

佛山电器照明股份有限公司

FOSHAN ELECTRICAL AND LIGHTING CO. LTD

一九九九年年度报告

Annual Report of 1999

Chairman of the Board of Directors: Zhong Xincui
Signature:

April 3, 2000

Annual Report of 1999 of Foshan Electrical & Lighting Company Limited

Important Hints: The Board of Directors of our company guarantees that there is no significant omission, false statement or serious misleading existing in the information contained in this report, and shall bear the individual and joint liabilities for the truthfulness, accuracy and completeness of its content.

The accounting data and financial report in this report have been audited by KPMG Peat Marwick in Hong Kong, and respectively made in Chinese and English. In case of any misunderstanding between the two languages texts, the Chinese text will be prevailing.

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I. Brief Introduction to the Company

1. **Name in Chinese:** 佛山电器照明股份有限公司

缩写: 佛山照明公司

Name in English: Foshan Electrical and Lighting Co. Ltd.

Abbr.: FSL

2. **Legal representative:** Zhong Xincai

3. **Secretary of the Board of Directors:** Chen Benxian

Address: No. 15 Fenjiang North Road, Foshan City, Guangdong Province.

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4. **Registered and office address:** No. 15 Feijiang North Road, Foshan City,
Guangdong Province

Zip code: 528000

Internet web: www.chinafsl.com

E-mail: gzfsligh@pub.foshan.gd.cn

5. **Company information disclosed in:** China Security, Security Times, Foshan
Daily and Ta Kung Pao.

Internet web address publishing the annual report designated by China

Security Committee: [http:// www.cninfo.com.cn](http://www.cninfo.com.cn)

Annual report prepared in: Secretariat of the Board of Directors in the office
building of the company at 15 Fenjiang North Road,
Foshan City, Guangdong

6. **Listing place of shares:** Shenzhen Security Exchange.

Abbr. of shares: Foshan Electrical & Lighting (A Share)

Yue Electrical & Lighting (B Share)

Code of shares: 0541 (A Share)

2541 (B Share)

II. Summary of Accounting Data and Business Data

1. Main profit indices of this year.

Unit: RMB

Total profit	163,644,237.00
Net profit	135,267,769.00
Main business profit	206,376,775.00
Other business profit	402,447.00
Investment return	- 313,273.00
Net cash flow from business activities	169,555,782.00

2. Net profits calculated by two different accounting standards and the difference:

(1). Net profits calculated by two different accounting standards: the net profit of the company of this year audited by domestic accountant is RMB 158,371,894.00, while the net profit of the company of this year audited by the foreign accountant is RMB 135,267,769.00, RMB 23,104,125.00 less than the net profits audited by the domestic accountant.

(2). Reason for the difference of net profits: it is mainly because of the proceeds from land use right transferred by the company to the joint venture Osram Foshan Lighting and Electrical Co. Ltd., which is counted by the domestic accountant in 1999, and reflected by the foreign accountant in the profits in the years of transfer.

(3). Detailed items for difference of net profits

Unit: RMB

	Profits after tax in 1999
Legal accounting statements made according to the Accounting Law of the People's Republic of China	158,371,894.00
Adjustment made according to the international accounting standard	
Allowance for bad debts (reserve)	183,974.00
Investment reserve	-492,676.00
Inventory reserve	1,729,934.00
Surplus profit from sales of land use right already counted	-25,226,913.00
Consolidated adjustment	-346,815.00
Others	1,048,371.00
Listed according to the international accounting standard	135,267,769.00

3. Main accounting data and financial targets of three years immediately prior to the report period(consolidated).

Unit: RMB

Target items	1999	1998	1997
Main business income	602,956,779.00	505,348,157.00	446,566,073.00
Net profit	135,267,769.00	155,911,476.00	116,046,629.00
Total assets	1,438,160,758.00	1,382,033,147.00	1,339,435,317.00
Shareholder equity	1,148,403,808.00	1,109,687,758.00	1,064,672,828.00
Profit per share	0.49	0.57	0.42
Net assets per share	4.16	4.02	3.86
Net cash flow per share from business activities	0.61	0.63	
Return rate of net assets (%)	11.78	14.05	10.90

Note: Calculation method for main financial targets:

Proceeds of each share = net profit / total ordinary shares at the end of the year.

Net assets of each share = shareholder equity at the end of year / total ordinary shares at the end of the year.

Net cash flow per share from business activities = net cash flow from business activities / total ordinary shares at the end of the year

Return rate of net assets = net profit / shareholder equity at the end of the year
 $\times 100\%$.

4. Change of shareholders equity during the report period.

Unit: RMB

Item	Capital stock	Stock at a premium	Reserves	Total
At beginning of the period	275,862,054.00	601,629,196.00	232,196,508.00	1,109,687,758.00
Increase in this period			135,267,769.00	135,267,769.00
Reduce in this period			96,551,719.00	96,551,719.00
At end of the period	275,862,054.00	601,629,196.00	270,912,558.00	1,148,403,808.00
Reasons of change			Profit distribution of this year	

III. Change of Capital Stock and Shareholders

1. Change of capital stock

(1). Table on change of capital stock

Unit: share

	At the beginning of the period	Change of this time (increase or reduce) (+ or -)					At the end of the period
		Ration	Grant	Surplus transfer	Other	Total	
I. Uncirculating shares							
1. Founder' s share	67,342,500	---	---	---	---	---	67,342,500
Including: National share	65,092,500	---	---	---	---	---	65,092,500
Domestic corporate share	2,250,000	---	---	---	---	---	2,250,000
Foreign corporate share	---	---	---	---	---	---	---
Other corporate share	---	---	---	---	---	---	---
2. Raised corporate share	36,832,500	---	---	---	---	---	36,832,500
3. Internal staff share	---	---	---	---	---	---	---
4. Preferred share or others	13,338,054	---	---	---	---	---	13,338,054
Including: transferred & rationed	13,338,054	---	---	---	---	---	13,338,054
Total uncirculating shares	117,513,054	---	---	---	---	---	117,513,054
II. Circulation shares listed							
1. RMB ordinary shares	83,349,000	---	---	---	---	---	83,349,000
Including: share held by directors and supervisors.	175,800	---	---	---	---	---	175,800
2. Foreign share listed at home	75,000,000	---	---	---	---	---	75,000,000
3. Foreign share listed abroad	---	---	---	---	---	---	---
4. Others	---	---	---	---	---	---	---
Total circulating shares listed	158,349,000	---	---	---	---	---	158,349,000
III. Total shares	275,862,054	---	---	---	---	---	275,862,054

Note:

- The 175,800 shares held by the directors and supervisors of our company have been frozen according to the relevant regulation.
- There are 13018500 shares of national share in “transferred & rationed” shares

(2). Issuing and listing of shares

All Previous Issuing and Listing of Shares

(RMB, 10000 shares)

Year	Type of shares	Issuing date	Issuing price	Issuing quantity	Listing date	Listing trade volume	Total capital stock
End of 1993	A share issuing	93.10	10.23	1930	93.11.23	1930	7717
End of 1994	A share granting	94.04	---	3858.5 (5 for 10)	94.5.11	965	11575.5 (after granting)
End of 1995	A share rationing	94.11	8.00	1815.3036 (3 for 10)	95.2.22	481.1946	13390.8036 (after rationed)
	B share issuing	95.07	HK5.61 RMB6.02	5000	95.8.8	5000	18390.8036 (after issuing B share)
	Listing of shares held by internal shares	92.08	4.00	1157	95.9.29	1157	18390.8036
End of 1996	A, B shares, capital stock transferred from public surplus	96.09	---	9195.4018 (5 for 10)	96.9.20	5278.3	27586.2054 (after transfer and increase)
End of 1997	A, B shares	---	---	---	---	---	27586.2054
End of 1998	A, B shares	---	---	---	---	---	27586.2054
End of 1999	A, B shares	---	---	---	---	---	27586.2054

(3). When the company transformed its system as an internal stock company in Aug., 1992, it issued 11,570,000 shares to its internal staffs at the price of RMB 4 yuan/share, which were handed over to the Security Department of Foshan International Trust & Investment Company for trust in Apr., 1993. On Sep. 29, 1995, the shares held by internal staffs were granted to be listed in Shenzhen Security at the expiration of three years, with 11,427,000 shares approved to be listed. At that time, the 143,000 shares for internal staffs held by the directors and supervisors were frozen by Shenzhen Security Registration Company. There were 175,800 shares (including the rationed and granted shares) for internal staffs held by the directors and supervisors still frozen by the directors and supervisors at the end of 1999.

2. Introduction to shareholders.

(1). Up to Dec. 31, 1999, the company totally has 64147 shareholders. Among them, there are 59298 shareholders for A share (Foshan Electrical and Lighting 0541), including 5 shareholder of senior management shares, and 4849 shareholders for B

share (Yue Electrical and Lighting 2541)

(2). Shares held by the top ten shareholders (by Dec. 31, 1999)

No.	Names of shareholders	Listed share held (share)	Unlisted share held (share)	Percentage in total capital stock (%)
1	State-owned Assets Office of Foshan City (national corporate share, A share)		78,111,000	28.32
2	ARRAN INVESTMENT PTE. LTD (B share)	18,531,900		6.72
3	Chanchang Lighting (A share)		5,046,750	1.83
4	Jinghong Security Investment Funds (A share)	4,255,848		1.54
5	C. G. CAPITAL China Industrial Holdings Co. Ltd. (B share)	3,700,000		1.34
6	JIANG NAN HOLDINGS LIMITED (B share)	2,173,108		0.79
7	Roc International Holdings Co. Ltd. (B share)	1,830,000		0.66
8	Alfred K.N. Chong (B share)	1,613,653		0.58
9	Fengxin International Investment Co. Ltd. (B share)	1,568,700		0.57
10	Jingyang Security Investment Funds (A share)	1,322,017		0.48
	Total	34,995,226	83,157,750	42.83

Note:

- There is no connection relationship between the top 10 shareholders.
- Change of mortgage of shareholder with over 5% of shares during the report period: State-owned Assets Office of Foshan City (national corporate share, A share) has 78,111,000 shares (including 13,018,500 shares rationed) in the initial period, which has no change during the report period. ARRAN INVESTMENT PTE LTD. (B share) has 18,541,900 shares in the initial period, which was reduced to 18,531,900 shares at the end of the report period. No mortgage no freezing of shares held by the above two major shareholders.

