NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

1. ORGANISATION AND OPERATIONS

Guangdong Kelon Electrical Holdings Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 16 December 1992. Its H shares were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996 and its A shares were listed on the Shenzhen Stock Exchange on 13 July 1999.

Guangdong Kelon (Rongsheng) Group Company Limited ("GKG"), a company incorporated in the PRC, held 34.06% of the Company's shares in the form of legal person shares and was the major shareholder of the Company.

On 29 October 2001, GKG entered into an agreement with Shunde Greencool Development Co. Ltd. ("Greencool") to transfer 204,775,755 legal person shares of the Company to Greencool for a consideration of RMB560 million. The consideration was subsequently reduced to RMB348 million according to a revised agreement dated 5 March 2002. The share transfer was completed on 18 April 2002.

The Group is principally engaged in the manufacture and sale of refrigerators and air-conditioners, moulds and plastic.

The Company reported a net loss of RMB1,571 million for the year ended 31 December 2001 and had net current liabilities of approximately RMB219 million as of 31 December 2001. The financial statements have been prepared on a going concern basis, the validity of which depends upon the ability of the Company to obtain long-term financing to fund its operations. Management has undertaken a series of measures to improve the operating result and financial positions of the Group. Such steps include:

(1) Changing the company's structure and measures to increase efficiency;

(2) Developing and manufacturing high value-added products;

(3) Introducing new systems and reducing cost;

(4) Requesting Greencool to repay as soon as possible its RMB198,000,000 payable in connection with debt transfer described in Note 3(a).

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing financial statements of the Company and of the Group are as follows:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

They are prepared under the historical cost convention, except that:

- Property, plant and equipment are carried at revalued amounts;
- Investment held for trading and available-for-sale are stated at their fair value;
- Investment properties are stated at fair value;

This basis of accounting differs in certain respects from that used in the management accounts of the Company and the Group's PRC subsidiaries which were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises. The financial statements of the Group's overseas subsidiaries have been prepared based on the accounting standards of the respective countries, which are similar to IFRS. Adjustments have been made to the accounts of the Company and the Group to ensure they comply with IFRS.

Adjustments made to conform to IFRS are described in Note 36 below.

(b) Basis of recognition and measurement

Effective from 1 January 2001 the Group adopted IFRS 39 "Financial Instruments – Recognition and Measurement". The financial effects of adopting IFRS 39 did not have a significant effect on these financial statements of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(c) Principles of consolidation

The consolidated financial statements include those of the Company and the subsidiaries that it controls and also incorporate the Group's interests in associates on the basis as set out in Note 2(n) below. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The purchase method of accounting is used for acquired businesses. Results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Minority interests include their proportion of the fair value of identifiable assets and liabilities recognised upon acquisition of a subsidiary. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement, respectively.

All significant intercompany balances and transactions, including intercompany profits and losses and resulting unrealised profits and losses are eliminated on consolidation.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(d) Cash and cash equivalents

Cash includes cash and bank deposits or other financial instruments which are repayable on demand.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(e) Receivables

Receivables are stated at fair value of the consideration given and are carried at amortised cost, after provision for impairment.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(f) Inventories

Inventories, including work-in-progress, are stated at the lower of cost and net realisable value. Cost includes costs of raw materials computed using the weighted average method of costing and, in cases of work-in-progress and finished goods, also direct materials, direct labour and an attributable proportion of production overheads based on a normal operating capacity. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. When inventories are sold, carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. Provision is made for obsolete, slow-moving or defective items where appropriate.

(g) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, accounts and other receivables and payables and borrowings. The Group recognises a financial asset or financial liability on the balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets are classified into four categories:

(i) loans and receivables originated by the Group and not held for trading;

(ii) held-to-maturity investments;

(iii) available-for-sale financial assets; and

(iv) financial assets held for trading.

After initial recognition of a financial asset or financial liability at cost, the Group measures each major category of the financial instruments at either the reliable fair value or amortised cost (by using the effective yield method) in accordance with IFRS 39. Regular way purchases and sales of financial assets are accounted for at trade date. The gains and losses arising from changes in the fair value of those trading financial assets/liabilities and available-for-sale financial assets that are measured at fair value subsequent to initial recognition are included in net profit or loss for the period.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(g) Financial instruments *(Cont'd)*

The fair values of financial assets are determined as described in Note 2(ac) below.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(h) Pre-operating expenditures

All pre-operating expenditures are expensed as incurred.

(i) Research and development expenses

Expenditures for research and development are charged against income in the period incurred except for project development costs which comply strictly with the following criteria for capitalisation as an asset:

- the product or process is clearly defined and costs are separately identified and measured reliably;
- the technical feasibility of the product is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or its usefulness in case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the project are available.

Capitalised development costs are amortised on a straight-line basis over their expected useful lives. The period of amortisation does not normally exceed five years. All research and development costs have been expensed as no expense satisfied the criteria for capitalisation as asset.

(j) Leasehold land

Leases of land acquired are classified as operating leases. The pre-paid lease payments are amortised over the lease period (20 to 50 years) on a straight-line basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(k) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. The cost of an asset comprised its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of property, plant and equipment, the expenditure is capitalised as an additional cost of the property, plant and equipment.

Independent valuations are performed periodically with the last valuation performed on 30 April 1996. In the intervening years, the directors review the carrying value of property, plant and equipment and adjustment is made where in the directors' opinion there has been a material change in value. Any increase in the valuation of property, plant and equipment is credited to the property, plant and equipment revaluation reserve; unless and only to the extent it reverses a revaluation decrease of the same asset previously recognised as an expense in which case it is recognised as income. Any decrease is first offset against an increase on earlier valuation in respect of the same asset and is thereafter recognised as an expense. Upon the disposal of revalued property, the relevant portion of the revaluation surplus realised in respect of previous valuation is released from the property valuation surplus directly to retained earnings.

When assets are sold or retired, their cost or valuation and accumulated depreciation and amortisation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement. The relevant portion of the revaluation surplus realised in respect of previous valuation is released from the property, plant and equipment revaluation reserve directly to retained earnings.

Depreciation is provided using the straight-line method over their estimated useful lives, after deducting the estimated residual value. The estimated useful lives are as follows:

Buildings in the PRC	20 years
Buildings in Hong Kong	50 years
Buildings in Japan	50 years
Plant, machinery and equipment	5 to 10 years
Moulds	3 years
Motor vehicles	5 years

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(l) Construction-in-progress

Construction-in-progress represents buildings, plant, machinery and equipment and other property, plant and equipment under construction, and is stated at cost. This includes the costs of construction, interest charges and exchange differences arising from borrowings used to finance these assets during the period of construction, installation and testing. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

No depreciation is provided for property, plant, machinery and equipment and other fixed assets under construction.

(m) Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% interest in its issued voting share capital as a long-term investment and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable. An assessment of investment in subsidiaries is performed when there is indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(n) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, and has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alternations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

Where the value of an associate has been reduced below its carrying value, provision is made for such impairment in value.

In the Company's financial statements, investment in associates is carried at cost less provision for impairment in value where considered necessary by the directors. The results of the associates are included in the income statement to the extent of dividends declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(o) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(p) Goodwill

Goodwill represents the difference between the fair value of the consideration given and the Group's share of the aggregate fair values of the identifiable net assets acquired.

The identified assets and liabilities recognised upon acquisition are measured at their fair values as of that date. Any minority interest is stated at the minority's proportion of the fair values.

Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its useful life. The amortisation period is 20 years which was determined at the time of the acquisition.

Amortisation of goodwill is included in operating profit.

The unamortised balances are reviewed at each balance sheet date to assess the probability of continuing future benefits. If there is an indication that goodwill may be impaired, the recoverable amount is determined for the cash-generating unit to which the goodwill belongs. If the carrying amount is more than the recoverable amount, an impairment loss is recognised.

(q) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income or treated as a revaluation. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(q) Impairment of assets *(Cont'd)*

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in income.

(r) Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(s) Warranty obligation

The Group provides free repairing services for its products and free replacement of the major components of its products for three to five years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation, including handling and transportation costs. The costs are estimated by management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results.

(t) Pension costs

Pursuant to the PRC laws and regulations, the Company makes monthly contributions to the basic old age insurance for the local staff to a government agency. The contributions are made at 17% of the standard salary set by the provincial government, of which 10% is borne by the Company and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Company accounts for these contributions on an accrual basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(t) Pension costs *(Cont'd)*

In addition, the Group manages a defined contribution pension scheme for its employees. The Company makes contributions based on a percentage of the eligible employees' salaries plus a pre-determined amount funded by the Group and are charged to the income statement as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme before his/her interest in the employer contributions is fully vested, the ongoing contributions payable by the Company may be reduced by the relevant amount of forfeited contributions.

Accrued contributions are shown as pension liabilities in the balance sheet.

(u) Turnover

Turnover represents gross invoiced sales, net of discounts and returns.

