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KELON INTERIM REPORT 2002



The board of directors ("the Board") of Guangdong Kelon Electrical Holdings Company Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2001 or the audited comparative figures as at 31 December 2001. The consolidated interim financial statements have not been audited but have been reviewed by the Company's audit committee (the "Audit Committee") and auditors (the "Auditors").

# 德勤·關黃陳方會計師行

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**Deloitte  
Touche  
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## INDEPENDENT REVIEW REPORT

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### **TO THE BOARD OF DIRECTORS OF GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

#### **Introduction**

We have been instructed by Guangdong Kelon Electrical Holdings Company Limited (the “Company”) to review the interim financial report set out on pages 7 to 28.

#### **Directors’ responsibilities**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with International Accounting Standard 34 “Interim Financial Reporting” and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

#### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of the review was limited as set out below:

1. The previous auditors explained in their auditors' report on the financial statements for the year ended 31 December 2001 that they were unable to obtain reasonable representations and assurances on which they could rely for the purposes of their audit and there were no satisfactory audit procedures that they could perform to obtain reasonable assurance that all material transactions were properly recorded and completely disclosed. Against this background, we were unable to conclude as to whether the net assets of the Group as at 31 December 2001 were free from material misstatement. Any adjustments to the opening net assets of the Group would affect the net profit of the Group for the six months ended 30 June 2002. Also, the comparative figures at 31 December 2001 shown in the condensed consolidated balance sheet on pages 8 and 9 and in the condensed consolidated income statement for the six months ended 30 June 2001 on page 7 may not be comparable with the figures for the current period.
2. Included in the trade and other receivables in the condensed consolidated balance sheet as at 30 June 2002 is an amount of RMB862,045,000 due from Guangdong Kelon (Rongsheng) Group Company Limited, the former major shareholder of the Company, in respect of which an allowance of RMB172,409,000 has been made. We were unable to obtain sufficient reliable financial information to assess the appropriateness of the allowance made.
3. Included in the condensed consolidated balance sheet as at 30 June 2002 are investments in associates of approximately RMB288 million (31 December 2001: RMB284 million) which comprise share of net assets of approximately RMB131 million; goodwill of approximately RMB114 million; and amounts due from associates of approximately RMB43 million. We were unable to obtain sufficient reliable financial information to assess whether any adjustment for share of net assets, impairment loss for goodwill or allowance for amounts due from associates is required.
4. Included in the trade and other payables in the condensed consolidated balance sheet as at 31 December 2001 and as at 30 June 2002 are accruals for advertising fees amounting to RMB160 million and RMB80 million respectively. These accruals relate to advertising services which the previous directors represented had been provided to the Group in 2001. However, we

were unable to obtain sufficient evidence to support that the related advertising services have been performed. In addition, we were unable to obtain documentary evidence to substantiate the validity of the payment of RMB80 million made in the current period.

5. Included in the long-term amounts due from related companies on the condensed consolidated balance sheet as at 30 June 2002 is a receivable from the Employee Union of the Company of approximately RMB52 million. However, we were unable to obtain sufficient evidence concerning the financial position of the Employee Union to assess whether any allowance should be made in respect of this amount.

### **Modified review conclusion arising from limitations of review scope**

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments that might have been determined to be necessary had the above limitations not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 27 September 2002

**Opinion of the Audit Committee is as follows:**

The Audit Committee has reviewed the 2002 interim results of the Company, with reference to the review report prepared by the Company's auditors in relation to the 2002 interim results, and has no objection to the points stated in the auditors' independent review report.

**Response by the Company to the independent review report of the Auditors and the views of the Audit Committee**

Set out below is the Company's response to the views of the Auditors as set out in its report after reviewing the 2002 interim financial result of the Company for the six months ended 30 June 2002:

- (1) Due to the fact that the financial results of the Company changed from loss to profit, the earnings for the six months ended 30 June 2002 amounted to approximately RMB105 million (calculated based on the International Accounting Standards) and the net current assets on 30 June 2002 reached approximately RMB58 million (calculated based on the International Accounting Standards). The Board expressed a positive opinion to the Company carrying on as a going concern. The management of the Company is optimistic with regards to the operating environment's foreseeable future and the Auditors have no objection to this view.
- (2) Since the Company has made valuation on its fixed assets in the past, the previous auditors requested the Company to make regular valuation on its fixed assets in accordance with the International Accounting Standards. However, the valuer retained by the Company was unable to prepare a valuation report on time, and accordingly the Company's previous auditors were unable to form an opinion on the ground that the International Accounting Standards were not complied with. The valuation report on fixed assets was completed in May 2002. Further, the management has used an estimate as a basis to forecast the discounted cash flow of certain assets. The discounted cash flow appears to be able to have positive contribution to the Group and, as such, no provision has been made. However, having considered the operating results and the rapid changing market condition in the past two years, the previous auditors were unable to determine whether the discounted cash flow forecast was appropriate,

and were not able to form an opinion as to a reasonable net value of such assets. In view of the fact the most of the assumptions used in the discounted cash flow forecast analysis can be realised so far, the net operating cash flow of the Company for the six months ended 30 June 2002 amounted to approximately RMB500 million and having considered the operation performance of the Company, the Board is positive about the analysis on the discounted cash flow prepared by the Company, and accordingly no further provisions would need to be made in respect of the value of such assets.

- (3) The limits to the scope of review as set out in paragraphs 2, 3, 4 and 5 of the section headed "Limits to the scope of review" in the independent review report are issues outstanding from 2001, which have been explained and followed up in the Company's annual report of 2001 and its interim report of 2002. As there have been no material changes or developments since then, those issues are not further discussed herein.

Shunde, Guangdong, the PRC, 27 September 2002

# CONDENSED CONSOLIDATED INCOME STATEMENT

(Prepared in accordance with IAS GAAP)

For the six months ended 30 June 2002

|                                | <u>Notes</u> | <b>For the six months ended 30 June</b> |                |
|--------------------------------|--------------|---|----------------|
|                                |              | <b>2002</b>                             | 2001           |
|                                |              | <i><b>RMB'000</b></i>                   | <i>RMB'000</i> |
|                                |              | <b>(Unaudited)</b>                      | (Unaudited)    |
| Turnover                       | 3            | <b>2,550,332</b>                        | 2,791,077      |
| Cost of sales                  |              | <b>(1,833,170)</b>                      | (2,151,842)    |
| Gross profit                   |              | <b>717,162</b>                          | 639,235        |
| Other revenue                  |              | <b>31,702</b>                           | 42,983         |
| Distribution costs             |              | <b>(446,944)</b>                        | (462,032)      |
| Administrative expenses        |              | <b>(130,472)</b>                        | (165,543)      |
| Other operating expenses       |              | <b>(12,783)</b>                         | (1,360)        |
| Profit from operations         |              | <b>158,665</b>                          | 53,283         |
| Finance costs                  |              | <b>(52,796)</b>                         | (48,436)       |
| Share of results of associates |              | <b>2,421</b>                            | 7,030          |
| Profit before taxation         | 4            | <b>108,290</b>                          | 11,877         |
| Taxation                       | 5            | <b>(2,855)</b>                          | (8)            |
| Profit after taxation          |              | <b>105,435</b>                          | 11,869         |
| Minority interests             |              | <b>(537)</b>                            | 3,829          |
| Net profit for the period      |              | <b><u>104,898</u></b>                   | <u>15,698</u>  |
| Dividends                      | 6            | <b><u>-</u></b>                         | <u>-</u>       |
| Basic earnings per share       | 7            | <b><u>RMB0.11</u></b>                   | <u>RMB0.02</u> |



## CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared in accordance with IAS GAAP)

At 30 June 2002

|  | <i>Notes</i> | <b>30.6.2002</b>   | 31.12.2001     |
|--|--------------|--------------------|----------------|
|  |              | <i>RMB'000</i>     | <i>RMB'000</i> |
|  |              | <b>(Unaudited)</b> | (Audited)      |
| <b>Non-current assets</b>                    |              |                    |                |
| Property, plant and equipment                | 8            | 2,493,767          | 2,602,894      |
| Investments in associates                    |              | 287,848            | 284,259        |
| Amounts due from related companies           |              | 85,603             | 92,140         |
| Other assets                                 |              | 19,074             | 23,002         |
| Goodwill                                     |              | 861                | 911            |
|  |              | <b>2,887,153</b>   | 3,003,206      |
| <b>Current assets</b>                        |              |                    |                |
| Inventories                                  |              | 1,822,885          | 1,225,839      |
| Trade and other receivables                  | 9            | 1,527,738          | 1,442,099      |
| Taxation recoverable                         |              | 117,846            | 157,627        |
| Pledged bank deposits                        |              | 521,361            | 126,995        |
| Bank balances and cash                       |              | 534,754            | 651,196        |
|  |              | <b>4,524,584</b>   | 3,603,756      |
| <b>Current liabilities</b>                   |              |                    |                |
| Trade and other payables                     | 10           | 3,041,195          | 1,702,616      |
| Trade deposits from customers                |              | 184,974            | 434,494        |
| Warranty provision                           |              | 142,617            | 157,357        |
| Taxation payable                             |              | 5,260              | -              |
| Bank borrowings - amount due within one year |              | 1,092,790          | 1,528,268      |
|  |              | <b>4,466,836</b>   | 3,822,735      |
| <b>Net current assets (liabilities)</b>      |              | <b>57,748</b>      | (218,979)      |
|  |              | <b>2,944,901</b>   | 2,784,227      |

|  | <u>Note</u> | <b>30.6.2002</b>        | 31.12.2001              |
|--|-------------|-------------------------|-------------------------|
|  |             | <b>RMB'000</b>          | RMB'000                 |
|  |             | <b>(Unaudited)</b>      | (Audited)               |
| <b>Capital and reserves</b>                    |             |                         |                         |
| Share capital                                  | 11          | 992,007                 | 992,007                 |
| Reserves                                       |             | <u>1,539,139</u>        | <u>1,427,680</u>        |
|  |             | <u><b>2,531,146</b></u> | <u>2,419,687</u>        |
| <b>Minority interests</b>                      |             | <u><b>219,103</b></u>   | <u>218,086</u>          |
| <b>Non-current liabilities</b>                 |             |                         |                         |
| Bank borrowings – amount due<br>after one year |             | <b>87,419</b>           | 29,962                  |
| Pension liabilities                            |             | <b>104,396</b>          | 109,094                 |
| Other payables – amount due<br>after one year  |             | <u><b>2,837</b></u>     | <u>7,398</u>            |
|  |             | <u><b>194,652</b></u>   | <u>146,454</u>          |
|  |             | <u><b>2,944,901</b></u> | <u><u>2,784,227</u></u> |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared in accordance with IAS GAAP)