IV. Shareholders' General Meeting

Our company convened the 11th Shareholders' General Meeting (1998 annual shareholders' meeting) in the conference room on the third floor of the office building of the company at 9:00 A.M. on May 21, 1999. No interim Shareholders' General Meeting has been held during the report period.

1. Announcement for convening the Shareholders' General Meeting.

To publish the announcement for convening the 11th Shareholders' General Meeting (1998 annual shareholders' meeting) 35 days in advance in CHINA SECURITY, SECURITY TIMES, FOSHAN DAILY and HONGKONG COMMERCIAL DAILY on Apr. 16, 1999.

2. Shareholders' general meeting.

The Board of Directors of the company shall be responsible for convening the Shareholders' General Meeting. 75 shareholders and proxies of shareholders attended the meeting, representing 99,171,040 shares, making up 35.95% of total capital stocks. Among them, there are 27 shareholders of B share, covering 3,869,932 shares of B share, making up 1.40% of total capital stock and complying with the relevant provisions in the "Corporation Law" and the Articles of Association of the company.

3. Resolution of Shareholders' General Meeting.

The general meeting passed 7 resolutions one by one in the way of voting by ballot. The announcement for the resolution of the Shareholders' General Meeting was published in CHINA SECURITY, SECURITY TIMES, FOSHAN DAILY and HONGKONG COMMERCIAL DAILY on May 22, 1999. Foshan Notary Office notarized the voting by ballot on the spot, and the notary public declared then and there that the entire course of this Shareholders' General Meeting and the reports and resolutions passed by the meeting are legal and effective.

- **To review and pass the Operation Report of the Board of Directors in 1998.**

99,171,040 votes for, making up 100% of the shares represented by the shareholders attending the meeting, including 3,869,932 shares of B share, 0 vote against and 0 vote abstention.

- **To review and pass the Operation Report of the Board of Supervisors in 1998.**

99,171,040 votes for, making up 100% of the shares represented by the shareholders attending the meeting, including 3,869,932 shares of B share, 0 vote against and 0 vote abstention.

- **To review and pass the Business Report of the General Manager in 1998.**

99,171,040 votes for, making up 100% of the shares represented by the shareholders attending the meeting, including 3,869,932 shares of B share, 0 vote against and 0 vote abstention.

- **To review and pass the Financial Report and the Profits Distribution Plan in 1998.**

99,169,740 votes for, making up 99.99% of the shares represented by the shareholders attending the meeting, including 3,896,932 shares of B share, 1300 votes against and 0 vote abstention.

The passed Profits Distribution Plan in 1998 is: According to the provision of the China Security Supervision Committee on “taking the profits statement with less profits among the two profits statements audited by the certified public accountants and respectively provided to domestic and foreign investors as the profits distribution standard when sharing the dividends”, and the net profit audited by Zhengzhong Certified Public Accountants(lower than that audited by KPMG Peat Marwick in Hong Kong), the lowest net profits realized of the company in 1998 is RMB 147,809,937.65. The profits available for distribution to shareholders this year after deducting 10% of legal surplus, 10% of public welfare funds and 5% of arbitrary surplus is RMB 156,479,083.47 (including RMB 45,621,630.23 as the undistributed profits at the beginning of the year). Counting by 275,862,054 shares of capital stock at the end of 1998, the company will distribute RMB 4.02 (including the tax. Dividends for B share shall be paid after being converted into HK dollar) as the cash dividend for every 10 shares to all shareholders. The total dividend paid is RMB 110,896,545.17, and the remaining RMB 45,582,537.76 will be carried forward to the next year for distribution. This distribution plan will be implemented within 2 months since the date of announcement.

- **To review and pass the resolution on changing the land of over 20 hectares in Wuzhuang rented for carrying out the two major investment projects into the land taken over, and using the capital remained for taking over the land to pay the land rent each year when the project is not approved yet.**

99,169,740 votes for, making up 99.999% of the shares represented by the shareholders attending the meeting, including 3,869,932 shares of B share, 0 vote against and 1300 votes abstention.

The main production sites for two investment projects of B share are both the land rented in Wuzhuang Village Management District, Luocun Town. With the implementation of the such two major projects of B share, the company has totally invested over RMB 200 million to set up the workshops for automobile lamp, motorcycle lamp, mercury lamp, ordinary bulb and decorative bulb, and automobile and motorcycle sockets, which can annually produce 200 million ordinary bulbs and decorative bulbs, 4 million mercury lamps, 20 million motorcycle lamps, 15 million reflective lamps, 350 million bulb casings, and semi products including automobile and motorcycle sockets. They have already become the main production bases of our company. However, due to the objective reason, and in order to quicken up the development, the over 20 hectares of land for production in Wuzhuang Bulbs Factory has always been rented from Wuzhuang Management District, Luocun Town, and has not be taken over for use completely. This is a serious hidden danger for the assets and production development of a listed company, especially on the contrary to the newly effective “Land Control Law”. For this reason, the company is applying for going through the land takeover procedure again, so as to change the leased land into the land taken over with 50 years of land use right purchased. Because the land in Wuzhuang is mainly used for the two major investment projects of B share, the Board of Directors of the company has made the budget to remain RMB 55,444,700.00 in the raised funds of B share as the expenses for taking over the land. If it is finally unable to purchase and take over the land under approval, such amount will be used to pay the rent for the land each year.

- **To review and pass the resolution on racing against time to develop the green light T8 high-efficient energy-saving fluorescent lamp, and authorizing the Board of Directors to borrow parts of the funds from the bank to introduce the production line for T8 fluorescent lamp before obtaining the approval for the way of raising funds.**

99,171,040 votes for, making up 100% of the shares represented by the shareholders attending the meeting, including 3,869,932 shares of B share, 0 vote against and 0 votes abstention.

Because T8 fine-caliber fluorescent lamp has the characteristics of being high-efficient, energy-saving and beautiful. Compared with the traditional coarse-caliber fluorescent lamp, it has the advantages of improving the optical efficiency by 20%, saving the energy by 10%, reducing the volume by 40% and reducing the weight by 30%. As T8 also has the superiority of using the same luminaire with T12 and T10 coarse-caliber fluorescent lamps, it will certainly replace T12 and T10 fluorescent lamps gradually. Therefore, the Economic and Trade Committee of the state and the Department of Light Industry in China have determined T8 fluorescent lamp as the green lighting engineering, listed T8 fluorescent lamp as the key significant technical

reform project, and taken it as the developing target in the “Ninth Five Year Plan” in China. To race against time to occupy the market for T8 fluorescent lamp, and according to the advantage of the company of low liability rate, it is requested to authorize the Board of Directors of the company to loan from the bank before obtaining the approval for the way of raising funds, to settle a part of funds and introduce the T8 production line by installments.

- **To review and pass the resolution on continuing to appoint Zhengzhong Certified Public Accountant in Guangdong and KPMG Peat Marwick in Hong Kong as the financial accounting institutes of the company, and authorizing the Board of Directors to decide the remuneration of the accounting office according to the auditing operation.**

99,171,040 votes for, making up 100% of the shares represented by the shareholders attending the meeting, including 3,869,932 shares of B share, 0 vote against and 0 votes abstention.

4. Change of directors and supervisors during the report period

There is no election and change of directors and supervisors of the company during the report period.

V. Report of the Board of Directors

1. Business situation of the company.

(1). Industrial position of the company: our company is the first experimental enterprise of stock system transformed by the former state-owned enterprise Foshan Electrical and Lighting Company owned by the whole people (the former Foshan Bulbs Factory established in 1958) in Oct., 1992. It is approved to issue the domestic shares (A share) to the society in Oct., 1993, and issue the domestically listed foreign shares (B share) in Aug., 1995, with its 27.19% of B shares in the total capital stock. In Sep., 1996, it is approved to become a foreign invested stock limited company approved by the Ministry of Foreign Trade and Economic Cooperation of China, and selected one of the “Top Ten Listed Companies” of 1995 in the Shenzhen Security, with its comprehensive achievements ranking the first. It is selected one of the top 100 strongest listed companies in China by Asia Weekly in Hong Kong in 1997, and one of the 50 listed companies with strongest developing potentiality in China by Shanghai Asia Commerce and China Security.