(v) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following basis:

(i) Sales of goods

Sales of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(w) Operating lease

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

(x) Borrowing costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowing used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

(y) Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items, which are not assessable, or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(z) Foreign currency

The Company and its subsidiaries and associates established in the PRC maintain their books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable PBOC rates prevailing at the balance sheet date. Exchange differences arising from changes of exchange rates subsequent to the dates of transactions for monetary assets and liabilities denominated in other currencies are included in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(z) Foreign currency *(Cont'd)*

The Group's overseas subsidiaries maintain their books and records in the respective reporting currency, which is generally the currency of the country of incorporation of the Group's overseas subsidiaries. Foreign currency transactions of the Group's overseas subsidiaries are translated into their respective reporting currency at the applicable rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the reporting currency at the applicable exchange rates in effect at the year-end. Exchange differences arising from changes of exchange rates subsequent to the date of transactions for monetary assets and liabilities denominated in foreign currencies are included in the income statement of the Group's overseas subsidiaries.

On consolidation, all of the assets and liabilities of the Group's overseas subsidiaries are translated into RMB at the applicable PBOC rates prevailing at the balance sheet date and all of the income and expense items are translated into RMB at the applicable PBOC average rates during the year. Exchange differences arising on the translation of the accounts of the Group's overseas companies are taken directly to cumulative translation reserve. Exchange differences arising on the translation of intra-group balances which are in effect an extension to or deduction from the Group's net investment in the foreign entity are also taken directly to the cumulative translation reserve. Where foreign currency borrowings have been used to finance, or provide a hedge against the Group's net investments in foreign enterprises, exchange gains or losses on these borrowings are offset as reserve movements against cumulative translation reserve arising on the translation of the net investments.

(aa) Segments

Business segments: for management purpose the Group is organised into two major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in Note 37.

Intersegment transactions: segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

(ab) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(ac) Fair value estimation

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-trading securities and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date as follows:

(i) Cash and cash equivalents

The carrying amount approximates fair value because these assets either carry a current rate of interest or have a short period of time between the origination of the cash deposits and their expected maturity.

(ii) Trade receivables, prepayments and other receivables, trade payables, provision for taxes and other payables and accruals

The carrying amount of receivables, prepayments, payables, provision for taxes and accruals approximates fair value because these are subject to normal trade credit terms.

(iii) Balances with related parties

No disclosure of fair values is made for balances with most of the related parties as it is not practicable to determine their fair values with sufficient reliability since these balances are non-interest bearing and have no fixed repayment terms.

(iv) Borrowings

As of 31 December 2001, the carrying amount of borrowings approximates fair value based on current market interest rates for comparable instruments.

(ad) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS

The related parties of the Company and its subsidiaries are as follows:

Name of related parties	**Nature of relationship**
GKG	Major shareholder
Greencool	Company owned by Chairman
Kelon Advertising	Subsidiary of GKG
Huaao Electrical	Subsidiary of GKG
Wangao Co	Subsidiary of GKG and associate of the Company
Cheung Tat	Subsidiary of GKG
Kelon Employee Union	Organisation owned by employee
Kelon HEA	Associate of the Company
Chongqing Kelon	Associate of the Company
Chongqing Rongsheng	Associate of the Company
Sanyo Kelon	Associate of the Company
C&Y	Associate of the Company
Chengdu Xinxing	Associate of a minority shareholder of Chengdu Kelon
YK Shareholding Committee	Shareholder of subsidiary
Grand Moment Investments Holdings Limited	Shareholder of subsidiary

NOTES TO FINANCIAL STATEMENTS

31 December 2001

(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

The following is a summary of significant transactions carried out in the ordinary course of business between the Group and related parties and the respective balance with the related parties for the year ended 31 December 2001:

— **Transaction with related parties**

	2001 RMB'000	2000 RMB'000
Sale of goods to:		
— Huaao Electrical (Note b (iii))	**53,025**	5,716
— Wangao Co (Note b (iv))	**13,869**	—
— Cheung Tat (Note b (v))	**—**	246,178
— Kelon HEA (Note b (vii))	**—**	2,096
— Chongqing Kelon (Note b (viii))	**57,772**	50,864
— Chongqing Rongsheng (Note b (ix)	**73,223**	—
— Sanyo Kelon (Note b (x))	**25,484**	36,120
Purchase of goods from:		
— Huaao Electrical (Note b (iii))	**201,303**	—
— Wangao Co (Note b (iv))	**8,005**	—
— Cheung Tat – buy-back of good (Note b (v))	**—**	98,292
— Kelon HEA (Note b (vii))	**12,486**	—
Income or (charges):		
— Advertising fee for service provided by Kelon Advertising (Note b (ii))	**(47,458)**	(88,065)
— Advertising fee paid to C&Y (Note b(xi))	**(21,229)**	—
— Interest income from prepayment to Chengdu Xinxing (Note b (xii))	**3,231**	3,264

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

— Balances with related parties

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current Assets:				
Due from GKG (Note a)	**862,045**	280,612	**862,045**	23,645
Less: provision for doubtful debts (Note a)	**(172,409)**	—	**(172,409)**	—
	689,636	280,612	**689,636**	23,645
Due from related parties				
— Greencool (Note b(i))	**198,000**	—	**198,000**	—
— Cheung Tat (Note b(v))	**—**	121,429	**—**	—
— Huaao Electrial (Note b(iii))	**—**	5,716	**7,579**	—
— Others	**2,808**	35,617	**248**	12,634
	200,808	162,762	**205,827**	12,634
Non-Current Assets:				
Due from other related parties:				
— Kelon Employee Union (Note b(vi))	**58,140**	—	**58,140**	—
— Chengdu Xingxin (Note b(xii))	**34,000**	34,000	**—**	—
	92,140	34,000	**58,140**	—
Current Liabilities:				
Due to related companies				
— Huaao Electrical (Note b(iii))	**12,566**	—	**—**	—
— Others	**341**	148	**—**	—
	12,907	148	**—**	—

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

(a) Transactions with GKG:

The transactions with GKG can be summarised as follows:

(i) Under a licence agreement ("Licence Agreement") dated 6 July 1996 made between GKG, the major shareholder of the Group, and the Company, GKG granted to the Company, for no consideration, an exclusive right to use the trademarks "Kelon" and "Rongsheng"(i) as registered in the PRC and Hong Kong, and/or (ii) as may from time to time be registered and/or in respect of which applications for registration may be made with the trademarks registry of any other territory by GKG and/or (iii) all "Kelon" or "Rongsheng" trademark registrations as may be assigned to GKG from time to time on freezers, refrigerators and other similar or related products and such other products as may be requested by the Company from time to time which are not objected to by GKG, on a worldwide basis, for a term equivalent to the period of validity of the relevant registration. GKG may use and, with the prior written consent of the Company, allow third parties to use such trademarks on products other than the types of products covered by the Licence Agreement. At present, the Group has used the trademarks of "Kelon" and "Rongsheng" on the refrigerator products and "Kelon" on air-conditioner products under the above-mentioned Licence Agreement.

(ii) In 2000, Guangdong Kelon Refrigerator Co., Ltd ("Kelon Refrigerator"), Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner"), the company's subsidiaries, and GKG have entered into an agreement ("Cost Sharing Agreement") whereby GKG agreed to share part of the advertising and promotional costs incurred by Kelon Refrigerator and Kelon Air-Conditioner in promoting the brand names of "Kelon" and "Rongsheng" which are owned by GKG as referred above. According to the Cost Sharing Agreement, GKG agreed to share advertising costs of RMB235,000,000 for 2000. There is no such cost sharing agreement for the year ended 31 December 2001.

(iii) During 2001, the Group has the following types of transactions with GKG:

a) The Company had paid on GKG's behalf, to Guangdong Sanyo Kelon Refrigerator Co., Ltd. ("Sanyo Kelon"), an associate of the Company, RMB101,370,000 for the settlement of GKG's liability arising from its purchase of goods from Sanyo Kelon.

b) During 2001, Kelon Air-Conditioner had provided a guarantee for a maximum amount of up to RMB230,000,000 in favour of the Agriculture Bank of China as security for the bank loans granted to GKG. Prior to 31 December 2001, the Company (on Kelon Air-Conditioner's behalf) fulfilled the obligations under the guarantee and repaid RMB211,226,000 of the loans owed by GKG to the Agricultural Bank of China.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

(a) Transactions with GKG *(Cont'd)***:**

c) During 2001, GKG made a payment of RMB9,010,000 (2000: Nil) to one of the Company's subsidiaries as the service fee for exporting household electric appliances for GKG.

In addition to the above transactions, the Group has significant fund transfers with GKG. During 2001, including the transactions in a) and b) above, the Group had transferred total funds of approximately RMB5,873,904,000 to GKG and received funds of RMB4,944,471,000 from GKG.

On 23 December 2001, GKG entered into a debt transfer agreement with the Company and Greencool. The debt transfer agreement was subsequently revised on 22 March 2002. In accordance with the agreements, GKG transferred a portion of its debt owing to the Company, amounting to RMB348,000,000, to Greencool in connection with its sale of the Company's shares to Greencool.

As of 31 December 2001, the balances due from GKG resulting from the above transactions amounted to approximately RMB862,045,000. The management considered that it is uncertain that the full amount of receivable from GKG will be recoverable. Based on the current negotiations with management of GKG, management has estimated that RMB172,409,000 of the outstanding balance may not be recoverable and therefore has made a provision of that amount for the year ended 31 December 2001.