For the six months ended 30 June 2002

|  | Share          | Share            | Statutory      | Revaluation    | Cumulative Accumulated |                    | Total            |
|--|----------------|------------------|----------------|----------------|------------------------|--------------------|------------------|
|  | capital        | premium          | reserves       | reserve        | translation            | profits            |                  |
|  | RMB'000        | RMB'000          | RMB'000        | RMB'000        | RMB'000                | RMB'000            | RMB'000          |
| Balance at 1 January 2001                  |                |                  |                |                |                        |                    |                  |
| - As previously reported                   | 992,007        | 2,160,621        | 343,743        | 373,570        | (3,760)                | 282,349            | 4,148,530        |
| - Prior period adjustment<br>(note 17)     | -              | -                | -              | -              | -                      | (158,116)          | (158,116)        |
| - As restated                              | 992,007        | 2,160,621        | 343,743        | 373,570        | (3,760)                | 124,233            | 3,990,414        |
| Net loss for the year                      | -              | -                | -              | -              | -                      | (1,571,037)        | (1,571,037)      |
| Translation differences                    | -              | -                | -              | -              | 310                    | -                  | 310              |
| Balance at 1 January 2002                  | 992,007        | 2,160,621        | 343,743        | 373,570        | (3,450)                | (1,446,804)        | 2,419,687        |
| Net profit for the period                  | -              | -                | -              | -              | -                      | 104,898            | 104,898          |
| Translation differences                    | -              | -                | -              | -              | 6,561                  | -                  | 6,561            |
| Balance at 30 June 2002                    | <u>992,007</u> | <u>2,160,621</u> | <u>343,743</u> | <u>373,570</u> | <u>3,111</u>           | <u>(1,341,906)</u> | <u>2,531,146</u> |
| Balance at 1 January 2001<br>(as restated) | 992,007        | 2,160,621        | 343,743        | 373,570        | (3,760)                | 124,233            | 3,990,414        |
| Net profit for the period                  | -              | -                | -              | -              | -                      | 15,698             | 15,698           |
| Translation differences                    | -              | -                | -              | -              | 1,556                  | -                  | 1,556            |
| Balance at 30 June 2001                    | <u>992,007</u> | <u>2,160,621</u> | <u>343,743</u> | <u>373,570</u> | <u>(2,204)</u>         | <u>139,931</u>     | <u>4,007,668</u> |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared in accordance with IAS GAAP)

For the six months ended 30 June 2002

|  | For the six months ended 30 June |                         |
|--|----------------------------------|-------------------------|
|  | 2002                             | 2001                    |
|  | <i>RMB'000</i>                   | <i>RMB'000</i>          |
|  | (Unaudited)                      | (Unaudited)             |
| Net cash inflow from operating activities            | <b>503,533</b>                   | 1,018,812               |
| Net cash outflow from investing activities           | <b>(281,281)</b>                 | (218,467)               |
| Net cash (outflow) inflow from financing activities  | <b>(343,250)</b>                 | 129,061                 |
| (Decrease) increase in cash and cash equivalents     | <b>(120,998)</b>                 | 929,406                 |
| Cash and cash equivalents at beginning of the period | <b>651,196</b>                   | 838,710                 |
| Effect of foreign currency translation               | <b>4,556</b>                     | 1,556                   |
| Cash and cash equivalents at end of the period       | <b><u>534,754</u></b>            | <b><u>1,769,672</u></b> |

*For the six months ended 30 June 2002*

## **1. GENERAL**

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

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

The condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim financial reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **2. ACCOUNTING POLICIES**

The condensed financial have been prepared in accordance with International Accounting Standards ("IAS"). The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2001.

### 3. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of refrigerators and air-conditioners. Analysis of financial information by business segment is as follows:

|   | For the six months ended 30.6.2002 |                |                | For the six months ended 30.6.2001 |                |                |
|---|------------------------------------|----------------|----------------|------------------------------------|----------------|----------------|
|   | Refrigerator                       | Air-           |                | Refrigerator                       | Air-           |                |
|   |                                    | conditioner    | Consolidated   |                                    | conditioner    | Consolidated   |
|   | <i>RMB'000</i>                     | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>                     | <i>RMB'000</i> | <i>RMB'000</i> |
| Turnover  | 1,190,463                          | 1,359,869      | 2,550,332      | 1,264,086                          | 1,526,991      | 2,791,077      |
| Profit from operations                                    | 72,582                             | 86,083         | 158,665        | 17,318                             | 35,965         | 53,283         |
| Profit after taxation<br>but before minority<br>interests | 44,539                             | 60,896         | 105,435        | 8,612                              | 3,257          | 11,869         |
| Minority interests  | (537)                              | -              | (537)          | 5,132                              | (1,303)        | 3,829          |
| Net profit for the period                                 | 44,002                             | 60,896         | 104,898        | 13,744                             | 1,954          | 15,698         |

The refrigerator's business does not have seasonality. The air-conditioner's business has seasonality, with the slow season from August to November of each year.

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

### 4. PROFIT BEFORE TAXATION

Profit before taxation in the condensed consolidated income statement was determined after charging (crediting) the following items:

|                   | For the six months ended 30 June |                |
|-------------------|----------------------------------|----------------|
|                   | 2002                             | 2001           |
|                   | <i>RMB'000</i>                   | <i>RMB'000</i> |
| Interest expenses | 53,795                           | 43,864         |
| Depreciation      | 216,115                          | 210,659        |
| Interest income   | (11,249)                         | (27,373)       |

## 5. TAXATION

For the six months ended 30 June

|                                   | 2002           | 2001           |
|-----------------------------------|----------------|----------------|
|                                   | <i>RMB'000</i> | <i>RMB'000</i> |
| Taxation consists of:             |                |                |
| PRC enterprise income tax ("EIT") |                |                |
| The Company and its subsidiaries  | 2,799          | -              |
| Associates                        | 56             | 8              |
|                                   | <u>2,855</u>   | <u>8</u>       |

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.

The Company was incorporated in Shunde, Guangdong Province and, pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" ("Income Tax Law"), is normally subject to an EIT at a rate of 24%, which is applicable to enterprises located in coastal open economic zone. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 27%. 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. Therefore, the Company is subject to an EIT rate of 27% since 2002.

The Company's subsidiaries, Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Refrigerator"), Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner"), Shunde Rongqi Kelon Fittings Co., Ltd. ("Kelon Fittings"), Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic"), and Guangdong Kelon Mould Co., Ltd. ("Kelon Mould"), incorporated in coastal open economic zone, are subject to an EIT rate of 24%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 27%. Pursuant to 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 2002, Kelon Refrigerator, Kelon Air-Conditioner, Kelon Fittings and Rongsheng Plastic are subject to an EIT rate of 12% (they are all in the 50% EIT reduction period, during which, EIT rate is 12% with the local enterprise tax rate of 3% being exempted according to local tax preferential policy). Rongsheng Plastic and Kelon Mould are subject to an EIT rate of 27%.

The Company's subsidiary, Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon") is subjected to an EIT rate of 30%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 33%. 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%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 27%. 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 at 30 June 2002, Chengdu Kelon is still in loss position and is not required to pay income tax. Yingkou Kelon is subject to an EIT rate of 12% in 2001 (it is in the 50% EIT reduction period, during which, EIT rate is 12% with the local enterprise tax rate of 3% being exempted according to local tax preferential policy).

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.

As at 30 June 2002, deferred tax assets not recognised in the condensed financial statements were analysed into:

|  | <b>30.6.2002</b> | 31.12.2001 |
|--|------------------|------------|
|  | <b>RMB'000</b>   | RMB'000    |
| Tax losses                                   | <b>366,023</b>   | 366,023    |
| Miscellaneous provisions                     | <b>89,207</b>    | 126,887    |
| Revaluation of property, plant and equipment | <b>(35,634)</b>  | (34,166)   |
|  | <b>419,596</b>   | 458,744    |

## 6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002. No interim dividend was declared for the same period last year.

## 7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share was based on the unaudited consolidated net profit of approximately RMB104,898,000 for the six months ended 30 June 2002 (six months ended 30 June 2001: RMB15,698,000) divided by 992,006,563 ordinary shares (2001: 992,006,563 ordinary shares) in issue during the period.



## 8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB127,449,000 (2001: RMB110,928,000) on the acquisition of property, plant and equipment.

## 9. TRADE AND OTHER RECEIVABLES

|  | <u>30.6.2002</u>        | <u>31.12.2001</u>       |
|--|-------------------------|-------------------------|
|  | <i>RMB'000</i>          | <i>RMB'000</i>          |
| Trade receivables – third parties  | <b>346,284</b>          | 172,028                 |
| Notes receivables – third parties  | <b>191,692</b>          | 181,189                 |
| Other receivables – third parties  | <b>300,126</b>          | 198,438                 |
| Amounts due from related companies<br>(including amount due from GKG,<br>see note 13 (a)(iii)) | <b>689,636</b>          | 890,444                 |
|  | <b><u>1,527,738</u></b> | <b><u>1,442,099</u></b> |

Sales are usually settled by cash on delivery. The Group allows a longer credit period of about one year for large and well established customers.

Trade receivables were generated mainly from the sales of refrigerators and air-conditioners. The aged analyses of trade receivables at the reporting date are as follows:

|   | <u>30.6.2002</u>      | <u>31.12.2001</u>     |
|---|-----------------------|-----------------------|
|   | <i>RMB'000</i>        | <i>RMB'000</i>        |
| Not exceeding one year                            | <b>319,204</b>        | 180,660               |
| More than one year but not exceeding<br>two years | <b>84,696</b>         | 95,182                |
| More than two years                               | <b>78,194</b>         | 49,962                |
|   | <b>482,094</b>        | 325,804               |
| Less: Allowance for doubtful debts                | <b>(135,810)</b>      | (153,776)             |
|   | <b><u>346,284</u></b> | <b><u>172,028</u></b> |

## 10. TRADE AND OTHER PAYABLES

|                                  | <u>30.6.2002</u>        | 31.12.2001       |
|----------------------------------|-------------------------|------------------|
|                                  | <i>RMB'000</i>          | <i>RMB'000</i>   |
| Trade payables – third parties   | <b>1,426,774</b>        | 484,392          |
| Notes payables – third parties   | <b>920,542</b>          | 678,710          |
| Other payables – third parties   | <b>597,712</b>          | 526,607          |
| Amounts due to related companies | <b>96,167</b>           | 12,907           |
|                                  | <u><b>3,041,195</b></u> | <u>1,702,616</u> |

As at 30 June 2002, the Group's accounts payable were aged less than one year.

## 11. SHARE CAPITAL

There were no movements in the issued capital of the Company in the interim reporting period.

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying amount of the long-term bank loans approximate the fair value of these loans.

