

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

## 1. INCORPORATION AND PRINCIPAL ACTIVITIES

Guangdong Kelon Electrical Holdings Company Limited (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC") on 16 December 1992. The Company and its subsidiaries hereinafter are referred to as the "Group".

The Company's 459,589,808 overseas public shares (hereinafter referred to as "H Shares") were listed on the Stock Exchange of Hong Kong Limited on 23 July 1996. In 1998, the Company obtained approval to issue 110,000,000 domestic shares (hereinafter referred to as "A Shares") which were listed on the Shenzhen Stock Exchange on 13 July 1999.

Guangdong Kelon (Rongsheng) Group Company Limited ("GKG"), a company incorporated in the PRC, was the major shareholder of the Company. As of 31 December 2001, GKG held 337,915,755 legal person shares of the Company, representing 34.06% of the Company's total share capital.

On 29 October 2001, GKG entered into an agreement with Shunde Greencool Development Co. Ltd. ("Greencool") in connection with the transfer of 204,775,755 shares of legal person shares to of the Company, representing 20.64% of total share capital of the Company for a consideration of RMB560,000,000. The consideration was subsequently reduced to RMB348,000,000 according to a revised share transfer agreement dated 5 March 2002. The shares were transferred to Greencool from GKG on 18 April 2002.

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

The Group incurred net loss of RMB1,555,573,000 during the year ended 31 December 2001. As of 31 December 2001, the Group had negative working capital of approximately RMB182,501,000. However, the accompanying financial statements are still prepared based on the going concern basis. Management of the Group and the Company has taken various measures to enhance the operating performance and financial positions and anticipates significant improvement of the financial positions in the following twelve months. These measures include:

- (1) Change in Company structure and measures to increase efficiency;
- (2) Develop and manufacture high value-added products;
- (3) Introduce new systems and reduce cost;
- (4) Request Greencool to repay its RMB198,000,000 payable in connection with the debt transfer as described in Note 7(3)(b).

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(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION

#### (a) Accounting policies

The accounting policies adopted by the Company and the Group are in accordance with "Accounting Standards for Business Enterprises"; "Accounting Regulations for Business Enterprise"; "Temporary Regulations for Consolidated Financial Statements" and other relevant policies and regulations in the PRC (hereinafter referred to as "PRC Accounting Standards").

#### (b) Accounting year

The accounting period covers the calendar year from 1 January to 31 December.

#### (c) Reporting currency

The reporting currency is Chinese Yuan ("RMB").

#### (d) Accounting principles and basis of valuation

The Group maintains its accounting records on accrual basis. Assets are recorded at cost, except for assets recorded at revalued amount based on valuation performed in accordance with the relevant regulations.

#### (e) Consolidation of financial statements

The financial statements of the Company and its subsidiaries, in which the Company directly or indirectly holds more than 50% of the issued share capital as a long-term investment, are included in the consolidated financial statements. The consolidated financial statements of the Group are prepared using the following methods:

- (i) Differences between the accounting policies adopted by the parent company and the subsidiaries should be adjusted;
- (ii) All significant intra-group transactions and balances should be eliminated upon consolidation;
- (iii) Intra-group equity investments, investment income and unrealised profit should be eliminated upon consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(Cont'd)*

### (f) Foreign exchange translation

The Company and its PRC subsidiaries and associates maintain their books and records in RMB. RMB is not a freely exchangeable currency. Foreign currency transactions are translated into RMB at the applicable exchange rates prevailing on the day of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable rates in effect at the balance sheet date. Exchange differences arising from above, unless capitalised, are included in the determination of the results of operations.

The Group's overseas subsidiaries maintain their books and records in their respective functional 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 functional currency at the applicable average exchange rate prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable rates in effect at the balance sheet date. Exchange differences arising from above are included in the determination of the results of operations of the Group's overseas subsidiaries.

### (g) Method for translation of foreign currency financial statements

The foreign currency financial statements of the Group's overseas subsidiaries are translated into RMB for consolidation according to the following methods:

Assets and liabilities are translated into RMB at the exchange rates prevailing at the balance sheet date. Equity items, except retained earnings, are translated into RMB at the exchange rates prevailing at the dates of the transactions. Income statement items are translated into RMB at the average exchange rates for the year.

Exchange differences arising from the translation of the foreign currency financial statements are included in the cumulative translation reserve under shareholders' equity.

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### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(Cont'd)*

#### (h) Cash and cash equivalents

Cash includes cash on hand and cash in banks 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.

#### (i) Provision for doubtful accounts

Provision for doubtful accounts receivable and other receivables is calculated based on the analysis of collectibility of accounts receivables and other receivables at year-end. The management estimates the collectibility according to prior years' experiences, the financial and cash flow status of the debtors and other related information.

#### (j) Inventories

Inventories include raw materials, work-in-progress and finished goods. Standard cost is applied for the routine inventory flow. At month end, allocation of cost variances is calculated based on standard cost of various kinds of inventory delivered out. Cost of work-in-progress and finished goods comprises direct materials, direct labor and other manufacturing overhead.

Inventories are stated at the lower of cost and net realisable value ("NRV"). The inventory NRV is calculated based on estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. When the inventory NRV is lower than the cost of inventories, inventory NRV provision is provided and included in the determination of the results of operations.

Stock-take of inventories adopts perpetual count method.

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### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(Cont'd)*

#### (k) Long-term investments

##### *Long-term equity investments*

Long-term equity investments include investments in subsidiaries, associates and other investments that are accounted for using the cost method or the equity method, respectively.

##### *(i) Long-term equity investments in subsidiaries and associates*

A subsidiary represents a company in which the Company directly or indirectly (1) holds more than 50% of the equity interest as a long-term investment and/or (2) has the power to cast the majority of votes at meetings of Board of Directors/management committee.

An associate is a company, not being a subsidiary, in which the Company holds more than 20% but less than 50% of the share capital or equity, and in which the Company has significant influence to participate in the financial and operating decisions of the Company.

Investment in subsidiaries and associates are accounted for using the equity method. After acquisition of the equity investment, the carrying amount of the investment is adjusted for its attributable share of the investee enterprise's net profit or loss, which is recognised as investment income for the current period accordingly. The carrying amount of investments is decreased by its attributable share of the investee enterprise's distributed profits or cash dividends declared. Generally speaking, the Company recognises net losses incurred by the investee enterprise to the extent which reduces the carrying amount of the investment to zero except where the Company has committed to continue its financial support to the investee enterprise. If the investee enterprise realises net profits in subsequent periods, the Company should increase the original carrying amount of the investment by the excess of its attributable share of profits over the share of unrecognised losses.

The Company accounts for the long-term equity investment using the equity method in its own financial statements and also includes the subsidiaries' financial statements in the consolidated financial statements.

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### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(Cont'd)*

#### (k) Long-term investments *(Cont'd)*

##### *(ii) Other long-term equity investments*

Long-term investments in which the Company has no control, joint control and significant influence are accounted for using the cost method. The carrying amount of long-term equity investments should generally remain unchanged, unless there are additional investments or repayment of investments. Investment income is recognised to the extent of dividend declared. If the dividend declared subsequent to the acquisition exceeds the post-acquisition profit, the excess of dividend declared is charged against the investment cost.

##### *(iii) Equity investment difference*

When a long-term equity investment is accounted for using the equity method, the difference between the investment cost of the investor and the investor's share of equity of the investee enterprise should be amortised evenly over the investment period. If the investment period is not specified in the contract, the excess of the investment cost over the share of equity of the investee enterprise should generally be amortised over a period not more than 10 years, while the short fall of investment cost over share of equity of the investee enterprise is amortised over a period of not less than 10 years.

#### **Provision for long-term investment impairment loss**

The carrying amount of long-term investments is periodically reviewed on an individual basis. If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment should be provided as investment loss in the current period.

#### (l) Fixed assets and depreciation

The recognition standards of the Company's and its subsidiaries' fixed assets are:

- (i) Buildings, machinery and equipment, motor vehicles and office equipment which are related to operation and have a useful life of more than one year and
- (ii) Those assets which are not relating to operation but have a useful life of more than two years and unit cost of more than RMB2,000.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION (Cont'd)

#### (I) Fixed assets and depreciation (Cont'd)

Fixed assets are stated at actual cost less accumulated depreciation and impairment loss. Actual cost includes purchase cost, related expenses and taxes, and necessary expenditure incurred before the assets can be used. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhauls costs, is recognised as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditure are capitalised as an additional cost of the asset.

Depreciation is provided on a straight-line basis and provided according to category, estimated useful life and estimated residual value. The depreciation rate of each asset is determined based on the category of fixed assets, estimated useful life and estimated residual value as follows:

Categories	Estimated useful lives	Estimated residual value	Annual depreciation rates
Buildings	20 to 50 years	5%	1.9% to 4.75%
Machinery and equipment	10 years	5%	9.5%
Motor vehicles	5 years	5%	19.0%
Office equipment	5 years	5%	19.0%

When assets are sold or retired, any gain or loss resulting from their disposal is included in the income statement based on the difference between net consideration received and their carrying value.

The Company and its subsidiaries assess their fixed assets at the balance sheet date on an individual basis. If due to continuous decline in market price, technically out-of-date, obsolete or idle for a long period, the carrying amount of an asset exceeds its recoverable amount. The difference is recognised as impairment loss in the determination of the results of the operation. The provision of impairment loss is made on individual basis.

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(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(Cont'd)*

#### (m) Construction-in-progress

Construction-in-progress represents plant under construction, machinery and equipment and other fixed assets pending for installation and testing, and is stated at actual cost. This includes the costs of construction, and interest charges 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 fixed assets and depreciated. Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

As of balance sheet date, the Company and its subsidiaries perform overall assessment of their construction-in-progress. Impairment losses is provided for those (i) which stopped construction for long time and construction will not re-commence in the next 3 years, (ii) technically and functionally out-of-date and have significant uncertainty whether there is any future economic benefit, and (iii) proved to have suffered impairment loss. The provision is included in the determination of the results of operations.

#### (n) Borrowing costs

Borrowing costs represent costs incurred in connection with the Group's borrowing of funds, including interest charges, amortisation of discount and premium, auxiliary costs, and exchange differences, normally 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.

The capitalised borrowing costs are capitalised based on weighted averages of cumulative borrowing costs and capitalisation rate before their intended use.

#### (o) Intangible assets

Intangible assets mainly represent land use rights, which is stated at cost less accumulated amortisation. Land use right is amortised on a straight-line basis over the estimated useful lives of 20 to 50 years.



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### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(Cont'd)*

#### (o) Intangible assets *(Cont'd)*

The cost of land use right is transferred to related construction-in-progress when developing the land. According to Cai Kuai [2001] No. 43 promulgated by the Ministry of Finance, land use right which was accounted for as intangible assets rather than recorded in the cost of building construction costs before the effectiveness of Accounting Regulations for the Business Enterprises do not require to be adjusted.

The Company and its subsidiaries assess future economic benefits of their intangible assets periodically when the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income statement.

#### (p) Long-term deferred expenditures

Long-term deferred expenditures mainly represent moulds used for production and illuminated advertising displays for exhibition. Long-term deferred expenditures are recorded at cost when incurred, and amortised on a straight-line basis over expected beneficial periods.

#### (q) Revenue recognition

##### *(i) Revenue from principal activities*

Revenue from principal activities represents the net amount of sales invoices (excluding value-added tax) after deducting all discounts and allowances. Revenue from principal activities is recognised when the following conditions are fulfilled:

- the title of the goods and its major risks and rewards are passed to customers;
- the company ceases to have control over the goods and does not reserve the rights to continue the control related to the ownership;
- the economic benefits associated with the transaction will flow to the company; and
- the revenue and the cost of sale can be reasonably measured.

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### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(Cont'd)*

#### (q) Revenue recognition *(Cont'd)*

##### (ii) Interest income

Interest income from bank deposits and fund occupied by related parties is recognised on a time proportion basis at the applicable interest rates.

#### (r) Taxation

The Company and its subsidiaries provide for taxation on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes after considering all available tax benefits.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred taxation is provided under the liability method. Deferred tax asset is not recognised unless the related benefit will be crystallised in the foreseeable future.

#### (s) Pension scheme

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

#### (t) Changes in accounting policies and estimates

A change in accounting policy should be made only if the change is required by administrative rules or regulations such as laws or accounting standards, or the change will provide more reliable and relevant accounting information about the financial position, operating performance and cash flows of the Group.

Where an enterprise changes its accounting policy, the cumulative effect of change in accounting policy should be reported as a retrospective adjustment to the opening balance of retained earnings. If the cumulative effect of change in accounting policy cannot be reasonably determined, the change should be applied prospectively.

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### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(Cont'd)*

#### (t) Changes in accounting policies and estimates *(Cont'd)*

Formerly, the Company and the Group adopted Accounting Regulation for Joint Stock Limited Company. According to the notices issued by Ministry of Finance, Cai Kuai [2000] No.25, Cai Kuai [2001] No.17 and Cai Kuai [2001] No.43, the Group and Company adopt Accounting Regulations for Business Enterprises effective from 1 January 2001. The major changes in accounting policies are as follows:

- (i) Before 31 December 2000, pre-operating expenses are amortised on a straight-line basis over 5 years since the Company commences its commercial operation. Since the year of 2001, pre-operating expenses are expensed off upon the commencement of production. The cumulative effect of the change in accounting policy is reported as a retrospective adjustment to the opening balance of retained earnings. The change of accounting policy decreased beginning retained earnings of year 2000 by RMB13,267,000, and decreased net loss from for the year 2000 by RMB5,131,102.
- (ii) Long-term deferred pension expenses is formerly amortised on straight-line basis over 20 years. Since it cannot be matched with future benefits, it is expensed off when incurred. The cumulative effect of change in accounting policy is reported as a retrospective adjustment to the opening balance of retained earnings. The change of accounting policy decreased beginning retained earnings of year 2000 by RMB10,875,000, and decreased net loss of 2000 by RMB750,000.

The impact of the above changes in accounting policies on the operation results of year 2001 is to reduce the loss of the Company and the Group for year 2001 by RMB5,881,002.