(b) Transactions with other related parties:

Other related party transactions can be summarised as follows:

(i) As indicated above in Note (a), Greencool has become a debtor of the Company subsequent to the transfer of debt of RMB348,000,000. In accordance with the Debt Transfer Agreement, the total amount of debt was due for full repayment 10 days after 204,775,755 shares of the Company held by GKG are legally transferred to Greencool. As of 31 December 2001, an amount of RMB150,000,000 had been settled by Greencool.

(ii) Kelon Advertising Company ("Kelon Advertising") is a wholly-owned subsidiary of GKG. The Group engaged Kelon Advertising as one of its advertising agencies. For the year ended 31 December 2001, the Group paid RMB47,458,000 (2000: RMB88,065,000) to Kelon Advertising in connection with advertising activities in respect of Kelon brands.

During 2001, the Company also provided funding to Kelon Advertising for its operations. The amount due from Kelon Advertising in this connection was transferred to GKG as of 31 December 2001.

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(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Transactions with other related parties *(Cont'd)*

The Company has entered into a contract with Regal Lucky Limited, an advertising company, for advertising services performed in 2001. The total contract sum is RMB160 million. In accordance with the contract, Kelon Advertising assisted the Company in monitoring the advertising services performed by Regal Lucky Limited, and also acted as the collection agent for Regal Lucky Limited. The Company has accrued for this RMB160 million in its balance sheet as of 31 December 2001.

(iii) Shunde Huaao Electrical Company Limited ("Huaao Electrical") is a subsidiary of GKG. During 2001, the Group purchased certain materials amounting to RMB201,303,000 (2000: Nil) from Huaao Electrical.

The Group also sold electronic spare parts to Huaao Electrical. During 2001, the amount of sales to Huaao Electrical by the Group amounting to RMB53,025,000 (2000: RMB5,716,000).

The Group also provided funding to Huaao Electrical for its operations during 2001.

As of 31 December 2001, the amount due to Huaao Electrical in connection with the above amounted to RMB12,566,000 (2000: Due from RMB5,716,000).

(iv) Wangao Import & Export Co. Ltd ("Wangao Co") is a subsidiary of GKG established in June 2001. During 2001, Wangao Co imported material of RMB2,026,000 on behalf of Shunde Rongsheng Plastic Products Co.,Ltd. ("Rongsheng Plastic"), a subsidiary of the Company. During 2001, Pearl River Electric Refrigerator Company Limited ("Pearl River") and Kelon International Incorporation ("Kelon International"), subsidiaries of the Company, also purchased mini household electrical appliances from Wangao Co for export purposes. Such purchase amounted to approximately RMB5,979,000. On the other hand, Wangao Co purchased refrigerators amounting to RMB13,869,000 from the Group for trading purpose.

The Group also provided funding to Wangao Co for its operations during 2001.

As of 31 December 2001, the amount due from Wangao Co in connection with the above amounted to RMB15,389,000 (Note 12).

(v) The Group sold refrigerators to Shunde Cheung Tat Household Appliance Co. Ltd ("Cheung Tat"). Cheung Tat is a PRC registered company and obtained significant financial support from GKG. For the year ended 31 December 2000, the sale of refrigerators to Cheung Tat amounted to RMB246,178,000. Prior to 31 December 2000, the Group entered into agreement and bought back certain unsold refrigerators from Cheung Tat for RMB98,292,000. The amount represents the lower of cost and net realisable value of the unsold refrigerators at the time of the buy-back. There were no such transactions in 2001.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Transactions with other related parties *(Cont'd)*

(vi) During 2001, the Company has provided funds of RMB116,000,000 to Kelon Employee Union, an employee association owned by the employees of the Group and controlled through their delegates. As of 31 December 2001, the amount due from Kelon Employee Union in this connection amounted to RMB58,140,000.

(vii) Shunde Kelon Household Electrical Appliance Limited ("Kelon HEA") is a company which is 75% and 25% held by GKG and the Company, respectively. During the year ended 31 December 2000, Kelon HEA purchased refrigerators and air-conditioners from the Group and sold them in the market. For the year ended 31 December 2000, the total sale amount of the Group to Kelon HEA amounted to approximately RMB2,096,000. There were no such transactions in 2001.

During 2001, the Company purchased household appliances from Kelon HEA to be used as gifts in connection with the sales promotion of the Company's refrigerators and air-conditioners. For the year ended 31 December 2001, total purchases from Kelon HEA amounted to RMB12,486,000 (2000: Nil).

The Group also provided funding to Kelon HEA for its operations during 2001.

As of 31 December 2001, the amount due from Kelon HEA in connection with the above amounted to RMB23,851,000 (2000: Nil) (Note 12).

(viii) Chongqing Kelon Electrical Appliance Company Limited ("Chongqing Kelon") is an associate of the Group. During the year, the Group sold goods to Chongqing Kelon amounting to RMB57,772,000 (2000: RMB50,864,000).

(ix) Chongqing Kelon Rongsheng Refrigerator Sales Company Limited ("Chongqing Rongsheng") is an associate of the Group. During the year, the Group sold goods to Chongqing Ronshen amounting to RMB73,223,000.

(x) During the year, the Group sold goods to Sanyo Kelon amounting to RMB25,484,000 (2000: RMB36,120,000).

As of 31 December 2001, the balance due from Sanyo Kelon amounted to RMB37,050,000 (2000: RMB28,484,000). A full provision has been made for the balance due to uncertainty of collection.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Transactions with other related parties *(Cont'd)*

(xi) Communication and You Holdings Company Limited ("C&Y") is a 25% owned associated company of Kelon Development Company Limited ("KDC"), a subsidiary of the Company. The major shareholder of C&Y is Qin Jia Yuan Shares Company Limited ("QJY"). The sole shareholder of QJY is the spouse of director of the Company prior to his resignation in 2001.

During 2000, KDC has entered into agreement with QJY regarding the subscription of shares by KDC in C&Y as well as setting out the respective rights and obligations of QJY and KDC as shareholders of C&Y and setting out the basis on which the business and affairs of C&Y would be managed and controlled.

In accordance with the agreement, KDC paid HK$12 million to C&Y to subscribe for 25% of its shares. QJY paid HK$2 million and assigned certain QJY contracts including rights and obligations of QJY, its agents and/or nominee (as the case may be) to C&Y as consideration. C&Y is principally engaged in the media advertising and marketing business.

In addition to the subscription of shares, KDC agrees with C&Y to purchase HK$20 million worth of advertising and/or sponsorship air-time. As of December 31, 2000, no payment had been made to C&Y for the advertising.

During 2001, payments made to C&Y for the advertising amounting to RMB21,229,000. (2000: Nil).

As of 31 December 2001, the Company had executed corporate guarantees of RMB3,975,000 (2000: Nil) (Note 39) for banking facilities granted to C&Y.

As of 31 December 2001, due to the poor operating results in C&Y, the management had made a provision of HK$12 million for impairment in value of the Group's investment in C&Y.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Transactions with other related parties *(Cont'd)*

(xii) The Company made prepayments amounting to an aggregate of RMB34,000,000 indirectly through its subsidiary, Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon") to Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing"), which is an associate of Chengdu Engine (Group) Company Limited ("Chengdu Engine"), the minority investor of Chengdu Kelon. As consideration for such prepayment, Chengdu Xinxing has agreed to repay Chengdu Kelon by supplying an agreed number of refrigeration parts together with interest payments at an annual rate of approximately 9%. The prepayment was guaranteed by Chengdu Engine and Chengdu Kelon has the right to deduct from any dividends payable to Chengdu Engine the outstanding amount of any payments (in whatever form) due from Chengdu Xinxing directly or indirectly to the Company. As security for Chengdu Engine's performance of its obligations under the above guarantee, Chengdu Engine has charged its entire interests in Chengdu Kelon in favour of the Company.

(xiii) On 5 September 2000, the Company, Yingkou Kelon Shareholding Committee (YK Shareholding Committee), Kelon Refrigerator, Yingkou Yinglang (Group) Company Limited (YKYL) and Pearl River entered into a share transfer agreement, whereby YK Shareholding Committee agreed to transfer 11.79% interest in Yingkou Kelon Refrigerator Co., Ltd. ("Yingkou Kelon"), a subsidiary of the Company, to Kelon Refrigerator.

Yingkou Kelon is a sino-foreign equity joint venture company formed in the PRC. Its equity interest was originally held by the Company, YKYL and Pearl River in the proportion of 42%, 33% and 25%respectively. Pursuant to a PRC court judgment on 2 June 2000, the equity interest held by YKYL (in the process of liquidation) in Yingkou Kelon was transferred to YK Shareholding Committee. As a shareholder of Yingkou Kelon, the Company has the right of first refusal in respect of any intended transfer of interest by the other shareholders. Since YK Shareholding Committee indicated its intention to transfer its interest in Yingkou Kelon and the Group, considering the importance of Yingkou Kelon as the Group's manufacturing base in the North-eastern part of the PRC, decided to enter into the above share transfer.