As a large scale electro-optical key enterprise in China, and an export base for mechanical and electrical products approved by the State Council, our company enjoys the management right for exports and imports managed by the enterprise itself. Since 1990, our company has been selected as one of the 500 national large and medium-size industrial enterprises with best economic benefit for five sequential years, as well as the top in the national electrical and mechanical manufacture industry. In 1995, the company won the 172nd in the 500 Chinese industrial enterprises with the best comprehensive appraisal, and one of the top 10 light industrial enterprises in China. It produces and manages electro-optical products with its products sold both at home and abroad. It is the foreign-oriented enterprise with largest scale, highest quality, greatest exchange earnings and best benefits in the national electro-optical industry, with its gross industrial output value, total profits and taxes, exchange earnings by export and labor productivity per capita all ranking the first row among enterprise of the same trade. According to the information from 1994 to 1996 provided by the Industrial Management and Instruction Department of the Light Industry Assembly of China, and the Electrical and Lighting Appliances Institute in China on Sep. 17, 1997, the bulb output of the company has ranked the second in China for three years, as well as its market occupant. Its sales volume, total profits and taxes and exchange earnings by export have all ranked the top in China.

(2). Main business scope and business situation of the company: the company mainly produces and manages various electro-optical products, such as the ordinary bulb, decorative bulb, iodine-tungsten lamp, bromine-tungsten lamp, single-end lamp, automobile lamp, motorcycle lamp, high-tension mercury lamp, high-tension Na lamp, metal halide lamp, T8 energy-saving fluorescent lamp with fine caliber, compact fluorescent lamp and reflection cup, as well as parts of fittings for bulbs. About 40-50% of its products are sold abroad. As for its domestic market, the company has not only strengthened the market in Guangdong Province, but also expanded to major large and medium cities all over the country. In this year, the company has scientifically adjust the product structure and marketing policy according to the market demand, and speeded up the production of greening light T8 high-efficient energy-saving fluorescent lamp. Just within 1 year, T8 fluorescent lamp has shocked the domestic market and entered into the international market depending on its high tech, high quality, low cost and considerable price, set up a completely new image, and been highly praised by customers. The total bulb output of the year has increased by 13% than that of last year, and the gross industrial output value has increased by 25%. It has earned over USD 30 million foreign exchange, and realized main business income of RMB 602.96 million, increasing by 19.31% than that of last year, and the main business profits of RMB 206.38 million. It continues to keep the advantageous trend of constant stable increase.

(3). Affiliated enterprise solely invested by the company and subsidiaries: Wuzhang Bulbs Factory, Nanhai City is an affiliated enterprise solely invested by the company, while Foshan Chanchang Lighting Equipment Co. Ltd. is the sino-foreign

jointly invested subsidiary of the company, whose substantial control right is held by the company. Both enterprises are mainly engaged in bulb production, of which, the former produces mainly produces ordinary bulbs and the latter mainly produces special optical sources and lighting fittings such as bromine-tungsten lamp. Both enterprises have normal production, standard operation and fine achievements, and belong to the subsidiaries in the consolidated statements.

(4). Existing operational problems and remedies of the company: the competition in bulb industry in 1999 is still quite violent. Firstly, to struggle for existence, some enterprise have done shoddy work and used inferior materials, and introduced the product with poor quality and lower price, seriously interfering the market, and forcing our company to reduce the price of some products. Secondly, our famous products and their packages have serious copied by lawbreaking merchants. Though we have taken great measures to crack down on imitation, we still can not eliminate it completely. The copying of our famous products have made our sales more difficult, and greatly influenced our market sales. Thirdly, because of the rise of prices of water, electricity, gas and other fuels, energies and some major materials, as well as the strengthening of social insurance by the state, the product costs have increased, and also because the supply of electro-optical products in the domestic market still exceeds the demand, the competition in the market becomes more and more violent. Furthermore, as some private enterprises and contracted enterprises have sold the copied products with low quality and prices without invoices, and publicly evaded taxes to make the unfair competition, bringing pressure to bear on our production and management. Facing such difficulties, all staff in the company have united together, smoothed away the difficulties, and made all efforts to developing and advancing. The settlements include: 1. To greatly develop technical innovation, improve the process and production efficiency, reduce the staff and promote the efficiency at the same time, and reduce the production costs of products; 2. To control the purchase of raw materials, choose the most suitable materials, reduce the purchase price of raw materials, quicken the technical progress, expand the production scale, improve the product quality and strengthen the competitive force; 3. To suit the market demand, speed up the development of new products with fine-caliber, high-efficient, energy-saving and high-tech T8 fluorescent lamp as the key product, speed up the introduction of equipment, form the economic scale, make T8 fluorescent lamp become the mainstream product of the company, and expand the market coverage. The green lighting optical source, T8 fluorescent lamp newly developed by our company has shocked the domestic market depending on its high starting point, high quality, low cost and considerable price, set up the completely new image, entered into the international market, and been highly praised by customers; 4. To further strengthen the management, solidify the results of ISO9002, carry out the enterprise management according to the requirements in ISO9002, find out the internal potentiality, so as to increase the output, save the expenditure and reduce the cost. Meanwhile, the company has set up the anti-imitation office, won over the support of public security departments, strengthened the activities for cracking down on imitation, purified the market, and maintained the rights and interests of consumers.

2. Financial and business situations of the company.

Main reasons for the completion of financial indices of the company and the increase and reduce than those of last year.

Unit: RMB 10,000

Index	At the end of 1999	At the end of 1998	Increased or reduced amount	Ratio of increase or reduce (%)
Total assets	143,816	138,203	5,613	4.06
Shareholders' rights and interests	114,840	110,969	3,871	3.49
Income from main business	60,296	50,535	9,761	19.31
Total profits	16,364	18,216	-1,852	-10.17
Profits from main business	20,638	18,432	2,206	11.97
Net profits	13,527	15,591	-2,064	-13.24

- The total assets of the company increased RMB 56.13 million, which is mainly due to the increase of long term investment.
- The shareholders' rights and interest increased RMB 38.71 million, which is mainly due to the deduction of legal surplus, public welfare funds and arbitrary surplus during the distribution of the profits of this year.
- The income from main business increased RMB 97.61 million, which is mainly due to the increases of total output of bulbs and domestic, and the strictly control of sales cost.
- The total profits and the net profits respectively reduced RMB18.52 million and 20.64 million. This is because that though the profits from main business has increased by 11.97%, the net financial income reduced by 48.5%.

3. Investment of the company.

(1). Use of the raised funds: it was disclosed in the annual report of 1998 in details that by Dec. 31, 1998, the funds of the company raised last time have been invested to the right projects passed in the shareholders' general and as promised in the prospectus, and have been fully used to invest the main business and to develop electro-optical production. The investment projects have basically completed, produced the obvious efficiency and promoted the further development of production. By the end of 1998, there is RMB 60.44 million of funds raised from B share in the bank, of which, RMB 5 million will be invested into OSRAM joint venture as the increased capital, and the remaining RMB 55.44 million will be used to take over the land of over 20 hectares covered by Wuzhuang Bulbs Factory for projects of B share. Such land is leased at

present, and is under application for takeover. If it is not approved for takeover, such amount will be used to pay the rent for the land each year. This proposal has been passed by the 1998 Shareholders' General Meeting on May 21, 1999, and published in CHINA SECURITY, SECURITY TIMES, HONG KONG COMMERCIAL DAILY and FOSHAN DAILY on May 22, 1999. By the end of Dec. 31, 1999, the capital increase project for OSRAM joint venture has been suspended, the application for land takeover has not been handled well, and the funds are still in the bank.

(2). Use of funds not raised: in 1999, the company has invested RMB 79.654 million with its self-possessed funds. The main investment projects are:

- Langfang Bulb Factory: with investment of RMB 807,000 this year, and accumulative investment of RMB 12,567,000 (including land rent of RMB 4.5 million for 10 years and the circulating funds). It started to install the equipment in Mar., 1999, taken the trial run in April, put two production lines into production in May, and put the third production line into production in October. The factory mainly produces ordinary bulbs and ball-shape decorative bulbs. The company aims at managing, developing and expanding Langfang Bulbs Factory by the management pattern of FSL, so as to expand the control and conductivity of our products in the markets in North China and Northeast China.
- Gaoming Bulb Factory: with investment of RMB 3,236,000 this year, and accumulative investment of RMB 11,731,000 (including land for purchasing the land and leveling the land). The factory has been put into production in Apr., 1994. It mainly produces the semi products for our company.
- Introduction of production line for T8 fluorescent lamp: it has introduced two production lines for T8 fine-caliber, high-efficient and energy-saving fluorescent lamp and four T8 production lines, with down payment of RMB 30.5 million totally invested. By the end of 1999, three T8 production lines have already been put into normal production. It has produced over 8 million T8 fluorescent lamps this year with earnings obtain, parts of which have been sold abroad. The other four production lines will be delivered successively by Oct., 2000, and installed and put into trial run by the end of 2000.
- Introduction of production line for T5 fluorescent lamp: to introduce the newest T5 green lighting optical production line, the company has invested RMB 16.476 million this year. The equipment will be delivered in May 2000, and installed and put into production in the last half of that year.
- Introduction of production line and equipment for metal halide lamp: the company has invested RMB 2.868 million this year, with the equipment already put into trial run.

- Introduction of production line and equipment for automobile lamp: the company has invested RMB 9.528 million this year, with the equipment already put into trial run and benefits obtained.
- Domestic supporting equipment and engineering projects: to purchase the domestic supporting equipment for T8 production line such as the draw tube wire and filament, domestic equipment for energy-saving lamp, and the engineering of the production site for the introduced projects. The company has totally invested RMB 20.282 million this year, with parts of engineering completed.