### 13. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out in the ordinary course of business between the Group and related parties for the six months ended 30 June 2002 and the respective balances with the related companies as of 30 June 2002:

#### I. Transactions with related companies

|   | For the six months ended 30 June |          |
|---|----------------------------------|----------|
|   | 2002                             | 2001     |
|   | RMB'000                          | RMB'000  |
| Sale of goods/raw materials to  |                                  |          |
| - Chongqing Kelon Electrical Appliance Company Limited ("Chongqing Kelon") (note c (ix))                              | 53,945                           | 57,772   |
| - Shunde Wangao Import & Export Co., Ltd. ("Wangao Co") (note c (v))  | 34,159                           | -        |
| - Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng") (note c (x))                         | 33,213                           | 56,307   |
| - Shunde Huaao Electrical Company Limited ("Huaao Electrical") (note c (iv))  | 4,267                            | 22,026   |
| - Guangdong Sanyo Kelon Refrigerator Co., Ltd. ("Sanyo Kelon") (note c (xi))  | 3,685                            | 11,524   |
| - Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Rongsheng") (note c (viii))                    | -                                | 47,481   |
| - Guangdong Kelon (Rongsheng) Group Company Limited ("GKG") (note a)  | -                                | 9,777    |
| Purchase of goods/raw materials from  |                                  |          |
| - Huaao Electrical (note c (iv))  | 144,120                          | 185,212  |
| - Wangao Co (note c (v))  | 46,969                           | -        |
| - Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool") (note b (i))                   | 27,000                           | -        |
| - Shunde Kelon Household Electrical Appliance Company Limited ("Kelon HEA") (note c (vii))                            | 16,538                           | -        |
| - GKG (note a)  | -                                | 101,029  |
| - Sanyo Kelon (note c (xi))   | -                                | 1,369    |
| - Others  | 21                               | -        |
| Loan guarantee provided by  |                                  |          |
| - GKG   | 340,000                          | -        |
| - Greencool Enterprise Development Company Limited ("Shunde Greencool")   | 250,000                          | -        |
| Loan guarantee provided to  |                                  |          |
| Communication and You Holdings Company Limited ("C&Y") (note c (xii))   | 3,975                            | -        |
| Income received/(charged):  |                                  |          |
| Interest charged to Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing") (note c (xiii)) | 1,606                            | -        |
| Sale of property, plant and equipment to  |                                  |          |
| Huaao Electrical (note c (iv))  | 1,223                            | -        |
| Logistic management fee paid to Guangzhou Antaida Logistic Co., Ltd. ("GZ Antaida") (note c (xiv))                    | (1,017)                          | -        |
| Advertising fee paid to C&Y (note c (xii))  | (350)                            | (19,080) |
| Advertising fee paid to Kelon Advertising Company ("Kelon Advertising") (note c (iii))                                | -                                | (19,299) |

## II. Balances due from/to related companies

|                                      | <b>30.6.2002</b>      | 31.12.2001            |
|--------------------------------------|-----------------------|-----------------------|
|                                      | <b>RMB'000</b>        | RMB'000               |
| Balance due from GKG (note a)        | <b><u>689,636</u></b> | <u>689,636</u>        |
| Balances due from related companies  |                       |                       |
| Amounts due within one year:         |                       |                       |
| - Shunde Greencool (note c (i))      | -                     | 198,000               |
| - Others                             | -                     | 2,808                 |
|                                      | <u>-</u>              | <u>200,808</u>        |
| Amounts due after one year:          |                       |                       |
| - Chengdu Xinxing (note c (xiii))    | <b>34,000</b>         | 34,000                |
| - Kelon Employee Union (note c (vi)) | <b>51,603</b>         | 58,140                |
|                                      | <u>85,603</u>         | <u>92,140</u>         |
|                                      | <b><u>85,603</u></b>  | <b><u>292,948</u></b> |
| Balances due to related companies    |                       |                       |
| - Huaao Electrical (note c (iv))     | <b>95,783</b>         | 12,566                |
| - Hainan Greencool (note b (ii))     | <b>297</b>            | -                     |
| - Others                             | <b>87</b>             | 341                   |
|                                      | <u>96,167</u>         | <u>12,907</u>         |
|                                      | <b><u>96,167</u></b>  | <b><u>12,907</u></b>  |

Notes:

### (a) Transactions with GKG

The transactions with GKG are summarised as follows:

#### (i) Change of shareholdings

In accordance to the "Contract of shares transfer of Guangdong Kelon Electrical Holdings Company Limited" and "Supplementary Contract of shares transfer of Guangdong Kelon Electrical Holdings Company Limited" signed between GKG, former single largest shareholder of the Company, and Shunde

Greencool dated 29 October 2001 and 5 March 2002 respectively, both parties had already completed the transaction on 18 April 2002. From the date of shares transfer, Shunde Greencool becomes the single largest shareholder of the Company.

In April 2002, GKG also transferred the remaining shareholdings of the Company to Shunde Economic Consultancy Company, Shunde Dong Heng Development Company Limited and Shunde Xin Hong Enterprise Company Limited.

No shareholdings were held by GKG after the completion of the transactions as mentioned above. Any business undertaken between GKG and the Group would no longer constitute any related party relationship. However, GKG was still disclosed as a related party as GKG still had significant influence over the Company in this reporting period.

(ii) *Licence agreement on the use of trademark*

Under a licence agreement ("Licence Agreement") dated 6 July 1996 made between GKG, the former single largest shareholder of the Company, and the Company, GKG granted to the Company an exclusive right to use the trademarks "Kelon" and "Ronshen" for no consideration: (i) as registered in PRC and Hong Kong, and/or (ii) as may from time to time be registered and/or in respect of which applications for registration may be made with the trademarks registry of any other territory by GKG and/or (iii) all "Kelon" or "Ronshen" 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. With the prior written consent of the Company, GKG may use and allow third party to use, such trademarks on production other than the types of products covered by the Licence Agreement. At present, the Group has used the trademarks of "Kelon" and "Ronshen" on the refrigerators' products and "Kelon" on the air-conditioners products under the above-mentioned Licence Agreement.

(iii) As at 30 June 2002, the balances due from GKG resulting from the above transactions amounted to approximately RMB862,045,000 (2001: RMB862,045,000). Based on the continuous negotiations with management of GKG, the Group's management has estimated that RMB172,409,000 of the outstanding balance may not be recoverable and therefore an allowance of that amount was made as at 30 June 2002 (2001: RMB172,409,000).

## **(b) Transactions with Hainan Greencool**

The transactions with Hainan Greencool are summarised as follows:

- (i) On 9 April 2002, an agreement was signed between the Company and Hainan Greencool regarding the purchase of Model R411 chlorofluorocarbon (“CFC”) from the latter amounting to RMB27,000,000. All the goods were received, checked and put into production.
- (ii) For the six months period ended 30 June 2002, the Company received entering and CFC installation fees from 198 engineering units authorised by Greencool Technology Holdings Limited on behalf of Hainan Greencool in PRC at RMB35,000 per unit, totalling RMB6,930,000. As at 30 June 2002, RMB6,633,000 had been paid to Hainan Greencool and the balance payable of RMB297,000 was outstanding at the period end.

## **(c) Transactions with other related parties**

Other related party transactions are summarised as follows:

- (i) On 23 December 2001, GKG entered into a debt transfer agreement with the Company and Shunde Greencool. The debt transfer agreement was subsequently revised on 22 March 2002. In accordance with the agreements, the acquisition cost was RMB348,000,000. For the settlement arrangement, GKG transferred of its debt owing to the Company, amounting to RMB348,000,000, to Shunde Greencool. As at 31 December 2001, an amount of RMB150,000,000 had been settled by Shunde Greencool. Further payment of RMB198,000,000 was made by Shunde Greencool on 25 April 2002 and the total debt of RMB348,000,000 had been fully settled as at 30 June 2002.
- (ii) In consideration of the Company’s plan to consolidate its import/export business and to use the household mini electrical appliances business as a platform to market the Company’s refrigerators and air-conditioners, the Group through its wholly-owned subsidiary Shunde Jiake Electronic Company Limited (“Jiake Electronic”) entered into an agreement with GKG on 26 November 2001 to acquire GKG’s entire interest in Kelon Advertising, Kelon HEA, Huao Electrical and Wangao Co respectively.

On 6 August 2002, the transfer of shares of Kelon Advertising, Wangao Co and Huao Electrical held by GKG to Jiake Electronic had been completed. As at reporting date, Jiake Electronic holds 70% interests in Huao Electrical, 80% interests in Wangao Co and 80% interests in Kelon Advertising. The acquisition of Kelon HEA is still in progress.

After completion of shareholdings transfer during the reporting period, no shareholdings were held by GKG. So GKG and its subsidiaries would no longer constitute any related party relationship as at reporting date. However, these companies were still disclosed as related parties as they still had significant influence over the Company in this reporting period.

- (iii) Kelon Advertising is a directly-controlled subsidiary of GKG. The Group engaged Kelon Advertising as one of its advertising agencies. For the six months period ended 30 June 2001, the Group paid advertising fee of approximately RMB19,299,000 to Kelon Advertising. For the six months period ended 30 June 2002, no such business occurred.
- (iv) Huaao Electrical is a subsidiary of GKG. For the six months period ended 30 June 2002, the Group purchased certain materials amounting to approximately RMB144,120,000 (six months period ended 30 June 2001: approximately RMB185,212,000) from Huaao Electrical.

The Group also sold electronic spare parts to Huaao Electrical. For the six months period ended 30 June 2002, the amount of sales to Huaao Electrical by the Group amounted to approximately RMB4,267,000 (six months period ended 30 June 2001: approximately RMB22,026,000).

For the six months period ended 30 June 2002, the Company sold property, plant and equipment to Huaao Electrical amounting to approximately RMB1,223,000 (six months period ended 30 June 2001: nil).

As at 30 June 2002, the amount due to Huaao Electrical in connection with the above amounted to approximately RMB95,783,000 (2001: approximately RMB12,566,000).

- (v) Wangao Co is an associate of the Group, and also is a subsidiary of GKG which was established in June 2001. For the six months period ended 30 June 2002, Wangao Co imported materials of approximately RMB9,880,000 (six months period ended 30 June 2001: nil) on behalf of Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic"), a subsidiary of the Company. For the same period, Pearl River Electric Refrigerator Company Limited ("Pearl River") and Kelon International Incorporation ("Kelon International"), subsidiaries of the Company, also purchased mini household electrical appliances amounted to approximately RMB37,089,000 (six months period ended 30 June 2001: nil) for export purposes. On the other hand, Wangao Co purchased refrigerators amounting to RMB34,159,000 from the Group for trading purpose during 2002 (six months period ended 30 June 2001: nil).

- (vi) During 2001, the Company had provided funds of RMB116,000,000 to Kelon Employee Union, and employee association owned by the employees of the Group and controlled through their delegates. As at 30 June 2002, the amount due from Kelon Employee Union in this connection amounted to approximately RMB51,603,000 (2001: approximately RMB58,140,000).
- (vii) Kelon HEA is a company which is 75% and 25% held by GKG and the Company respectively. For the six months period ended 30 June 2002, Kelon HEA purchased refrigerators and air-conditioners from the Group and sold them in the market and the sales amount of the Group to Kelon HEA amounted to approximately RMB16,538,000 (six months period ended 30 June 2001: nil).
- (viii) As the Company further acquired the interests of Sichuan Rongsheng, it is not regarded as a related company. Sichuan Rongsheng was an associate of the Group, so only disclosure of sale amount in last period was made.
- (ix) Chongqing Kelon is an associate of the Group. For the six months ended 30 June 2002, the Group sold goods to Chongqing Kelon amounting to approximately RMB53,945,000 (six months period ended 30 June 2001: approximately RMB57,772,000).
- (x) Chongqing Rongsheng is an associate of the Group. For the six months ended 30 June 2002, the Group sold goods to Chongqing Rongsheng amounting to approximately RMB33,213,000 (six months period ended 30 June 2001: approximately RMB56,307,000).
- (xi) Sanyo Kelon is an associate of the Group. For the six months ended 30 June 2002, the Group sold goods to Sanyo Kelon amounting to approximately RMB3,685,000 (six months period ended 30 June 2001: approximately RMB11,524,000).

In accordance with the contract on the transfer of shares signed with the former shareholder of Sanyo Kelon, the Company already repaid the loan of RMB12,350,000 on 24 June 2002 on behalf of Sanyo Kelon.

- (xii) C&Y is an associate of the Group and it is principally engaged in the media advertising and marketing business.

As at 30 June 2002, the Group provided guarantee on the secured bank loan amounting to approximately RMB3,975,000 to C&Y (six months period ended 30 June 2001: nil).