#### (u) Correction of material accounting errors

As of 31 December 2000, cumulated losses attributable 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 RMB158,116,000. The Group was in discussion with the minority shareholder and believes that the minority shareholder would ultimately make additional financial support to fund the excess loss, and accordingly, had charged the excess loss to the minority interest in the Group's consolidated financial statements of 2000. In year 2001, the Group has not reached agreement with minority interest about additional financial contribution to fund the excess loss. Therefore, the Group corrected the accounting errors by charging the excess loss to consolidated financial statements of year 2000, and accordingly, increased net loss of year 2000 by RMB158,116,000.

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### 3. IMPACT OF CHANGE OF ACCOUNTING POLICIES AND CORRECTION OF MATERIAL ACCOUNTING ERRORS

Retrospective adjustments rising from change of accounting policies (Note 2(t)) and correction of material accounting errors (Note 2(u)) affected retained earnings of the Group and the Company as of 1 January 2000 and 2001 and net loss of year 2000 are listed as follows:

	Retained earnings, beginning of 2001	The Group	
		Net loss 2000	Retained earnings, beginning of 2000
Amounts in consolidated financial statements before retrospective adjustments	<b>351,042,964</b>	(678,418,823)	1,029,461,787
Retrospective adjustments			
1. Adjustment items for change of accounting policies			
— Amortisation of pre-operating expense	<b>(8,135,898)</b>	5,131,102	(13,267,000)
— Amortisation of deferred pension expenses	<b>(10,125,000)</b>	750,000	(10,875,000)
Sub-total	<b>(18,260,898)</b>	5,881,102	(24,142,000)
2. Adjustment items for correction of material accounting errors:			
— the excess loss not shared by minority interests	<b>(158,115,777)</b>	(158,115,777)	—
Amounts in consolidated financial statements after adjustments	<b>174,666,289</b>	(830,653,498)	1,005,319,787
	Retained earnings, beginning of 2001	The Company	
		Net loss 2000	Retained earnings, Beginning of 2000
Amounts in financial statements before retrospective adjustments	<b>351,042,964</b>	(678,418,823)	1,029,461,787
Retrospective adjustment			
1. Adjustment items for change of accounting policy			
— Amortisation of deferred pension expenses	<b>(10,125,000)</b>	750,000	(10,875,000)
2. Adjustment items for correction of material accounting errors:			
— the excess loss not shared by minority interests	<b>(158,115,777)</b>	(158,115,777)	—
3. Impact of subsidiaries' adjustment on the investment income picked up by the Company	<b>(8,135,898)</b>	5,131,102	(13,267,000)
Amounts in financial statements after adjustments	<b>174,666,289</b>	(830,653,498)	1,005,319,787

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### 4. TAXATION

#### (a) Value-added tax ("VAT")

The Group is subject to VAT, which is charged at a rate of 17%. Pursuant to VAT regulation, input VAT paid on purchases of raw materials can be used to offset the output VAT on sales.

#### (b) Enterprise income tax ("EIT")

The Company was incorporated in Shunde, Guangdong province and is normally subject to an 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] No.157 issued by Guangdong Provincial Government, the Company is entitled to a preferential EIT rate of 15% for 2001. Pursuant to Cai Shui [2000] No.99 issued in October 2000, the above preferential tax treatment would remain effective until 31 December 2001.

The Company's subsidiaries, Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Refrigerator"), Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner"), Guangdong Kelon Fittings Co., Ltd. ("Kelon Fitting") and Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic") are incorporated in coastal open economic zone, are subject to an EIT rate of 24%. Guangdong Kelon Mould Co., Ltd. ("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 Refrigerator Co., Ltd. ("Chengdu Kelon") is subjected to an EIT rate of 30%. The Company's subsidiary, Yingkou Kelon Refrigerator Co., Ltd. ("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% on estimated assessable profit which was earned in or derived from Hong Kong.

In year 2001, the Company and all above subsidiaries sustained losses, so no EIT is provided.

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### 5. SUBSIDIARIES AND ASSOCIATES

As of 31 December 2001, the Company had the following subsidiaries and associates:

Name of the entity	Place and date of incorporation	Investment cost	Percentage of equity interest attributable to the Company		Registered capital	Principal activities	Investment period
			Directly	Indirectly			
<i>Subsidiaries</i>							
Pearl River Electric Refrigerator Company Limited ("Pearl River")	Hong Kong 26 July 1985	HKD 400,000	—	100%	HKD400,000	Trading in materials and parts for refrigerators	Without fixed period
Kelon Electric Appliances Co., Ltd. ("Kelon Appliances")	Hong Kong 29 August 1991	HKD 10,000	—	100%	HKD 10,000	Property investment	Without fixed period
Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic") (i)	PRC 18 October 1991	RMB91,439,104	45%	25%	USD 15,800,000	Manufacture of plastic parts	1991.10.18 - 2006.10.18
Kelon Development Company Limited ("Kelon Development")	Hong Kong 17 August 1993	HKD 10,000,000	100%	—	HKD 5,000,000	Investment holding	Without fixed period
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould") (i)	PRC 20 July 1994	RMB86,940,000	40%	30%	USD 15,000,000	Manufacture of moulds	1994.7.20 - 2009.7.20
Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Refrigerator") (i)	PRC 25 December 1995	USD 26,800,000	70%	30%	USD 26,800,000	Manufacture and sale of refrigerators	1995.12.25 - 2020.12.25
Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner") (i)	PRC 19 March 1996	RMB281,000,000	60%	—	USD 36,150,000	Manufacture and sale of air-conditioners	1996.3.19 - 2026.3.18
Kelon (Japan) Limited (a)	Japan 22 May 1996	JPY 1,085,000,000	—	100%	JPY 1,100,000,000	Technical research and trading of electrical household appliances	Without fixed period
Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon") (i)	PRC 19 November 1996	RMB140,000,000	45%	25%	RMB200,000,000	Manufacture and sale of refrigerators	1996.11.29 - 2021.11.29
Yingkou Kelon Refrigerator Co., Ltd. ("Yingkou Kelon") (i) (b)	PRC 15 December 1996	RMB134,000,000	42%	36.79%	RMB200,000,000	Manufacture and sale of refrigerators	1996.12.23 - 2021.12.22

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### 5. SUBSIDIARIES AND ASSOCIATES (Cont'd)

Name of the entity	Place and date of incorporation	Investment cost	Percentage of equity interest attributable to the Company		Registered capital	Principal activities	Investment period
			Directly	Indirectly			
Wetherell Development Limited	The British Virgin Islands 1 July 1997	USD 1	—	100%	USD 1	Advertising agency	Without fixed period
Kelon International Incorporation ("KII") (Formerly known as "Kelon Financial Services Limited")	The British Virgin Islands 13 January 1999	USD 50,000	—	100%	USD 50,000	Investment holding	Without fixed period
Guangdong Kelon Fittings Co., Ltd. (Formerly known as "Shunde Rongqi Kelon Fittings Co., Ltd.") ("Kelon Fittings") (i)	PRC 24 November 1999	USD 5,620,000	70%	30%	USD 5,620,000	Manufacture and sale of components of refrigerators and air-conditioners	1999.11.24 - 2029.11.23
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited. ("Sichuan Rongsheng") (iii) (c)	PRC 21 February 2001	RMB1,520,000	76%	—	RMB2,000,000	Sale of refrigerators	2001.2.21 - 2003.2.20
Beijing Hengsheng Xing Chuang Technology Company ("Beijing Hengsheng") (iii) (d)	PRC 4 June 2001	RMB24,000,000	80%	—	RMB30,000,000	Research and develop of industrial and commercial IT system	2001.6.4 - 2016.6.4
Shunde Jiake Electronic Company Limited ("Jiake Electronic") (iii) (e)	PRC 12 October 2001	RMB60,000,000	70%	30%	RMB60,000,000	IT and communication technology, and micro-electronics technology development	Without fixed period
Beijing Kelon Tiandi IT Network Limited ("Kelon Tiandi") (iii) (f)	PRC 8 November 2001	RMB3,200,000	—	64%	RMB5,000,000	Not specified	2001.11.8 - 2016.11.8
Beijing Kelon Shikong Information Technology Company Limited ("Kelon Shikong") (iii) (g)	PRC 8 November 2001	RMB3,200,000	—	64%	RMB5,000,000	Not specified	2001.11.8 - 2016.11.8

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### 5. SUBSIDIARIES AND ASSOCIATES (Cont'd)

Name of the entity	Place and date of incorporation	Investment cost	Percentage of equity interest attributable to the Company		Registered capital	Principal activities	Investment period
			Directly	Indirectly			
<i>Associates</i>							
Guangdong Sanyo Kelon Refrigerator Co., Ltd. ("Sanyo Kelon") (i)	PRC 25 December 1995	RMB104,280,000	44%	—	RMB237,000,000	Manufacture and sale of freezers	1995.12.25 - 2020.12.24
Huayi Compressor Holdings Company Limited ("Huayi Compressor") (ii)	PRC 13 June 1996	RMB255,360,000	24.99%	—	RMB237,250,000	Manufacture and sale of compressors	Without fixed period
Shunde Kelon Household Electrical Appliance Company Limited ("Kelon HEA") (iii)	PRC 16 July 1999	RMB2,500,000	25%	—	RMB10,000,000	Manufacture and sale of electrical household appliances	Without fixed period
Shanghai Yilian Electric Business Limited ("Shanghai Yilian") (iii)	PRC 15 June 2000	RMB10,000,000	41.7%	—	RMB24,000,000	Electronic business	Without fixed period
Communication and You Holdings Company Limited ("C&Y")	Hong Kong 15 June 2000	HKD12,000,000	—	25%	HKD100	Advertising business	Without fixed period
Chongqing Kelon Electrical Appliance Company Limited ("Chongqing Kelon") (iii)	PRC 10 November 2000	RMB200,000	—	20%	RMB1,000,000	Sale, installation and maintenance of air-conditioners	2000.11.10 - 2002.11.30
Chongqing Kelon Rongsheng Refrigerator Trading Co., Ltd. ("Chongqing Rongsheng") (iii)	PRC 19 February 2001	RMB280,000	—	28%	RMB1,000,000	Refrigerator sales and after sales services	2001.2.19 - 2002.12.31
Shunde Wangao Import & Export Co., Ltd. ("Wangao Co") (iii)	PRC 7 June 2001	RMB600,000	20%	—	RMB3,000,000	Import and export business	Without fixed period
Guangzhou Antaida Logistic Co., Ltd. ("Guangzhou Antaida") (iii)	PRC 11 July 2001	RMB2,000,000	20%	—	RMB10,000,000	logistic and storage	2001.7.11 - 2031.7.10

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

(ii) Established as joint stock limited company.

(iii) Established as limited liability company.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 5. SUBSIDIARIES AND ASSOCIATES (Cont'd)

All financial statements of above subsidiaries are included in the consolidated financial statements.

Changes in the Company's interests in subsidiaries and the scope of consolidation in year 2001 are as follows:

- a) Pearl River signed an acquisition agreement with the minority of Kelon (Japan) Limited on 9 August 2001, and acquired 10% of Kelon (Japan) Limited's equity from this minority shareholder at a consideration of JPY 95,000,000 (equivalent to RMB6,348,000).
- b) On 5 September 2000, the Company, Yingkou Kelon shareholding union, Kelon Refrigerator, Yingkou Yinlang (Group) Limited and Pearl River signed an equity transfer agreement. According to the agreement, Yingkou Kelon shareholding union transferred its 11.79% equity of Yingkou Kelon to Kelon Refrigerator. A public accounting firm has issued capital verification report for such equity transfer.
- c) Sichuan Rongshen is a limited liability company established in Chengdu, Sichuan Province of the PRC by the Company and other investors. Sichuan Rongshen obtained business license on 21 February 2001 with a registered capital of RMB2,000,000, and an operating period of two years. The principle activity of Sichuan Rongshen is the sales of refrigerators.
- d) Beijing Hengsheng is a limited liability company established in Beijing, the PRC by the Company and other investors. Beijing Hengsheng was established on 4 June 2001, upon the issuance of business license. The registered capital of Beijing Hengsheng is RMB30,000,000, with an operating period of fifteen years. Beijing Hengsheng mainly engages in the research and development of industrial and commercial artificial intelligence system. As of 31 December 2001, Beijing Hengsheng is still in pre-operating stage.
- e) Jiake Electric is a limited liability company registered in Shunde, the PRC. The investors of Jiake Electric are the Company and Kelon Refrigerator. Jiake Electric obtained business license on 12 October 2001, with a registered capital of RMB60,000,000. The operating period of Jiake Electric is not specified. The principle activity of Jiake Electric is the development of information, communication network and microelectronic technology. As of 31 December 2001, Jiake Electric is still in pre-operating period.
- f) Kelon Tiandi is a limited liability company established in Beijing, the PRC. The investors of Kelon Tiandi are Beijing Hengsheng and Huaao Electrical Company Limited ("Huaao Electrical"), a subsidiary of GKG. Kelon Tiandi obtained business license on 8 November 2001, with a registered capital of RMB5,000,000. The operating period of Kelon Tiandi is fifteen years. As of 31 December 2001, Kelon Tiandi had not commenced any operating activity.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 5. SUBSIDIARIES AND ASSOCIATES (Cont'd)

- g) Kelon Shikong is a limited liability company established in Beijing, the PRC. The investors of Kelon Shikong are Beijing Hengsheng and Huaao Electrical. Kelon Shikong obtained business license on 8 November 2001, with a registered capital of RMB5,000,000. The operating period of Kelon Shikong is fifteen years. As of 31 December 2001, Kelon Shikong had not commenced any operating activity.
- h) EDAS.com (Shenzhen) Limited ("EDAS Shenzhen") is an indirect wholly owned subsidiary of the Company. EDAS Shenzhen was established on 8 June 2000, with a registered capital of USD600,000. EDAS Shenzhen mainly engages in the business of Internet website. EDAS Shenzhen entered into liquidation procedure in August 2001 and the loss incurred from liquidation, amounting to approximately RMB11,089,000, was recorded in the profit and loss of the Group for the year ended 31 December 2001. (Note 6 (29))
- i) EDAS Development (BVI) Limited ("EDAS Development") is an indirect wholly owned subsidiary of the Company, with a registered capital of USD50,000. EDAS Development was established on 1 March 2000. EDAS Development did not execute any operating activity since its establishment and was deregistered in year 2001.
- j) Kelondotcom Limited ("Kelondotcom") is an indirect wholly owned subsidiary of the Company, with a registered capital of USD50,000. Kelondotcom was established on 21 February 2001. Kelondotcom did not execute any operating activity since its establishment and was deregistered in year 2001.
- k) Kelondotcom (HongKong) Limited ("Kelondotcom HongKong") is an indirect wholly owned subsidiary of the Company, with a registered capital of HKD2. Kelondotcom HongKong was established on 7 June 1999. Kelondotcom Hongkong did not execute any operating activity since its establishment and was deregistered in year 2001.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS

#### (1) CASH AND BANK DEPOSITS

##### The Group

	Currency	31 December 2001			31 December 2000		
		Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Cash	RMB	<b>1,385,237</b>	—	<b>1,385,237</b>	160,295	—	160,295
	HKD	<b>37,165</b>	<b>1.0606</b>	<b>39,417</b>	42,076	1.0606	44,626
				<b>1,424,654</b>			204,921
Bank deposits	RMB	<b>552,390,083</b>	—	<b>552,390,083</b>	626,607,229	—	626,607,229
	HKD	<b>13,887,747</b>	<b>1.0606</b>	<b>14,729,344</b>	8,582,752	1.0606	9,102,867
	USD	<b>8,421,990</b>	<b>8.2766</b>	<b>69,705,446</b>	18,170,615	8.2782	150,419,986
	JPY	<b>49,069,286</b>	<b>0.0630</b>	<b>3,091,365</b>	131,490,751	0.0719	9,454,185
	DEM	—	—	—	997,320	3.9308	3,920,264
	EUR	<b>48,405</b>	<b>7.3178</b>	<b>354,218</b>	—	—	—
	Others	—	—	<b>39,617</b>	—	—	63,161
				<b>640,310,073</b>			799,567,692
Other balances							
— restricted							
deposits	RMB	<b>117,722,437</b>	—	<b>117,722,437</b>	19,628,302	—	19,628,302
	USD	<b>1,120,276</b>	<b>8.2766</b>	<b>9,272,076</b>	2,332,117	8.2782	19,309,117
— cash							
in transit	RMB	<b>9,461,837</b>	—	<b>9,461,837</b>	—	—	—
				<b>136,456,350</b>			38,937,419
				<b>778,191,077</b>			838,710,032

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (1) CASH AND BANK DEPOSITS (Cont'd)

##### The Company

	Currency	31 December 2001			31 December 2000		
		Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Cash	RMB	<b>1,240,372</b>	—	<b>1,240,372</b>	—	—	—
Bank deposits	RMB	<b>365,998,607</b>	—	<b>365,998,607</b>	360,488,267	—	360,488,267
	HKD	<b>112,266</b>	<b>1.0606</b>	<b>119,069</b>	112,566	1.0606	119,388
	USD	<b>127,159</b>	<b>8.2766</b>	<b>1,052,443</b>	12,222,058	8.2782	101,176,644
	Others	—	—	<b>669</b>	—	—	873
				<b>367,170,788</b>			461,785,172
Other balances							
— restricted							
deposits	RMB	<b>105,460,355</b>	—	<b>105,460,355</b>	—	—	—
	USD	<b>649,889</b>	<b>8.2766</b>	<b>5,378,872</b>	6,961	8.2782	57,624
— cash							
in transit	RMB	<b>12,947,676</b>	—	<b>12,947,676</b>	—	—	—
				<b>123,786,903</b>			57,624
				<b>492,198,063</b>			461,842,796

As of December 2001, RMB and USD restricted deposits represent pledged deposits for bank and commercial notes, and letter of credit (Year 2000: Both RMB and USD restricted deposits represent pledged deposits for letter of credit).

As of 31 December 2001, balance of cash and bank deposits of overseas subsidiaries is approximately RMB46,490,000 (Year 2000: approximately RMB53,426,000)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (2) NOTES RECEIVABLE

##### (a) Breakdown of notes receivable

Nature	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Bank draft	<b>178,285,306</b>	280,255,647	<b>173,698,289</b>	4,123,740
Commercial draft	<b>172,903,330</b>	—	<b>172,903,330</b>	—
	<b>351,188,636</b>	280,255,647	<b>346,601,619</b>	4,123,740

Except for the draft due from GKG of RMB170,000,000, balances of notes receivable do not comprise any material amounts due from shareholders who held more than 5% (including 5%) of the Company's share equity.

##### (b) Notes receivable discounted

As of 31 December 2001, total discounted or endorsed but undue bank draft of the Group was approximately RMB582,930,370. (Year 2000: RMB300,430,000)

As of 31 December 2001, total discounted or endorsed but undue bank draft of the Company was approximately RMB592,893,339. (Year 2000: Nil)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (3) ACCOUNTS RECEIVABLE

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Accounts receivable	<b>411,722,807</b>	456,598,949	<b>310,221,070</b>	6,424,447
Less: Provision for doubtful accounts	<b>(190,823,758)</b>	(159,056,119)	<b>(182,970,481)</b>	—
Net	<b>220,899,049</b>	297,542,830	<b>127,250,589</b>	6,424,447

#### (a) Aging analysis of accounts receivable of the Group is as follows:

Aging	Balance	31 December 2001			Balance	31 December 2000		
		Percentage (%)	Provision	Net		Percentage (%)	Provision	Net
Within one year	<b>259,347,722</b>	<b>63</b>	<b>(38,448,673)</b>	<b>220,899,049</b>	375,590,411	82	(78,047,581)	297,542,830
One to two years	<b>102,412,901</b>	<b>25</b>	<b>(102,412,901)</b>	—	79,097,944	17	(79,097,944)	—
Two to three years	<b>48,051,590</b>	<b>12</b>	<b>(48,051,590)</b>	—	1,910,594	1	(1,910,594)	—
More than three years	<b>1,910,594</b>	—	<b>(1,910,594)</b>	—	—	—	—	—
Total	<b>411,722,807</b>	<b>100</b>	<b>(190,823,758)</b>	<b>220,899,049</b>	456,598,949	100	(159,056,119)	297,542,830

As of 31 December 2001, the Group's accounts receivable, excluding related party balances which have been disclosed in Note 7, from top five debtors totally amounted to RMB31,803,522 (Year 2000: RMB31,597,574), accounts for 8% of total ending balance of accounts receivable. (Year 2000: 7%)

Balances of accounts receivable do not comprise any material amount due from shareholders who held more than 5% (including 5%) of the Company's share capital.

For the year ended 31 December 2001, the Group wrote off long-aging receivables of approximately RMB31,000,000. These receivables cannot be recovered as the debtors closed their business or bankrupted. The write-off of these receivables was approved by the management of the Group.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (3) ACCOUNTS RECEIVABLE (Cont'd)

##### (b) Aging analysis of accounts receivable of the Company is as follows:

Aging	Balance	31 December 2001			Balance	31 December 2000		
		Percentage (%)	Provision	Net		Percentage (%)	Provision	Net
Within one year	165,636,304	53	(38,385,715)	127,250,589	6,424,447	100	—	6,424,447
One to two years	102,412,901	33	(102,412,901)	—	—	—	—	—
Two to three years	42,171,865	14	(42,171,865)	—	—	—	—	—
Total	310,221,070	100	(182,970,481)	127,250,589	6,424,447	100	—	6,424,447

As of 31 December 2001, the Group's accounts receivable, excluding related party balances which has been disclosed in Note 7, from top five debtors totally amounted to RMB28,474,652, accounts for 9% of total ending balance of accounts receivable.

As of 31 December 2001, the increase of the Company's accounts receivable was caused by the change of the Group's business module. In year 2001, all domestic sales of the Group was carried out by the Company.

#### (4) OTHER RECEIVABLES

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Other receivables	1,092,554,193	426,048,067	2,116,852,356	2,279,594,405
Less: Provision for doubtful accounts	(172,409,033)	—	(172,409,033)	—
Net	920,145,160	426,048,067	1,944,443,323	2,279,594,405

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (4) OTHER RECEIVABLES (Cont'd)

##### (a) Aging analysis of other receivables of the Group is as follows:

Aging	31 December 2001				31 December 2000			
	Balance	Percentage (%)	Provision	Net	Balance	Percentage (%)	Provision	Net
Within one year	1,091,521,581	100	(172,409,033)	919,112,548	416,006,393	98	—	416,006,393
One to two years	1,032,612	—	—	1,032,612	10,041,674	2	—	10,041,674
Total	1,092,554,193	100	(172,409,033)	920,145,160	426,048,067	100	—	426,048,067

As of 31 December 2001, other receivables include amount due from GKG of RMB692,045,165, arising from related party transactions with GKG (See Note 7(3)(a)). Management of the Group considers there is a risk of collectibility, so a provision of RMB172,409,033 was made against this balance as of 31 December 2001.

Since the remaining balance of other receivables has aging within one year and mainly comprises receivables from other related parties (See Note 7(2)) and tax refund receivable (approximately of RMB91,000,000), no provision for doubtful accounts is made as the management considers the risk of bad debt is low.

As of 31 December 2001, excluding the amount of RMB692,045,165 due from GKG (Year 2000: RMB280,612,660), and receivable of RMB198,000,000 due from Greencool (See Note 7(3)(b)), balances of other receivables of the Company do not comprise any material amount due from shareholders who held more than 5% (including 5%) of the Company's share capital.

As of 31 December 2001, excluding the balances due from GKG and Greencool, the Group's other receivables from top five debtors totally amounted to RMB166,660,370 (Year 2000: RMB57,653,378), accounts for 15% of total ending balance of other receivables (Year 2000: 14%)



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (4) OTHER RECEIVABLES (Cont'd)

##### (b) Aging analysis of other receivables of the Company is as follows:

Aging	31 December 2001				31 December 2000			
	Balance	Percentage (%)	Provision	Net	Balance	Percentage (%)	Provision	Net
Within one year	2,116,852,356	100	(172,409,033)	1,944,443,323	2,271,934,988	100	—	2,271,934,988
One to two years	—	—	—	—	7,659,417	—	—	7,659,417
<b>Total</b>	<b>2,116,852,356</b>	<b>100</b>	<b>(172,409,033)</b>	<b>1,944,443,323</b>	<b>2,279,594,405</b>	<b>100</b>	<b>—</b>	<b>2,279,594,405</b>

Other receivables of the Company mainly comprise receivables from consolidated subsidiaries and receivables from GKG and Greencool.

Receivables from subsidiaries mainly resulted from temporary borrowings and advances to subsidiaries.

As of 31 December 2001, excluding the amounts due from consolidation subsidiaries and receivables from GKG and Greencool, the Company's other receivables from top five debtors amounted to RMB46,140,440, accounts for 2% of total ending balance of other receivables. (Year 2000: RMB43,938,713, accounts for 2%)

#### (5) PREPAYMENTS

As of 31 December 2001 and 2000, the majority balances of prepayment were within one year and no material prepayment ages more than one year.

As of 31 December 2001 and 2000, balances of prepayments do not comprise any material amount due from shareholders who held more than 5% (including 5%) of the Company's share capital.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (6) INVENTORIES AND PROVISION FOR INVENTORY OBSOLESCENCE

##### The Group

	31 December 2001			31 December 2000		
	Balance	Provision	Net	Balance	Provision	Net
Raw materials	355,956,526	(48,500,305)	307,456,221	435,022,820	(32,264,408)	402,758,412
Work-in-progress	55,159,218	(1,646,597)	53,512,621	69,242,467	(1,968,783)	67,273,684
Finished goods	1,138,701,977	(273,831,903)	864,870,074	1,430,914,435	(164,305,420)	1,266,609,015
	<b>1,549,817,721</b>	<b>(323,978,805)</b>	<b>1,225,838,916</b>	1,935,179,722	(198,538,611)	1,736,641,111

##### The Company

	31 December 2001			31 December 2000		
	Balance	Provision	Net	Balance	Provision	Net
Raw materials	66,773,591	(44,624,599)	22,148,992	3,326,297	—	3,326,297
Work-in-progress	3,040,515	(1,646,597)	1,393,918	4,878,503	—	4,878,503
Finished goods	1,051,911,729	(273,831,903)	778,079,826	12,981,621	—	12,981,621
	<b>1,121,725,835</b>	<b>(320,103,099)</b>	<b>801,622,736</b>	21,186,421	—	21,186,421

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (7) Long-term equity investments

##### The Group

Movement in long-term equity investments of the Group for the year ended 31 December 2001 was as follows:

		31 December 2000	Increase	Decrease	31 December 2001
Investments in associates	(a)	206,922,741	14,305,958	(7,428,996)	<b>213,799,703</b>
Other long-term equity investments		9,460,695	2,958,371	(2,000,000)	<b>10,419,066</b>
Equity investment difference	(b)	196,007,322	1,010,737	(16,014,647)	<b>181,003,412</b>
		412,390,758	18,275,066	(25,443,643)	<b>405,222,181</b>
Less: Provision for impairment loss	(c)	(74,129,000)	(71,200,641)	—	<b>(145,329,641)</b>
		338,261,758	(52,925,575)	(25,443,643)	<b>259,892,540</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (7) Long-term equity investments (Cont'd)

##### (a) Investments in associates

Name of companies	Operating period	Investment cost		Share of profit and loss		Total			
		31 December 2000	Increase (decrease) during the year	31 December 2001	31 December 2000	Increase (decrease) during the year	31 December 2001	31 December 2000	31 December 2001
<b>The Company</b>									
Sanyo Kelon	25 years	104,280,000	—	<b>104,280,000</b>	(30,151,000)	1,398,571	<b>(28,752,429)</b>	74,129,000	<b>75,527,571</b>
Huayi Compressor *	Unlimited	118,013,641	—	<b>118,013,641</b>	8,368,000	(5,071,287)	<b>3,296,713</b>	126,381,641	<b>121,310,354</b>
Kelon HEA	Unlimited	2,500,000	—	<b>2,500,000</b>	—	(1,204,513)	<b>(1,204,513)</b>	2,500,000	<b>1,295,487</b>
Shanghai Yilian	Unlimited	—	10,000,000	<b>10,000,000</b>	—	(866,308)	<b>(866,308)</b>	—	<b>9,133,692</b>
Wangao Co	Unlimited	—	600,000	<b>600,000</b>	—	(10,653)	<b>(10,653)</b>	—	<b>589,347</b>
Guangzhou Antaida	30 years	—	2,000,000	<b>2,000,000</b>	—	(276,235)	<b>(276,235)</b>	—	<b>1,723,765</b>
Subtotal of the Company		224,793,641	12,600,000	<b>237,393,641</b>	(21,783,000)	(6,030,425)	<b>(27,813,425)</b>	203,010,641	<b>209,580,216</b>
C&Y	Unlimited	3,712,100	—	<b>3,712,100</b>	—	—	—	3,712,100	<b>3,712,100</b>
Chongqing Kelon	2 years	200,000	—	<b>200,000</b>	—	16,831	<b>16,831</b>	200,000	<b>216,831</b>
Chongqing Rongshen	1 year	—	280,000	<b>280,000</b>	—	10,556	<b>10,556</b>	—	<b>290,556</b>
Total of the Group		228,705,741	12,880,000	<b>241,585,741</b>	(21,783,000)	(6,003,038)	<b>(27,786,038)</b>	206,922,741	<b>213,799,703</b>