The independent valuation company for this transaction was Yingkou Jin Cheng Asset Valuation Company Limited (which is authorised by the Ministry of Finance to carry out asset valuations). The date of valuation was 14 November 2000 and the interest transferred was valued at RMB24,753,677.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Transactions with other related parties *(Cont'd)*

(xiv) Kelon Air-Conditioner is a 60% owned subsidiary of the Company. The minority shareholder of Kelon Air-Conditioner is Grand Moment Investments Holdings Limited, a company incorporated in the British Virgin Islands, which is 37.5% held by GKG. One of the ex-director of the Company is also a director of Grand Moment Investments Holdings Limited.

Except for the prepayment paid to Chengdu Xinxing, all balances with related parties are non-interest bearing, unsecured and have no fixed repayment terms.

(c) Commitment to purchase related parties

To avoid the occurrence of future connected transactions with Kelon Advertising, Kelon HEA, Huaao Electrical and Wangao Co as described above and in consideration of the Company's plan to consolidate its import/export business and to use the household mini electrical appliances business as a platform to market the Company's refrigerators and air-conditioners, the Company through its wholly owned subsidiary Shunde Jiake Electronic Company Limited ("Jiake Electronic") entered into an agreement with GKG on 26 November 2001 to acquire GKG's entire interest in Kelon Advertising, Kelon HEA, Huaao Electrical and Wangao (collectively referred to as "GKG Service Companies") respectively.

The transaction was put on hold due to a PRC court notice to freeze the above transaction.

(d) Violation of Hong Kong Listing Rules

As disclosed in the Company's announcement on 13 March 2002, the Group is not in compliance with the listing rules and regulations of Hong Kong Stock Exchange Limited and Shenzhen Stock Exchange with regard to certain of its connected transactions. The relevant Stock Exchanges have indicated to the Company that they reserve the right to take any action, if appropriate, under the relevant Listing Rules and Regulations against the Company and/or the responsible Directors.

4. CASH AND BANK

Cash and bank included an amount of RMB126,995,000 (2000: RMB38,937,000) which was deposited in banks as security deposits and was restrictive in nature.

NOTES TO FINANCIAL STATEMENTS

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

5. ACCOUNTS RECEIVABLE

There was no specific credit terms granted to the Group's customers. As of 31 December 2001, the age of accounts receivable was analysed as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**180,660**	219,961	**131,533**	6,424
More than one year but not exceeding two years	**95,182**	81,008	**95,182**	—
More than two years	**49,962**	—	**42,172**	—
	325,804	300,969	**268,887**	6,424
Less: provision for doubtful accounts	**(153,776)**	(159,056)	**(145,923)**	—
	172,028	141,913	**122,964**	6,424

6. INVENTORIES

Inventories consisted of:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**355,957**	435,023	**66,774**	3,326
Work-in-progress	**55,159**	69,243	**3,040**	4,879
Finished goods	**1,138,702**	1,430,914	**1,051,912**	12,981
	1,549,818	1,935,180	**1,121,726**	21,186
Less: provision for inventory obsolescence	**(323,979)**	(198,539)	**(320,103)**	—
	1,225,839	1,736,641	**801,623**	21,186

The cost of inventories (excluding provision for slow-moving and obsolete inventory) recognised as expense during the year ended 31 December 2001 amounted to approximately RMB3,574,714,000 (2000: RMB3,265,210,000). As of 31 December 2001, approximately RMB823,124,000 (2000: RMB721,063,000) of the inventories (mainly raw materials and finished goods) were recorded at net realisable value.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

(Amounts expressed in Renminbi unless otherwise stated)

7. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Deposits, prepayments and other receivables consisted of:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayment for purchase of raw materials	**53,600**	110,650	**4,567**	21,216
Prepayment for purchase of property, plant and equipment	**8,757**	20,033	**5,934**	713
Value-added tax refundable in respect of export sales	**90,629**	48,456	**—**	7,659
Others	**45,452**	5,685	**35,126**	27,962
	198,438	184,824	**45,627**	57,550

8. LEASEHOLD LAND

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost	**373,484**	373,484	**250,505**	250,505
Accumulated amortisation				
Beginning of year	**(59,514)**	(49,528)	**(36,506)**	(19,836)
Addition of the year	**(9,986)**	(9,986)	**(6,672)**	(16,670)
End of year	**(69,500)**	(59,514)	**(43,178)**	(36,506)
Net book value				
End of year	**303,984**	313,970	**207,327**	213,999
Beginning of year	**313,970**	333,955	**213,999**	230,669

The leasehold land were granted by the relevant PRC authorities for a period of 50 years from the date of certificates obtained by the Company and its subsidiaries.

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(Amounts expressed in Renminbi unless otherwise stated)

9. PROPERTY, PLANT AND EQUIPMENT

	Group							
	2001							2000
	Buildings in the PRC RMB'000	Buildings in Hong Kong RMB'000	Buildings in Japan RMB'000	Plant, machinery and equipment RMB'000	Mould RMB'000	Motor vehicles RMB'000	Total RMB'000	Total RMB'000
Cost/Valuation								
Beginning of year	1,135,805	142,498	42,170	2,141,258	542,713	95,858	4,100,302	3,850,738
Additions	30,574	–	–	86,413	28,688	14,621	160,296	265,127
Transfer from construction-in-progress (Note 10)	41,485	–	–	11,323	–	185	52,993	10,028
Revaluation	–	(28,039)	(26,110)	–	–	–	(54,149)	—
Reclassification	(120)	7,799	19,411	9,083	–	(36,173)	–	—
Disposals	(40,238)	(40,002)	–	(15,317)	(12,031)	(10,432)	(118,020)	(21,548)
Translation adjustment	–	–	(4,832)	(165)	–	(12)	(5,009)	(4,043)
End of year	1,167,506	82,256	30,639	2,232,595	559,370	64,047	4,136,413	4,100,302
Representing:								
At cost	409,563	–	–	1,384,329	559,370	46,876	2,400,138	2,457,240
At valuation	757,943	82,256	30,639	848,266	–	17,171	1,736,275	1,643,062
	1,167,506	82,256	30,639	2,232,595	559,370	64,047	4,136,413	4,100,302
Accumulated depreciation								
Beginning of year	(206,172)	(20,413)	(1,553)	(920,826)	(378,319)	(53,305)	(1,580,588)	(1,203,688)
Charge for year	(54,975)	(5,250)	(1,663)	(213,267)	(54,443)	(6,733)	(336,331)	(386,911)
Revaluation	–	5,250	1,663	–	–	–	6,913	—
Reclassification	(1,778)	–	–	(11,337)	–	13,115	–	—
Written back on disposals	3,584	20,032	–	5,463	4,515	7,566	41,160	9,885
Translation adjustment	–	–	143	11	–	2	156	126
End of year	(259,341)	(381)	(1,410)	(1,139,956)	(428,247)	(39,355)	(1,868,690)	(1,580,588)
Net book value								
End of year	908,165	81,875	29,229	1,092,639	131,123	24,692	2,267,723	2,519,714
Beginning of year	929,633	122,085	40,617	1,220,432	164,394	42,553	2,519,714	2,971,006

Had the property, plant and equipment been carried at cost less accumulated depreciation, the carrying amounts of each class of property, plant and equipment would have been included at the following amounts:

	Group							
	2001							2000
	Buildings in the PRC RMB'000	Buildings in Hong Kong RMB'000	Buildings in Japan RMB'000	Plant, machinery and equipment RMB'000	Mould RMB'000	Motor vehicles RMB'000	Total RMB'000	Total RMB'000
Cost	1,158,273	110,295	56,749	2,088,731	559,370	61,040	4,034,458	3,579,119
Accumulated depreciation	(254,529)	(2,047)	(3,072)	(1,011,270)	(428,247)	(34,080)	(1,733,245)	(1,341,316)
	903,744	108,248	53,677	1,077,461	131,123	26,960	2,301,213	2,237,803

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31 December 2001

(Amounts expressed in Renminbi unless otherwise stated)

9. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Company					
	2001					2000
	Buildings RMB'000	**Plant, machinery and equipment RMB'000**	**Moulds RMB'000**	**Motor vehicles RMB'000**	**Total RMB'000**	Total RMB'000
Cost/Valuation						
Beginning of year	**802,890**	**695,070**	**65,387**	**20,288**	**1,583,635**	1,717,810
Additions	**26,830**	**34,709**	**19,039**	**12,883**	**93,461**	56,043
Transfer from construction-in-progress (Note 10)	**34,891**	**3,394**	**—**	**—**	**38,285**	54
Transfer from group companies	**4,915**	**106,571**	**—**	**22,052**	**133,538**	(186,917)
Disposals	**(40,238)**	**(4,681)**	**—**	**(9,455)**	**(54,374)**	(3,355)
End of year	**829,288**	**835,063**	**84,426**	**45,768**	**1,794,545**	1,583,635
Representing:						
At cost	**282,295**	**595,411**	**84,426**	**32,230**	**994,362**	783,452
At valuation	**546,993**	**239,652**	**—**	**13,538**	**800,183**	800,183
	829,288	**835,063**	**84,426**	**45,768**	**1,794,545**	1,583,635
Accumulated depreciation						
Beginning of year	**(148,155)**	**(281,260)**	**(26,170)**	**(13,892)**	**(469,477)**	(439,896)
Charge for year	**(39,333)**	**(104,465)**	**(22,690)**	**(18,891)**	**(185,379)**	(106,578)
Transfer to group companies	**—**	**—**	**—**	**—**	**—**	75,052
Written back on disposals	**—**	**322**	**—**	**7,187**	**7,509**	1,945
End of year	**(187,488)**	**(385,403)**	**(48,860)**	**(25,596)**	**(647,347)**	(469,477)
Net book value						
End of year	**641,800**	**449,660**	**35,566**	**20,172**	**1,147,198**	1,114,158
Beginning of year	**654,735**	**413,810**	**39,217**	**6,396**	**1,114,158**	1,277,914