For the six months period ended 30 June 2002, the Group paid advertising fee of approximately RMB350,000 to C&Y (six months period ended 30 June 2001: approximately RMB19,080,000).

As at 30 June 2002, due to the poor operating results in C&Y, the management had made full allowance of RMB11,819,000 for impairment in value of the Group's investment in C&Y.

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

For the six months period ended 30 June 2002, the Group received interest payments of RMB1,606,000 (six months period ended 30 June 2001: nil) from Chengdu Xinxing.

- (xiv) GZ Antaida is an associate of the Group. The Group and GZ Antaida entered into a logistic service agreement where GZ Antaida is responsible for providing transportation service to the Group, a 4% service fee is charged on delivery and discharge of goods. For the six months period ended 30 June 2002, the Group paid to GZ Antaida the logistic management fee of approximately RMB1,017,000 (six months period ended 30 June 2001: nil).

**(d) Terms of the related party balances**

Save as the balance due from Chengdu Xinxing, all other related party balances are unsecured, non-interest bearing and repayable on demand.

**(e) Violation of Listing Rules**

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

**14. CAPITAL COMMITMENTS**

At the reporting date, the Group had the following capital commitments:

|   | <u>30.6.2002</u> | <u>31.12.2001</u> |
|---|------------------|-------------------|
|   | <i>RMB'000</i>   | <i>RMB'000</i>    |
| Contracted but not provided for             |                  |                   |
| – Purchase of property, plant and equipment | <u>58,944</u>    | <u>31,740</u>     |

**15. FINANCIAL RISK MANAGEMENT**

**(a) Financial risk factors**

The Group activities expose it to a variety of financial risks, including credit risk and interest rate risk.

Financial risk management is carried out by the Finance department under policies approved by the Board.

Credit risk, or the risk of counterparties defaulting, are controlled by the application of credit terms of monitoring procedures.

The Group's income and operating cash flows are substantially independent of changes in market prices interest rates.

The Group has no significant concentration of other financial risks, including foreign exchange risk.

**(b) Fair value estimation**

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

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

**16. DIFFERENCES BETWEEN IAS AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP**

The condensed consolidated balance sheet of the Group prepared under IAS and that prepared under PRC accounting standards and regulations have the following major differences:

|  | <u>30.6.2002</u>        | <u>31.12.2001</u>       |
|--|-------------------------|-------------------------|
|  | <i>RMB'000</i>          | <i>RMB'000</i>          |
| Net assets as per condensed financial statements prepared under IAS                            | <b>2,531,146</b>        | 2,419,687               |
| Adjustment on property, plant and equipment revaluation and related depreciation               | <b>(9,338)</b>          | (17,070)                |
| Adjustment on amortisation of long-term investments  | <b>50</b>               | -                       |
|  | <hr/>                   | <hr/>                   |
| Net assets as per financial statements prepared under PRC accounting standards and regulations | <b><u>2,521,858</u></b> | <b><u>2,402,617</u></b> |

The condensed consolidated income statement of the Group prepared under IAS and that prepared under PRC accounting standards and regulations have the following major differences:

|   | <b>For the six months ended 30 June</b> |                      |
|---|---|----------------------|
|   | <b>2002</b>                             | 2001                 |
|   | <b>RMB'000</b>                          | RMB'000              |
| Net profit for the period as per condensed financial statements prepared under IAS                            | <b>104,898</b>                          | 15,698               |
| Adjustments on property, plant and equipment revaluation and related depreciation                             | <b>7,732</b>                            | 7,824                |
| Adjustments on amortisation of goodwill   | <b>50</b>                               | (3,771)              |
| Net profit for the period as per financial statements prepared under PRC accounting standards and regulations | <b><u>112,680</u></b>                   | <b><u>19,751</u></b> |

There are differences in other items in the condensed financial statements due to differences in classification between IAS and PRC accounting standards and regulations.

## **17. PRIOR PERIOD ADJUSTMENT**

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

## 18. SIGNIFICANT SUBSEQUENT EVENTS

- (a) In consideration of the Company's plan to consolidate its import/export business and to use the household mini electrical appliances business as a platform to market the Company's refrigerators and air-conditioners, the Company through its wholly-owned subsidiary Jiake Electronic entered into an agreement with GKG on 26 November 2001 to acquire GKG's entire interest in Kelon Advertising, Kelon HEA, Huao Electrical and Wangao Co respectively.

On 6 August 2002, the transfer of shares of Kelon Advertising, Wangao Co and Huao Electrical held by GKG to Jiake Electronic had been completed. As at reporting date, Jiake Electronic holds 70% interests in Huao Electrical, 80% interests in Wangao Co and 80% interests in Kelon Advertising. The acquisition of Kelon HEA is still in progress.

- (b) In July 2002, the acquisition of Sanyo Kelon (being an associate of the Group before acquisition) was completed. Before acquisition, Sanyo Electric Co., Ltd., Sanyo Electric (China) Co., Ltd., Nisshoiwai (China) Co., Ltd. and the Company held 46%, 5%, 5% and 44% interests in Sanyo Kelon respectively. After acquisition, Sanyo Kelon is wholly owned by the Group.

## DIVIDENDS

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At a meeting of the Board held on 26 August 2002, the Board resolved not to declare any interim dividend for the six months ended 30 June 2002. No interim dividends were distributed for the corresponding period last year.

## REVIEW OF OPERATIONS AND PROSPECTS

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### **Business review**

#### *Operations of the Group*

For the Period, the Group's net turnover amounted to RMB2,550,332,000, representing a decline of approximately 8.63% in comparison with the corresponding period in 2001. The weak performance for the first half year was due to the fact that the Group went through a transition between old and new

management in the first and second months of this year which resulted in the effectiveness of the new operation strategy not being able to be reflected and the fact that the prices of certain models of the Group's air-conditioners went down during the Period.

For the Period, the Group's gross profit amounted to approximately RMB717,162,000, representing an increase of approximately 12.19% over the corresponding period in 2001. The gross profit margin for the Period jumped to 28.12% from 22.90% recorded in the corresponding period last year. Profit attributable to shareholders amounted to RMB104,898,000, representing an increase of 568.23% over the corresponding period in 2001. Basic earnings per share was RMB0.11.

The Group's principal activities are the development, manufacture and sale of refrigerators and air-conditioners. The Group's refrigerators are sold under the "Kelon" and "Ronshen" brand names, whereas its air-conditioners are sold under the "Kelon" and "Huabao" brand names.

#### *Internationalised management processes*

During the Period, the Group implemented internationalised management processes with a view to improving management's efficiency, reducing expenses resulting from management processes and enhancing cost effectiveness.

In relation to the establishment of the Enterprise Resource Planning (ERP) system, the Group expects Phase I of the project will complete at the end of 2002 and Phase II will commence in 2003.

Further, in May 2002, the Group entered into an alliance agreement with IBM, the world's largest computer corporation, to jointly enhance the competitiveness of the electrical household appliances business using information technology. The Group will fully adopt the "knowledge sharing platform" of Knowledge Management Solution provided by IBM as long-term support to the Group's hardwares, softwares, solutions and services, and thereby increasing the speed for internal and external information flow and improving management's efficiency and enhancing internationalisation of the Group.

### *Innovative product technology*

The Group has strong research capabilities, and leads the market with its innovative product designs. During the Period, the Group launched various new products which were revolutionary to the industry. The Group also implemented an optimising strategy to enhance the main functions and efficiency of its products through the use of advanced technology and to substantially strengthen the Group's position for profitability.

The refrigerators with "Independent Multi Cycling Refrigeration" ("IMCR") have 4 main fundamental characteristics, namely, adjustable temperature compartments, more accurate temperature control, quicker refrigeration and less power consumption, breaking the traditional concept of dividing a refrigerator into two different temperature compartments: freezing compartment and cooling compartment. The Group's invention of this new technology has enhanced the competitiveness of the refrigerators of "Kelon" and "Ronshen" brands in the domestic and overseas markets and has increased the technological added-value to its products. As such, the Group's foundation for profitability for this year becomes stronger. Currently, the Group has applied to register patents in respect of its IMCR technology with the PRC State Patent Office and in about 20 developed countries in Europe and America.

"Shuang Xiao Wang" Cooling and Heating Air-Conditioner was also launched in the market in March 2002. It is a product which uses the efficient, energy-saving and environment-friendly "Greencool Refrigerants" and embodies patented technologies. With its refrigerating efficiency and heating efficiency as high as 3.8 and 4.2 respectively, being higher than the State's energy-saving standards by 40% and 50% respectively, this product has ranked first among similar products in the world and established market recognition of Kelon Air-conditioners as high efficiency and energy-saving air-conditioners.

During the Period, through the marketing and promotion programme of "Longteng II", the Group sold the IMCR refrigerators and "Shuang Xiao Wang" Cooling and Heating Air-conditioners to more than 300 cities throughout the PRC. Through such high value-added and high-tech products, together with its comprehensive sales network and quality service to meet the increasing needs of the customers, the Group has successfully established its brand name as a sign of high technology.

At the 91st PRC (Guangzhou) Export Trade Fair held in April 2002, the number of contracts entered into by the Group with foreign investors during the Fair ranked third among the Guangdong enterprises. Moreover, when the IMCR refrigerator was initially launched, it won unprecedented success at the First International Exhibition on Electrical Household Appliances in Berlin.

### *Stringent Cost Control*

Stringent cost control is the Group's foremost task at present. The Group is stringently controlling its operation process from purchase to sale so as to implement its "Profitability Driven" management philosophy. In the first half of 2002, the Group has succeeded in reducing management expenses, achieving the optimised management process and controlling sales and production costs. As a result, the Group's cost was substantially reduced as compared with that of the previous year. Moreover, the Group will make adjustments to its investment strategy to overall reduce the investment in projects which remain non-profitable in the short term, and appropriately rationalise the Group's structure and streamline managerial personnel.

The Group has established the solid and comprehensive sales network domestically and abroad, and has commenced the operations of all marketing branches in 28 provinces. The effect of these achievements was successfully reflected in the operating results of the first half of 2002. The efficiency was improved and sales costs were greatly reduced. Furthermore, the cooperation with distributors became even much closer. As such, the Group recorded an increase in its earnings.

During the Period, the Group established strategic alliance with China Southern Airlines Company Limited, whereby the staff of the Group and its affiliated suppliers will travel with Southern Airlines, and all the airfreight operations of the Group will be commissioned with Southern Airlines. It is expected that the Group will save more than 30% of its airline expenses every year.



### *Market internationalisation*

In order to stay closer to overseas market and customers, the Group set up a new company in the United States in 2002 to establish a firm foundation for overseas sales network.

To speed up its development in international market, during the Period, the Group established the department of international cooperation (led by well-experienced international experts) to pursue strategic cooperation with large international enterprises and to manufacture relevant electrical household appliances for them.

The Group formed a strategic alliance with Kolin Company, a renowned company in Taiwan, in March 2002. Kolin Company will appoint the Group to manufacture 20,000 refrigerators for it and to export 20,000 units of air-conditioners to be assembled in Taiwan. Once the opportunity arises, the Group will directly sell its products to Taiwan.

The above cooperation has clearly shown that the Group aims to seek close multilateral cooperation in the midst of keen competition within the electrical household appliance market to expand its sales channels and realise its management philosophy of "Technologically Led and Profitability Driven" and the "Strategy for Cost-Optimisation". Moreover, the Group can also share its partners' resource advantages, market advantages and competitive advantages in their respective industries and to realise a win-win strategy.

