

Chairman's Interview



Question 1. Mr. Gu, what inspired you to acquire Kelon?

Answer: Kelon is an excellent company, with well-known brands, a strong distribution network, quality products, and innovative R&D and technology. As I myself have been engaged in the refrigeration research and business, I naturally have a strong bias towards Kelon. In addition, I believe that with my expertise in refrigeration engineering research, together with the energy-saving and environmentally friendly features of "Greencool Refrigerants", I will be able to introduce new positioning to Kelon's products, bringing breakthroughs to the Group's current dilemma. That is why I decided to take on the challenges and acquire Kelon.

Question 2. Mr. Gu, why did you acquire Kelon in the name of Greencool Enterprise Development Company Limited? Why did you choose to acquire unlisted legal person shares of Kelon?

Answer: In fact only Chinese citizens or enterprises are allowed to acquire legal person shares. I chose to acquire Kelon through Greencool Enterprise Development Company Limited, an enterprise which I set up in China. By acquiring the unlisted legal person shares, apart from having considered obtaining the controlling stake and the cost of the acquisition, it also demonstrates that I have no intention of selling my stake in Kelon. I am wholeheartedly dedicated to Kelon's robust development.

Question 3. There have been dramatic management changes in Kelon in recent years. Mr. Gu, how will you make the new and the former management work along effectively?

Answer: The new Board members, who at the same time are the management team, include Mr. Liu Cong Meng, Chief Executive Officer & President, and Mr. Yan You Song, Vice President of Public Relations. They have profound knowledge and experience in corporate management and in the refrigeration industry. We have also offered to retain most of Kelon's middle and senior management. Both the retained and the new management share the same mission: they are all committed to bringing a brighter future for Kelon, and all of them have strong sense of professionalism and responsibility. I am confident that everyone will do their best in their respective capacities, bringing together their expertise to help each other generate new momentum for Kelon's future development.

Question 4. What is Kelon's business objective in the coming year?

Answer: Kelon's future business objective is the commitment to be "Technologically Led and Profitability Driven". The Group will focus on developing its "refrigerator" and "air-conditioner" core businesses with a return to profitability as the first priority. The Group will also drop any plans for price reductions, which result in fierce market competition. We would leverage the Group's strong technological foundations to develop products with high energy-saving and value-added features. We can then exploit these valuable features to price our products at a higher level to boost profits, bringing favorable returns to shareholders.

Question 5. Kelon has recorded substantial losses in two consecutive years. What do you think are the reasons? Why are you so confident in bringing the Group to profitability?

Answer: Kelon experienced losses for two consecutive years due to severe market conditions. To face these challenges, Kelon has undergone comprehensive and thorough reforms in its marketing strategies, technological development, cost controls, operating efficiency enhancements and asset structure optimization. These reforms have affected the short-term results of the Group, but they also consolidate our foundations for the Group's long-term development.

The Group has seen some initial results from its reforms in the past two years. Under this foundation, I am confident that the Group will return to profitability in the future. The launch of our innovative products, refrigerators with “Independent Multi Cycling Refrigeration” (IMCR) technology and the highly efficient and energy-saving “Shuang Xiao Wang” cooling and heating air-conditioners, in early 2002 received positive market acceptance. This has greatly strengthened the Group’s confidence in the future.

Question 6. What are Kelon’s competitive advantages in the highly competitive air-conditioner and refrigerator markets? What measures will be taken?

Answer: “Kelon” and “Rongsheng” are two very well-known brands in China. In 2001, their brand valuation totaled over RMB15 billion, ranking third and fifth in China’s domestic appliance industry. In addition, Kelon’s management model and marketing strategies have won widespread recognition from domestic and overseas organizations. Additionally, Kelon places high priority in its research and development of refrigeration technology. The Group not only recruits a group of China’s leading experts in refrigeration research and development, but also launches numerous new technologies and patents every year, which lead the industry both domestically and internationally. In 2001 alone, over 180 invention patents and advanced technologies were introduced to enhance the competitiveness of traditional air-conditioners and refrigerators. In early 2002, Kelon launched new refrigerators with IMCR technology and the “Shuang Xiao Wang” cooling and heating air-conditioners, with their technologies leading the industry in China. Currently, under the leadership of the new management, Kelon will implement stringent cost controls, strengthen its internal management, broaden its sources of income, reduce expenditure, and develop hi-tech, high profit and high value-added new refrigerators and air-conditioners for consumers and distributors. The Group will utilize this “signature technology” to meet market challenges, and create higher value for shareholders.

Question 7. What is Kelon’s current financial standing? Is it adequate to support future business development?

Answer: Kelon’s current financial standing remains healthy with normal cash turnover. This is due to the Group’s established financial policies as well as the asset restructuring undertaken in the past two years. At the end of 2001, the Group had cash on hand amounting to RMB780 million, with net assets amounting to RMB2.4 billion. Therefore, we are in an excellent position to sustain our future business development. Looking ahead, we will continue to carry out stringent financial management to ensure the solid development of the Group.

Question 8. What is your view on Kelon’s failure to disclose substantial connected transactions? When will the involved funds be returned?

Answer: With regard to these connected transactions, the Board of Directors has given an account of as much as it knows to the shareholders. The Board is also negotiating with the Rongsheng Group for repayment solutions. I, as the new Chairman of the Board, will be doing my utmost to ensure the most satisfactory resolutions on behalf of the shareholders. Stringent internal controls will be put in place to ensure similar incidents do not recur in the future.

Question 9. The “Rongsheng” and “Kelon” trademarks do not currently belong to Kelon, what will the Group do about this? Will the Group offer to buy these brands at high prices from the Rongsheng Group?

Answer: Even though the “Kelon” and “Rongsheng” trademarks now belong to the Rongsheng Group, Kelon owns the exclusive rights for their use as per the agreement. With regard to whether we would offer to buy these brands at high prices, or to resort to other solutions, the Group is still exploring options with relevant parties and no final resolution has yet been reached. When a decision is made, we will make an announcement in accordance with statutory procedures.