NOTES TO FINANCIAL STATEMENTS

31 December 2001

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9. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

Had the property, plant and equipment been carried at cost less accumulated depreciation, the carrying amounts of each class of property, plant and equipment would have been included at the following amounts:

	Company					
	2001					2000
	Buildings RMB'000	**Plant, machinery and equipment RMB'000**	**Mould RMB'000**	**Motor vehicles RMB'000**	**Total RMB'000**	Total RMB'000
Cost	**783,569**	**681,836**	**84,426**	**42,760**	**1,592,591**	1,108,776
Accumulated depreciation	**(167,440)**	**(251,014)**	**(48,859)**	**(20,322)**	**(487,635)**	(231,549)
	616,129	**430,822**	**35,567**	**22,438**	**1,104,956**	877,227

Buildings comprised factories, office buildings, and staff quarters situated in the PRC, Hong Kong and Japan.

Buildings with a net book value of approximately RMB80,281,000 (2000: Nil) were mortgaged as security for the Group's short-term bank loans (Note 15). Buildings with a net book value of approximately RMB80,818,000 (2000: RMB118,820,000) were mortgaged as security for the Group's long-term bank loans (Note 18).

As of 31 December 2000, plant, machinery and equipment with a net book value of approximately RMB38,378,000 were mortgaged as security for the Group's short-term bank loans (Note 15).

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(Amounts expressed in Renminbi unless otherwise stated)

10. CONSTRUCTION-IN-PROGRESS

Movement in construction-in-progress was as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of year	**26,171**	15,940	**19,627**	10,679
Additions	**58,009**	27,762	**35,256**	16,197
Transfer to property, plant and equipment (Note 9)	**(52,993)**	(10,028)	**(38,285)**	(54)
Transfer to other assets	**—**	(7,503)	**—**	(7,195)
End of year	**31,187**	26,171	**16,598**	19,627

No capitalised interest was included in the balance of construction-in-progress.

11. INVESTMENTS IN SUBSIDIARIES

In the Company's balance sheet, investments in subsidiaries consisted of:

	2001	2000
	RMB'000	RMB'000
Unlisted shares, at cost	**758,441**	753,792
Due from subsidiaries (Note i)	**789,996**	2,042,932
	1,548,437	2,796,724

Note i: The Company has entered into a management agreement with Kelon Air-Conditioner in 2001. In accordance with the agreement, Kelon Air-Conditioner is required to reimburse management overhead expenses to the Company for the use of the Company's resources. The management fee charged by the Company to Kelon Air-Conditioner in 2001 amounted to RMB96,000,000 (2000: RMB125,000,000).

The balances with subsidiaries were unsecured, non-interest bearing and had no fixed repayment dates.

The Company's directors are of the opinion that the underlying value of the subsidiaries was not less than the carrying value of the Company's investments in the subsidiaries as of year-end.

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(Amounts expressed in Renminbi unless otherwise stated)

11. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

Details of the Company's subsidiaries, all of which are limited liability companies and joint ventures as of 31 December 2001 were as follows:

Name of the entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Company 2001 Directly	2001 Indirectly	2000 Directly	2000 Indirectly	Issued capital/ Registered capital	Principal activities
PRC Entities							
Shunde Rongsheng Plastic Products Co., Ltd.	PRC (i) 18 October 1991	**45%**	**25%**	45%	25%	US$15,800,000	Manufacture of plastic parts
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	PRC (i) 20 July 1994	**40%**	**30%**	40%	30%	US$15,000,000	Manufacture of moulds
Guangdong Kelon Refrigerator Co., Ltd.	PRC (i) 25 December 1995	**70%**	**30%**	70%	30%	US$26,800,000	Manufacture and sale of refrigerators
Guangdong Kelon Air-Conditioner Co., Ltd.	PRC (i) 19 March 1996	**60%**	**–**	60%	—	US$36,150,000	Manufacture and sale of air-conditioners
Chengdu Kelon Refrigerator Co., Ltd.	PRC (i) 19 November 1996	**45%**	**25%**	45%	25%	RMB200,000,000	Manufacture and sale of refrigerators
Yingkou Kelon Refrigerator Co., Ltd.	PRC (i) 15 December 1996	**42%**	**36.79%**	42%	25%	RMB200,000,000	Manufacture and sale of refrigerators
Guangdong Kelon Fittings Co. Ltd. (Formerly known as Shunde Rongqi Kelon Fittings Co. Ltd.) ("Kelon Fitting")	PRC (i) 24 November 1999	**70%**	**30%**	70%	30%	US$5,620,000	Manufacturer and sale of spare parts for air-conditioner and refrigerator
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited	PRC (ii) 21 February 2001	**76%**	**–**	—	—	RMB2,000,000	Sale of refrigerators
Beijing Hengsheng Xing Chuang Technology Company Limited	PRC (ii) 4 June 2001	**80%**	**–**	—	—	RMB30,000,000	Research and develop of industrial and commercial IT system
Shunde Jiake Electronic Company Limited	PRC (ii) 12 October 2001	**70%**	**30%**	—	—	RMB60,000,000	IT and communication technology, and micro-electronics technology development
Beijing Kelon Tiandi IT Network Limited	PRC (ii) 8 November 2001	**–**	**64%**	—	—	RMB5,000,000	Dormant
Beijing Kelon Shikong Information Technology Company Limited	PRC (ii) 8 November 2001	**–**	**64%**	—	—	RMB5,000,000	Dormant

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11. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

Name of the entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Company				Issued capital/ Registered capital	Principal activities
		2001		2000			
		Directly	**Indirectly**	Directly	Indirectly		
Hong Kong Entities							
Pearl River Electric Refrigerator Company Limited	Hong Kong 26 July 1985	**–**	**100%**	—	100%	HK$400,000	Trading in materials and parts for refrigerators
Kelon Electric Appliances Co., Ltd.	Hong Kong 29 August 1991	**–**	**100%**	—	100%	HK$10,000	Sale of air-conditioners
Kelon Development Company Limited	Hong Kong 17 August 1993	**100%**	**–**	100%	—	HK$5,000,000	Investment holding
Other Overseas Entities							
Kelon (Japan) Limited	Japan 22 May 1996	**–**	**100%**	—	90%	JPY1,100,000,000	Technical research and trading of electrical household appliances
Wetherell Development Limited	British Virgin Islands 1 July 1997	**–**	**100%**	—	100%	US$1	Advertising agency
Kelon International Incorporation (Formerly known as Kelon Financial Services Limited)	British Virgin Islands 13 January 1999	**–**	**100%**	—	100%	US$50,000	Investment holdings

(i) These companies were established as sino-foreign equity joint ventures in the PRC.

(ii) These companies were established as limited liability company in the PRC.

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12. INVESTMENTS IN ASSOCIATES

Investments in associates consisted of:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Investment in associates	**387,940**	375,060	**374,740**	362,140
Share of results of associates	**2,365**	8,368	**—**	—
Accumulated amortisation of goodwill	**(25,642)**	(9,728)	**—**	—
Provision for impairment in value	**(116,100)**	(104,280)	**(104,280)**	(104,280)
Due from (to) associates				
— Kelon HEA	**23,851**	—	**30,078**	—
— Wangao Co	**15,389**	—	**5,780**	—
— Sanyo Kelon	**37,050**	28,484	**37,050**	—
— Others	**(3,544)**	(22,167)	**(3,277)**	—
	321,309	275,737	**340,091**	257,860
Less: Provision for doubtful receivable	**(37,050)**	—	**(37,050)**	—
	284,259	275,737	**303,041**	257,860

The amounts due from (to) the associates arose from ordinary business transactions, and were unsecured, non-interest bearing and without fixed repayment terms.

