

President FAQs



I observed the growth and development of Kelon, and was deeply attached to it. Now as the Group's President facing dramatic market changes and longstanding internal issues, this no doubt is a big challenge. Nonetheless I am happy to take up this challenge as I have a strong sense of responsibility towards Kelon. With the years of experience I gained from developing renowned enterprises, I could lead Kelon to new highs.

Question 1: As the new President of the Group, the public does not know much about you. Would you mind briefly explaining your history with Kelon?

Answer: In as early as in 1985 shortly after Kelon (originally named " Pearl River Refrigerator Factory") was founded I started to be involved with Kelon. I participated in the Group's first four stages of technological upgrading programs. I am proud to have witnessed the evolution of Kelon from a small factory to become a leading PRC most modern enterprise. In 1992, when Pearl River Refrigerator Factory was reformed into Guangdong Kelon Electrical Holdings Company Limited, I became the Chairman of the shareholding company. In 1996, I participated in the overall planning for Kelon's listing of H shares in Hong Kong, followed by the issuance of A Shares in Shenzhen in 1999. I observed the growth and development of Kelon, and was deeply attached to it. Now as the Group's President facing dramatic market changes and longstanding internal issues, this no doubt is a big challenge. Nonetheless I am happy to take up this challenge as I have a strong sense of responsibility towards Kelon. With the years of experience I gained from developing renowned enterprises such as Guangdong Medi-world Otsuka Pharmaceutical, Song Ben Industrial and Guan Hua Feed Industry, I could lead Kelon to new highs.

Question 2: Kelon's management changes made during year 2000 were regarded by some as too fast and too dramatic. What's your view ?

Answer: We heard similar concerns from certain investors based on our previous communications with them. They are worried that personnel changes would hurt stability and this in turn would adversely affect the Group's development and we can understand their worries. However I would like to explain management has a better grasp of the actual situation and issues faced, and therefore recognizes the critical need for the re-engineering programs. To survive in a fast-changing market that posted many challenges, we must act quickly to win. Regarding management changes, I am convinced that we should focus on whether such changes are for the better instead of whether they are drastic or not. For example, our two Vice Presidents, Mr. Qu Yun Bo, who joined us in March 2000, and Ms. Carol Yu, who just joined recently, are both outstanding professionals in their respective arenas. I am pleased that they are given the two important tasks to reform the Group's sales and marketing functions and the Group's overall financial management respectively.

Question 3: Kelon experienced a sharp decline in its results this year. Some people think that it is caused by the drastic management changes. What do you think?

Answer: I do not think this comment is fair and objective. One should understand that various internal problems of the Group did not occur overnight. They were actually related to the fact that the Group's corporate structure and mentality did not progress with time, and therefore were incapable to cope with the fierce market competition. New management was put in place to tackle these issues, not to cause such problems.

Question 4: How is the financial strength of Kelon at present? Is it healthy enough to handle competition faced in its core businesses as well as to develop new business?

Answer: Our present financial condition is very strong with both capital structure and financial management to our satisfaction. The present debt-equity ratio is only 16.7%, representing a 5.4% decrease as compared to last year. Net asset value is RMB4.1 billion which provides a solid base to handle any upcoming challenges. Kelon is amongst those with the best financial conditions within the PRC domestic appliances industry, and no doubt possesses the capability to develop our core businesses while at the same time expand into other new areas.

Question 5: Despite keen market competition, why did your parent company, Kelon Holding, still choose to develop the small domestic appliances market? When do you expect it to show some profits?

Answer: With China's economy developed to where it is today, competition is found in all business sectors, and there is practically no way to stay away from competition. Kelon has established its firm leading position in the refrigerator and air-conditioner businesses, and it is only a logical step to expand into other related markets. After thorough feasibility studies, we noticed that despite the crowded market situation, the number of strong players in small appliance industry is actually quite limited. Moreover, profit margin for this market is much higher than those for refrigerators and air-conditioners. We therefore decided to utilize Kelon Holding's (our parent) capital to develop this new business. Though this business does not belong to the listed entity at present, we actually benefit from the wide varieties of products and high sales volume. All these promote our brands amongst households which helps develop our core businesses of refrigerator and air-conditioners. Since October 2000, we have launched products such as gas burner, chimney hood, electric rice cooker, electric-magnetic burner, electric water boiler and electric fan. Turnover for the first four months has already exceeded RMB100 million. Kelon Holding aims to become the largest small domestic appliances manufacturing and sales giant in the PRC within the next five years.

Question 6: Market conditions in 2001 are still extremely competitive and prices of air-conditioners and refrigerators may continue to fall. How will Kelon tackle this?

Answer: Our primary focus in 2001 is to massively cut down production and marketing costs to improve profitability. To control costs of production, we plan to utilize our e-commerce platform and to introduce public bidding procedures for our purchasing of raw materials and spare parts. Production cycles will be shortened and staff efficiency will be improved with proper training. Through these new measures, we plan to reduce the production costs for refrigerators, air-conditioners and spare parts by 5%, 8% and 10% respectively. We target to reduce marketing expenses by at least 6 basis points (expressed as % of sales) and link such expenses with actual turnover generated. Each branch office will be authorized to manage its own operations independently and be responsible for its own bottom line. Further, we will adopt sophisticated broadcasting and promotional tools and through our investment in Communication and You Holdings Company Limited to maximize effectiveness of our advertising and other marketing dollars.

Question 7: What are Kelon's key strengths?

Answer: I think the greatest strengths of Kelon are our renowned brands, our marketing and service network, as well as our product quality. This year, "Kelon" was ranked as the eighth most valuable brand in the PRC whereas Rongsheng came first amongst brands for refrigerators. On a combined basis, these two brands had a total valuation of approximately RMB15 billion, ranked fourth among all brands in China. Our marketing network comprised of over 400 wholesalers, 5,000 indirect retailers, 800 direct retailers, 40 service management centers and 3,000 authorized service outlets. With such strong backings, we maintain our leadership position in our refrigerator and air-conditioner businesses despite keen market competition. Our commitment to top quality has been persistent. Our air-conditioners have been rated No. 1 for six consecutive years for their product quality, and the high quality of our Rongsheng refrigerators is widely recognized. Our confidence to succeed comes from these valuable assets, and this remains unchanged through the passage of time.

Question 8: Kelon has always maintained good investor relationship and this has always been complimented by fund managers. However, some of them now feel that with the changes in management Kelon no longer places emphasis on investor relations. Can you comment on this?

Answer: I would like to confirm percentage of public shares is quite high. This is why we put much emphasis in communicating with our public shareholders. We also understand investors supported us not only because of our business strengths but also our attitude to maintain open communication. In this annual report, we report internal issues and explain reasons leading to the losses in an open and objective manner. It is our recognition of shareholders' rights that leads us to be the first appliances enterprise in the PRC to put out a profit warning. The objective is to prevent existing or potential shareholders from incurring unnecessary losses due to unmatched earnings expectations. Undoubtedly, changes in management over the past few months rendered work in this area to be less than satisfactory and I hope you can appreciate the situation. We have already appointed capable persons and PR firm to be responsible for investor relations. Again please be assured we will not take lightly the importance of communicating with our shareholders and investors.