\* For the year ended 31 December 2001, the Company received RMB5,391,612 cash dividends from Huayi Compressor

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (7) Long-term equity investments (Cont'd)

##### (b) Equity investment difference

Name of Companies	31 December 2000	Original value Increase (decrease) during the year	31 December 2001	Accumulated amortisation		31 December 2001	Balance	
				31 December 2000	Increase (decrease) during the year		31 December 2000	31 December 2001
<b>The Company</b>								
Kelon Air-Conditioner (i)	66,596,234	—	<b>66,596,234</b>	(7,214,593)	—	<b>(7,214,593)</b>	59,381,641	<b>59,381,641</b>
Huayi Compressor	137,346,359	—	<b>137,346,359</b>	(9,728,570)	(15,013,858)	<b>(24,742,428)</b>	127,617,789	<b>112,603,931</b>
Subtotal of the Company	203,942,593	—	<b>203,942,593</b>	(16,943,163)	(15,013,858)	<b>(31,957,021)</b>	186,999,430	<b>171,985,572</b>
C&Y	9,007,892	—	<b>9,007,892</b>	—	(900,789)	<b>(900,789)</b>	9,007,892	<b>8,107,103</b>
Yingkou Kelon	—	1,010,737	<b>1,010,737</b>	—	(100,000)	<b>(100,000)</b>	—	<b>910,737</b>
Total of the Group	212,950,485	1,010,737	<b>213,961,222</b>	(16,943,163)	(16,014,647)	<b>(32,957,810)</b>	196,007,322	<b>181,003,412</b>

Equity investment difference represents the excess of the amount paid for acquisition of Kelon Air-Conditioner, Huayi Compressor, C&Y and Yingkou Kelon over the net assets acquired on the date of acquisition. The difference is amortised on straight-line basis over the investment period specified in the investment contracts. If the contract does not specify the period, the difference is amortised over ten years.

- (i) Since Kelon Air-Conditioner sustained excess loss, the Company's investment in Kelon Air-Conditioner had been reduced to a negative balance, and was recorded as "accrued liability for investee enterprise". Therefore, the unamortised equity investment difference is not amortised in the current year. Provision for impairment loss has been made against the unamortised equity investment difference.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (7) Long-term equity investments (Cont'd)

##### (c) Provision for impairment loss on equity investment

	31 December 2000	Increase	Decrease	31 December 2001
The Company				
— Sanyo Kelon	74,129,000	—	—	74,129,000
— Kelon air-conditioner (i)	—	59,381,641	—	59,381,641
Subtotal of the Company	74,129,000	59,381,641	—	133,510,641
— C&Y (ii)	—	11,819,000	—	11,819,000
Total of the Group	74,129,000	71,200,641	—	145,329,641

- (ii) C&Y, the Group's associate, sustained losses. The management of the Group considers that the investment cannot be recovered and provision for impairment loss for investment cost and equity investment difference was fully provided.

Except for the above provisions, the management of the Group considers no further impairment loss for long-term equity investment exists as of 31 December 2001.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (7) Long-term equity investments (Cont'd)

##### (c) Provision for impairment loss on equity investment (Cont'd)

##### The Company

Movement of long-term equity investments is as follows:

		31 December 2000	Increase	Decrease	31 December 2001
Investments in subsidiaries	(d)	1,061,191,961	<b>71,245,424</b>	<b>(219,246,167)</b>	<b>913,191,218</b>
Investments in associates	(a)	203,010,641	<b>13,998,571</b>	<b>(7,428,996)</b>	<b>209,580,216</b>
Other long-term equity investments		9,249,047	—	<b>(2,000,000)</b>	<b>7,249,047</b>
Equity investment difference	(b)	186,999,430	—	<b>(15,013,858)</b>	<b>171,985,572</b>
Exchange Difference of foreign currency financial statements		(3,759,270)	<b>310,501</b>	—	<b>(3,448,769)</b>
		1,456,691,809	<b>85,554,496</b>	<b>(243,689,021)</b>	<b>1,298,557,284</b>
Less: Provision for impairment loss	(c)	(74,129,000)	<b>(59,381,641)</b>	—	<b>(133,510,641)</b>
		1,382,562,809	<b>26,172,855</b>	<b>(243,089,021)</b>	<b>1,165,046,643</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (7) Long-term equity investments (Cont'd)

##### (d) Investments in subsidiaries

Names of Companies	31 December 2000	Increase	Decrease	Profit appropriated	31 December 2001
Investment cost					
Kelon Development	11,200,000	—	—	—	<b>11,200,000</b>
Kelon Refrigerator	155,552,426	—	—	—	<b>155,552,426</b>
Kelon Air-Conditioner	214,403,766	—	—	—	<b>214,403,766</b>
Rongsheng Plastic	49,544,640	<b>3,725,424</b>	—	—	<b>53,270,064</b>
Chengdu Kelon	90,000,000	—	—	—	<b>90,000,000</b>
Yingkou Kelon	84,000,000	—	—	—	<b>84,000,000</b>
Kelon Mould	49,860,000	—	—	—	<b>49,860,000</b>
Kelon Fittings	32,634,554	—	—	—	<b>32,634,554</b>
Beijing Hengsheng	—	<b>24,000,000</b>	—	—	<b>24,000,000</b>
Jiake Electric	—	<b>42,000,000</b>	—	—	<b>42,000,000</b>
Sichuan Rongshen	—	<b>1,520,000</b>	—	—	<b>1,520,000</b>
	687,195,386	<b>71,245,424</b>	—	—	<b>758,440,810</b>
Share of profit and loss of subsidiaries	(21,292,866)	—	<b>(312,617,698)</b>	<b>(7,188,817)</b>	<b>(341,099,381)</b>
	665,902,520	<b>71,245,424</b>	<b>(312,617,698)</b>	<b>(7,188,817)</b>	<b>417,341,429</b>
Add: accrued liabilities of investee enterprise (iii)	395,289,441	—	<b>100,560,348</b>	—	<b>495,849,789</b>
	1,061,191,961	<b>71,245,424</b>	<b>(212,057,350)</b>	<b>(7,188,817)</b>	<b>913,191,218</b>

- (iii) As of 31 December 2001 and 2000, Kelon Air-Conditioner, the Company's subsidiary, sustained excess loss. The Company has undertaken to continue to extend financial support to Kelon Air-Conditioner so that Kelon Air-Conditioner would be able to carry out its future business plan and pay off due liabilities, while the minority shareholder of Kelon Air-Conditioner has not indicated their intention to continue with their financial support to Kelon Air-Conditioner and undertake the excess loss. Hence, the excess loss of Kelon Air-Conditioner will totally be absorbed by the Company. In order to reflect the financial position of the Company more fairly and prudently, the Company refers to the International Accounting Standards and adopts equity method of accounting to account for the results of the subsidiary and continue to reduce the carrying value after the carrying amount of the investment is reduced to zero. The credit balance of equity investment is recorded as liability separately in the account of "accrued liability of investee enterprise" in the balance sheet.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (8) Fixed Assets

##### (a) Fixed assets movement is as follows:

##### The Group

	2001					2000
	Buildings	Machinery and equipment	Motor vehicles	Office equipment	Total	Total
Cost						
Beginning of year	1,328,135,600	1,893,840,373	90,153,010	55,273,939	3,367,402,922	3,283,982,469
Reclassification	50,878,572	(293,276,101)	(33,476,223)	275,873,752	—	—
Addition	30,573,827	17,310,627	14,622,367	35,900,999	98,407,820	98,984,206
Transfer from construction-in-progress	41,484,922	10,471,163	185,000	851,436	52,992,521	10,027,907
Disposals	(104,151,797)	(10,175,619)	(10,432,092)	(5,141,505)	(129,901,013)	(21,548,549)
Exchange differences	(4,832,307)	—	(12,514)	(164,606)	(5,009,427)	(4,043,111)
End of year	1,342,088,817	1,618,170,443	61,039,548	362,594,015	3,383,892,823	3,367,402,922
Accumulated depreciation						
Beginning of year	201,410,807	781,794,073	48,275,425	32,075,537	1,063,555,842	796,292,609
Reclassification	11,888,640	(103,395,018)	(19,259,961)	110,766,339	—	—
Charge for the year	57,864,738	145,855,794	6,144,158	38,639,680	248,504,370	277,274,774
Written back on disposals	(20,032,117)	(2,171,633)	(7,566,513)	(3,276,616)	(33,046,879)	(9,885,588)
Exchange differences	(142,872)	—	(1,620)	(7,241)	(151,733)	(125,953)
End of year	250,989,196	822,083,216	27,591,489	178,197,699	1,278,861,600	1,063,555,842
Net book value						
End of year	1,091,099,621	796,087,227	33,448,060	184,396,316	2,105,031,223	2,303,847,080
Beginning of year	1,126,724,793	1,112,046,300	41,877,585	23,198,402	2,303,847,080	2,487,689,860

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (8) Fixed Assets (Cont'd)

##### (a) Fixed assets movement is as follows: (Cont'd)

##### The Company

	2001					2000
	Buildings	Machinery and equipment	Motor vehicles	Office equipment	Total	Total
Cost						
Beginning of year	<b>781,083,787</b>	<b>530,075,957</b>	<b>3,366,506</b>	<b>25,681,390</b>	<b>1,340,207,640</b>	1,508,836,909
Reclassification	<b>10,004,968</b>	<b>(74,491,058)</b>	<b>13,913,880</b>	<b>50,572,210</b>	<b>—</b>	—
Addition	<b>26,829,537</b>	<b>6,573,273</b>	<b>12,882,657</b>	<b>28,135,401</b>	<b>74,420,868</b>	21,588,554
Transfer from construction-in-progress	<b>34,890,703</b>	<b>3,394,200</b>	—	—	<b>38,284,903</b>	54,500
Purchase from (Sales to) subsidiaries (Note 7(3)(b))	<b>4,915,487</b>	<b>394,098</b>	<b>22,051,729</b>	<b>8,215,260</b>	<b>35,576,574</b>	(186,916,789)
Disposals	<b>(64,150,075)</b>	<b>(4,205,598)</b>	<b>(9,454,980)</b>	<b>(475,532)</b>	<b>(78,286,185)</b>	(3,355,534)
End of year	<b>793,574,407</b>	<b>461,740,872</b>	<b>42,759,792</b>	<b>112,128,729</b>	<b>1,410,203,800</b>	1,340,207,640
Accumulated depreciation						
Beginning of year	<b>118,791,503</b>	<b>168,057,844</b>	<b>2,700,377</b>	<b>11,345,338</b>	<b>300,895,062</b>	295,474,767
Charge for the year	<b>37,161,847</b>	<b>42,919,716</b>	<b>3,469,049</b>	<b>10,250,027</b>	<b>93,800,639</b>	82,417,494
Purchase from (Sales to) subsidiaries (Note 7(3)(b))	—	<b>1,796,594</b>	<b>14,850,455</b>	<b>5,977,933</b>	<b>22,624,982</b>	(75,052,186)
Written back on disposals	—	—	<b>(7,186,753)</b>	<b>(322,265)</b>	<b>(7,509,018)</b>	(1,945,013)
End of year	<b>155,953,350</b>	<b>212,774,154</b>	<b>13,833,128</b>	<b>27,251,033</b>	<b>409,811,665</b>	300,895,062
Net book value						
End of year	<b>637,621,057</b>	<b>248,966,718</b>	<b>28,926,664</b>	<b>84,877,696</b>	<b>1,000,392,135</b>	1,039,312,578
Beginning of year	<b>662,292,284</b>	<b>362,018,113</b>	<b>666,129</b>	<b>14,336,052</b>	<b>1,039,312,578</b>	1,213,362,142

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (8) Fixed Assets (Cont'd)

##### (a) Fixed assets movement is as follows: (Cont'd)

Buildings comprise buildings, plants, office premises, staff quarters situated in the PRC, Hong Kong and Japan. Buildings in Hong Kong with net book value of approximately RMB80,818,800 (Year 2000: approximately RMB118,820,000) were mortgaged as security for the Group's long-term borrowings (Note 6(20)). Buildings in the PRC with net book value of approximately RMB80,281,000 (Year 2000: Nil) were mortgaged as security for the Group's short-term borrowings (Note 6(12)).

As of 31 December 2000, RMB mortgage loans were secured by machinery with net book value of approximately RMB38,378,000 (Note 6(12)).

##### (b) Provision for impairment losses for fixed assets

The Group's overseas subsidiaries made provision of RMB47,236,170 for impairment losses for their buildings located in Hong Kong and Japan based on the difference between the carrying value and their recoverable amounts. The provision for impairment loss was recorded in non-operating expenses (Note 6(30)).