### *Project of Perfection*

During the Period, the Group increased its pace on the implementation of the "Project of Perfection". Emphasis was put on the development of hi-tech and high value-added products so as to increase the Group's competitiveness and profitability. The Group considered that through the implementation of the "Project of Perfection", the Group could have better quality control and more attractive design to its products. On the other hand, through the implementation of the "Project of Perfection", the Group could keep the wastage in every level of production to a minimum. In corporate management, more attention will be put to the sophistication and optimisation of procedures in corporate management.

The Company believes that by implementing the “Project of Perfection”, the Group’s products can reach the world’s highest standard.

#### DEVELOPMENT PLAN IN FUTURE

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The Group will establish itself in the refrigerating industry and strictly follow the corporate policy of “Technologically Led and Profitability Driven”. The Group highly appreciates the importance of technology innovation in the development of the Group’s competitiveness and, accordingly, makes additional investments in technology research, to ensure the Group’s products have a leading edge in technology and quality. For this purpose, Mr. Gu Chu Jun, the chairman of the Board, initiates the “Project of Perfection”, which, as the influence of the Project goes broader and deeper, will benefit the Group’s products eventually and push its product quality, its technology innovation and corporate management to the world’s highest level. Meanwhile, the Group will accelerate the implementation of its internationalisation strategy, which includes, inter alia, speeding up expansion into overseas markets by using various methods of international cooperation, increasing foreign cooperation and putting more investment into international trading, in the hope that the Group will become the leader in the refrigerating industry.

#### TRUST DEPOSITS

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As of 30 June 2002, the Company did not have any trust deposits or fixed deposits with any financial institutions in the PRC, which are allowed to be withdrawn only upon maturity. All of the Company’s deposits have been placed with commercial banks in the PRC and Hong Kong and the Company has not encountered any collection difficulties with withdrawals.

#### UNIFIED INCOME TAX AND LOCAL TAX REFUND PRIVILEGE

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As the “33% Levy and then 18% Refund” income tax privilege enjoyed by the Company expired on 31 December 2001, starting from 2002, the Company is subject to income tax rate of 27%.

## EMPLOYEE HOUSING SCHEME

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The Company has an incentive scheme with the objective of retaining our staff, especially middle management. Under the scheme, the Company can at its discretion sell residential flats to employees selected by the Company at book value. The employees pay a purchase price by monthly installments for ten years. Such monthly installments carried no interest element before 1997 but were subsequently revised so that effective from 1997 they all carried interest charges. The monthly installments are deducted automatically from the employees' monthly salaries. Title of properties will remain with the Company until the installments are fully paid by the employees. If an employee leaves the Company or is dismissed by the Company during the repayment period, the installment payments already made by the employee will be treated as rental payment and no refund of installment payments will be necessary.

As of 30 June 2002, a total of 571 employees (2001: 571) participated in this scheme. During the Period, no employee has fully paid up the installments and accordingly the titles of the properties remained with the Company.

## THE IMPACT OF THE PRC'S ACCESSION TO THE WTO ON THE GROUP

Since PRC's formal accession to the WTO, the PRC household appliances enterprises have been facing intensified competition in the market. Overseas household appliances enterprises are striving to cope with the PRC consumer demand by enhancing the quality of after-sales services, the coverage of sales networks and brandname awareness. Mergers among enterprises tend to be the strategy to compete and price cutting has become the major weapon for competition among enterprises. The Company however believes that as the economy of the PRC continues to flourish, the income of the people and their purchasing power will continue to increase. Therefore, the Company believes that there is substantial room for growth in the domestic household appliances market.

In the face of intense market competition, the Company will step up its pace in the innovation of technology. The Company will fully capitalise on various existing resources to make corresponding adjustments to its existing product structure, business strategy and market structure. The Company will also continue to follow

the “Technologically Led and Profitability Driven” business strategy, with realisation of profit as its primary business objective on the basis of “enhancing the technology elements of its products” and “strengthening scientific-based management”. All these serve to speed up the globalisation process of the Company and maintain its leading position in the next round of competition.

## SOURCES OF WORKING FUNDS AND CAPITAL

Net cash inflow from operating activities for the first half of 2002 amounted to RMB503,533,000.

As at 30 June 2002, the Company had bank balances and cash on hand (excluding pledged bank deposits) totaling approximately RMB534,754,000 and bank loan balance of approximately RMB1,180,209,000.

Total capital expenditure for the first half of 2002 amounted to RMB503,029,000.

As at 30 June 2002, the net proceeds from the Company’s initial public offering and subsequent placement of H shares and public offer of A shares have been applied as the Group’s capital expenditure and working capital.

## SHARE CAPITAL STRUCTURE

As at 30 June 2002, the share capital structure of the Company was as follows:

|                 | <b>Issued Share<br/>Capital</b> | <b>Percentage of<br/>Total Number<br/>of Shares</b> |
|-----------------|---------------------------------|---|
| Domestic shares | 422,416,755                     | 42.58%  |
| H shares        | 459,589,808                     | 46.33%  |
| A shares        | 110,000,000                     | 11.09%  |
| Total           | <u>992,006,563</u>              | <u>100.00%</u>                                      |

As compared with the beginning of the Period, there was no change in the share capital of the Company for the six months ended 30 June 2002, except that as at

2 June 2002, three years have lapsed since the issue of the Company's A shares to the public and accordingly, application can be made for the listing of the domestic employee shares of the Company. The domestic employee shares of the Company were listed on the Shenzhen Stock Exchange on 18 July 2002 (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 15 July 2002). After listing of the domestic employee shares, the share capital structure of Company is as follows:

|                 | <u>Issued Share<br/>Capital</u> | <u>Percentage of<br/>Total Number<br/>of Shares</u> |
|-----------------|---------------------------------|---|
| Domestic shares | 337,915,755                     | 34.06%  |
| H shares        | 459,589,808                     | 46.33%  |
| A shares        | <u>194,501,000</u>              | <u>19.61%</u>                                       |
| Total           | <u><u>992,006,563</u></u>       | <u><u>100.00%</u></u>                               |

#### TOP TEN/SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the top ten shareholders of the Company (including shareholders who registered an interest of more than 10% of the issued share capital of the Company) were as follows:

| Name of Shareholders                                  | Class           | Shares Held | Percentage<br>of Holding |
|---|-----------------|-------------|--------------------------|
| Greencool Enterprise Development<br>Company Limited   | Domestic Shares | 204,775,755 | 20.64%                   |
| Shunde Economic Consultancy Company                   | Domestic Shares | 68,666,667  | 6.92%                    |
| The Hongkong and Shanghai Banking<br>Corporation Ltd. | H Shares        | 66,824,727  | 6.74%                    |
| Shunde Xin Hong Enterprise<br>Company Limited         | Domestic Shares | 57,436,439  | 5.79%                    |
| Bank of China (Hong Kong) Limited                     | H Shares        | 41,164,000  | 4.15%                    |
| Citibank N.A.   | H Shares        | 21,774,052  | 2.20%                    |
| Guotai Junan Securities (Hong Kong) Limited           | H Shares        | 20,580,000  | 2.07%                    |
| Hang Seng Bank Ltd.                                   | H Shares        | 20,146,000  | 2.03%                    |
| Tai Fook Securities Company Limited                   | H Shares        | 17,001,000  | 1.71%                    |
| Standard Chartered Bank                               | H Shares        | 15,925,800  | 1.61%                    |

*Descriptions of shareholding connections among the top 10 shareholders:*

1. None of the top ten shareholders has any connection with any of the others.
2. During the Period, no shares held by any shareholder, who holds 5% or more legal person shares, were subject to any charges, freezing orders or other arrangements.
3. During the Period, in accordance with the provisions set out in the sale and purchase agreement ("Transfer Agreement") entered between GKG (the former single largest shareholder of the Company) and Shunde Greencool for the transfer of shares in the Company and a supplemental agreement to the Transfer Agreement (the "Supplemental Agreement") on 29 October 2001 and 5 March 2002 respectively (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 31 October 2001 and 14 March 2002), parties to the Transfer Agreement had completed the share transfer procedures. From the date the share transfer procedures were completed, Shunde Greencool became the single largest shareholder of the Company.

Shunde Greencool, a limited liability company incorporated under the laws of the PRC in October 2001, with registered address at 8/F, Rongshan Building, 88 Rongqi Main Road Central, Ronggui District, Shunde, is the single largest shareholder of the Company. Shunde Greencool mainly engages in the research, manufacturing and distribution of refrigerating equipment and accessories, fluoride-free refrigerants; research and development of refrigerating technology; development, manufacturing and sale of computer, broadband networking equipment. The registered capital of Shunde Greencool is RMB1,200,000,000. The shareholding structure of Shunde Greencool: the existing issued share capital is held by Mr. Gu Chu Jun and Mr. Gu Shan Hong in the proportion of 90% and 10% respectively. During the Period, Shunde Greencool recorded a net profit of RMB23,816,000. As at the end of the Period, the net asset value of Shunde Greencool was RMB1,373,421,000.

On 15 April 2002, GKG entered into an agreement with Shunde Economic Consultancy Company (順德市經濟諮詢公司) to transfer to Shunde Economic Consultancy Company a total of 68,666,667 legal person shares in the Company (for details, please refer to announcements published in "中國證券報", "證券時報",

"Hong Kong Economic Journal" and "HK iMail" on 19 April 2002).

On 26 April 2002, GKG received a court judgment which ruled that its shareholdings of 7,036,894 legal person shares in the Company were required to be transferred to Shunde Dong Heng Development Company Limited (順德東恒發展有限公司) (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 16 May 2002).

On 30 April 2002, GKG and Shunde Xin Hong Enterprise Company Limited (順德信宏實業有限公司) entered into an agreement to transfer 57,436,439 legal person shares to Shunde Xin Hong Industries Limited (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 16 May 2002).

Following the four abovementioned share transfers, GKG, the former single largest shareholder of the Company, no longer holds any shares of the Company. Henceforth, any business dealing between the Company and GKG will no longer constitute a connected transaction.

## INTERESTS OF DIRECTORS AND SUPERVISORS

As at 30 June 2002, the interests (as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) of the directors, supervisors and chief executives of the Company in the domestic shares. A shares and H shares of RMB1.00 each, as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

| <u>Director/Supervisor</u> | <u>Position</u> | <u>Type of Interest</u> | <u>Number of Shares</u>              |
|----------------------------|-----------------|-------------------------|--------------------------------------|
| Gu Chu Jun (i)             | Director        | Corporate               | 204,775,755 Legal Person Shares      |
| Gu Chu Jun (ii)            | Director        | Corporate               | 3,830,000 H Shares                   |
| He Si                      | Supervisor      | Personal/Family         | 50,000 domestic shares for employees |

- (i) Shunde Greencool owns 204,775,755 legal person shares in the Company, representing approximately 20.64% of the existing issued share capital of the Company. Mr. Gu Chu Jun owns 90% of the total investment in Shunde Greencool.

- (ii) Mr. Gu Chu Jun is a substantial shareholder of Greencool Technology Holdings Limited (a company listed on the Hong Kong Stock Exchange Growth Enterprise Market) and owns approximately 62.5% of its share interests. Two subsidiaries of Greencool Technology Holdings Limited held 3,830,000 H shares of the Company, representing approximately 0.39% of the issued share capital of the Company.

Save as disclosed above, the company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as of 30 June 2002.