4. Business development plan in the new year.

(1). Speed up to develop T8 and T5 fine-caliber, high-efficient and energy-saving lamps, expand the production scale for T8 and T5 high-tech green lighting optical sources, reduce the product cost, and strengthen the competitive force. The straight fluorescent lamp has the advantages of high optical efficiency and long service life. Compared with ordinary incandescent lamp, the fluorescent has the higher usage of electric energy, with the luminous flux of a 40W fluorescent lamp same as that of a 200W ordinary incandescent lamp. T8 fluorescent lamp is the new product introduced abroad recently with the caliber of only 26mm. As it has higher optical efficiency, save more energy and electricity, and save more raw materials such as the fluorescent powder and glass tube than T12 (Ø38mm) and T10 (Ø32mm) fluorescent lamps, it has been greatly welcomed by vast customer in its first appearance in the market, and has the very broad developing prospect.

T5 straight fluorescent lamp recently introduced abroad which has attracted the great attention in the international lighting industry has the caliber even thinner than that of T8 fluorescent lamp, only 16mm. With the volume only 57% of that of T8, and consuming only 43.8% of major raw materials including glass tube and fluorescent powder consumed by T8, it reduces the material consumption and lessen the product volume. T5 fluorescent lamp not only has the characteristics of high optical efficiency, good coloration, small optical attenuation, long service life, no flash and high lighting quality, and has the advantages of electricity saving, material saving, low temperature, low pressure and fast start as well. It is the newest high-tech green lighting product.

T8 fluorescent lamp has already become the mainstream product abroad, while T5 fluorescent lamp is just under development. However in China, the development of T8 fluorescent just started, and T5 fluorescent lamp is under development and trial production of small batch. The Economic and Trade Committee of the state has determined T8 and T5 fluorescent lamps as the green lighting engineering in China, and listed T8 fluorescent lamp as the key technical reform project of the state for major development, as well as the development target in the “Ninth Five Year Plan”, the “Tenth Five Plan” and the target in 2010. For this reason, the state has established the leading team for “Chinese Green Lighting Engineering”, strengthened the relevant

management and leadership, and issued the “Implementation Project for Chinese Green Lighting Engineering” in 1996. Recently, the relevant department of the stated pointed out that we should actively introduce T8 and develop T5 energy-saving fluorescent lamps. This is a new stage for fluorescent lamp development, which has been gradually applied in foreign countries. Our company will greatly develop T8 fine-caliber fluorescent lamp aiming at high efficiency and energy saving, and actively develop high-tech T5 fluorescent lamp. This complies with the national industrial policy, and becomes the major development direction for green lighting engineering in China. The company has decided to introduce T8 automatic production lines by lots before 2002, expand the production scale to thirteen T8 production lines and two T5 production lines, and annually produce 115 million T8 and T5 fluorescent lamps. It has already made the arrangement to introduce five automatic production lines in 2000 based on the three T8 production lines already under normal production, including four T8 production lines and one T5 production line. T8 production lines shall be installed, commissioned and put into production by the end of the year, while T5 production line shall be put into trial run, to produce the qualified products into the market.

(2). Prepare to set up the energy-saving fluorescent lamp factory, expand the production of T8 fluorescent lamp, reach the production scale of 13 production lines, and develop and introduce two production lines for T5 fluorescent lamp. As the existing production site of the company is inferior to the demand of production development, the company must seek for development space, and make preparation to set up the fluorescent lamp factory. The Board of Directors have discussed the site and building design of the energy-saving fluorescent lamp factory for many times, and purchased the land and factory buildings of Guangdong Electrical Company and Guangdong Euro-Asia Cables Company by bid recently to construct the energy-saving fluorescent lamp factory. The relevant matters will be submitted to the Shareholders’ General Meeting for review

(3). Complete the technical reform for domestic supporting engineering. Reconstruct and expand the 28M² glass kiln engineering into 45M², to produce the glass tubes for T8 and T5 automatic production lines. Also complete the reform of 18M² hard material glass kiln and the purchase of domestic supporting equipment.

(4). Continue to keep the good developing trend of the company, constantly adjust the product structure, develop the fittings for T8 and T5 fluorescent lamps, and further expand the economic scale, to further improve the production. At the same time, it will strengthen the marketing, paying same attention to both domestic sales and export. As for the export and foreign trade, we must take the strong measures and flexible management policy, seize the opportunity that China is to join in WTO, fully utilize the preferential policy for encouraging export, expand the export of products, and greatly promote the export and foreign trade in the new year.

(5). Pay special attention to three management essences such as the production management quality improvement and cost reduction. For production management, the company shall carefully organize the production, scientifically arrange the production,

and timely satisfy the market demand. For quality management, the company shall stick to ISO9002 international quality recognition standard, carefully carry out the quality system of the company, make quality control well during production, and further improve the product quality. As for the cost management, the company shall ensure the material quality purchased and control the material cost at the same time, and further reduce the cost of raw materials purchased from outside. On the other side, the company shall find out the developing potentiality and reduce the cost during production, reform the technical process, increase the output and save the expenditure, reduce the staff and improve the efficiency, further reduce the production cost, and enhance the competitive force of products.

5. Influence by the China's joining in WTO

A part of high quality and high class electro-optical products from abroad have entered into the Chinese market before our joining in WTO. After joining in WTO, the import products may increase, but may not increase too much due to their high prices. As the electro-optical products produced at home have complete varieties and competitive advantages in price, import products will take a small part, having little influence to the electro-optical industry. However, the joining in WTO will have both advantage and disadvantage to the company. The advantage is that because our company has constantly improved our quality, and has quite complete product varieties and a certain competitive force, it will possibly further expand the exportation based on the good achievements in export during the past years, relieving the situation of domestic products with supply exceeding the supply. The disadvantage is that after joining in WTO, because the import duties have reduce, more optical products with special purposes abroad will enter into the Chinese market, adversely affecting the company producing the same kinds of products.

6. Routine operation of the Board of Directors.

(1). Board meetings and resolutions during the report period: the Board of Directors has held 6 meetings within this year. The contents of the meetings and resolutions are:

- The first meeting of the Board of Directors of our company was held on Apr. 13, 1999. 7 directors of the 9 who should attend the meeting actually attended the meeting. Three members of the Board of Supervisors attended the meeting as the observers. The attendants carefully studied the spirit of the "Security Law" and the security meeting of Guangdong Province, discussed the annual report of 1998 and the Shareholders' General Meeting of 1998, and pass the meeting passed the following resolutions:

-- Examine and pass the 1998 Annual Report and Summary of 1998 Annual Report (both Chinese and English versions).

-- Examine and pass the operation report of the Board of Directors of 1997.

-- Examine and pass the resolution on taking over the land of over 20 hectares rented in Wuzhuang for carrying out two major investment products of B share.

The main production sites for two investment projects of B share are both the land rented in Wuzhuang Village Management District, Luocun Town. The implementation of the such two major projects of B share has greatly develop its production scale and fixed assets. The company has totally invested over RMB 200 million to set up the workshops for automobile lamp, motorcycle lamp, mercury lamp, ordinary bulb and decorative bulb, and automobile and motorcycle sockets, which can annually produce 200 million ordinary bulbs and decorative bulbs, 4 million mercury lamps, 20 million motorcycle lamps, 15 million reflective lamps, 350 million bulb casings, and semi products including automobile and motorcycle sockets. They have already become the main production bases of our company. However, due to the objective reason, and in order to quicken up the development, the over 20 hectares of land for production in Wuzhuang Bulbs Factory has always been rented from Wuzhuang Management District, Luocun Town, and has not be taken over for use completely. This is a serious hidden danger for the assets and production development of a listed company, especially on the contrary to the newly effective "Land Control Law". For this reason, the company is applying for going through the land takeover procedure again, so as to change the leased land into the land taken over with 50 years of land use right purchased. Because the land in Wuzhuang is mainly used for the two major investment projects of B share, the Board of Directors of the company has decided the over RMB 60 million for land takeover shall be paid from the funds raised for B share last time. As the funds raised last time have RMB 55,444,700 actually left, the company shall make up the insufficient part with its own capitals. It is also submitted to the Shareholders' General Meeting of 1998 for examination and review.

-- Examine and pass the Final Report and the Draft Profits Distribution Plan of 1998.

The Draft Profits Distribution Plan of 1998 is: according to the net profit audited by Guangdong Zhengzhong Certified Public Accountants (lower than that audited by KPMG Peat Marwick in Hong Kong, the lowest net profits realized of the company in 1998 is RMB 147,809,937.65. The profits available for distribution to shareholders this year after deducting 10% of legal surplus, 10% of public welfare funds and 5% of arbitrary surplus is RMB 156,479,083.47 (including RMB 45,621,630.23 as the undistributed profits at the beginning of the year). Counting by 275,862,054 shares of capital stock at the end of 1998, the Board of Directors of the company will distribute RMB 4.02 (including the tax. Dividends for B share shall be paid after being converted into HK dollar) as the cash dividend for every 10 shares to all shareholders. The total dividend actually paid is RMB 110,896,545.71, and the remaining RMB 45,582,537.76 will be carried forward to the next year for distribution. The above draft distribution plan shall be implemented upon the review of the Shareholders' General Meeting. The company has no plan on increasing the capital stock by capital surplus before the

disclosure of the interim report in 1999.

The cash dividend paid to shareholders abroad of B share shall be converted into HK dollars by the middle rate between RMB and HKD declared by the Bank of China on the first working day after the resolution of the Shareholders' General Meeting.

-- Examine and pass the resolution on holding the Shareholders' General Meeting of 1998 on May 21.