Except for the above assets, the management of the Group considers that no more impairment loss for fixed assets existed as of 31 December 2001.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (9) CONSTRUCTION-IN-PROGRESS

Project Name	Budget	31 December 2000	Addition	Transferred to Fixed Assets	31 December 2001	Source of capital	Project Progress
The Company							
Renovation of staff quarters	11,000,000	9,717,366	<b>950,398</b>	<b>(10,667,764)</b>	—	Working Capital	100%
Kelon Beijing Research center	1,000,000	1,535,080	<b>321,641</b>	<b>(1,856,721)</b>	—	Working Capital	100%
Office building of 3 centers	8,000,000	6,408,313	<b>1,441,755</b>	<b>(7,850,068)</b>	—	Working Capital	100%
No. 2 Refrigerator plant (2nd and 4th floor)	12,952,873	—	<b>12,613,535</b>	—	<b>12,613,535</b>	Working Capital	97%
Renovation of office building for the Group	14,900,000	—	<b>14,516,150</b>	<b>(14,516,150)</b>	—	Working Capital	100%
Others		1,965,757	<b>5,412,881</b>	<b>(3,394,200)</b>	<b>3,984,438</b>	Working Capital	
Subtotal of the company		19,626,516	<b>35,256,360</b>	<b>(38,284,903)</b>	<b>16,597,973</b>		
Subsidiaries of the company							
Huabao Research center	1,100,000	1,102,866	—	<b>(1,102,866)</b>	—	Working Capital	100%
Restructuring of production No.1 and No. 2 line of refrigerator	16,040,684	—	<b>7,863,760</b>	—	<b>7,863,760</b>	Working Capital	49%
Others		5,441,623	<b>14,888,602</b>	<b>(13,604,752)</b>	<b>6,725,473</b>	Working Capital	
Total of the Group		26,171,005	<b>58,008,722</b>	<b>(52,992,521)</b>	<b>31,187,206</b>		

There are no capitalised interest expenses in construction-in-progress.

Management of the Group considers, as of 31 December 2001, no indicator of impairment losses existed for the Group's construction-in-progress, and hence no provision is required.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (10) INTANGIBLE ASSETS

Nature	Means of acquisition	Original cost	31 December 2000	Addition	Amortisation	Accumulated Amortisation	31 December 2001	Residual useful life
<b>The Group</b>								
Land use rights	Purchase	373,484,114	313,969,738	—	(9,985,845)	(69,500,221)	303,983,893	22-40 years
Others	Purchase	2,699,868	—	2,699,868	(899,956)	(899,956)	1,799,912	2 years
		376,183,982	313,969,738	2,699,868	(10,885,801)	(70,400,177)	305,783,805	
<b>The Company</b>								
Land use rights	Purchase	250,505,358	213,998,964	—	(6,671,545)	(43,177,939)	207,327,419	10-18 years
Others	Purchase	2,699,868	—	2,699,868	(899,956)	(899,956)	1,799,912	2 years
		253,205,226	213,998,964	2,699,868	(7,571,501)	(44,077,895)	209,127,331	

Management of the Company considers as of 31 December 2001, the recoverable amount of the above intangible assets is not lower than the book value and therefore no provision for impairment loss for intangible assets was provided.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (11) LONG-TERM DEFERRED EXPENDITURES

##### The Group

Nature	Original Cost	31 December 2000	Addition	Amortisation	Accumulated amortisation	31 December 2001	Residual years
Moulds and tools	582,959,093	162,947,839	108,692,013	(140,516,277)	(451,835,518)	131,123,575	1-3 years
Illuminated Advertising display	115,813,832	57,721,870	34,542,056	(22,191,674)	(45,741,580)	70,072,252	1-3 years
Leasehold Improvement	3,628,423	—	3,628,423	(570,862)	(570,862)	3,057,561	1-5 years
Costs of computer software	3,477,859	779,350	—	(779,350)	(3,477,859)	—	2 years
Others	10,288,148	1,611,543	6,519,367	(1,480,017)	(3,637,255)	6,650,893	
	716,167,355	223,060,602	153,381,859	(165,538,180)	(505,263,074)	210,904,281	

##### The Company

Nature	Original Cost	31 December 2000	Addition	Transferred from a subsidiary	Amortisation	Accumulated amortisation	31 December 2001	Residual years
Illuminated Advertising display	115,813,832	—	34,542,056	52,023,870	(16,493,674)	(45,741,580)	70,072,252	1-3 years
Moulds and tools	108,014,803	39,217,469	19,038,762	—	(22,689,763)	(72,448,335)	35,566,468	1-3 years
Improvement of fixed assets	3,311,988	—	3,311,988	—	(570,862)	(570,862)	2,741,126	1-5 years
	227,140,623	39,217,469	56,892,806	52,023,870	(39,754,299)	(118,760,777)	108,379,846	

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (12) SHORT-TERM BORROWINGS

##### The Group

Nature	Currency	31 December 2001			31 December 2000		
		Original	RMB Equivalent	Rate (per annum)	Original	RMB Equivalent	Rate (per annum)
Bank loans							
— Mortgage loans *	RMB	82,000,000	82,000,000	7.02%	22,000,000	22,000,000	5.36%-6.43%
— Guarantee loans **	RMB	230,000,000	230,000,000	4.77%-6.44%	60,000,000	60,000,000	5.85%
	HKD	24,159,798	25,609,386	2.81%-9.00%			
— Credit loans	RMB	705,700,000	705,700,000	5.58%-6.14%	355,700,000	355,700,000	5.58%-6.44%
— Financing from Bank Acceptance Notes	RMB	280,000,000	280,000,000	3.24%	—	—	—
			1,323,309,386			437,700,000	

\* As of 31 December 2001, RMB Mortgage loans were secured by buildings with net book value of approximately RMB80,281,000 (Note 6(8)). As of 31 December 2000, RMB Mortgage loans were secured by machinery with net book value of approximately RMB38,378,000 (Note 6(8)).

\*\* Guarantee loans were guaranteed by GKG. The HKD loan of Pearl River is guaranteed by the Company and Kelon Development.

##### The Company

Nature	Currency	31 December 2001			31 December 2000		
		Original	RMB Equivalent	Rate (per annum)	Original	RMB Equivalent	Rate (per annum)
Bank loans							
— Mortgage loans *	RMB	60,000,000	60,000,000	7.02%	—	—	—
— Guarantee loans **	RMB	200,000,000	200,000,000	4.77%-6.44%	—	—	—
— Credit loans	RMB	705,700,000	705,700,000	5.58%-6.14%	355,700,000	355,700,000	5.58%-6.435%
			965,700,000			355,700,000	

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (13) NOTES PAYABLE

Nature	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Bank draft	<b>678,568,666</b>	83,151,496	<b>604,217,556</b>	18,000,000
Commercial draft	<b>141,823</b>	133,203,183	<b>220,141,823</b>	133,203,183
	<b>678,710,489</b>	216,354,679	<b>824,359,379</b>	151,203,183

Balances of notes payable do not comprise any material amount due to shareholders who held more than 5% (including 5%) of the Company's share capital.

#### (14) ACCOUNTS PAYABLE

As of 31 December 2001 and 2000, balances of accounts payable were aged within one year and did not comprise any material amount due to shareholders who held more than 5% (including 5%) of the Company's share capital.

#### (15) TRADE DEPOSITS FROM CUSTOMERS

As of 31 December 2001 and 2000, balances of trade deposits from customers all had aging within one year and did not comprise any material amount due to shareholders who held more than 5% (including 5%) of the Company's share capital.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (16) TAX PAYABLE

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Prepaid EIT	<b>(293,680)</b>	(9,075,568)	—	(6,557,769)
Input VAT to be offset	<b>(155,098,731)</b>	(177,869,135)	<b>(168,416,745)</b>	(9,821,473)
Others	<b>(2,439,639)</b>	102,252	<b>(3,156)</b>	—
	<b>(157,832,050)</b>	(186,842,451)	<b>(168,419,901)</b>	(16,379,242)

#### (17) OTHER PAYABLES

As of 31 December 2001, major items of other payables are as follows:

Nature	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Due to subsidiaries	—	—	<b>365,571,180</b>	169,131,792
Deposit	<b>23,313,985</b>	15,757,110	<b>23,313,985</b>	—
Payment for staff quarters	<b>15,460,963</b>	58,044,631	<b>15,460,963</b>	58,044,631
Payables for equipment and moulds	<b>11,642,871</b>	9,734,918	<b>8,563,779</b>	5,292,290
Consulting fee for ERP system	<b>4,513,920</b>	—	<b>4,513,920</b>	—
Fuoshan Jingui Auction Company	<b>162,189</b>	51,431,000	<b>162,189</b>	51,431,000
Shunde Committee of science and technology	—	2,300,000	—	2,300,000
Others	<b>18,793,186</b>	25,911,437	<b>21,525,881</b>	1,425,603
	<b>73,887,114</b>	163,179,096	<b>439,111,897</b>	287,625,316

As of 31 December 2001 and 2000, balances of other payables do not comprise any amount due to shareholders who held more than 5% (including 5%) of the Company's share capital.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (18) ACCRUALS

Nature	Reasons for existing ending balance	The Group		The Company	
		31 December 2001	31 December 2000	31 December 2001	31 December 2000
Installation costs	Accrual for unpaid installation costs of goods sold	<b>54,911,126</b>	36,665,832	<b>54,911,126</b>	—
Interest expenses	Accrual for interest expenses occurred but not yet paid	<b>3,983,440</b>	1,284,005	<b>3,528,565</b>	1,045,907
Sub-contracting fee	Accrual for un-invoiced fee	<b>7,778,494</b>	6,166,282	—	3,288,852
Sales discounts	Accrual for unpaid discount related to sales of current year	<b>38,981,398</b>	218,473,969	<b>38,981,398</b>	—
Advertising costs	Accrual for un-invoiced costs	<b>256,346,876</b>	90,603,990	<b>256,346,876</b>	3,313,589
Transportation costs	Accrual for un-invoiced costs	<b>11,262,800</b>	—	<b>11,262,800</b>	—
Others		<b>16,471,276</b>	20,097,276	<b>12,643,795</b>	6,775,530
		<b>389,735,410</b>	373,291,354	<b>377,674,560</b>	14,423,878

As of 31 December 2001, RMB160,000,000 of accrual is made for the advertising expenditures of 2001 due to Regal Lucky Limited (Note 7 (3)(b)(ii)).

#### (19) PROVISION

The Group provides 3-5 years of warranty for products sold, and within the warranty period, free repair service is offered. According to industry practice, warranty costs are accrued based on warranty years, estimated repairing rate and unit cost of repairing.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (20) LONG-TERM BORROWINGS

##### The Group

Nature	Currency	Original	31 December 2001		Loan period	Rate (per annum)
			RMB	Equivalent		
Bank loans						
— mortgage loans *	HKD	32,944,215	34,920,866		1-10 years	5%-9%
— guarantee loans **	RMB	200,000,000	200,000,000		2 years	4.77%
			234,920,866			
Less: amount payable within one year			(204,958,929)			
			29,961,937			

Nature	Currency	Original	31 December 2000		Loan period	Rate (per annum)
			RMB	Equivalent		
Bank loans						
— mortgage loans *	HKD	53,852,510	57,083,661		1-7 years	8.625%-12.25%
— guarantee loans **	RMB	200,000,000	200,000,000		2 years	4.77%
			257,083,661			
Less: amount payable within one year			(19,777,334)			
			237,306,327			

\* Mortgage loans were secured by buildings in Hong Kong with net book value of approximately RMB80,818,000 (Year 2000: approximately RMB118,820,000) (Note 6 (8)).

\*\* Guarantee loans were guaranteed by GKG.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

## 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS *(Cont'd)*

### (20) LONG-TERM BORROWINGS *(Cont'd)*

#### The Company

Nature	Currency	Original	31 December 2001		Loan period	Rate (per annum)
			RMB Equivalent			
Bank loans						
— guarantee loans **	RMB	200,000,000	200,000,000		2 years	4.77%
Less: amount payable within one year			(200,000,000)			
			—			
Nature	Currency	Original	31 December 2000		Loan period	Rate (per annum)
			RMB Equivalent			
Bank loans						
— guarantee loans **	RMB	200,000,000	200,000,000		2 years	4.77%
Less: amount payable within one year						
			—			
			200,000,000			

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (21) LONG-TERM PAYABLES

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Pension liabilities	<b>109,094,101</b>	113,621,705	<b>109,094,101</b>	113,621,705
Others	<b>7,398,377</b>	3,526,080	<b>4,169,638</b>	—
	<b>116,492,478</b>	117,147,785	<b>113,263,739</b>	113,621,705

Contributions to the Group's pension scheme withheld from the employees' salaries and the Group's contributions will be payable upon the retirement of the employees.

#### (22) MINORITY INTEREST

As of 31 December 2001, cumulative losses of Kelon Air-Conditioner attributable to the minority shareholder exceeded the minority interest in the equity of Kelon Air-Conditioner ("excess loss") by approximately RMB198,340,000 (Year 2000: RMB158,116,000). In year 2000, management of the Group was negotiating with the minority shareholders to obtain additional finance from the minority shareholders to absorb the excess loss. Hence, in the consolidated financial statements of the year ended 31 December 2000, the excess loss was recorded as minority interest. During year 2001, management of the Group did not reach an agreement with the minority shareholder on the above matters. Therefore, the excess loss of year 2000 and year 2001 amounted to RMB158,116,000 and RMB40,224,000, respectively, are charged to the beginning balance of retained earnings of 2001 and net loss for the year ended 31 December 2001, respectively. Correction of material accounting errors and retrospective adjustments of comparative financial statements of 2000 are made.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (23) SHARE CAPITAL

Movement of share capital from 1 January to 31 December of 2001 and 2000 is as follows:

Unit: share

	Beginning of year	Increase (Decrease)				Sub-total	End of year
		Placement	Bonus issue	Transfer from statutory common reserve fund	Other		
(1) Unlisted shares							
1. Founder Shares include:							
State-owned shares	—	—	—	—	—	—	—
PRC domestic shares in form of domestic legal person shares	337,915,755	—	—	—	—	—	337,915,755
PRC domestic shares in form of foreign legal person shares	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
2. PRC domestic shares in form of subscriber shares	—	—	—	—	—	—	—
3. PRC domestic shares held by employees	84,501,000	—	—	—	—	—	84,501,000
4. Preference shares and others	—	—	—	—	—	—	—
Total unlisted shares	422,416,755	—	—	—	—	—	422,416,755
(2) Listed shares							
1. Domestic shares listed in the PRC	110,000,000	—	—	—	—	—	110,000,000
2. Overseas shares listed in the PRC	—	—	—	—	—	—	—
3. Overseas shares listed outside the PRC	459,589,808	—	—	—	—	—	459,589,808
4. Others	—	—	—	—	—	—	—
Total listed shares	569,589,808	—	—	—	—	—	569,589,808
(3) Total shares	992,006,563	—	—	—	—	—	992,006,563

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (24) CAPITAL RESERVE

Movement of capital reserve is as follows:

	Share premium		Assets received as donation	Total
	H Shares and PRC domestic	A Shares		
1 January 2000	1,499,662,592	933,863,500	17,696,745	2,451,222,837
Increase (Decrease) for the year	—	—	—	—
31 December 2000	1,499,662,592	933,863,500	17,696,745	2,451,222,837
Increase (Decrease) for the year	—	—	—	—
31 December 2001	1,499,662,592	933,863,500	17,696,745	2,451,222,837

According to the Company's Articles of Association, the following items should be recorded as Capital Reserve:

(i) share premium from issuance of share; (ii) surplus arising from revaluation of assets; and (iii) other items specified by the relevant PRC regulations and the Company's Articles of Association. Capital reserve can be utilised to offset prior year's deficit or increase share capital.