## PURCHASE, SALE AND REDEMPTION OF SHARES

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During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any securities of the Company or its subsidiaries.

## SIGNIFICANT EVENTS

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On 3 March 2002, the Company announced to the media that the refrigerator industry embraced the "Post-refrigerator era" – Kelon has introduced the world's first refrigerator embedded with "Independent Multi Cycling Refrigeration" technology; further strengthening its leadership in the refrigeration industry.

On 17 March 2002, the Company announced to the media "Dual high effectiveness – a good Air-conditioner" followed by the launch of the "Shuang Xiao Wang" Air-conditioner to secure greater market share in 2002.

On 18 June 2002, the shareholders of the Company at a general meeting resolved and approved to change the auditors of the Company and the directors were authorised to determine their remuneration. According to this, the Company will engage 德勤華永會計師事務所 and Deloitte Touche Tohmatsu as the auditors of the Company for domestic and overseas auditing for the year ending 31 December 2002.

Neither the Company nor any of its subsidiaries was involved in any material litigation or significant arbitration during the Period.



The opinion issued by Arthur Andersen. Hua Qiang ("Andersen") in respect of the 2001 financial report (Auditors' Report) of the Company has been explained in the 2001 Annual Report, and is further explained as follows:

1. Andersen was not able to form an opinion on the Company's ability to continue as a going concern due to the second consecutive year of loss recorded by the Company, which amounted to a net current debt of RMB180,000,000 at the end of 2001. As stated in the 2001 Annual Report, the Board of Directors has put forward a series of measures in early 2002, which include:
  - (a) develop and manufacture products with high added value;
  - (b) strengthen management to reduce cost; and
  - (c) modify structure of the Company to enhance efficiency.

The above measures have been implemented in stages in 2002 and the result is satisfactory. Recently, the Company is able to turn loss into profit and if the situation continues to improve, there should be no doubt on the ability of the Company to continue as a going concern. In addition, the amount of RMB198,000,000 payable by Shunde Greencool to the Company which incurred as a result of the transfer of share interests and transfer of debt arrangements was fully paid to the Company on 25 April 2002. As a result, the cash flow of the Company has improved.

2. As most of the directors and senior management responsible for the Company's operation in 2001 had resigned, Andersen was not able to obtain representations and assurances from the previous management to confirm that all material transactions in 2001 were accurately recorded and fully disclosed. Although the present management endeavoured to ensure that all material transactions were recorded and fully disclosed and was willing to make such representations and assurances, Andersen was unable to form an opinion because the present management was not responsible for the

operations in 2001 and hence could not accept such representations and assurances. However, up to the date hereof, no material transactions that are unrecorded or undisclosed have been found by the Company.

3. In 2001, the company seal of one of the Company's subsidiaries was mistakenly used, and as a result the Company had to repay a debt of RMB210,000,000 for and on behalf of GKG. Based on this incident, Andersen indicated that they could not ascertain the contingent or real liabilities caused by this incident. The present management has increased its control and management over the use of the company seal of all companies and has also implemented in earlier stages various policies including:
  - (a) the present management has conducted a financial audit of all existing guarantees made by the Group;
  - (b) the present management has demanded the officers in the financial management department to review all guarantees and loans made with external parties to ensure that the records are complete; and
  - (c) the present management has checked with the relevant banks and financial institutions. Up to the date hereof, no abovementioned liabilities have been discovered.
4. In accordance with International Accounting Standards ("IAS"), the Company is required to make regular valuation on its fixed assets. However, the independent valuer retained by the Company was unable to prepare a valuation report on time, and accordingly Andersen was not able to express its opinion on the ground that accounting principles were not complied with. The valuation report on those fixed assets was completed in May 2002, and the difference between the assessed values and the carrying values is less than 10%.

In addition, management has used an estimate as a basis to forecast the discounted cash flow of these assets. Although the discounted cash flow is positive, that is, no provision has to be made, having considered the results of operation in the past 2 years and the fact that the market condition is changing rapidly, Andersen was unable to determine whether the discounted cash flow forecast is appropriate.

At present, most of the assumptions used in the discounted cash flow analysis when the audit was performed can be realised. The net operating cash flow of the Company for the six months ended 30 June 2002 amounted to RMB503,533,000. Accordingly, the Company considers that the values attached to such assets are reasonable.

5. The present management team noted that a contract was signed at the end of 2000 with advertising agents relating to the advertisements which they would handle for and on behalf of the Company in 2001 with an aggregate value of RMB160,000,000. After consulting the previous management team and on the basis of the terms of the contract, and a representation made by the previous management team and in accordance with the conservative policy in accounting standards, the advertising fees were included in the accrual and other payable balance. Andersen is of the opinion that there is insufficient evidence to support that the advertising services had been performed in 2001 and therefore is not able to form an opinion. Up to the date hereof, an approximate sum of RMB80,000,000 has been paid, and payment for the balance is suspended due to the lack of evidence supporting the performance of the related advertising services. At present the management is seeking more evidence to support such expenses.
6. At the end of 2001, accounts receivable from GKG amounted to RMB862,000,000. The present management believes that the chance of recovery of such amount is very high. Nevertheless, the management has, in accordance with the conservative policy in accounting standards made a 20% provision amounting to approximately RMB172,000,000. Andersen was unable to assess whether the provision is adequate and whether any reclassification may be required to reflect the timing of the ultimate settlement. The Company is currently negotiating with GKG on the method and timing of settlement of the outstanding balance, but no formal agreement is finalised.
7. Long term receivables for 2001 include an approximate sum of RMB58,000,000 to be collected from the Employee Union of the Company. No provision has been made on this amount as the present management believes that the total amount can be collected. An approximate sum of RMB6,500,000 has already been collected at the end of June 2002.

As Andersen is unable to assess the collectibility of the above amount, it has reserved its opinion in respect of this matter. At present, the Company is negotiating with the Employee Union on the method of settlement of the amount.

#### CODE OF BEST PRACTICE

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The directors are not aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice contained in Appendix 14 of the Listing Rules, in any part of the Period.

#### DOCUMENT AVAILABLE FOR INSPECTION

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The original 2002 interim report signed by the chairman is available for inspection at the following address:

The Secretariat of the Board  
Guangdong Kelon Electrical Holdings Company Limited  
No. 8 Ronggang Road  
Ronggui, Shunde  
Guangdong Province  
the PRC

By Order of the Board  
**Guangdong Kelon Electrical Holdings Company Limited**  
**Gu Chu Jun**  
*Chairman*

Shunde, Guangdong, the PRC, 26 August 2002

SUPPLEMENTARY INFORMATION AS REQUIRED BY THE STOCK  
EXCHANGE OF HONG KONG LIMITED IN RELATION  
TO THE COMPANY'S A SHARE INTERIM RESULTS ANNOUNCEMENT

**(1) Principal Financial Statistics and Indicators**

(Prepared in accordance with PRC GAAP)

(Unit: RMB)

| <b>Items</b>  | <b>For the six months ended 30 June</b> |               |
|---|---|---------------|
|   | <b>2002</b>                             | 2001          |
| Net profit  | <b>112,681,302</b>                      | 19,750,961    |
| Net profit deducted by extraordinary<br>profit (loss)*                      | <b>113,778,916</b>                      | 28,399,845    |
| Total assets  | <b>7,327,972,237</b>                    | 7,930,262,396 |
| Assets-liability ratio (%)  | <b>62.49%</b>                           | 46.76%        |
| Shareholders' equity (excluding<br>minority interests)                      | <b>2,521,857,904</b>                    | 4,137,302,548 |
| Earnings per share  | <b>0.11</b>                             | 0.02          |
| Earnings per share considering share<br>change after the balance sheet date | <b>0.11</b>                             | 0.02          |
| Return on net assets (%)  | <b>4.47%</b>                            | 0.48%         |
| Net assets per share  | <b>2.54</b>                             | 4.17          |
| Adjusted net assets per share   | <b>2.33</b>                             | 3.93          |
| Net assets per share considering share<br>change after balance sheet date   | <b>2.54</b>                             | 4.17          |
| Net cash flow from operating activities<br>per share                        | <b>0.16</b>                             | 1.04          |

| <u>Items</u>  | <u>31 December 2001</u> |
|---|-------------------------|
| Net loss  | 1,555,573,089           |
| Net loss deducted by extraordinary profit (loss)                            | 1,496,027,378           |
| Earnings per share  | (1.57)                  |
| Earnings per share considering share change<br>after the balance sheet date | (1.57)                  |
| Return on net assets (%)  | (48.91%)                |

\* Note: Item & amount of extraordinary profit (loss)

| <u>Items</u>                                 | <u>Amount</u>      |
|--|--------------------|
| Non-operating income                         | 4,921,767          |
| Non-operating expense                        | (974,981)          |
| Amortisation on equity investment difference | (6,650,000)        |
| Interest received from related party         | 1,605,600          |
|  | <hr/>              |
| Total  | <u>(1,097,614)</u> |

### **Difference on net profit and net assets between the IAS and PRC GAAP**

| <u>Items</u>                    | <u>For the<br/>six months<br/>period ended<br/>30 June 2002<br/>Net profit</u> | <u>As at<br/>30 June 2002<br/>Net assets</u> |
|---------------------------------|--|--|
| Reported in accordance with IAS | 104,899,460  | 2,531,145,739                                |
| Reported in accordance with PRC | 112,681,302  | 2,521,857,904                                |
|                                 | <hr/>  | <hr/>  |
| Difference                      | <u>(7,781,842)</u>   | <u>9,287,835</u>                             |

The calculation formulae for the key financial indicators are as follows:

|   |   |   |
|---|---|---|
| Earnings per share                                | = | net profit/weighted average number of ordinary shares outstanding for the period  |
| Return on net assets                              | = | net profit/shareholders' equity as of the period end * 100%   |
| Net assets per share                              | = | shareholders' equity as of the period end/<br>number of ordinary shares outstanding as of the Period end  |
| Adjusted net assets per share                     | = | (shareholders' equity as of the period end<br>- accounts receivable with aging over 3<br>years - deferred expenditures - long-term<br>deferred expenditures) /number of ordinary<br>shares outstanding as of the period end |
| Net cash flow from operating activities per share | = | Net cash flow from operating activities/<br>number of ordinary shares outstanding as<br>of the period end   |

## **(2) Details of New Appointment and Resignation of the Directors, Supervisors and Senior Management of the Company during the period**

1. At the 2002 Annual General Meeting of the Company, shareholders of the Company approved the resignation of Li Di Qiang (李棣強), He Zheng Guang (何正光) and Wang Kun You (黃坤友) as supervisors for work reasons, whereas He Si (何斯) will remain as supervisor and Wang Kun Ping (王康平) and Jiang Bao Jun (薑寶軍) were appointed as the supervisors of the Company (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 19 June 2002);

2. Huang Xiao Chi (黃小池), the Vice President (Technical Department) (技術副總裁) of the Company has resigned as Vice President for personal reason on 1 June 2002.