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12. INVESTMENTS IN ASSOCIATES *(Cont'd)*

Details of the Company's associate as of 31 December 2001 were as follows:

Name of the entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Company 2001 Directly	2001 Indirectly	2000 Directly	2000 Indirectly	Issued capital/ Registered capital	Principal activities
Associated companies							
Guangdong Sanyo Kelon Refrigerator Co., Ltd.	PRC (i) 25 December 1995	**44%**	**–**	44%	—	RMB237,000,000	Manufacture and sale of freezers
Huayi Compressor Holdings Company Limited	PRC (ii) 13 June 1996	**24.99%**	**–**	24.99%	—	RMB237,250,000	Manufacture and sale of compressors
Shunde Kelon Household Electrical Appliance Company Limited	PRC (iii) 16 July 1999	**25%**	**–**	25%	—	RMB10,000,000	Manufacture and sale of electrical household appliances
Shanghai Yilian Electric Business Limited ("Shanghai Yilian")	PRC (iii) 15 June 2000	**41.7%**	**–**	—	—	RMB24,000,000	Electric business
Communication and You Holdings Company Limited	Hong Kong (iii) 14 August 2000	**–**	**25%**	—	25%	HK$100	Advertising business
Chongqing Kelon Electrical Appliance Company Limited	PRC (iii) 10 November 2000	**–**	**20%**	—	20%	RMB1,000,000	Sale of electrical household appliances
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	PRC (iii) 19 February 2001	**–**	**28%**	—	—	RMB1,000,000	Refrigerator sales and after sales service
Shunde Wangao Import & Export Co., Ltd.	PRC (iii) 7 June 2001	**20%**	**–**	—	—	RMB3,000,000	Import and export business
Guangzhou Antaida Logistic Co., Ltd.	PRC (iii) 11 July 2001	**20%**	**–**	—	—	RMB10,000,000	Comprehensive logistic and storage

(i) Established as sino-foreign equity joint venture.

(ii) Established as joint stock limited company.

(iii) Established as limited liability company.

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13. GOODWILL

Movements in goodwill were as follows:

	Group	
	2001	2000
	RMB'000	RMB'000
Cost	**67,607**	66,596
Accumulated amortisation		
Beginning of year	**(7,215)**	(3,885)
Charge for the year	**(100)**	(3,330)
End of year	**(7,315)**	(7,215)
Provision for goodwill impairment	**(59,381)**	—
Net book value		
End of year	**911**	59,381
Beginning of year	**59,381**	62,711

14. OTHER ASSETS

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Properties for resale	**—**	23,912	**—**	23,912
Long-term investments	**10,419**	9,461	**7,249**	9,249
Others	**12,583**	6,701	**5,616**	—
	23,002	40,074	**12,865**	33,161

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15. SHORT-TERM BANK LOANS

All short-term bank loans bore interest at prevailing market interest rates. Bank loans amounting to approximately RMB337,609,000 were secured by mortgage of property, plant and equipment with net book value amounting to approximately RMB80,281,000 (2000: RMB38,378,000) (Note 9) and guaranteed by certain of the Group's subsidiaries. Other bank loans, together with other banking facilities, were unsecured.

16. ACCOUNTS PAYABLE

As of 31 December 2000 and 2001, all of the Group's accounts payable were aged less than one year.

17. ACCRUALS AND OTHER PAYABLES

Accruals and other payables consisted of:

	Group		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued interest	**3,983**	1,284	**3,529**	1,046
Accrued utility	**405**	1,200	**—**	—
Accrued transportation	**11,263**	—	**11,263**	—
Accrued warehousing expenses	**3,287**	—	**3,287**	—
Accrued installation fee	**54,911**	36,666	**54,911**	—
Accrued sub-contracting fee	**7,778**	6,166	**—**	3,289
Payable for purchase of property, machinery and equipment	**162**	51,431	**162**	51,431
Accrued sales discount	**38,981**	218,474	**38,981**	—
Accrued advertising	**256,347**	90,604	**256,347**	3,316
Accrued audit fee	**4,080**	1,000	**2,700**	—
Others	**145,410**	219,952	**118,567**	104,848
Total	**526,607**	626,777	**489,747**	163,930

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18. LONG-TERM BANK LOANS

Long-term bank loans consisted of:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Total outstanding bank loans repayable:				
Within one year	**204,959**	19,777	**200,000**	—
Between one and two years	**5,213**	204,910	**—**	200,000
Between two and five years	**17,293**	17,419	**—**	—
After five years	**7,456**	14,977	**—**	—
	234,921	257,083	**200,000**	200,000
Less: amounts repayable within one year included in current liabilities	**(204,959)**	(19,777)	**(200,000)**	—
Non-current portion	**29,962**	237,306	**—**	200,000

The Company's long-term bank loans of RMB200,000,000 bore annual interest at rates of 4.77% (2000: 4.77%), and was guaranteed by GKG. The Group's other long-term bank loans bore annual interests at rates of 5.00% to 9.00% per annum (2000: 8.625% to 12.25%), and were secured by land and buildings in Hong Kong with net book value amounting to approximately RMB80,818,000 (2000: RMB118,820,000) (Note 9).

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18. LONG-TERM BANK LOANS *(Cont'd)*

Details of long-term bank loans as of 31 December 2001 were:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured				
Bank loan at fixed interest rate of 4.77% per annum maturing in 2002	**200,000**	200,000	**200,000**	200,000
Bank loan at fixed interest rate of 9.125% to 9.25% per annum maturing in 2004	**—**	4,784	**—**	—
Bank loan at floating interest rate with average rates for the year of 11.25% to 11.5% per annum maturing in 2004	**—**	839	**—**	—
Bank loan at floating interest rates with average rates for the year of 10.94% to 12.25% per annum maturing in 2006	**—**	1,639	**—**	—
Bank loan at floating interest rates with average rates for the year of 5% to 9% per annum maturing in 2007	**34,921**	—	**—**	—
Bank loan at fixed interest rate of 8.5% per annum maturing in 2007	**—**	39,289	**—**	—
Bank loans at floating interest rates with average rates for the year of 8.625% to 9% per annum maturing in 2007	**—**	7,939	**—**	—
Bank loan at floating rate with average rate for the year of 9.125% per annum maturing in 2008	**—**	2,593	**—**	—
	234,921	257,083	**200,000**	200,000

Repayment of long-term bank loans were scheduled as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
2001	**—**	19,777	**—**	—
2002	**204,959**	204,910	**200,000**	200,000
2003	**5,213**	5,404	**—**	—
2004	**5,479**	5,797	**—**	—
2005	**6,055**	6,218	**—**	—
2006	**5,759**	14,977	**—**	—
Thereafter	**7,456**	—	**—**	—
	234,921	257,083	**200,000**	200,000

NOTES TO FINANCIAL STATEMENTS

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19. MINORITY INTERESTS

As of 31 December 2001, accumulative losses applicable to the minority interest of one of the Group's subsidiary exceeded the minority interest in the equity of the subsidiary ("the excess loss") by approximately RMB198,340,000 (2000: RMB158,116,000). In 2000, management tried to obtain additional financial contribution from the minority shareholder to absorb the excess loss, and accordingly, charged the excess loss for the year ended 31 December 2000 of RMB158,116,000 to the minority interest in the Group's 31 December 2000 consolidated financial statements. As of 31 December 2001,management considered that it is not probable that the minority shareholder will provide additional funding, and as such charged RMB158,116,000 and RMB40,224,000 of the excess loss to beginning retained earnings and income of 2001, respectively.

20. ISSUED CAPITAL

Issued capital consisted of:

	2001		2000	
	Number of shares	**Nominal value RMB**	Number of shares	Nominal value RMB
Registered, issued and fully paid:				
PRC domestic shares of RMB1 each, held by GKG in form of legal person shares	**337,915,755**	**337,915,755**	337,915,755	337,915,755
PRC domestic shares, of RMB1 each, held by employees	**84,501,000**	**84,501,000**	84,501,000	84,501,000
H shares, of RMB1 each	**459,589,808**	**459,589,808**	459,589,808	459,589,808
A shares, of RMB1 each	**110,000,000**	**110,000,000**	110,000,000	110,000,000
	992,006,563	**992,006,563**	992,006,563	992,006,563

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21. RESERVES

According to the Articles of Association of the Company, when distributing net profit of each year, the Company shall set aside 10% of its after tax profits for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% of after tax profits for the statutory common welfare fund. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividend.

In accordance with the Articles of Association of the Company, the retained earnings of the Company for the purpose of profit distribution will be deemed to be the lesser of (a) the amount determined in accordance with PRC accounting principles and financial regulations and (b) the amount determined in accordance with IFRS.

For the year ended 31 December 2001, the directors resolved not to make appropriations to the statutory reserves (2000: Nil).

As of 31 December 2001, the Company is in an accumulated deficit position (2000: retained earning of RMB217,882,000). Therefore, there was no reserve available for distribution to its shareholders.