Share premium represents the difference between the value of net assets acquired from holding company and the par value of the domestic shares issued to holding company and the difference between proceeds from issuance of H Shares and A Shares, and the par value of the H Shares and A Shares issued, net off underwriting commissions, organisation costs and professional fees.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (25) REVENUE RESERVE

Movement of revenue reserve is as follows:

	Statutory common reserve fund (a)(i)	Statutory common welfare fund (a)(ii)	Total
1 January 2000	229,161,802	114,580,901	343,742,703
Increase (Decrease) for the year	—	—	—
31 December 2000	229,161,802	114,580,901	343,742,703
Increase (Decrease) for the year	—	—	—
31 December 2001	229,161,802	114,580,901	343,742,703

#### (a) The policy for the Company's revenue reserve is as follows:

##### (i) Statutory common reserve fund

In accordance with the relevant PRC regulations and the Company's Articles of Association, the Company shall appropriate 10% of its annual statutory net profit (after offsetting prior years' losses) to the statutory common reserve fund. When the balance of statutory common reserve fund reaches 50% of share capital, any further appropriation is optional. The statutory common reserve fund can be utilised to offset prior years' losses or to increase capital. However, the statutory common reserve fund must be maintained at a minimum of 25% of share capital after such usage.

##### (ii) Statutory common welfare fund

The Company appropriate 5% to 10% of its annual statutory net profit (after offsetting any prior years' losses) to a statutory common welfare fund to be utilised to build or acquire capital items for the common benefits of the employees.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (25) REVENUE RESERVE (Cont'd)

##### (b) The appropriation policy for surplus reserve of the subsidiaries in the PRC:

- (i) For subsidiaries in the PRC and registered as Sino-foreign joint ventures:

In accordance with the PRC laws and relevant regulations, the subsidiaries in the PRC are required to provide certain statutory funds, namely reserve fund, enterprise expansion fund and staff and workers' bonus and welfare fund, which are appropriated from net profit after taxation but before dividend distribution. These funds are created for specific purposes and appropriations to these funds are at the discretion of the directors of the subsidiaries in the PRC. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The enterprise expansion can only be used to increase capital upon approval by the relevant authority. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of the Company's employees and assets acquired through this fund shall not be taken as the assets of the subsidiaries in the PRC.

The reserve fund and enterprise expansion fund of the subsidiaries in the PRC are recorded in the account caption of statutory surplus reserve fund in the consolidated financial statement, while the staff and workers' bonus and welfare funds are recorded in the account caption of welfare payable in the consolidated financial statements.

- (ii) For the Group's subsidiaries in the PRC and registered as limited liability company, the policy for reserve fund is the same as the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (26) (ACCUMULATED LOSSES) RETAINED EARNINGS

	2001	2000
Retained earnings, beginning of year	<b>174,666,289</b>	1,005,319,787
Less: Net loss for the year	<b>(1,555,573,089)</b>	(830,653,498)
(Accumulated losses) Retained earnings, end of year	<b>(1,380,906,800)</b>	174,666,289

According to the Company's Articles of Association, the amount of profit available for distribution will be determined based on the lower of retained earnings in the financial statements prepared in accordance with the PRC Accounting Standards and International Accounting Standards.

The Company does not recommend any dividend payment for the year or appropriate reserve fund according to the resolution by the board of directors since the Company sustained loss in year 2001.

#### (27) REVENUE AND COST FROM PRINCIPAL BUSINESS

##### The Group

Line of business	2001		2000	
	Revenue	Cost of sales	Revenue	Cost of sales
Sales of refrigerators	<b>2,164,254,362</b>	<b>1,775,523,113</b>	2,149,212,825	1,730,286,503
Sales of air-conditioners	<b>2,177,206,505</b>	<b>1,823,664,781</b>	1,574,493,175	1,468,613,719
Sales of fittings	<b>31,493,390</b>	<b>14,314,546</b>	29,555,143	25,417,423
Others	<b>8,662,111</b>	<b>2,213,631</b>	116,241,474	26,215,522
	<b>4,381,616,368</b>	<b>3,615,716,071</b>	3,869,502,617	3,250,533,167

For the year ended 31 December 2001 and 2000, the Group's sales to 5 largest customers amounted to RMB601,879,134 and RMB657,815,445, accounting for 14% and 17% of total revenue of the Group in year 2001 and 2000, respectively.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (27) REVENUE AND COST FROM PRINCIPAL BUSINESS (Cont'd)

##### The Company

Line of business	2001		2000	
	Revenue	Cost of sales	Revenue	Cost of sales
Sales of refrigerators	<b>1,873,787,788</b>	<b>1,569,731,194</b>	142,811,543	136,006,123
Sales of air-conditioners	<b>1,824,531,271</b>	<b>1,491,528,891</b>	—	—
	<b>3,698,319,059</b>	<b>3,061,260,085</b>	142,811,543	136,006,123

The Company's sales to 5 largest customers for the year ended 31 December 2001 amounted to RMB601,879,134, accounting for 16% of total revenue of the Group and the Company in year 2001, respectively. For the year ended 31 December 2000, all sales of the Company were made to Kelon Refrigerator.

#### (28) FINANCIAL COSTS

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Interest expenses	<b>(92,864,732)</b>	(78,675,496)	<b>(63,960,478)</b>	(32,805,075)
Interest income	<b>12,552,101</b>	12,577,944	<b>10,652,955</b>	9,198,266
Exchange (loss) gain, net	<b>(2,946,181)</b>	(3,671,640)	<b>131,321</b>	(3,415,304)
Bank charges	<b>(3,429,059)</b>	(3,261,562)	<b>(1,161,736)</b>	(275,071)
	<b>(86,687,871)</b>	(73,030,754)	<b>(54,337,938)</b>	(27,297,184)

In year 2001 and 2000, interest income of the Group includes the interest from the associate company of Chengdu Kelon's minority shareholder for advance of capital. The interest income in this connection amounted to RMB3,231,360 and RMB3,264,317, respectively (Note 7(3)(b)(xii)).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (29) PROFIT (LOSS) FROM INVESTMENTS

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Share of loss of subsidiaries	—	—	<b>(312,617,698)</b>	(764,040,331)
Loss on disposal of investee enterprise (Note 5(h))	<b>(11,089,152)</b>	—	<b>(11,089,152)</b>	—
Share of (loss) profit of associates	<b>(611,426)</b>	8,368,000	<b>(638,813)</b>	8,368,000
Amortisation of equity investment difference	<b>(16,014,647)</b>	(10,197,000)	<b>(15,013,858)</b>	(10,197,000)
Provision for impairment loss for equity investment (Note 6(7))	<b>(71,200,641)</b>	—	<b>(59,381,641)</b>	—
Others	<b>(147,398)</b>	—	<b>(147,187)</b>	—
	<b>(99,063,264)</b>	(1,829,000)	<b>(398,888,349)</b>	(765,869,331)

As of 31 December 2001, no significant restriction is posed over the remittance of investment income for the Group and the Company.

#### (30) NON-OPERATING EXPENSES

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Provision for impairment loss for fixed assets (Note 6(8))	<b>47,236,170</b>	—	—	—
Loss on disposal of fixed assets	<b>15,057,482</b>	5,544,048	<b>12,685,498</b>	1,653,069
Others	<b>10,989,023</b>	14,961,773	<b>2,073,856</b>	3,740,155
	<b>73,282,675</b>	20,505,821	<b>14,759,354</b>	5,393,224

#### (31) INCOME TAX

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
PRC enterprise income tax	—	5,429,722	—	4,597,211
Hong Kong profits tax	—	—	—	—
Others	—	64,952	—	—
	—	5,494,674	—	4,597,211

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (32) RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

Ratio of return on net assets and earnings per share are prepared in accordance with "No.9 Document of Regulations and Information Disclosure Requirements for Public Listed Companies — Computation and Disclosure of Return on Net Assets and Earnings per Share". The detailed formulas are as follows:

$$\begin{aligned}
 \text{Fully diluted return on net assets} &= \text{Profit for the reporting period} / \text{net assets as of the end at the period} \\
 \text{Fully diluted earnings per share} &= \text{Profit for the reporting period} / \text{total number at shares as of the end} \\
 &\quad \text{of the period} \\
 \text{Weighted average return on net assets} &= \frac{P}{(E_o + NP / 2 + E_i * M_i / M_o)}
 \end{aligned}$$

P: Profit for the reporting period

E<sub>o</sub>: Net assets as of the beginning of the period

NP: Net profit for the reporting period

E<sub>i</sub>: Increase in net assets by issue of new shares

M<sub>i</sub>: Number of months from the month immediately after the issue of new shares to the end of the reporting

M<sub>o</sub>: Number of months for the reporting period

$$\text{Weighted average earnings per share} = \frac{P}{(S_o + S_i * M_i / M_o)}$$

P: Profit for the reporting period

S<sub>o</sub>: Number of shares as of the beginning of the period

S<sub>i</sub>: Increase in number of shares from issue of new shares

M<sub>i</sub>: Number of months from the month immediately after the issuance of new shares to the end of the reporting

M<sub>o</sub>: Number of months for the reporting period

Non-operating gain or loss includes two kinds of income or expenditure: one is incurred with no direct relationship with operation while the other has relations with operation. But due to its nature, amount or frequency, the latter will have impact on truly, fairly evaluating company's results of operations and its ability to make profits.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (32) RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE (Cont'd)

Non-operating gain or loss includes:

	The Group		The Company	
	2001	2000	2001	2000
Fee received for providing capital	<b>(3,231,360)</b>	(3,264,317)	<b>(5,504,085)</b>	(6,037,617)
Disposal of impairment loss of equity investment	<b>11,089,152</b>	—	<b>11,089,152</b>	—
Subsidy income	<b>(64,764)</b>	(175,300)	<b>(64,764)</b>	(175,300)
Retrospective adjustment for the change of accounting policy	—	(5,881,102)	—	(5,881,102)
Non-operating income	<b>(21,529,992)</b>	(12,929,298)	<b>(13,826,125)</b>	(61,580)
Non-operating expenses	<b>73,282,675</b>	20,505,821	<b>14,759,354</b>	5,393,224
Less: EIT impact	—	—	—	—
	<b>59,545,711</b>	(1,744,196)	<b>6,453,532</b>	(6,762,375)

#### (33) SUPPLEMENTARY INFORMATION OF CASH FLOWS

(a) Cash paid for other investment activities:

	2001
	The Group and The Company
Fund to GKG (Note 7(3)(a))	<b>5,873,904,000</b>
Less: fund from GKG (Note 7(3)(a))	<b>(4,944,471,000)</b>
Funding to GKG, net	<b>929,433,000</b>
Less: Repayment from Greencool (Note 7(3)(b)(i))	<b>(150,000,000)</b>
Add: Fund to Kelon Employee Union (Note 7(3)(b)(vi))	<b>58,139,947</b>
Cash paid for other investment activities	<b>837,572,947</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 6. NOTES TO MAJOR ITEMS OF FINANCIAL STATEMENTS (Cont'd)

#### (33) SUPPLEMENTARY INFORMATION OF CASH FLOWS (Cont'd)

- (b) Reconciliation of Cash and Bank, and Cash and Cash Equivalent

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Cash and Bank	<b>778,191,077</b>	838,710,032	<b>492,198,063</b>	461,842,796
Less: pledged deposit	<b>(126,994,513)</b>	(38,937,419)	<b>(110,839,227)</b>	(57,624)
Cash and Cash Equivalent	<b>651,196,564</b>	799,772,613	<b>381,358,836</b>	461,785,172

### 7. RELATED PARTY TRANSACTIONS

- (1) The basic information of related parties and their relationship with the Group:

The related party relationships principally refer to:

- (i) enterprises that, directly or indirectly, control, or are controlled by, the reporting enterprise; and two or more enterprises subject to control from the same enterprise;
- (ii) joint ventures;
- (iii) associate enterprises;
- (iv) principal individual investors, key management personnel, or the close family members of such individuals; and
- (v) other enterprises directly controlled by principal individual investors, or key management personnel, or the close family members of such individuals.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

(a) Except for subsidiaries as disclosed in Note 5, related parties with controlling interests also include:

Name of company	Place of incorporation	Principal activities	Relationship	Enterprise nature	Legal representative
Guangdong Kelon (Rongsheng) Group Company Limited ("GKG")	Shunde, Guangdong	Investment holding	Major shareholder	Limited liability company	Li Zheng Hua
Shunde Greencool Development Co. Ltd. ("Greencool")	Shunde, Guangdong	Research, manufacture, and sale of refrigeration equipment, fittings and fluorine-free cryogen	Company owned by chairman of the Company	Limited liability company	Gu Chu Jun

(b) Movement in paid in capital of the related parties with controlling interests

Name of company	Beginning of year	Addition	Deduction	End of year
GKG	RMB 30,000,000	—	—	RMB 30,000,000
Greencool	—	RMB 1,200,000,000	—	RMB 1,200,000,000
Pearl River	HKD 400,000	—	—	HKD 400,000
Kelon Appliances	HKD 10,000	—	—	HKD 10,000
Rongshen Plastic	USD 14,800,000	USD 1,000,000	—	USD 15,800,000
Kelon Development	HKD 5,000,000	—	—	HKD 5,000,000
Kelon Mould	USD 15,000,000	—	—	USD 15,000,000
Kelon Refrigerator	USD 26,800,000	—	—	USD 26,800,000
Kelon Air-Conditioner	USD 36,150,000	—	—	USD 36,150,000
Kelon (Japan) Limited	JPY 1,100,000,000	—	—	JPY 1,100,000,000
Chengdu Kelon	RMB 200,000,000	—	—	RMB 200,000,000
Yingkou Kelon	RMB 200,000,000	—	—	RMB 200,000,000
Wetherell Developments Limited	USD 1	—	—	USD 1
KII	USD 50,000	—	—	USD 50,000
Kelon Fittings	USD 5,620,000	—	—	USD 5,620,000
Sichuan Rongsheng	—	RMB 2,000,000	—	RMB 2,000,000
Beijing Hengsheng	—	RMB 30,000,000	—	RMB 30,000,000
Jiake Electronic	—	RMB 60,000,000	—	RMB 60,000,000
Kelon Tiandi	—	RMB 5,000,000	—	RMB 5,000,000
Kelon Shikong	—	RMB 5,000,000	—	RMB 5,000,000



## NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

(c) Movement in equity interests in the Company of the related parties with controlling interests

i) Major shareholder

Name of company	Beginning of year		Addition		Deduction		End of year	
	Amount	%	Amount	%	Amount	%	Amount	%
GKG	337,915,755	34.06%	—	—	—	—	337,915,755	34.06%

ii) Subsidiaries

For the movement of the Company's share capital or equity in subsidiaries, please refer to Note 5.