### (3) Comparing figures on Major Financial Indicators

| Items  | For the six months<br>ended 30 June |               | Increase/<br>Decrease |
|--|-------------------------------------|---------------|-----------------------|
|  | 2002                                | 2001          |                       |
| Turnover from principal operations                   | <b>2,550,506,407</b>                | 2,791,119,830 | -8.62%                |
| Profit from principal operation                      | <b>717,162,794</b>                  | 646,573,309   | 10.92%                |
| Net profit   | <b>112,681,302</b>                  | 19,750,961    | 470.51%               |
| Net (decrease) increase in cash and cash equivalents | <b>(116,442,261)</b>                | 930,960,376   | -112.51%              |

| Items                | As at<br>30 June<br>2002 | As at<br>31 December<br>2001 | Increase/<br>Decrease |
|----------------------|--------------------------|------------------------------|-----------------------|
|                      | Total assets             | <b>7,327,972,237</b>         |                       |
| Shareholders' equity | <b>2,521,857,904</b>     | 2,402,616,534                | 4.96%                 |

1. The decrease in turnover from principal operations is mainly due to the tremendous drop in sales in the first quarter resulting from the transition of the new and old management in January and February this year and the decrease in price of certain air-conditioner products.
2. The increase in profit from principal operations is mainly due to the decrease in cost, increase in the sales of high value-added products and the improvements in the product portfolio, which all serve to improve the profitability of the products.
3. The increase in net profit is mainly due to the increase in profit from principal operations and decrease in operation management cost during the period.
4. The increase in total assets is because the Company was in the peak season during the period.
5. The increase in shareholders' equity is due to the Company realising profit during the period.



**(4) Analysis of Turnover from Principal Operations by Geographic Segment**

| <u>Turnover from principal operations</u> | For the six months ended 30 June 2002 |                                 |                      |
|---|---------------------------------------|---------------------------------|----------------------|
|   | <u>Refrigerator business</u>          | <u>Air-Conditioner business</u> | <u>Total</u>         |
| Internal sales                            | 1,055,435,733                         | 1,055,456,514                   | 2,110,892,247        |
| External sales                            | 135,161,622                           | 304,452,538                     | 439,614,160          |
| Total                                     | <u>1,190,597,355</u>                  | <u>1,359,909,052</u>            | <u>2,550,506,407</u> |

**(5) Analysis by Business Segment**

| <u>Principal business</u> | For the six months ended 30 June 2002   |                                   |                                       |
|---------------------------|---|-----------------------------------|---------------------------------------|
|                           | <u>Turnover from principal business</u> | <u>Cost of principal business</u> | <u>Profit from principal business</u> |
| Refrigerator              | 1,190,597,355                           | (847,478,579)                     | 342,984,403                           |
| Air-conditioner           | 1,359,909,052                           | (985,690,938)                     | 374,178,391                           |
| Total                     | <u>2,550,506,407</u>                    | <u>(1,833,169,517)</u>            | <u>717,162,794</u>                    |

## (6) Principal Financial Statements for A-Share

### BALANCE SHEET

(Prepared in accordance with PRC GAAP)

(Denominated in RMB)

| Notes  | Group                          |                                  | Company                        |                                  |
|--|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
|  | 30 June<br>2002<br>(Unaudited) | 31 December<br>2001<br>(Audited) | 30 June<br>2002<br>(Unaudited) | 31 December<br>2001<br>(Audited) |
| ASSETS   |                                |                                  |                                |                                  |
| CURRENT ASSETS   |                                |                                  |                                |                                  |
|  | 1,056,115,152                  | 778,191,077                      | 872,788,027                    | 492,198,063                      |
| Bank balances and cash   | -                              | -                                | -                              | -                                |
| Short-term investments   | 191,691,863                    | 351,188,636                      | 184,977,773                    | 346,601,619                      |
| Notes receivable   | -                              | -                                | -                              | -                                |
| Dividends receivable   | -                              | -                                | -                              | -                                |
| Interest receivable  | V-1 351,038,162                | 220,899,049                      | 126,673,278                    | 127,250,589                      |
| Accounts receivable  | V-2 988,642,529                | 920,145,160                      | 1,476,512,268                  | 1,944,443,323                    |
| Other receivables  | 69,664,068                     | 68,102,966                       | 34,601,160                     | 16,158,696                       |
| Prepayments  | -                              | -                                | -                              | -                                |
| Subsidies receivable   | -                              | -                                | -                              | -                                |
| Inventories  | V-3 1,823,301,550              | 1,225,838,916                    | 1,309,453,699                  | 801,622,736                      |
| Deferred expenditures  | 6,661,350                      | 4,302,593                        | 1,598,853                      | 1,075,281                        |
| Investments in debt securities,<br>current portion               | -                              | -                                | -                              | -                                |
| Other current assets   | -                              | 592,731                          | -                              | 592,731                          |
| Total current assets   | <u>4,487,114,674</u>           | <u>3,569,261,128</u>             | <u>4,006,605,058</u>           | <u>3,729,943,038</u>             |
| LONG-TERM INVESTMENTS  |                                |                                  |                                |                                  |
| Long-term equity investments                                     | V-4 254,253,891                | 259,892,540                      | 1,134,006,052                  | 1,168,495,412                    |
| Long-term investments in debt<br>securities, non-current portion | -                              | -                                | -                              | -                                |
| Total long-term investments                                      | <u>254,253,891</u>             | <u>259,892,540</u>               | <u>1,134,006,052</u>           | <u>1,168,495,412</u>             |
| FIXED ASSETS   |                                |                                  |                                |                                  |
| Fixed assets, cost   | V-5 3,432,792,797              | 3,383,892,823                    | 1,440,691,880                  | 1,410,203,800                    |
| Less: Accumulated<br>depreciation                                | V-5 (1,393,762,031)            | (1,278,861,600)                  | (473,979,086)                  | (409,811,665)                    |
| Fixed assets, net  | V-5 2,039,030,766              | 2,105,031,223                    | 966,712,794                    | 1,000,392,135                    |
| Less: Provision for<br>impairment loss<br>of fixed assets        | V-5 (47,236,170)               | (47,236,170)                     | -                              | -                                |
| Fixed assets, net  | 1,991,794,596                  | 2,057,795,053                    | 966,712,794                    | 1,000,392,135                    |
| Project materials  | -                              | -                                | -                              | -                                |
| Construction in progress   | V-6 7,950,352                  | 31,187,206                       | 4,438,888                      | 16,597,973                       |
| Disposal of fixed assets   | -                              | -                                | -                              | -                                |
| Total fixed assets   | <u>1,999,744,948</u>           | <u>2,088,982,259</u>             | <u>971,151,682</u>             | <u>1,016,990,108</u>             |
| INTANGIBLE ASSETS AND<br>OTHER ASSETS                            |                                |                                  |                                |                                  |
| Intangible assets  | V-7 301,295,800                | 305,783,805                      | 205,521,573                    | 209,127,331                      |
| Long-term deferred<br>expenditures                               | V-8 199,960,018                | 210,904,281                      | 70,946,184                     | 108,379,846                      |
| Long-term receivable<br>above one year                           | VI-2 85,602,906                | 92,139,947                       | 51,602,906                     | 58,139,947                       |
| Other long-term assets   | -                              | -                                | -                              | -                                |
| Total intangible assets<br>and other assets                      | <u>586,858,724</u>             | <u>608,828,033</u>               | <u>328,070,663</u>             | <u>375,647,124</u>               |
| DEFERRED TAX   |                                |                                  |                                |                                  |
| Deferred tax assets  | -                              | -                                | -                              | -                                |
| TOTAL ASSETS   | <u><u>7,327,972,237</u></u>    | <u><u>6,526,963,960</u></u>      | <u><u>6,439,833,455</u></u>    | <u><u>6,291,075,682</u></u>      |

| Notes   | Group           |                        | Company         |                        |                 |
|---|-----------------|------------------------|-----------------|------------------------|-----------------|
|   | 30 June<br>2002 | 31 December<br>2001    | 30 June<br>2002 | 31 December<br>2001    |                 |
|   | (Unaudited)     | (Audited)              | (Unaudited)     | (Audited)              |                 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                 |                        |                 |                        |                 |
| <b>CURRENT LIABILITIES</b>                        |                 |                        |                 |                        |                 |
|   | V-9             | <b>887,700,000</b>     | 1,323,309,386   | <b>825,700,000</b>     | 965,700,000     |
|   | V-10            | <b>920,542,080</b>     | 678,710,489     | <b>756,692,079</b>     | 824,359,379     |
|   | V-11            | <b>1,501,927,994</b>   | 578,148,753     | <b>743,401,239</b>     | 9,318,641       |
|   |                 | <b>189,462,777</b>     | 440,396,170     | <b>169,679,918</b>     | 432,266,240     |
|   |                 | <b>43,426,684</b>      | 55,442,703      | <b>19,489,882</b>      | 35,287,596      |
|   |                 | <b>6,758,092</b>       | 2,392,998       | <b>1,124,104</b>       | 798,006         |
|   |                 | <b>2,067</b>           | 3,187           | -                      | -               |
|   |                 | <b>(112,790,834)</b>   | (157,832,050)   | <b>(90,645,258)</b>    | (168,419,901)   |
|   |                 | <b>5,362,023</b>       | 4,287,088       | <b>3,133,099</b>       | 2,443,887       |
|   |                 | <b>160,484,328</b>     | 73,887,114      | <b>132,058,638</b>     | 439,111,897     |
|   |                 | <b>434,125,771</b>     | 389,735,410     | <b>371,357,580</b>     | 377,674,560     |
|   |                 | <b>142,616,546</b>     | 157,356,546     | <b>142,616,546</b>     | 157,356,546     |
|   | V-12            | <b>205,089,957</b>     | 204,958,929     | <b>200,000,000</b>     | 200,000,000     |
|   |                 | -                      | 965,158         | -                      | -               |
| Total current liabilities                         |                 | <b>4,384,707,485</b>   | 3,751,761,881   | <b>3,274,607,827</b>   | 3,275,896,851   |
| <b>LONG-TERM LIABILITIES</b>                      |                 |                        |                 |                        |                 |
|   | V-12            | <b>87,419,132</b>      | 29,961,937      | <b>60,000,000</b>      | -               |
|   |                 | -                      | -               | -                      | -               |
|   |                 | <b>107,232,943</b>     | 116,492,478     | <b>104,395,514</b>     | 113,263,739     |
|   |                 | -                      | -               | -                      | -               |
|   |                 | -                      | -               | <b>482,083,509</b>     | 495,849,789     |
|   |                 | -                      | -               | -                      | -               |
| Total long-term liabilities                       |                 | <b>194,652,075</b>     | 146,454,415     | <b>646,479,023</b>     | 609,113,528     |
| <b>DEFERRED TAX</b>                               |                 |                        |                 |                        |                 |
|   |                 | -                      | -               | -                      | -               |
| TOTAL LIABILITIES                                 |                 | <b>4,579,359,560</b>   | 3,898,216,296   | <b>3,921,086,850</b>   | 3,885,010,379   |
| <b>MINORITY INTERESTS</b>                         |                 |                        |                 |                        |                 |
|   |                 | <b>226,754,773</b>     | 226,131,130     | -                      | -               |
| <b>SHAREHOLDERS' EQUITY</b>                       |                 |                        |                 |                        |                 |
|   |                 | <b>992,006,563</b>     | 992,006,563     | <b>992,006,563</b>     | 992,006,563     |
|   | V-13            | <b>2,451,222,837</b>   | 2,451,222,837   | <b>2,451,222,837</b>   | 2,451,222,837   |
|   |                 | <b>343,742,703</b>     | 343,742,703     | <b>343,742,703</b>     | 343,742,703     |
| Including: Statutory common welfare fund          |                 |                        |                 |                        |                 |
|   |                 | <b>114,580,901</b>     | 114,580,901     | <b>114,580,901</b>     | 114,580,901     |
|   |                 | <b>(1,268,225,498)</b> | (1,380,906,800) | <b>(1,268,225,498)</b> | (1,380,906,800) |
|   |                 | <b>3,111,299</b>       | (3,448,769)     | -                      | -               |
| Total shareholders' equity                        |                 | <b>2,521,857,904</b>   | 2,402,616,534   | <b>2,518,746,605</b>   | 2,406,065,303   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                 |                        |                 |                        |                 |
|   |                 | <b>7,327,972,237</b>   | 6,526,963,960   | <b>6,439,833,455</b>   | 6,291,075,682   |