- On June 26, 1999, the 2nd meeting of the Board of Directors was held, with 7 of 9 directors who should attend the meeting attending the meeting. The Chairman of the Board of Supervisors attended the meeting as an observer. The attendants passed the resolution on investing the Level-1 and Level 2 security markets by temporarily using a small part of self-possessed funds of the company. It is especially pointed out in the meeting to make careful operation, reduce the investments risks, and ensure the safety and profitability of funds to the maximum extent.
- The company convened its 3rd Board meeting on Aug. 17, 1999, with all nine directors attending the meeting and the Chairman of the Board of Supervisors attending the meeting as an observer. In the meeting, attendants mainly discussed and examined the interim report of 1999, and studied all relevant documents issued by Guangdong Security Supervision Committee and Shenzhen Security. Attendants examined and passed the followings:

-- Interim report of 1999, which is disclosed in the newspapers on Aug. 21 under the arrangement of Shenzhen Security.

-- No profit distribution in the interim period of 1999, nor increase of capital stock from public surplus.

- The company convened its 4th enlarged joint meeting of the Board of Directors on Sep. 11, 1999, with eight directors, four supervisors and two senior personnel attending the meeting. The attendants mainly summarized the production and management of the company from January to September, arranged the operation in the next four months, analyzed the production and management situation in 2000, and worked out the operation plan for production, management and security.
- The company convened its 5th meeting of the Board of Directors on Oct. 15, 1999, with eight of nine directors attending the meeting, and the Chairman of the Board of Supervisors as an observer. The attendants specially discussed the problem for taking over the land and preparing to set up the fluorescent lamp factory. To expand the production scale of T8 fluorescent lamp, thirteen T8 production lines and two T5 production lines shall be introduced to greatly

develop T8 and T5 green lighting products. For this reason, the Board of Directors has passed the resolution on selecting the site, taking over and land and setting up the fluorescent lamp factory.

- The company convened its 6th enlarged joint meeting of the Board of Directors on Dec. 14, 1999, with seven of nine directors, two supervisors and one senior personnel attending the meeting. The attendants discussed the problem on site selection and land takeover again, and decided to make further efforts to find the suitable site for the fluorescent lamp factory and take over the land for use.

(2). Execution of the Board of Directors to the resolutions of the Shareholders' General Meeting:

The Board of Directors always carefully carries out the resolutions of the Shareholders' General Meeting. However, due to influence of some external factors, the 7 resolutions passed by the Shareholders' General Meeting 1998 have not been implemented completely. It implemented the distribution plan passed by the general meeting on Jul. 5, 1999, with all shareholders receiving their cash dividends. For the takeover of over 20 hectares of land in Wuzhuang rented for implementing the projects of B share, because it relates to the land policy of the state and the interest of farms, it has not been completed yet. As for the resolution on borrowing money from banks to introduce T8 production lines, because the company has parts of self-possessed funds to introduce T8 production lines, borrowing from banks is unnecessary.

7. Senior management personnel and staff of the company

(1). Directors, supervisors and senior management personnel.

Name	Sex	Age	Post	Term of offices	Shares held (numbers)	
					Year start	Year end
Zhong Xincai	M	57	Chairman of the Board of Directors	3 years till Jun. 2001	67,500	67,500
Alfred K. N. Chong	M	51	Vice Chairman of the Board of Directors	3 years till Jun. 2001	1,267,802 (B share)	1,613,653
Ou Muben	M	50	Executive director	3 years till Jun. 2001	30,000	30,000
Liu Xingming	M	37	Executive director	3 years till Jun. 2001	19,800	19,800
Li Dehua	M	58	Executive director	3 years till Jun. 2001	0	0
Chen Benxian	M	59	Executive director and secretary of the Board	3 years till Jun. 2001	0	0
Lin Yihui	M	46	Director	3 years till Jun. 2001	0	0
Ye Zaiyou	M	49	Director	3 years till Jun. 2001	0	0
Shen Weiqiang	M	50	Director	3 years till Jun. 2001	0	0

Huang Yazheng	M	56	Chairman of the Board of Supervisors	3 years till Jun. 2001	28,500	28,500
Tan Shengzhi	M	52	Supervisor	3 years till Jun. 2001	30,000	30,000
Ma Yijun	M	31	Supervisor	3 years till Jun. 2001	0	0
Yang Xiumei	F	45	Supervisor	3 years till Jun. 2001	0	0
Pang Haijin	M	48	Supervisor	3 years till Jun. 2001	0	0
Liang Weiqiang	M	42	Senior management personnel		0	0
Wang Shuqiong	F	37	Senior management personnel		0	0

- The annual remuneration of directors, supervisors and senior management personnel of the company: one person between RMB 350,000 and 380,000, two between 90,000 and 110,000, and five between 50,000 and 70,000.
- Vice director Alfred K. N. Chong, directors Lin Yihui, Ye Zaiyou and Shen Weiqiang, and supervisors Yang Xiumei and Pang Haijin receive no remuneration from the company.
- During the report period, no director, supervisor or senior management personnel leaving the post.
- During the report period, there is no change on the position of general manager, vice general manager, and secretary of the Board of Directors of the company.

(2). Staff and professional composition of the company: the company has the total staff of 7000, including 6650 production personnel, 75 sales personnel, 230 technical personnel, 25 financial personnel, and 20 administrative personnel. There are 315 staff graduated from universities, colleges and polytechnic school, and 202 retired staff.

8. Draft profits distribution plan and draft on the increase of capital stock from public surplus of 1999

According to the net profit audited by KPMG Peat Marwick in Hong Kong (lower than that audited by Guangdong Zhengzhong Certified Public Accountants), the lowest net profits realized of the company in 1999 is RMB 135,267,769.00. The profits available for distribution to shareholders this year after deducting 10% of legal surplus, 10% of public welfare funds and 5% of arbitrary surplus is RMB 128,288,843.50 (including RMB 32,614,047.00 as the undistributed profits at the beginning of the year). Counting by 275,862,054 shares of capital stock at the end of 1999, the Board of Directors of the company will grant 1 share to all shareholders of A share and B share for every 10 shares by the capital surplus, reduce the capital surplus from RMB 619,503,518.89 to RMB 591,917,313.49, distribute RMB 3.50 (including the tax. Dividends for B share shall be paid after being converted into HK dollar) as the cash dividend for every 10 shares to all shareholders. The total dividend actually paid is RMB 96,551,719.00, and the remaining RMB 31,737,125.00 will be carried forward to

the next year for distribution. The above draft distribution plan shall be implemented upon the review of the Shareholders' General Meeting.

The cash dividend paid to shareholders abroad of B share shall be converted into HK dollars by the middle rate between RMB and HKD declared by the Bank of China on the first working day after the resolution of the Shareholders' General Meeting.

9. Change the newspapers for disclosing the information

Four many years, we have selected CHINA SECURITY, SECURITIES TIMES, FOSHAN DAILY (for A share) and HONG KONG COMMERCIAL DAILY (for B share, in English) as the newspapers for disclosing the relevant information. However, because of the change on capital stock of HONK KONG COMMERCIAL DAILY during the report period, the report for B share in English since 1999 will be published TA KUNG PAO in Hong Kong, with the three Chinese newspapers for A share remaining unchanged.

VI. Report of the Board of Supervisors

1. Operation of the Board of Supervisors during the report period.

The Board of Supervisors carefully performs its functions of supervision and urging, carries out the policy of "legalization, supervision, self-discipline and standardization", and earnestly ensures the legal and standardized operation of the company based on the principle of holding responsible to all shareholders, and according to the relevant provisions of the "Corporation Law" and the Articles of Association of the company. During the past one year, the Chairman of the Board of Supervisors always attended the meetings of the Board of Directors and the management group, participated in the discussion of the significant policies of the company, review and supervise the resolution and procedure of each Board meeting and Shareholders' General Meeting as the observer, and convened three meetings of the Board of Supervisors:

(1). The first meeting of the Board of Supervisors in 1999 was held in the afternoon on Apr. 13, 1999, with directors, supervisors and senior management personnel jointly attending the meeting. The meeting mainly reviewed the business achievements of the company in 1998 as well as the financial reports audited by both the domestic and foreign accountants, passed the report of the Board of Supervisors in 1998, and examined and verified the various resolutions submitted to the Shareholders' General Meeting.

(2). The second meeting of the Board of Supervisors in 1999 was held on Sep. 11, 1999, with directors, supervisors and senior management personnel jointly attending the meeting. The meeting mainly summarized the production and management from

January to September, 1999, arranged the operation in the next four months, and discussed the operation of production, management and security in 2000.

(3). The third meeting of the Board of Supervisors in 1999 was held on Dec. 16, 1999. The meeting mainly listened to the report on the production management and financial status in 1999.

2. Independent opinion of the Board of Supervisors.

(1). Legal operation of the company: it can carry out the stick legal operation, strengthen the standardized construction, perfect the internal control system, and carry out all management policies for the use of capital, investment project and business management as per the standard procedures upon the discussion of the Board of Directors, making the study and investigation, finding out the feasibility, and finally making the decision. because of the legal decisive procedure, all major decisions have been implemented correctly and effectively, with quite good economic benefits obtained. The Board of Supervisors finds that no director nor manager of the company has violated the laws, rules and regulations and the Articles of Association of the company or damage the interest of the company while taking his post. The directors and managers of the company abide by the laws and discipline, and being honest in performing their official duties, united and enterprising. They are actively in their jobs, contribute themselves to the company, try their best to overcome the difficulties, and greatly develop various businesses of the company. Their actual achievements are remarkable.

(2). Inspect the financial situation of the company. The Board of Supervisors believed that the auditing reports and relevant notes made by Guangdong Zhengzhong Certified Public Accountants and KPMG Peat Marwick in HongKong have truly reflected the financial situation and business results of the company.