22. OTHER REVENUE

Other revenue consisted of:

	2001 **RMB'000**	2000 RMB'000
Sales of scrap materials	**22,233**	12,537
Others	**18,702**	175
	40,935	12,712

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23. DISTRIBUTION COSTS

Distribution costs consisted of:

	2001 RMB'000	2000 RMB'000
Staff costs	**144,563**	112,815
Depreciation	**11,634**	6,183
Promotional costs	**508,602**	227,848
Transportation costs	**144,919**	111,530
Installation costs	**113,257**	110,979
Warranty costs	**79,333**	143,912
Insurance expenses	**6,775**	7,678
Storage costs	**29,396**	27,201
Entertainment expenses	**27,754**	19,660
Others	**139,781**	150,390
	1,206,014	918,196

24. ADMINISTRATIVE EXPENSES

Administrative expenses consisted of:

	2001 RMB'000	2000 RMB'000
Staff costs	**156,160**	145,009
Provision for inventory obsolescence	**281,652**	163,067
Provision for doubtful receivables	**235,223**	59,620
Provision for goodwill	**59,381**	—
Provision for impairment of investment in associate	**11,820**	—
Pension costs	**8,960**	14,724
Depreciation	**86,331**	105,315
Amortisation of goodwill	**16,014**	10,197
Amortisation of leasehold land	**9,986**	9,986
Repairing costs	**5,136**	3,490
Research and development costs	**26,369**	30,270
Auditors' remuneration	**4,080**	3,674
Others	**153,661**	90,754
	1,054,773	636,106

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25. PERSONNEL EXPENSES AND AVERAGE NUMBER OF EMPLOYEES

Personnel expenses included in distribution and administrative expenses consisted of:

	2001	2000
	RMB'000	RMB'000
Wages and salaries	**300,723**	257,824
Pension costs	**8,960**	14,724
	309,683	272,548

Substantially all of the Group's employees are located in the PRC. Average number of employees for the year was:

	2001	2000
Employees located in the PRC	**7,399**	8,550
Employees located in countries outside the PRC	**30**	35
	7,429	8,585

26. DEPRECIATION

During the year ended 31 December 2001, the Group had depreciation expenses of approximately RMB336,331,000 (2000: RMB386,911,000) which were analysed as follows:

	2001	2000
	RMB'000	RMB'000
Depreciation expenses capitalised as cost of inventories	**238,366**	275,413
Depreciation expenses included as distribution costs	**11,634**	6,183
Depreciation expenses included as administrative expenses	**86,331**	105,315
	336,331	386,911

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27. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' and senior executives' emoluments were as follows:

	2001 **RMB'000**	2000 RMB'000
Fees for executive directors	**—**	699
Fees for non-executive directors	**130**	120
Fees for supervisors	**32**	—
Other emoluments for executive directors		
— Basic salaries and allowances	**7,900**	589
— Bonus	**—**	—
— Retirement benefits	**—**	15
— Others	**12,354**	2,096
Other emoluments for non-executive directors	**—**	—
Other emoluments for supervisors	**721**	1,012
	21,137	4,531

Two of the directors waived a total amount of RMB1,820,000 of their emoluments during the year.

b. Analysis of directors' emoluments by number of directors and emolument ranges was as follows:

	2001	2000
Executive directors		
— Nil to RMB1,000,000	**11**	5
— RMB1,000,001 to RMB2,000,000	**—**	—
— RMB2,000,001 to RMB4,000,000	**—**	—
— RMB4,000,001 to RMB5,000,000	**1**	—
— RMB5,000,001 to RMB6,000,000	**—**	—
— RMB6,000,001 to RMB7,000,000	**1**	—
— RMB7,000,001 to RMB8,000,000	**1**	—
Non-executive directors		
— Nil to RMB1,000,000	**7**	4
	21	9

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27. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Cont'd)*

c. Details of emoluments paid to the five highest paid individuals (including directors and employees) were as follows:

	2001 RMB'000	2000 RMB'000
Basic salaries and allowances	**13,379**	5,105
Bonus	**—**	—
Retirement benefits	**—**	15
Others	**11,854**	107
	25,233	5,227

	2001	2000
Number of directors	**3**	3
Number of employees	**2**	2
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

d. Analysis of emoluments paid to the five highest paid individuals (including directors and employees) by number of individuals and emolument ranges was as follows:

	2001	2000
Nil to RMB1,000,000	**—**	3
RMB1,000,001 to RMB2,000,000	**—**	2
RMB2,000,001 to RMB3,000,000	**—**	—
RMB3,000,001 to RMB4,000,000	**2**	—
RMB4,000,001 to RMB5,000,000	**—**	—
RMB5,000,001 to RMB6,000,000	**1**	—
RMB6,000,001 to RMB7,000,000	**1**	—
RMB7,000,001 to RMB8,000,000	**1**	—
	5	5

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28. OTHER OPERATING EXPENSES

Other operating expenses consisted of:

	2001 RMB'000	2000 RMB'000
Loss on devaluation of property, plant and equipment	**47,236**	—
Loss on disposals of plant, property and equipment, and other assets-properties for resale	**16,334**	5,544
Loss on disposal of subsidiary (Note i)	**11,090**	—
Others	**9,122**	8,443
	83,782	13,987

Note i: EDAS.com (Shenzhen) Limited, one of the Company's former subsidiary, commenced liquidation procedures in August 2001. The loss incurred mainly represents intangible assets written off upon liquidation.

29. FINANCE COSTS

Finance costs consisted of:

	2001 RMB'000	2000 RMB'000
Interest expenses on		
— bank overdrafts and bank borrowings wholly repayable within five years	**54,154**	49,261
— bank borrowings not wholly repayable within five years	**4,807**	4,383
— discounted notes receivable	**33,904**	25,031
Interest income	**(12,552)**	(12,578)
Foreign exchange losses (gains)	**2,946**	3,672
Others	**3,430**	3,262
	86,689	73,031

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30. TAXATION

Taxation consisted of:

	2001 RMB'000	2000 RMB'000
Company and subsidiaries		
PRC enterprise income tax	—	5,429
Hong Kong profits tax	—	—
Overseas tax	—	65
	—	5,494
Associates		
PRC enterprise income tax	—	2,331
	—	7,825

The reconciliation of the total income tax to the theoretical amount that would arise using the tax rate of the Company is as follows:

	2001 RMB'000	2000 RMB'000
Loss before taxation	**(1,584,032)**	(1,013,616)
Tax credit at tax rate of 24% (2000: 24%)	**(380,168)**	(243,268)
Expenses not tax deductible	**18,095**	2,424
Temporary difference not provided for	**126,887**	(2,820)
Impact of tax losses of individual companies	**90,044**	257,749
Impact of different tax rate	**145,142**	(10,858)
Under-provision in prior years	—	4,598
Tax expense recognised in profit and loss account	—	7,825

The Group companies provide for taxation on the basis of their income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

The Company is normally subject to an enterprise income tax ("EIT") at a rate of 24%, which is applicable to enterprises located in coastal open economic zone. As the Company is designated as a key enterprise in Guangdong Province, pursuant to the document Yue Fu Han [1997] 157 issued by Guangdong Provincial Government, the Company is entitled to a preferential EIT rate of 15% for 2001. Pursuant to Caishui [2000] No.99 issued in October 2000, the above preferential tax treatment would remain effective until 31 December 2001.

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30. TAXATION *(Cont'd)*

The Company's subsidiaries, Kelon Refrigerator, Kelon Air-Conditioner, Kelon Fitting and Rongsheng Plastic are incorporated in a coastal open economic zone and, are subject to an EIT rate of 24%. Kelon Mould is an advanced technology enterprise and is subject to an EIT rate of 15%. Pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" ("Income Tax Law"), they are entitled to preferential tax treatment with full exemption from EIT for two years starting from the first profitable year of operations, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction in tax rate for the next three years. In 2001, Kelon Refrigerator, Kelon Air-Conditioner and Rongsheng Plastic are subject to an EIT rate of 12%. Kelon Mould is subject to an EIT rate of 15%. Kelon Fittings is exempt from EIT.

The Company's subsidiary, Chengdu Kelon is subject to an EIT rate of 30%. The Company's subsidiary, Yingkou Kelon, incorporated in coastal open economic zone, is subject to an EIT rate of 24%. Pursuant to "Income Tax Law", they are also entitled to preferential tax treatment, with full exemption from income tax for two years starting from the first profitable year of operations, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction in tax rate for the next three years. As of 31 December 2001, Chengdu Kelon is still in loss position and does not require to pay tax. Yingkou Kelon is subject to an EIT rate of 12% in 2001.

Hong Kong profits tax for the Company's subsidiaries in Hong Kong has been provided at a rate of 16% (2000:16%) on estimated assessable profit which was earned in or derived from Hong Kong.

In year 2001, the Company and all its subsidiaries sustained losses and no EIT was provided.

As of 31 December 2001, deferred tax assets not recognised in the financial statements were analysed into:

	2001 RMB'000	2000 RMB'000
Accelerated depreciation allowances	**—**	(1,346)
Tax losses	**366,023**	75,922
Miscellaneous provisions	**126,887**	53,445
Property, plant and equipment revaluation	**(34,166)**	(3,321)
	458,744	124,700

The tax losses can only be carried forward for a maximum period of five years. The tax losses of 2000 and 2001, which amounted to RMB1,071,989,000 and RMB1,579,849,000 respectively, will expire on 2005 and 2006, respectively.

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31. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders for the year ended 31 December 2001 included loss of approximately RMB1,239,238,000 (2000: RMB82,083,000) dealt with in the financial statements of the Company.

