ended	
	30th June, 2001	30th September, 2000
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	544,906	—
Intangible assets	6,988	—
Inventories	265,502	—
Debtors, deposits and prepayments	247,773	—
Pledged bank deposits	5,000	—
Bank balances and cash	300,633	—
Creditors and accrued charges	(152,292)	—
Taxation	(4,568)	—
Bank borrowings	(228,449)	—
Minority interests	(291,561)	—
Net assets acquired	693,932	—
Goodwill arising on acquisition	181,500	—
Consideration	875,432	—
Satisfied by:		
Convertible bonds	851,715	—
Cash	23,717	—
	875,432	—

The subsidiaries acquired during the period contributed HK\$544,517,000 to the Group's turnover, and HK\$145,420,000 to the Group's profit from operations.

17. RELATED PARTIES TRANSACTIONS

In addition to the related parties transactions set out in notes 12 and 16, during the period, the Group also entered into the following significant transactions with related parties:

	Six months ended	
	30th June, 2001	30th September, 2000
	HK\$'000	HK\$'000
Interest on convertible bonds and redemption premium payable to		
an intermediate holding company	17,744	—
Rental expenses paid to a fellow subsidiary	1,978	224
Sales to an intermediate holding company	14,345	—
Sales to fellow subsidiaries	5,291	—
Sales to a CRH's associate	282	—
Purchases from a CRH's associate	4,351	—

Note: The transactions were carried out on terms similar to those applicable to transactions with unrelated parties, except that the interest on convertible bonds and redemption premium are calculated pursuant to the relevant agreement.