(3). The last actual investment project by raised funds (B share) has changed. Among the investment products promised, one is for the joint venture established with OSRAM in Germany (our company makes up 35%). However, because the joint venture had serious losses for continuous years, to maintain the rights and interests of shareholders, the company decided to reduce its shares and investment, with only 5% of shares remained. Such change of investment project has been reviewed and approved by the 9th Shareholders' General Meeting on May 12, 1997, and published in CHINA SECURITY, SECURITY TIMES, FOSHAN DAILY and HONG KONG COMMERCIAL DAILY on May 13, 1997. Besides, the change on the expenses for taking over the land of over 20 hectares for the development of B share investment projects has also been reviewed and approved by the 10th Shareholders' General Meeting on May 21, 1999, and published in the above "Four Newspapers" on May 22, 1999. As the changes of investment projects have been decided by the Board of Directors and submitted to the Shareholders' General Meeting for review and approval, the procedure for changing is legal.

(4). During the report period, our company has no transaction of the purchase and sales of assets nor the related transaction.

(5). Guangdong Zhengzhong Certified Public Accountants and KPMG Peat Marwick in HongKong have issued the auditing report without any reserved opinion to the financial report of the company in 1999.

VII. Significant Events

1. There is no significant suit or arbitration of the company happened during this year.

2. No company, director or senior management personnel of the company being punished by the supervision departments during this year.

3. There is no change of the first major shareholder of the company, nor change of the directors, senior management personnel or the secretary of the Board of Directors happened during this year.

4. There is no matters on purchase, amalgamation and sales of assets of the company happened during this year.

5. There is no significant matters on affiliated transaction of the company happened during this year.

6. The company and the first major shareholder, State-owned Assets Office of Foshan City have strictly carried out the “three division” for personnel, assets and finance, truly realizing the target of independent personnel, independent finance and complete assets.

7. There is no trust, contract or lease of the assets of other companies, nor the trust, contract or lease of our assets to other companies happened during this year.

8. No change has taken place to the domestic and foreign accounting offices of the company during the report period. The company continues to appoint Guangdong Zhengzhong Certified Public Accounts and KPMG Peat Marwick in HongKong as its accounting offices.

9. There is no significant contract guarantee nor contract guarantee the company during this year.

10. There is no change of name of the company and abbreviation of shares during this year.

VIII. Financial Report

1. Auditing opinion.

Yao Jianhua, the certified public accountant of KPMG Peat Marwick in HongKong, has audited the financial report of the company, and issued the audit report without the reserved opinion.

2. Accounting statement.

- (1). Consolidated Balance Sheet (Attachment 1).
 - (2). Consolidated Income Statement (Attachment 2).
 - (3). Consolidated Cash-flow Statement (Attachment 3).
 - (4). Consolidated results and net influences to funds of shareholders (Attachment 4)
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(III). Annotations of financial statements.

1. Significant accounting policies

The consolidated financial statements of Foshan Electrical and Lighting Company Limited (the "Company") for the year ended 31 December 1999 comprise the Company and its subsidiaries (together with the Company referred to as the "Group").

- (1) **Statement of compliance:** The consolidated financial statements have been prepared in accordance with accounting standards issued by the International Accounting Standards Committee ("IASC") and interpretations issued by the Standing Interpretations Committee of IASC.
- (2) **Basis of preparation:** The consolidated financial statements are prepared on the historical cost basis.
- (3) **Basis of consolidation:**
 - Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.
 - Intra-group balances and transactions, and any realized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.
- (4) **Translation of foreign currencies:** Foreign currency transactions during the year are translated into Renminbi Yuan at the applicable exchange rates on the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Renminbi Yuan at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the consolidated income statement.
- (5) **Depreciation and amortization:**
 - Property, plant and equipment are stated at cost or independent valuation in 1993 (see note 7) and are depreciated using the straight line method over their estimated useful lives, after taking into

account their estimated residual values. The cost of property, plant and equipment constructed by the Group includes the cost of materials and direct labour and an appropriate proportion of fixed and variable overheads.

● The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether they are in excess of their recoverable amount. If the carrying amount exceeds the recoverable amount, the asset is written down to the lower amount. In assessing the recoverable amount, the relevant cash flows have not been discounted to their present value.

● Expenditure on repairs or maintenance of property, plant and equipment made to restore or maintain future economic benefits expected from the assets is recognized as an expense when incurred.

The rates of depreciation used are based on the following estimated useful lives:

Land use rights in the People's republic of China ("PRC")	Over the unexpired term of the grant
Buildings	20 to 30 years
Plant and machinery	5 to 28 years
Furniture, fixtures and office equipment	5 to 14 years
Motor vehicles	6 to 12 years

Assets are depreciated or amortized from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for its intended use. No depreciation is provided in respect of construction in progress.

(6) Construction in progress: Construction in progress represents properties under construction and equipment purchased prior to installation and is stated at cost.

(7) Investments: Long-term investments comprise participations in various companies in which the Group neither holds, directly or indirectly, 20% or more of the voting powers nor exercises significant influence. Listed investments are carried at the lower of cost and market value determined on a portfolio basis. Other investments are carried at cost less any amounts written off to recognize other than temporary declines in the value of the investment. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to income.

(8) Stocks:

● Raw materials are valued at purchased cost. Work in progress and manufactured finished goods are valued at production cost including direct production costs (cost of materials and labour) and an appropriate proportion of production overheads and factory depreciation. Spare parts and consumables are stated at cost less any provision for obsolescence.

● Cost is based on the weighted average principle.

● If the purchase or production cost is higher than the net realisable value, stocks are written down to net realisable value. Net realisable value is the estimated selling price in the ordinary course of business subsequent to the balance sheet date less the estimated cost of completion and selling expenses.

(9) Accounts receivables and other receivables: Accounts receivables and other receivables are

stated at nominal value, less writedowns for any amounts expected to be irrecoverable.

(10) Cash equivalents: Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(11) Accounts payable and other liabilities: Accounts payable and other liabilities are stated at their carrying amounts.

(12) Taxation:

● Tax on the profit or loss for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

● Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to goodwill not deductible for tax purposes and the initial recognition of assets or liabilities which affect neither accounting nor taxable profit/(loss).

● Deferred tax is calculated on the basis of tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any change in the tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

(13) Revenue recognition:

● In relation to the sale of goods, revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the derivation of consideration, associated costs or the possible return of goods.

● Interest income derived from government bonds is accounted for on an accruals basis.

● Dividends from equity investments are accounted for to the extent of cash received.

● Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(14) Operating lease payment: Rentals payable under operating leases are accounted for on a straight line basis over the periods of respective leases.

2. Notes on projects

(1) Other operating income

	1999	1998
	Rmb	Rmb
Sales of raw materials	937,779	3,900,683
Rental income	602,223	681,379
Government subsidy	-	1,363,436
Others	<u>1,423,355</u>	<u>683,739</u>
	2,963,357	6,629,237
	=====	=====

Government subsidy received by the Group represents refund from the local government, calculated

based on certain percentage of levies payable to the government in the previous years.

(2) Net financial income

	1999 Rmb	1998 Rmb
Interest income	11,097,613	26,985,330
Other finance income	7,524,000	7,524,000
Exchange gain	<u>130</u>	<u>18,505</u>
Total financial income	18,621,743 -----	34,527,835 -----
Bank charges and other financial expenses	745,967	747,934
Exchange loss	<u>490,312</u>	<u> </u>
Total financial expenses	1,236,279 =====	747,934 =====
Net financial income	17,385,464 =====	33,779,901 =====

(3) Net investment (expense) / income

	1999 Rmb	1998 Rmb
Dividend income	1,000,000	1,370,000
Other income from investments	3,187,667	2,079,354
Provision on investments	<u>(4,991,098)</u>	<u>(1,073,000)</u>
Gain on disposal of long term investments	<u>-</u> (803,431)	6,591,527 8,967,881
	=====	=====

(4) Taxation

● Taxation in the consolidated income statement represents:

	1999 Rmb	1998 Rmb
Provision for PRC income tax for the year	28,376,468	26,214,573
Underprovision of PRC income tax Relating to prior years	<u> -</u>	<u> 33,686</u>
	<u>28,376,468</u>	<u>26,248,259</u>
	=====	=====

The charge for PRC income tax is calculated at the rate of 15% (1998: 15%) on the estimated assessable profits for the year determined in accordance with relevant income tax rules and regulations.