32. PRIOR YEAR ADJUSTMENTS

As of 31 December 2000, cumulative losses applicable to the minority interest of one of the Group's subsidiary exceeded the minority interest in the equity of the subsidiary ("excess loss") by approximately RMB158,116,000. Such excess loss was charged to the minority interest in the Group's 31 December 2000 consolidated financial statements with the belief that the minority interest would agree to absorb the excess loss through additional funding. During 2001, management considers that it is not probable that the minority shareholder will provide additional financial contribution to absorb any excess loss. Accordingly, the excess loss of RMB158,116,000 is considered as a correction of accounting error and is charged to consolidated income statement for the year ended 31 December 2000.

The effect of a correction of the accounting error has been accounted for as a prior year adjustments as follows:

	Group		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Retroactive effect of correction of error on beginning retained earnings	**(158,116)**	—	**—**	—

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33. DIVIDENDS

Dividends consisted of:

	2001 **RMB'000**	2000 RMB'000
1999 — Final dividends (RMB0.214 per share)	—	212,289
	—	212,289

The Company declares dividends based on the lower of retained earnings as reported in the statutory accounts and the financial statements prepared under IFRS. As the statutory accounts have been prepared on an accounting basis other than IFRS, the retained earnings as reported in the statutory accounts are different from the amount reported in the accompanying consolidated income statement.

For the year ended 31 December 2001, the directors resolved not to pay any dividend.

34. LOSS PER SHARE

The calculation of loss per share on a weighted average basis is based on the consolidated loss attributable to shareholders of approximately RMB1,571,037,000 (2000: loss of RMB846,117,000) and on the weighted average number of 992,007,000 shares (2000: 992,007,000 shares) in issue during the year.

The diluted loss per share is the same as loss per share as there was no diluted potential ordinary shares outstanding during the year.

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35. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of loss before tax but after minority interest to net cash inflow (outflow) from operating activities:

	2001 RMB'000	2000 RMB'000
Loss before tax but after minority interests	**(1,571,037)**	(838,292)
Adjustments for:		
Minority interests	**(12,995)**	(175,324)
Depreciation	**336,331**	386,911
Loss on disposals of property, plants and equipment and other assets-properties for resale	**16,334**	5,544
Share of loss (profit) of associates	**611**	(10,699)
Provision for doubtful receivables	**235,223**	59,620
Provision for obsolescence and net realisable value	**281,652**	163,067
Provision for goodwill impairment	**59,381**	—
Provision for impairment loss of investment in associate	**11,820**	—
Interest income	**(12,552)**	(12,578)
Interest expenses	**92,865**	78,675
Amortisation of goodwill	**16,014**	10,197
Amortisation of leasehold land	**9,986**	9,986
Loss on devaluation of property, plant and equipment	**47,236**	—
	(489,131)	(322,893)
Decrease in notes receivable	**99,067**	705,753
(Increase) Decrease in accounts receivable	**(55,879)**	363,218
Decrease (Increase) in inventories	**229,150**	(415,569)
Increase in due from related companies	**(96,186)**	(109,141)
(Increase) Decrease in deposits, prepayments and other receivables	**(96,819)**	40,211
Decrease (Increase) in value-added tax recoverable	**29,215**	(134,481)
Increase in notes payable	**462,355**	216,355
(Decrease) Increase in trade deposit from customers	**(96,463)**	426,314
(Decrease) Increase in accounts payable	**(22,058)**	252,050
(Decrease) Increase in accruals and other payables	**(100,170)**	339,878
Increase in warranty provision	**13,185**	23,519
Increase in due to related companies	**12,759**	148
(Decrease) Increase in pension liabilities	**(8,054)**	(6,549)
Increase in other long-term liabilities	**7,398**	—
Net cash (outflow) inflow from operating activities	**(111,631)**	1,378,813

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36. IMPACT OF IFRS ADJUSTMENTS ON CONSOLIDATED NET LOSS / NET ASSETS

	Consolidated net loss for the year ended 31 December		Consolidated net assets as of 31 December	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
As reported in management accounts of the Group	**(1,555,573)**	(830,653)	**2,402,617**	3,957,879
Impact of IFRS adjustments:				
— Adjustments on property, plant and equipment revaluation surplus and related depreciation	**(15,464)**	(15,464)	**17,070**	32,535
As restated for the Group	**(1,571,037)**	(846,117)	**2,419,687**	3,990,414

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31 December 2001

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37. SEGMENTAL INFORMATION

Analysis of financial information by business segment is as follows:

	Refrigerator business		Air-Conditioners business		Manufacture and sales of product components		Others		Elimination		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
External sales	**2,164,254**	2,149,213	**2,177,207**	1,574,493	**31,493**	29,555	**8,662**	116,242	**–**	—	**4,381,616**	3,869,503
Inter-segment sales	**–**	4,033	**–**	—	**467,010**	499,741	**–**	16,400	**(467,010)**	(520,174)	**–**	—
Turnover	**2,164,254**	2,153,246	**2,177,207**	1,574,493	**498,503**	529,296	**8,662**	132,642	**(467,010)**	(520,174)	**4,381,616**	3,869,503
Segment results	**(680,584)**	(204,501)	**(828,616)**	(666,089)	**(14,655)**	36,546	**(47,182)**	(23,921)	**–**	11,848	**(1,571,037)**	(846,117)
Segment assets	**3,064,289**	4,567,224	**3,009,482**	1,716,715	**406,637**	453,458	**126,554**	344,210	**–**	—	**6,606,962**	7,081,607
Segment liabilities	**1,890,342**	1,520,060	**1,988,067**	1,090,288	**52,581**	57,937	**38,199**	168,505	**–**	—	**3,969,189**	2,836,790
Capital expenditure	**152,491**	220,491	**40,326**	32,582	**22,057**	29,567	**3,432**	23,169	**–**	—	**218,306**	305,809
Depreciation	**181,118**	215,200	**104,049**	140,005	**44,712**	6,167	**6,452**	25,539	**–**	—	**336,331**	386,911
— Provision for inventory obsolescence	**97,779**	59,900	**183,873**	103,167	**–**	—	**–**	—	**–**	—	**281,652**	163,067
— Provision for doubtful debts	**142,788**	54,560	**92,435**	(2,000)	**–**	—	**–**	7,060	**–**	—	**235,223**	59,620
Share of (loss) profit of associates	**(611)**	10,699	**–**	—	**–**	—	**–**	—	**–**	—	**(611)**	10,699
Investment in associates	**271,339**	290,121	**200**	200	**–**	—	**12,720**	12,720	**–**	—	**284,259**	303,041
Cash flows arising from												
— Operating activities	**(55,139)**	646,361	**(55,469)**	764,741	**(802)**	(14,678)	**(221)**	(17,611)	**–**	—	**(111,631)**	1,378,813
— Investing activities	**(405,223)**	(118,130)	**(407,648)**	(406,817)	**(5,897)**	(50,522)	**(1,622)**	5,510	**–**	—	**(820,390)**	(569,959)
— Financing activities	**426,491**	(30,500)	**429,043**	(340,000)	**6,206**	—	**1,707**	(52,980)	**–**	—	**863,447**	(423,480)

No segmental information by geographical location is presented because substantially all of the Group's activities are carried out in the PRC.

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(Amounts expressed in Renminbi unless otherwise stated)

38. COMMITMENTS

Commitments not provided for in the financial statements as of 31 December 2001 were as follows:

	Group RMB'000	Company RMB'000
Authorised and contracted for		
— Purchase of property, plant and machinery	31,740	29,467

39. CONTINGENT LIABILITIES

	Group RMB'000	Company RMB'000
Guarantees for loan facilities granted to associates	3,975	—
Guarantees for loan facilities granted to subsidiaries	—	83,635

During 2001, a subsidiary of the Group executed a debt guarantee of RMB230,000,000 to secure borrowings of GKG without proper approval. This guarantee has been enforced and the Company has settled RMB211,226,000 of GKG's liabilities as a result. This incidence indicates inadequate control over the granting of guarantees.

In order to improve control over this area, the Company has amended the internal control procedure to centralise the authorisation of obtaining finance and granting of guarantee to the Treasury Department of the Company.

In respect of the possible unrecorded liability and guarantees, the Company has inquired various banks in Shunde, and those nearby, with which the Group has business relationship. Up to the present, the management is not aware of any further liability arising from unauthorised guarantees.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and bank deposit, short-term borrowings and other current financial assets and liabilities approximate their fair value due to the short-term maturity of these instruments.

The carrying amount of long-term bank loans approximate fair value because the interest rates of these loans approximate the quoted market rates.

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41. CONCENTRATIONS OF RISK

a. Credit risk

The carrying amounts of cash and bank deposits, accounts receivable, notes receivable, balances with major shareholder and related companies, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's accounts receivable relates to sales of refrigerators and air-conditioners to third parties. The Group performs ongoing credit evaluation of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains a provision for doubtful accounts and actual losses have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

b. Interest rate risk

The interest rates and terms of repayment of short-term and long-term bank loans of the Group are disclosed in Note 15 and 18.

c. Liquidity risk

The group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitments over the next year in accordance with its strategic plan.

42. PRIOR YEAR COMPARATIVE FIGURES

Certain of the 2000 comparative figures have been reclassified to conform to current year's presentation.

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 April 2002.