(d) Related parties without controlling interests

Name	Relationship with the Company
Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")	Associate of the minority shareholder of Chengdu Kelon
Cheung Tat Household Appliance Co., Ltd. ("Cheung Tat")	Financially supported by GKG
Kelon Advertising Company ("Kelon Advertising")	Subsidiary of GKG
Huaao Electrical Company Limited ("Huaao Electrical")	Subsidiary of GKG
Kelon HEA	Associate of the Company, Subsidiary of GKG
Sanyo Kelon	Associate of the Company
Wangao Co	Associate of the Company, Subsidiary of GKG
Chongqing Kelon	Associate of the Company
C&Y	Associate of the Company
Labor Union of Guangdong Kelon Electrical Holdings Company ("Kelon Employee Union")	Entity organised and owned by employees of the Company
Yingkou Shareholding Committee ("YK Shareholding Committee")	Shareholder of Yingkou Kelon
Grand Moment Investment Limited Company ("Grand Moment")	Minority shareholder of Kelon Air-Conditioner

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

#### (2) Balance with related parties

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Notes Receivable				
— GKG (Note (3)(a))	170,000,000	—	170,000,000	—
Accounts Receivable				
— Huaao Electrical (Note (3)(b)(iii))	34,154,564	5,716,018	1,967,881	—
— Wangao Co (Note (3)(b)(iv))	9,813,628	—	—	—
— Cheung Tat (Note (3)(b)(v))	—	121,429,165	—	—
— Sanyo Kelon (Note (3)(b)(x))	37,050,000	28,484,336	37,050,000	—
— Huayi Compressor	2,483,616	—	—	—
— Chongqing Rongsheng	2,318,665	—	2,318,665	—
— Others	100,384	—	—	—
	85,920,857	155,629,519	41,336,546	—
Less: Bad debt provision (Note (3)(b)(x))	(37,050,000)	—	(37,050,000)	—
	48,870,857	155,629,519	4,286,546	—
Other Receivables				
— GKG (Note (3)(a))	692,045,165	280,612,660	692,045,165	23,645,296
— Greencool (Note (3)(b)(i))	198,000,000	—	198,000,000	—
— Huaao Electrical (Note (3)(b)(iii))	46,956,257	—	7,335,171	—
— Wangao Co (Note (3)(b)(iv))	5,574,993	—	5,779,973	—
— Kelon HEA (Note (3)(b)(vii))	23,850,685	—	30,078,119	—
— Subsidiaries	—	—	1,155,567,056	2,212,064,054
— Others	273,937	35,617,050	247,157	12,634,000
	966,701,037	316,229,710	2,089,052,641	2,248,343,350
Less: Bad debt provision (Note (3)(a))	(172,409,033)	—	(172,409,033)	—
	794,292,004	316,229,710	1,916,643,608	2,248,343,350
Long-term receivables				
— Kelon Employee Union (Note (3)(b)(vi))	58,139,947	—	58,139,947	—
— Chengdu Xinxing (Note (3)(b)(xii))	34,000,000	34,000,000	—	—
	92,139,947	34,000,000	58,139,947	—

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

#### (2) Balance with related parties (Cont'd)

	The Group		The Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
Accounts Payable				
— Huaao Electrical (Note (3)(b)(iii))	<b>93,676,908</b>	—	<b>1,723,610</b>	—
Other Payables				
— Subsidiaries	—	—	<b>365,571,180</b>	169,131,792
— Others	<b>263,100</b>	—	—	—
	<b>263,100</b>	—	<b>365,571,180</b>	169,131,792
Advance from customers				
— Chongqing Kelon	<b>5,902,078</b>	22,154,008	<b>5,902,078</b>	—
— Others	—	160,995	—	—
	<b>5,902,078</b>	22,315,003	<b>5,902,078</b>	—

#### (3) Related party transactions

	The Group		The Company	
	2001	2000	2001	2000
Sales of goods to related parties				
— Huaao Electrical (Note (b)(iii))	<b>53,024,758</b>	5,716,018	<b>1,681,950</b>	—
— Wangao Co (Note (b)(iv))	<b>13,868,651</b>	—	<b>73,441</b>	—
— Cheung Tat (Note (b)(v))	—	246,177,855	—	—
— Kelon HEA (Note (b)(vii))	—	2,095,601	—	—
— Chongqing Kelon (Note (b)(viii))	<b>57,771,537</b>	50,864,328	<b>57,771,537</b>	—
— Chongqing Rongsheng (Note (b)(ix))	<b>73,222,962</b>	—	<b>73,222,962</b>	—
— Sanyo Kelon (Note (b)(x))	<b>25,483,847</b>	36,119,549	<b>6,239,949</b>	—
— Kelon Refrigerator	—	—	—	154,670,280
	<b>223,371,755</b>	340,973,351	<b>138,989,839</b>	154,670,280
Purchase goods from related parties				
— Wangao Co (Note (b)(iv))	<b>5,978,567</b>	—	—	—
— Cheung Tat (Note (b)(v))	—	98,292,212	—	—
— Kelon HEA (Note (b)(vii))	<b>12,485,857</b>	—	<b>12,485,857</b>	—
— Kelon Refrigerator	—	—	<b>1,179,792,489</b>	—
— Kelon Air-Conditioner	—	—	<b>2,227,614,661</b>	—
— Chengdu Kelon	—	—	<b>245,920,903</b>	—
— Yingkou Kelon	—	—	<b>205,620,798</b>	—
	<b>18,464,424</b>	98,292,212	<b>3,871,434,708</b>	—

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

#### (3) Related party transactions (Cont'd)

	The Group		The Company	
	2001	2000	2001	2000
Purchase of raw material from related parties				
— Huaao Electrical (Note (b)(iii))	201,302,903	—	10,713,510	—
— Wangao Co (Note (b)(iv))	2,025,976	—	—	—
— Rongsheng Plastic	—	—	33,268,766	1,360,991
— Kelon Fittings	—	—	28,496,122	7,962,641
	<b>203,328,879</b>	—	<b>72,478,398</b>	9,323,632
Purchase moulds from related parties				
— Kelon Mould	—	—	6,728,630	4,962,352
Sales of net fixed assets to related parties				
— Kelon Fittings	—	—	—	139,100,770
— Kelon Mould	—	—	776,102	—
— Chengdu Kelon	—	—	43,470	—
	—	—	<b>819,572</b>	139,100,770
Purchase of net fixed assets from related parties				
— Kelon Refrigerator	—	—	9,408,181	20,386,167
— Kelon Air-Conditioner	—	—	4,362,983	6,850,000
	—	—	<b>13,771,164</b>	27,236,167
Guarantee provided by related parties				
— GKG	430,000,000	200,000,000	400,000,000	200,000,000
Guarantee and mortgage provided to related parties				
— C&Y (Note (b)(xi))	3,975,000	—	—	—
— Chengdu Kelon	—	—	—	60,000,000
— Yingkou Kelon	—	—	—	22,000,000
— Kelon Electric Appliance Co., Ltd.	—	—	—	42,000,000
— Pearl River *	—	—	83,634,510	269,686,000
	<b>3,975,000</b>	—	<b>83,634,510</b>	393,686,000

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

- \* For the year ended 31 December 2001, the Company and Kelon Development provided guarantee for Pearl River's bank loan RMB83,634,510. As of 31 December 2001, Pearl River had obtained RMB25,609,386 of guarantee loans within such limit (Note 6(12)).

	The Group		The Company	
	2001	2000	2001	2000
Provide loan to related parties				
— Chengdu Kelon (Note (b)(xii))	<b>34,000,000</b>	34,000,000	—	—
— Yingkou Kelon (Note (b)(xv))	—	—	<b>37,000,000</b>	37,000,000
	<b>34,000,000</b>	34,000,000	<b>37,000,000</b>	37,000,000
Other income (expenses) obtained from (paid to) related parties				
— Allocation of advertising and promotion costs to GKG (Note (a)(iii))	—	235,000,000	—	—
— Service fee from GKG for exporting appliance (Note (a)(iii))	<b>9,010,000</b>	—	—	—
— Advertising expenses paid to Kelon Advertising (Note b(iii))	<b>(47,458,371)</b>	(88,065,439)	<b>(47,458,371)</b>	—
— Advertising expenses paid to C&Y (Note (b)(xi))	<b>(21,229,000)</b>	—	<b>(21,229,000)</b>	—
— Interest income from Chengdu Xinxing (Note (b)(xii))	<b>3,231,360</b>	3,264,317	<b>3,231,360</b>	3,264,317
— Management fee received from Kelon Air-Conditioner (Note (b)(xiv))	—	—	<b>96,000,000</b>	125,000,000
— Interest income from Yingkou Kelon (Note (b)(xv))	—	—	<b>2,272,725</b>	2,773,300
— Overseas service fee paid to Pearl River (Note (b)(xvi))	—	—	<b>(24,900,000)</b>	—
— Overseas service fee paid to Kelon (Japan) Limited. (Note (b)(xvii))	—	—	<b>(7,125,800)</b>	—

Except for disclosed interest income from related parties, balances with related companies are interest-free and have no fixed repayment dates.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

#### (a) Transactions with GKG:

##### (i) License Agreement

Under the license agreement ("License Agreement") dated 6 July 1996 made between GKG, the major shareholder of the Group, and the Company, GKG granted to the Company an exclusive right to use the trademarks "Kelon" and "Rongsheng" for no consideration (a) as registered in the PRC and Hong Kong, and/or (b) as 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 (c) 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 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 party to use, such trademarks on production other than the types of products covered by the License Agreement. At present, according to the agreement, the Group use the trademarks of "Kelon" and "Rongsheng" on the refrigerators and "Kelon" on the air-conditioners under the above License Agreement.

##### (ii) Cost Sharing Agreement

According to the agreement signed among Kelon Refrigerator, Kelon Air-Conditioner and GKG ("Cost Allocation Agreement") signed in 2000, GKG agreed to share part of the advertising and promotion expenses paid by Kelon Refrigerator and Kelon Air-Conditioner for the promotion of Kelon and Rongsheng brands. According to the Cost Sharing Agreement, the amount GKG agreed to share during 2000 is approximately RMB235,000,000. No such cost sharing arrangement is made for year 2001.

##### (iii) Other related parties transaction with GKG during year 2001

- a) In year 2001, GKG had requested the Company to repay (which the Company had repaid), on its behalf, to Sanyo Kelon (an associate of the Company) RMB101,370,000 incurred by GKG for the purchase of goods from Sanyo Kelon.
- b) During 2001, Kelon Air-Conditioner, the Company's subsidiary, had provided a guarantee for a maximum amount of up to RMB230,000,000 in favor of the Agriculture Bank of China as security for the bank granting loans to GKG. Prior to 31 December 2001, the Company had undertaken the guarantor's responsibility and made repayment of bank loan amounting to RMB211,226,000 on behalf of GKG.
- 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

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

Except for the above transactions, there is also significant fund transfers between the Group and GKG. Including the transactions disclosed in (a), (b) and (c), the Group provided funds of RMB5,873,904,000 to and also received funds of RMB4,944,471,000 from GKG.

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

As of December 2001, taken into account the debt transfer, the total amount due from GKG for the Company amounted to RMB862,045,000 as of 31 December 2001. The management considers that it is uncertain to recover full amount of the receivable from GKG. After negotiating with management of GKG, management of the Group estimated that RMB172,409,000 of the receivable may not be recovered and therefore made provision for it as for the year ended 31 December 2001.

#### (b) Transaction with other related parties:

Other related party transactions can be summarised as follows:

- (i) As disclosed in Note (a), Greencool becomes 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 was settled by Greencool.
- (ii) Kelon Advertising is a wholly-owned subsidiary of GKG. The Group engaged Kelon Advertising as one of its advertising agency. For the year ended 31 December 2001, the Group made payment of RMB47,458,000 as the advertising fee (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 the operation of Kelon Advertising. The amount due from Kelon Advertising in this connection was transferred to GKG as of 31 December 2001.

The Company signed a contract with Regal Lucky Limited, on the advertising service of year 2001. The total amount of the contract is RMB160,000,000. According to the contract, Kelon Advertising would assist the Company to monitor the advertising service performed by Regal Lucky Limited, and collect advertising fee on behalf of Regal Lucky Limited. As of 31 December 2001, the Company made an accrual of RMB160,000,000 for this advertising expenditure (Note 6(18)).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

#### (b) Transaction with other related parties (Cont'd):

- (iii) Huaao Electrical is a subsidiary of GKG. During 2001, The Group purchased certain materials at market price amounted to RMB201,303,0000 (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 amounted to RMB53,025,000 (2000: RMB5,716,000).

The Group also provided funding to the operation of Huaao Electrical in year 2001.

As of 31 December 2001, the amount due to Huaao Electrical in connection with the above amounted to RMB12,566,000.