● **Taxation in the consolidated balance sheet represents:**

	1999 Rmb	1998 Rmb
Balance at 1 January	13,486,600	8,082,798
Provision for PRC income tax for the year	28,376,468	26,214,573
Balance of PRC income tax provision relating to prior years	-	33,686
Payments made during the year	<u>(20,360,575)</u>	<u>(20,844,457)</u>
Transfer from deferred taxation (note 15)	<u>17,888,687</u>	-
Balance at 31 December	<u>39,391,180</u>	<u>13,486,600</u>
	=====	=====

(5) Property, plant and equipment

	Land use rights and buildings Rmb	Plant and machinery Rmb	Furniture, fixtures and office equipment Rmb	Motor vehicles Rmb	Total Rmb
Cost or valuation:					
At 1 January 1999	308,503,579	249,197,474	5,515,997	6,871,006	570,088,056
Additions	2,431,991	8,360,204	350,445	160,629	11,303,269
Transfer from construction in progress	12,764,186	68,812,847	-	-	81,577,033
Reclassification	(5,288,150)	5,288,150	-	-	-
Disposal	<u>(11,995,722)</u>	<u>(5,668,797)</u>	<u>(183,320)</u>	<u>(311,726)</u>	<u>(18,159,565)</u>

At 31 December 1999	306,415,884	325,989,878	5,683,122	6,719,909	644,808,793
	-----	-----	-----	-----	-----
Aggregate depreciation:					
At 1 January 1999	57,917,268	70,526,570	2,383,844	4,128,144	134,955,826
Charge for the year	13,981,229	30,257,899	714,197	703,841	45,657,166
Written back on disposal	<u>(3,550,938)</u>	<u>(3,319,966)</u>	<u>(167,612)</u>	<u>(311,726)</u>	<u>(7,350,242)</u>
At 31 December 1999	68,347,559	97,464,503	2,930,429	4,520,259	173,262,750
	=====	=====	=====	=====	=====
Net book value:					
At 31 December 1999	238,068,325	228,525,375	2,752,693	2,199,650	471,546,043
	=====	=====	=====	=====	=====
At 31 December 1998	250,586,311	178,670,904	3,132,153	2,742,862	435,132,230
	=====	=====	=====	=====	=====

Certain property, plant and equipment were revalued at 30 April 1993 by Guangzhou Assets Appraisal Corporation using the depreciated replacement cost method prior to the listing of the Company's A shares on the Shenzhen Stock Exchange. The surplus on revaluation was taken directly to revaluation surplus. This 1993 valuation was a one-off exercise which established the deemed cost of the property, plant and equipment on the formation of the Company. As a result, the directors consider that the requirements of IAS16 "Property, Plant and Equipment" with respect to carrying assets at amounts other than costs less accumulated depreciation are not applicable.

(6) Construction in progress

	Land and building Rmb	Plant, machinery and equipment Rmb	Total Rmb
At 1 January 1999	14,262,281	52,662,333	66,924,614
Additions	2,294,925	60,488,244	62,783,169
Transfer to property, plant and equipment	<u>(12,764,186)</u>	<u>(68,812,847)</u>	<u>(81,577,033)</u>
At 31 December 1999	3,793,020	44,337,730	48,130,750
	=====	=====	=====

(7) Long term investments

	1999 Rmb	1998 Rmb
Listed shares in the PRC	49,993,616	-
Less: Provision	<u>(2,199,098)</u>	<u>-</u>
	47,002,518	-
	-----	-----
Unlisted shares	29,850,000	29,850,000
Other unlisted investments	37,285,477	37,985,477
PRC Government bonds	<u>-</u>	<u>2,000</u>
	67,135,477	67,837,477
Less Provision	<u>(8,273,000)</u>	<u>(6,273,000)</u>
	58,862,477	61,564,477
	=====	=====
	105,864,995	61,564,477
	=====	=====
Market value of listed shares	47,002,518	-
	=====	=====

(8) Deferred assets

Deferred assets represent prepayment of rental expenses relating to the Group's land and buildings. The prepaid rental expenses are amortized over the lease period on the straight line basis.

(9) Stocks

	1999 Rmb	1998 Rmb
Raw materials	25,720,483	23,313,051
Work in progress	35,664,859	15,905,391
Finished goods	28,001,691	32,431,269
Spare parts and consumables	<u>89,342</u>	<u>50,982</u>
	89,476,375	71,700,693
	=====	=====

Included in finished goods are stocks of \$28,001,691, stated net of a general provision, made in order to state these items at the lower of their cost and estimated net realisable value.

(10) Prepayments and other receivables

	1999	1998
	Rmb	Rmb
Receivable from sale of land use rights	82,500,000	82,500,000
Prepayments for purchases of raw materials and machinery	29,449,722	32,071,737
Deposits, prepayments and others	<u>37,091,929</u>	<u>26,503,329</u>
	149,041,651	141,075,066
	=====	=====

(11) Cash and bank balances

	1999	1998
	Rmb	Rmb
Deposits with banks and other financial institutions maturing over 3 months	80,000,000	107,256,850
Cash and each equivalents	<u>421,546,779</u>	<u>443,962,324</u>
	501,546,779	551,219,174
	=====	=====

(12) Capital and reserves

	Share capital	Share premium	Revaluation surplus	Statutory surplus reserve	Statutory staff welfare reserve
	Rmb	Rmb	Rmb	Rmb	Rmb
Balance as at 1 January 1999	275,862,054	601,629,196	13,479,958	86,740,581	57,075,262
Net profit for the year	-	-	-	-	-
Transfer	-	-	-	15,837,189	7,918,595
Dividend	-	-	-	-	-
Balance as at 31 December 1999	275,862,054	601,629,196	13,479,958	102,577,770	64,993,857
	=====	=====	=====	=====	=====
	Share capital	Share premium	Revaluation surplus	Statutory surplus reserve	Statutory staff welfare reserve
	Rmb	Rmb	Rmb	Rmb	Rmb
Balance as at 1 January 1998	275,862,054	601,629,196	13,479,958	71,959,587	42,294,268
Net profit for the year	-	-	-	-	-
Transfer	-	-	-	14,780,994	14,780,994
Dividend	-	-	-	-	-
Balance as at 31 December 1998	275,862,054	601,629,196	13,479,958	86,740,581	57,075,262
	=====	=====	=====	=====	=====

●**Registered, issued and fully paid up capital:**The registered capital comprises 200,862,054 ordinary A shares and 75,000,000 ordinary B shares . All shares were issued and have a par value of Rmb 1.

●**Statutory surplus reserve:** According to the current PRC Company Law and the Company's articles of association, the Company is required to transfer 10 per cent of its profit after taxation to statutory surplus reserve until the surplus reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to reserve, the profit after taxation shall be the amount determined under PRC accounting standards. The transfer to this reserve has to be made before distribution of dividend to shareholders.

●**Statutory staff welfare reserve:** According to the current PRC Company Law and the Company's articles of association, the Company is required to transfer a certain percentage of its profit after taxation to its statutory staff welfare reserve. The statutory staff welfare reserve can only be used for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. The reserve forms part of the shareholders' equity as individual employees can only use these facilities, the title of which will remain with the Company. The transfer to this reserve must be made before distribution of dividend to shareholders.

●**Discretionary surplus reserve:** The usage of this reserve is similar to that of statutory surplus reserve.

The profits to be transferred to the statutory surplus reserve and statutory staff welfare reserve for the year ended 31 December 1998 are to be approved at the Company's 11th annual general meeting.

●**Dividend :** A dividend of Rmb 0.35 per ordinary share (1998: Rmb 0.402 per ordinary share) resulting in a dividend payment of Rmb 96,551,719 (1998: Rmb 110,896,546) is to be proposed at the Company's 11th annual general meeting.

(13) Deferred taxation

	1999 Rmb	1998 Rmb
Balance as at 1 January	17,888,687	17,888,687
Transfer to tax payable-current liabilities (note 6(6))	<u>(17,888,687)</u>	-
Balance as at 31 December	- =====	17,888,687 =====

Deferred taxation at 31 December 1998 represents tax payable on the gain on disposal of land use rights in 1995. As the tax on the gain is expected to be payable in 2000, the balance has been transferred to current tax payable.

(14) Accruals and other liabilities

	1999 Rmb	1998 Rmb
Value added tax and other taxes payable	36,177,176	27,918,845
Accruals	13,148,583	17,154,023
Deposits received in advance	-	4,602,358
Others	<u>34,103,413</u>	<u>31,919,509</u>

83,429,172	81,594,735
=====	=====

(15) Provision for salaries and bonus fund and staff welfare fund

	1999	1998
	Rmb	Rmb
Balance as at 1 January	5,710,988	7,233,460
Charge for the year	16,304,191	5,396,808
Paid during the year	<u>(8,164,444)</u>	<u>(6,919,280)</u>
Balance as at 31 December	13,850,735	5,710,988
	=====	=====

(16) Financial instruments: Financial assets of the Group principally include cash and bank balances long term investments, accounts receivable and other receivables. Financial liabilities of the Group principally include accounts payable and other liabilities. Accounting policies for financial assets and liabilities are set out in note 1.

● **Credit risk :** Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform completely as contracted. The Group does not have significant exposure to any individual customer or counterparty. To reduce exposure to credit risk, the Group performs ongoing credit evaluations of the financial condition of its customers but generally does not require collateral. The Group invests available cash and cash equivalents with various banks and other financial institutions. The Group is exposed to credit-related losses in the event of non-performance by counterparties to repayment records of the counterparties, management does not expect any material counterparty to fail to meet its obligations.

● **Fair value:** The fair values of long term investments are not significantly different from the values as shown in note 9 on the accounts.

The fair values of cash and bank balances, accounts receivable and other short term receivables, accounts payable and other liabilities are not materially different from their carrying values.

(17) Commitments

● **Capital expenditure commitments:**As at 31 December 1998, the Group had capital expenditure commitments authorized and contracted for but not provided in the accounts amounting to approximately Rmb 45,293,000 (1998: Rmb 20,461,000).

● **Operating lease payments:**Minimum lease payments under non-cancelable operating leases, not provided for:

1999	1998
Properties	Properties
Rmb	Rmb

Within one year	1,169,000	1,169,000
Between one and two years	1,169,000	1,169,000
Between two and three years	1,169,000	1,169,000
Between three and four years	1,169,000	1,169,000
Between four and five years	1,169,000	1,169,000
Later than five years	<u>26,042,000</u>	<u>27,211,000</u>
	31,887,000	33,056,000
	=====	=====

(18) Earnings per share

● **Basic earnings per share :** The calculation of basic earnings per share is based on the profit after taxation of Rmb 135,267,769 (1998: Rmb 155,911,476) and 275,862,054 shares (1998: 275,862,054 shares).

