

Chairman's Statement



Dear Shareholders,

2001 marked the beginning of a new century. At the same time, Guangdong Kelon Electrical Holdings Company Limited ("Kelon") is embarking on a new chapter in its development. On behalf of the Board of Directors of Kelon, I would like to present the Group's 2001 annual report to the shareholders, and to detail Kelon's business development strategies after the change in the shareholding structure.

During the past year, as competition in China's domestic appliances market remained intense, the Group's business environment was not significantly improved. The ongoing price wars narrowed the profit margins and weakened the profitability of domestic appliances manufacturers.

In this highly competitive market, Kelon is still operating with vigor, building on the robust spirit, which has been evident since its establishment. In 2001, under the guidance of its former directors and management team, Kelon systemically implemented a series of strategies and reforms, achieving positive results.

Summarizing Kelon's performance in 2001, the Group successfully improved overall operating efficiencies. The main factors were, firstly, Kelon continued its commitment to reengineer its marketing strategies, aggressively establishing its retail sales network to raise the ratio of retail sales, as well as strengthening its efforts to develop overseas markets. This led to an increase in total domestic sales, total exports and sales volumes during the year. Secondly, in terms of technological development, the Group adopted strategies to closely monitor market changes and customer demand, timely developing and launching a full range of market-oriented products, which were well received by customers. Thirdly, we actively promoted its "Design Optimization" and "Value Project" programmes, where comprehensive optimization was carried out from product design to product appearance and technology application. We also adopted an open tender system in the procurement of raw materials to reduce production costs. Fourthly, the Group optimized its management processes, evolving into a market-driven organization to respond rapidly to market demands and make prompt adjustments to raise operating efficiencies.

This series of reforms has strengthened Kelon's foundations and contributed favorably to Kelon's healthy and long-term development.

In the short-term, the results of the reengineering have not fully been reflected in the 2001 results, thus leading to an operating loss for the year. This was due to the clearance of inventory, with large quantities being sold at significant price cuts, which lowered average unit prices and placed additional pressure on profit margins. As the retail sales network was still at the stage of establishment and development, its efficiencies have not yet been fully realized. Furthermore, Kelon's parent company, Guangdong Kelon (Rongsheng) Group Company Limited, did not share any advertising and promotional expenditure with Kelon as in 2000, raising Kelon's marketing expenses. Kelon's management cost and structure has also yet to show an improvement.

To strengthen the foundations of the Group's development, the new management team has carefully reviewed the Group's asset structure for the past years. The Group has made provisions, in line with international accounting standards, for impairments of non profit-making assets, such as properties, and investments in the past years, with a one-time amortization of goodwill, and a provision for inventory. The new management believes that these adjustments will build a healthier financial outlook for Kelon, and will be beneficial for the Group's long-term development.

In 2002, the priority for the new Board of Directors is to lead Kelon into profitability. The Board of Directors strongly believes that profitability is the primary factor that will sustain the long-term development and success of the Group.

Kelon's future development strategy will thus be technologically led and profitability driven, with the manufacture and sale of air-conditioners and refrigerators as its core businesses. This technology-driven development will be to develop high margin, hi-tech and high value-added products. Plans are in hand to implement efficient operations with top quality professionals to speed up core corporate competitiveness and pave the way to profitability.

Guided by this belief, the Group introduced its “Independent Multi Cycling Refrigeration” (IMCR) technology for refrigerators, followed by “Shuang Xiao Wang,” a highly efficient and energy-saving cooling and heating air-conditioner using “Greencool Refrigerants,” in March 2002. The refrigerators manufactured under the IMCR technology were first exhibited in a household appliances exhibition in Berlin, Germany in March 2002. This attracted wide media coverage and gained substantial attention and recognition from both the international and domestic industries. The “Shuang Xiao Wang” cooling and heating air-conditioner, adopting “Greencool Refrigerants” and its patented technology, has created breakthroughs in cooling and heating efficiencies among similar products in this category around the world, and leading air-conditioning and energy-saving efficiencies in China.

With China entering the World Trade Organization (WTO), Kelon is well equipped with a series of carefully planned measures and hi-tech products to tackle the market challenges. The Board of Directors strongly believes that, guided by the motive of achieving profitability and under the sound control of the new management team, together with Kelon’s leading reputation established in the past 17 years for reliable product quality, state-of-the-art production technologies, innovative research and development, complementing with the highly efficient and energy-saving technology of the internationally recognized “Greencool Refrigerants”, the Group is set to meet these challenges successfully. This will raise the “Kelon” and “Rongsheng” brands to greater heights and strengthen their positions in the marketplace.

Lastly, I would like to express my gratitude to our directors, management and all staff for their dedication and contribution in the past year. I would also like to thank shareholders for their support. We will continue to work with dedication, uniting our best efforts and making every commitment, to creating greater value and returns for shareholders.

Gu Chu Jun

Chairman of the Board

Shunde, China, 24 April 2002