- (iv) Wangao Co is a subsidiary of GKG established in June 2001. In year 2001, it imported material of RMB2,026,000 on behalf of Rongsheng Plastic, a subsidiary of the Company. Meanwhile, Pearl River and KII, subsidiaries of the Group purchased mini household electrical appliances from Wangao Co for export purposes. Such purchase amounted to approximately RMB5,979,000. Also, Wangao Co purchased refrigerators of RMB13,869,000 from the group for trading purpose.

The Group also provided funding to Wangao Co during 2001.

As of 31 December 2001, the amount due from Wangao Co is RMB15,389,000.

- (v) The Group sells refrigerators to 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 approximately RMB246,178,000. Prior to 31 December 2000, the Group reached 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. No such transaction occurred in 2001.

- (vi) In year 2001, the Company provided funds of RMB116,000,000 to Kelon Employee Union, an employee association organised by employees of the Group and controlled by delegates who are elected by the employees. As of 31 December 2001, the amount due from Kelon Employee Union in this connection is RMB58,140,000.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

#### (b) Transaction with other related parties (Cont'd):

- (vii) Kelon HEA is 75% held by GKG and 25% by 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. In year 2000, the total sales of the Group to Kelon HEA amounted to approximately RMB2,096,000. No such transaction occurred in year 2001. During year 2001, the Company purchased household appliance from Kelon HEA as promotion gifts for sales of refrigerators and air-conditioners. As of 31 December 2001, the total purchase from Kelon HEA in this connection amounted to RMB12,486,000.

The Group also provided funding to Kelon HEA during 2001.

As of 31 December 2001, the amount due from Kelon HEA in connection with the transaction amounted to RMB23,851,000.

- (viii) Chongqing Kelon is an associate company of the Group. During year 2001, the Group's sales to Chongqing Kelon amounted to RMB57,772,000.
- (ix) Chongqing Rongsheng is an associate company of the Group. During year 2001, the Group's sales to Chongqing Rongsheng amounted to RMB73,223,000.
- (x) Sanyo Kelon is an associate company of the Group. During year 2001, the Group's sales to Chongqing Kelon amounted to RMB25,484,000.

As of 31 December 2001, the receivable from Sanyo Kelon amounted to RMB37,050,000. Because there is an uncertainty as to whether the receivable can be collected, full provision is made against the balance.

- (xi) C&Y is a 25% owned associated company of Kelon Development, a subsidiary of the Company. The major shareholder of C&Y is Qin Jia Yuan Shares Company Limited ("QJY").

The sole shareholder of C&Y is the spouse of a director of the Company prior to his resignation in 2001.

In year 2000, Kelon Development signed an agreement with C&Y to hold shares of C&Y. The agreement specifies respectively the rights and obligations of C&Y and Kelon Development as shareholders, and the management principal of C&Y.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

#### (b) Transaction with other related parties (Cont'd):

According to the agreement, Kelon Development purchased 25 shares of C&Y with the price of HKD 12,000,000. As the counterpart, C&Y purchased 73 shares of Kelon Development and some contracts, amounting to HKD2,000,000. C&Y also purchased one share from each of its original shareholders at par value.

C&Y mainly engages in the business of media advertising and promotion.

According to the agreement, Kelon Development agreed with C&Y to purchase HKD20,000,000 worth of advertisement and/or sponsorship air-time when completing contracts. As of 31 December 2000, no relevant contract was signed and no payment for advertising services is made to C&Y.

As of 31 December 2001, Kelon Development granted to C&Y loan guarantee of RMB3,975,000. In year 2001, the advertising fee that the Group paid to C&Y amounted to RMB21,229,000.

Because the operating results of C&Y are not satisfactory, as of 31 December 2001, the Group made provision of RMB12,000,000 for its investment in C&Y (Note 6(7)).

- (xii) The Company provided working capital amounting to an aggregate sum of RMB34,000,000 indirectly through its subsidiary, 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 shareholder of Chengdu Kelon. The payment 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 mortgaged its entire equity in Chengdu Kelon to the Company. As consideration for such payment, 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%.
- (xiii) On 5 September 2000, YK Shareholding Committee, Kelon Refrigerator, Ying Kou Yinlang (Group) Limited. and Pearl River signed an agreement on equity transfer. According to the agreement, the Company's share holder of Yingkou Kelon transfers the 11.79% of Yingkou Kelon's share that it owns to Kelon Refrigerator.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

#### (b) Transaction with other related parties (Cont'd):

Yingkou Kelon is a Sino-foreign joint venture registered in the PRC. It is formerly held by the Company, Ying Kou Yinlang (Group) Limited and Pearl River at the percentage of 42%, 33% and 25%. According to relevant PRC court verdict on 2 June 2000, the equity held by YingKou Yinlang (Group) Limited. (already in the process of liquidation) is transferred to YK share holding committee.

The above equity transfer is based on the consideration that Yingkou Kelon is an important base of production for the Group in the northeastern part of the PRC and that the Group enjoys priority of transfer as Yingkou Kelon's shareholder after YK Shareholding Committee made the suggestion to transfer all share capital of Yingkou Kelon that it owns.

Yingkou Jincheng asset valuation company, which is credited by the PRC ministry of finance with the qualification of asset valuation, serves as the independent valuator of this transfer. The base date of the valuation is 14 November 2001 and the valuation price is RMB24,753,677. The transaction was conducted at the valuation price and the legal formalities of the transfer were completed.

- (xiv) During 2001, the Company signed management agreement with Kelon Air-Conditioner. According to this agreement, Kelon Air-Conditioner should pay management fee and fund occupation fee for the resources and working capital it uses. During 2001, the Company receives management fee from Kelon Air-Conditioner amounting to RMB96,000,000 (2000: RMB125,000,000).

Kelon Air-Conditioner is a 60% owned subsidiary of the Company. The remaining 40% of equity is owned by Grand Moment, which is incorporated in the British Virgin Islands, the shareholding of Grand Moment is such that it is 37.5% held by GKG. One of the ex-director of the Company is also a director of Grand Moment.

- (xv) The Company signed a loan contract with Yingkou Kelon and provided working capital amounting to RMB37,000,000 to Yingkou Kelon. According to the contract, the Company received from Yingkou Kelon interest income amounting to RMB2,273,000 and RMB2,773,000 respectively in 2001 and 2000 at the rate of 6.14% per annum.
- (xvi) The Company signed service agreement with Pearl River and Kelon (Japan) Limited respectively. According to the agreement, Pearl River and Kelon (Japan) Limited offers market consulting, information, and training services. In return, the Company pays to Pearl River and Kelon (Japan) Limited relevant service fee.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 7. RELATED PARTY TRANSACTIONS (Cont'd)

#### (c) Commitment on acquiring 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 utilise the household mini electrical appliances business to promote the Company's refrigerators and air-conditioners, the Company entered into sales and purchase agreement with GKG on 26 November 2001, through its wholly owned subsidiary Jia Ke Electronics, to acquire GKG's entire share capital in Kelon Advertising, Kelon HEA, Huaao Electrical and Wangao Co (collectively referred to as "GKG Service Companies") respectively.

The above transfer of shares was suspended by legal authorities.

#### (d) Violation of listing rules and regulations

As disclosed in the Company's announcement on 13 March 2002, some of the Group's related party transactions violated rules and regulations for listing companies issued by The Stock Exchange of Hong Kong Limited and Shenzhen Stock Exchange. The above stock exchanges have stated that they reserve the rights to take actions against the Company and related directors according to relevant rules and regulations for listing companies.

### 8. CONTINGENT LIABILITY

#### The Group

As of 31 December 2001, the Group provided guarantees for loan facilities granted to its associates, RMB approximately RMB3,975,000 (Year 2000: Nil).

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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 8. CONTINGENT LIABILITY (Cont'd)

#### The Company

As of 31 December 2001, the Company provided guarantees of RMB83,635,000 for loan facilities granted to its subsidiaries (Year 2000: approximately RMB393,686,000).

### 9. CAPITAL COMMITMENT

	2001	2000
Authorised and contracted for		
— Purchase of advertisement and sponsorship air-time (Note 7(3)(b)(xi))	—	21,200,000
— Purchase of property, plant and machinery	<b>51,740,000</b>	13,297,000

### 10. SUBSEQUENT EVENT

On 18 April 2002, GKG transferred 204,775,755 shares of legal person shares of the Company to Greencool.

### 11. OTHER IMPORTANT ISSUES

During the years of 2001 and 2000, one of the Company's 60% subsidiary, Kelon Air-Conditioner ("the subsidiary") suffered excess loss of approximately RMB100,561,000 and RMB395,289,000, respectively. Negative net assets of Kelon Air-Conditioner were RMB495,850,000 and RMB395,289,000, respectively, as of December 31, 2001 and 2000. According to the Accounting Standards for Business Enterprises-Investments and according to notice issued by Ministry of Finance, Cai Kuai 2 Han Zi [1999] No.10 in relation to the consolidation of companies with negative equity, the Company has no obligation to absorb the excess loss of the subsidiary. However, since the Company intends to inject more capital to continue its support for the subsidiary, and to reflect the financial position and operating results in a more fair and prudent manner, the Company applies International Accounting Standard No.27 - Consolidation of Financial Statements and Accounting of Investment in Subsidiaries to the treatment of long-term investment. The losses of the subsidiary in year 2001 and 2000 were fully absorbed, recognised as investment loss, and recorded as separately as "liabilities of investee enterprise". As of 31 December 2001 and 31 December 2000, the balance of liabilities of investee enterprise was RMB495,850,000 and RMB395,289,000, respectively.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 12. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS

The financial statements for the Company's listed H Share in The Stock Exchange of Hong Kong Limited is prepared according to International Accounting Standards and audited by Arthur Andersen & Co. Differences exist between International Accounting Standards and Accounting Standards of the PRC. The impact of the differences on net loss and owner's equity is summarised as follows:

	Net Loss		Owner's Equity	
	2001	2000	2001	2000
<b>The Group</b>				
As per PRC GAAP	<b>(1,555,573,089)</b>	(830,653,498)	<b>2,402,616,534</b>	3,957,879,122
IAS adjustments:				
— Adjustment on fixed assets revaluation and related depreciation	<b>(15,463,682)</b>	(15,463,682)	<b>17,069,677</b>	32,533,359
As restated under IAS	<b>(1,571,036,771)</b>	(846,117,180)	<b>2,419,686,211</b>	3,990,412,481
<b>The Company</b>				
As per PRC GAAP	<b>(1,555,573,089)</b>	(830,653,498)	<b>2,402,616,534</b>	3,957,879,122
IAS adjustments				
— Adjustment on fixed assets revaluation and related depreciation	<b>(17,299,585)</b>	(17,299,585)	<b>42,241,833</b>	59,541,418
— Adjustment on equity pickup in subsidiaries	<b>328,270,369</b>	765,869,331	<b>367,263,224</b>	33,627,019
— Adjustment on profit appropriation of subsidiaries and associates	<b>12,580,429</b>	—	—	—
— Adjustment on additional amortisation of goodwill under international Accounting Standards	<b>(7,214,593)</b>	—	—	—
— Adjustment on exchange difference of translation of foreign currency financial statements	—	—	<b>(310,501)</b>	—
As restated under IAS	<b>(1,239,236,469)</b>	(82,083,752)	<b>2,811,811,090</b>	4,051,047,559

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 13. EXPLANATION ON SIGNIFICANT FLUCTUATION IN ACCOUNT CAPTIONS OF CONSOLIDATED FINANCIAL STATEMENTS

The account captions in the consolidated financial statements, whose extent of fluctuation between the two years ended 31 December 2001 and 31 December 2000 is over 30%, and whose percentage of fluctuation is over 5% of total assets of the Group as of 31 December, 2001 or over 10% of profit before taxation of the Group for the year ended 31 December 2001, were as follows:

	2001	2000	Fluctuation amount and ratio	
			Amount	%
Assets and liabilities				
Other receivables (a)	<b>920,145,160</b>	426,048,067	<b>494,097,093</b>	<b>116%</b>
Short term bank loans (b)	<b>1,323,309,386</b>	437,700,000	<b>885,609,386</b>	<b>202%</b>
Notes payable (c)	<b>678,710,489</b>	216,354,679	<b>462,355,810</b>	<b>214%</b>
Profit or profit appropriation				
Sales discount (d)	<b>338,850,064</b>	541,377,420	<b>(202,527,356)</b>	<b>- 37%</b>
Distribution costs (e)	<b>1,205,943,268</b>	918,195,704	<b>287,747,564</b>	<b>31%</b>
Administration expenses (f)	<b>911,607,048</b>	631,116,249	<b>280,490,799</b>	<b>44%</b>
Minority interests (g)	<b>13,656,567</b>	176,110,879	<b>(162,454,312)</b>	<b>- 92%</b>

- (a) The increase of other receivables mainly results from receivable due from GKG and Greencool (*Note 7(3)(a), (b)*).
- (b) Short-term bank loans increased as the Group borrowed larger amount of bank loans to finance working capital and to provide funds for GKG in 2001.
- (c) The increase of notes payable mainly results from frequent use of commercial notes as means of settlement for operating activities in 2001.
- (d) The decrease of sales discounts is mainly due to the shift of marketing strategy and the increase of promotion by the Group in 2000. As a result, more discount is offered to clients.
- (e) In year 2000 GKG shared advertising expenditure of RMB235,000,000 for the Group, and no such cost sharing arrangement is made in 2001, which contributes to higher distribution costs. Besides, as of 31 December 2001, the Group accrued RMB160,000,000 for the advertising expenditure due to Regal Lucky Limited (*Note 7(3) (b)(iii)*).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

(Amounts expressed in Renminbi Yuan unless otherwise stated)

### 13. EXPLANATION ON SIGNIFICANT FLUCTUATION IN ACCOUNT CAPTIONS OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

- (f) The increase of administration expenses mainly results from additional inventories provision of approximately RMB118,000,000 made in 2001 compared with market environment of year 2000. On the other hand, the Company had provided RMB172,000,000 for receivable from GKG (Note 7(3)(a)).
- (g) The decrease of minority interests mainly results from one subsidiary, Kelon Air-Conditioner suffered excess loss and minority interests do not share the loss of Kelon Air-Conditioner in year 2001.

### 14. COMPARATIVE FIGURES

Certain comparative figures have been modified by retrospective adjustments as disclosed in Note 3 and other figures are reclassified to conform to the current year's presentation.