● **Diluted earnings per share :** No diluted earnings per share is calculated as there are no dilutive potential shares.

(19) List of subsidiaries

● Details of the subsidiaries, both of which are established and operating in the PRC, are as following:

Name of company	Percentage of equity held	Principal activity
Wuzhuang Factory	100%	Manufacture of lighting products
QL Lamp and Components Limited (“QLLC”)	40% (note b)	Manufacture of lighting products

As the Group has effective control of QLLC through the power of governing the financial and operating policies of the economic activity under a contractual arrangement, QLLC has been accounted for as a subsidiary.

IX. Other Relevant Information of the Company

1. Date and place of first registration: registered in the Industrial and Commercial Administrative Bureau of Guangdong Province on Oct. 20, 1992.

2. Registration No. of Legal Entity Business License: 19035257-5

3. Tax registration No.: YWZ 440601190352575

4. Trust organization for uncirculating shares of the company: Deposit

Registry of Shenzhen Security

5. Main underwriting authority for security during the report period: N/A

6. Names and offices of accountants office employed by the company:

Domestic: Guangdong Zhengzhong Certified Public Accountants (former

Guangzhou Certified Public Accountants)

27/F Guangdong Group Building, 555 Dongfeng East Road,
Guangzhou

Tel: (020) 83859808

Fax: (020) 83800977

Foreign: KPMG Peat Marwick in HongKong (former KPMG Peat Marwick)

8/F Prince' s Building, Hong Kong

Tel: (852) 2826 7126

Fax: (852) 2845 2588

Reference Documents

The investors and the relevant departments can demand the following information from the secretary of the Board of Directors in the General Manager Office in the office building of our company:

1. Accounting report signed and sealed by the legal representative of the company, finance chief and the accounting handler.

2. Origin of the auditing report signed and sealed by the accountants office and the public certified accountant.

3. Announcement origin and master copy of all documents of the company publicly disclosed in the newspapers designated by the China Security Supervision Committee during the report period.

4. Origin of the Annual Report of 1998 personally signed by the Chairman of the Board of Directors.

Foshan Electrical and Lighting Co. Ltd.

Board of Directors

Apr. 3, 2000

Attachment 1

Consolidated balance sheet at 31 December 1999
(Expressed in Renminbi Yuan)

	Note	1999 Rmb	1998 Rmb
ASSETS			
Non-current assets			
Property, plant and equipment	7	471,546,043	435,132,230
Construction in progress	8	48,130,750	66,924,614
Long term investments	9	105,864,995	61,564,477
Deferred assets	10	<u>3,600,000</u>	<u>4,050,000</u>
		629,141,788	567,671,321
		-----	-----
Current assets			
Stocks	11	89,476,375	71,700,693
Accounts receivable, net of provision for doubtful debts		68,954,165	50,366,893
Prepayments and other receivables	12	149,041,651	140,075,066
Cash and bank balances	13	<u>501,546,779</u>	<u>551,219,174</u>
		809,018,970	814,361,826
		-----	-----
Total assets		<u>1,438,160,758</u>	<u>1,382,033,147</u>
		=====	=====

Attachment 1-continued

Consolidated balance sheet at 31 December 1999

(Continued)

(Expressed in Renminbi Yuan)

	Note	1999 Rmb	1998 Rmb
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	275,862,054	275,862,054
Share premium	14	601,629,196	601,629,196
Reserves	14	<u>270,912,558</u>	<u>232,196,508</u>
		1,148,403,808	1,109,687,758
		-----	-----
Minority interests		5,954,977	5,954,977
		-----	-----
Non-current liabilities			
Deferred taxation	15	-	17,888,687
		-----	-----
Current liabilities			
Accounts payable		35,495,186	24,677,685
Tax payable	6(b)	39,391,180	13,486,600
Accruals and other liabilities	16	83,429,172	81,594,735
Provision for salaries and bonus fund and staff welfare fund	17	13,850,735	5,710,988
Dividend payable		15,083,981	12,135,171
		<u>96,551,719</u>	<u>110,896,546</u>
		283,801,973	248,501,725
		-----	-----
Total equity and liabilities		<u>1,438,160,758</u>	<u>1,382,033,147</u>
		=====	=====

Attachment 2

Consolidated income statement for the year ended 31 December 1999 (Expressed in Renminbi Yuan)

	Note	1999 Rmb	1998 Rmb
Sales		602,956,779	505,348,157
Cost of sales		<u>(396,580,004)</u>	<u>(321,029,030)</u>
Gross profit		206,376,775	184,319,127
Other operating income	3	2,963,357	6,629,237
Selling expenses		(19,167,599)	(16,763,829)
General and administrative expenses		(40,549,419)	(31,332,451)
Other operating expenses		<u>(2,560,910)</u>	<u>(3,440,131)</u>
Profit from operations		147,062,204	139,411,953
Net financial income	4	17,385,464	33,779,901
Net investment(expense)/ income	5	<u>(803,431)</u>	<u>8,967,881</u>
Profit before taxation		163,644,237	182,159,735
Taxation	6(a)	<u>(28,376,468)</u>	<u>(26,248,259)</u>
Net profit for the year		135,267,769	155,911,476
		=====	=====
Basic earnings per share	20	0.49	0.57

Consolidated statement of recognized gains and losses for the year ended 31 December 1999

There was no gain or loss recognized directly in equity during the years ended 31 December 1998 and 1999.

The notes on pages 7 to 18 form part of these financial statements.

Attachment 3

**Consolidated cash flow statement
for the year ended 31 December 1999
(Expressed in Renminbi Yuan)**

	Note	1999 Rmb	1998 Rmb
Net cash from			
Operating activities		169,555,782	173,227,004
Investing activities			
Interest received		11,097,613	26,985,330
Dividend received		1,000,000	1,370,000
Purchase of property, plant and equipment		(11,303,269)	(25,438,977)
Increase in construction in progress		(62,783,169)	(102,200,925)
Purchase of long term Investments		(49,993,616)	(23,156,687)
Proceeds from sale of Long term Investments		702,000	36,441,838
Increase in deferred Assets		-	(4,500,000)
Decrease in deposits with banks and other financial institutions		<u>27,256,850</u>	<u>182,743,150</u>
Net cash inflow from investing activities		(84,023,591)	92,243,739
Financing activities			
Dividend paid		<u>(107,947,736)</u>	<u>(106,285,224)</u>
Net cash outflow from financing activities		<u>(107,947,736)</u>	<u>(106,285,224)</u>
(Decrease) /Increase in cash and cash equivalents		(22,415,545)	159,185,509
Cash and cash Equivalents at 1 January		<u>443,962,324</u>	<u>284,776,815</u>
Cash and cash Equivalents at 31 December	13	421,546,779 =====	443,962,324 =====

The notes on pages 7 to 18 form part of these financial statements.

Attachment 3-continued

Consolidated cash flow statement for the year ended 31 December 1999 (Expressed in Renminbi Yuan)

	Note	1999 Rmb	1998 Rmb
Operating activities			
Profit before taxation		169,555,782	182,159,735
Adjustments for:			
Dividend income		(1,000,000)	(1,370,000)
Interest expense		(11,097,613)	(26,985,330)
Loss on disposal of Property, plant and Equipment		2,941,451	3,605,267
Depreciation		45,657,166	36,972,086
Provision for long term Investments		4,991,098	1,073,000
Amortisation of deferred assets		450,000	450,000
Profit on disposal of long term investments		—	(6,591,527)
Operating profit before Working capital changes		205,586,339	189,313,231
Increase in stocks		(17,775,682)	(8,216,495)
(Increase)/decrease in accounts receivable		(18,587,272)	10,718,254
(Increase)/decrease in prepayments and other receivables		(7,966,585)	14,688,695
Increase/(decrease)in accounts payable		18,685,373	(25,277,584)
Increase in accruals and Other liabilities		1,834,437	14,367,832
Increase/(decrease) in provision for Saries and bonus fund and staff welfare fund		8,139,747	(1,522,,472)
Cash generated from Operations		189,916,357	194,071,461
PRC tax paid		<u>(20,360,575)</u>	(20,844,457)
Net cash from operating Aivities		169,555,782	173,227,004

Attachment 4

Net impact of IAS adjustments
on the consolidated results and shareholders' funds
prepared under PRC accounting regulations
Accounts for the year ended 31 December 1998
(Expressed in Renminbi Yuan)

	Profit after taxation		Shareholders' funds	
	1999	1998	1999	1998
As reported in statutory Financial statements prepared under PRC regulations(as restated)	158,371,894	150,537,457	1,184,923,900	1,123,103,725
Adjustments to align with IAS				
(i) Provision for doubtful debts	183,974	2,801,572	(2,796,106)	(2,980,080)
(ii) Provision for investment	(492,676)	5,200,000	(492,676)	-
(iii) Stock provision	1,729,934	(556,097)	(2,377,833)	(4,107,767)
(iv) Reclassification of liabilities from statutory reserves	-	-	4,394,365	(4,394,365)
(v) Underprovision of income tax	-	(58,116)	(2,425,733)	(2,425,733)
(vi) Underprovision of depreciation	-	-	(3,739,860)	(3,739,860)
(vii) Net gain on sale of land use right previously recognized	(25,226,913)	-	(12,559,458)	12,667,455
(viii) Consolidation adjustment	(346,815)	(2,133,660)	(3,566,192)	(3,219,377)
(ix) Others	<u>1,048,371</u>	<u>120,320</u>	<u>(4,167,869)</u>	(5,216,240)
As reported pursuant to International Accounting Standards	135,267,769	155,911,476	1,148,403,808	1,109,687,758