## STATEMENTS OF INCOME AND PROFIT APPROPRIATION

(Prepared in accordance with PRC GAAP)

For the period ended 30 June 2002

(Denominated in RMB)

|  | Notes | Group                    |                          |                       | Company                  |                          |                       |
|--|-------|--------------------------|--------------------------|-----------------------|--------------------------|--------------------------|-----------------------|
|  |       | For the six months ended | For the six months ended | For the year ended 31 | For the six months ended | For the six months ended | For the year ended 31 |
|  |       | 30 June 2002             | 30 June 2001             | December 2001         | 30 June 2002             | 30 June 2001             | December 2001         |
|  |       | (Unaudited)              | (Unaudited)              | (Audited)             | (Unaudited)              | (Unaudited)              | (Audited)             |
| Revenue from principal operations                                | V-14  | <b>2,550,506,407</b>     | 2,791,119,830            | 4,381,616,368         | <b>2,078,130,087</b>     | 2,303,478,772            | 3,698,319,059         |
| Less: Cost of sales  |       | <b>(1,833,169,517)</b>   | (2,144,503,435)          | (3,615,716,071)       | <b>(1,478,480,580)</b>   | (1,802,081,123)          | (3,061,260,085)       |
| Sales tax  |       | <b>(174,096)</b>         | (43,086)                 | (70,884)              | <b>(120,272)</b>         | (43,086)                 | (68,134)              |
| Profit from principal operations                                 |       | <b>717,162,794</b>       | 646,573,309              | 765,829,413           | <b>599,529,235</b>       | 501,354,563              | 636,990,840           |
| Add: Other operating profit (loss)                               | V-15  | <b>10,374,662</b>        | 11,805,566               | 19,930,301            | <b>(690,253)</b>         | 1,611,755                | 9,098,660             |
| Less: Distribution costs   |       | <b>(446,943,789)</b>     | (462,032,471)            | (1,205,943,268)       | <b>(414,782,070)</b>     | (439,228,622)            | (1,150,258,909)       |
| Administrative expenses  |       | <b>(123,083,746)</b>     | (160,532,751)            | (911,607,048)         | <b>(18,854,128)</b>      | (49,188,250)             | (597,308,928)         |
| Financial expenses   | V-16  | <b>(41,547,584)</b>      | (21,063,011)             | (86,687,871)          | <b>(33,967,159)</b>      | (712,896)                | (54,337,938)          |
| Operating profit (loss)  |       | <b>115,962,337</b>       | 14,750,642               | (1,418,478,473)       | <b>131,235,625</b>       | 13,836,550               | (1,155,816,275)       |
| Add: Investment (loss) income                                    | V-17  | <b>(4,284,922)</b>       | (1,627,420)              | (99,063,264)          | <b>(20,723,080)</b>      | 6,624,800                | (398,888,349)         |
| Subsidy income   |       | -                        | -                        | 64,764                | -                        | -                        | 64,764                |
| Non-operating income   |       | <b>4,921,767</b>         | 2,737,599                | 21,529,992            | <b>2,456,337</b>         | 77,545                   | 13,826,125            |
| Less: Non-operating expenses                                     |       | <b>(974,981)</b>         | (292,665)                | (73,282,675)          | <b>(287,580)</b>         | (787,934)                | (14,759,354)          |
| Profit (loss) before taxation                                    |       | <b>115,624,201</b>       | 15,568,156               | (1,569,229,656)       | <b>112,681,302</b>       | 19,750,961               | (1,555,573,089)       |
| Less: Income tax   | V-18  | <b>(2,799,256)</b>       | -                        | -                     | -                        | -                        | -                     |
| Minority interests   |       | <b>(143,643)</b>         | 4,182,805                | 13,656,567            | -                        | -                        | -                     |
| Net profit (loss)  |       | <b>112,681,302</b>       | 19,750,961               | (1,555,573,089)       | <b>112,681,302</b>       | 19,750,961               | (1,555,573,089)       |
| Add: (Accumulated losses) retained earnings, beginning of period |       | <b>(1,380,906,800)</b>   | 332,782,066              | 174,666,289           | <b>(1,380,906,800)</b>   | 332,782,066              | 174,666,289           |
| Others transfer in   |       | -                        | -                        | -                     | -                        | -                        | -                     |
| (Loss) profit available for appropriation                        |       | <b>(1,268,225,498)</b>   | 352,533,027              | (1,380,906,800)       | <b>(1,268,225,498)</b>   | 352,533,027              | (1,380,906,800)       |
| Less: Statutory common reserve fund                              |       | -                        | -                        | -                     | -                        | -                        | -                     |
| Statutory common welfare fund                                    |       | -                        | -                        | -                     | -                        | -                        | -                     |
| Staff welfare and bonus fund                                     |       | -                        | -                        | -                     | -                        | -                        | -                     |
| Reserve fund   |       | -                        | -                        | -                     | -                        | -                        | -                     |
| Enterprise expansion fund  |       | -                        | -                        | -                     | -                        | -                        | -                     |
| Return of profits  |       | -                        | -                        | -                     | -                        | -                        | -                     |

| Note                        | Group                  |                    |                        | Company                |                    |                        |
|-----------------------------|------------------------|--------------------|------------------------|------------------------|--------------------|------------------------|
|                             | For the six            | For the six        | For the year           | For the six            | For the six        | For the year           |
|                             | months ended           | months ended       | ended 31               | months ended           | months ended       | ended 31               |
|                             | 30 June 2002           | 30 June 2001       | December 2001          | 30 June 2002           | 30 June 2001       | December 2001          |
|                             | (Unaudited)            | (Unaudited)        | (Audited)              | (Unaudited)            | (Unaudited)        | (Audited)              |
| (Loss) profit available for |                        |                    |                        |                        |                    |                        |
| distribution                | (1,268,225,498)        | 352,533,027        | (1,380,906,800)        | (1,268,225,498)        | 352,533,027        | (1,380,906,800)        |
| Less: Dividends on          |                        |                    |                        |                        |                    |                        |
| preferential shares         | -                      | -                  | -                      | -                      | -                  | -                      |
| Discretionary reserve       | -                      | -                  | -                      | -                      | -                  | -                      |
| Dividends on ordinary       |                        |                    |                        |                        |                    |                        |
| shares                      | -                      | -                  | -                      | -                      | -                  | -                      |
| Dividends transferred       |                        |                    |                        |                        |                    |                        |
| to share capital            | -                      | -                  | -                      | -                      | -                  | -                      |
| (Accumulated losses)        |                        |                    |                        |                        |                    |                        |
| retained earnings,          |                        |                    |                        |                        |                    |                        |
| end of period               | <u>(1,268,225,498)</u> | <u>352,533,027</u> | <u>(1,380,906,800)</u> | <u>(1,268,225,498)</u> | <u>352,533,027</u> | <u>(1,380,906,800)</u> |

| Profit for the reporting period                     | Group                |                  |                    |                  | Company              |                  |                    |                  |
|---|----------------------|------------------|--------------------|------------------|----------------------|------------------|--------------------|------------------|
|   | Return on net assets |                  | Earnings per share |                  | Return on net assets |                  | Earnings per share |                  |
|   | Fully diluted        | Weighted average | Fully diluted      | Weighted average | Fully diluted        | Weighted average | Fully diluted      | Weighted average |
|   |                      |                  |                    |                  |                      |                  |                    |                  |
| Profit from principal operations                    | 28.4%                | 29.2%            | 0.72               | 0.72             | 23.8%                | 24.4%            | 0.60               | 0.60             |
| Operating profit                                    | 4.6%                 | 4.7%             | 0.12               | 0.12             | 5.2%                 | 5.3%             | 0.13               | 0.13             |
| Net profit  | 4.5%                 | 4.6%             | 0.11               | 0.11             | 4.5%                 | 4.6%             | 0.11               | 0.11             |
| Net profit deducted by extraordinary gain (or loss) | 4.5%                 | 4.6%             | 0.11               | 0.11             | 4.7%                 | 4.8%             | 0.12               | 0.12             |

## STATEMENT OF IMPAIRMENT PROVISION FOR ASSETS

(Prepared in accordance with PRC GAAP)

For the six months ended 30 June 2002

(Denominated in RMB)

|   | 31 December<br>2001 | Provision | Written back  | 30 June 2002       |
|---|---------------------|-----------|---------------|--------------------|
| 1. Provision for doubtful debts                               | 363,232,791         | -         | (17,963,262)  | <b>345,269,529</b> |
| Including:  |                     |           |               |                    |
| Accounts receivable   | 190,823,758         | -         | (17,963,262)  | <b>172,860,496</b> |
| Other receivables   | 172,409,033         | -         | -             | <b>172,409,033</b> |
| 2. Provision for impairment loss of short-term investments    | -                   | -         | -             | -                  |
| Including:  |                     |           |               |                    |
| Investments in stock securities                               | -                   | -         | -             | -                  |
| Investments in debt securities                                | -                   | -         | -             | -                  |
| 3. Provision for inventory obsolescence                       | 323,978,805         | 4,278,734 | (145,525,519) | <b>182,732,020</b> |
| Including:  |                     |           |               |                    |
| Finished goods  | 273,831,903         | 1,644,500 | (145,152,676) | <b>130,323,727</b> |
| Raw materials   | 48,500,305          | 2,634,234 | (372,843)     | <b>50,761,696</b>  |
| Work-in-progress  | 1,646,597           | -         | -             | <b>1,646,597</b>   |
| 4. Provision for impairment in value of long-term investments | 145,329,641         | -         | (3,603,617)   | <b>141,726,024</b> |
| Including:  |                     |           |               |                    |
| Long-term equity investments                                  | 145,329,641         | -         | (3,603,617)   | <b>141,726,024</b> |
| Long-term investments in debt securities                      | -                   | -         | -             | -                  |
| 5. Provision for impairment loss of fixed assets              | 47,236,170          | -         | -             | <b>47,236,170</b>  |
| Including:  |                     |           |               |                    |
| Buildings, machinery and equipment                            | 47,236,170          | -         | -             | <b>47,236,170</b>  |
| 6. Provision for impairment loss of intangible assets         | -                   | -         | -             | -                  |
| Including:  |                     |           |               |                    |
| Technology knowhow  | -                   | -         | -             | -                  |
| Trademark   | -                   | -         | -             | -                  |
| 7. Provision for impairment loss of construction-in-progress  | -                   | -         | -             | -                  |
| 8. Provision for impairment loss of entrusted loans           | -                   | -         | -             | -                  |

## CASH FLOW STATEMENTS

(Prepared in accordance with PRC GAAP)

For the six months ended 30 June 2002

(Denominated in RMB)

|   | For the six months ended |               |
|---|--------------------------|---------------|
|   | 30 June 2002             |               |
|   | Group                    | Company       |
|   | (Unaudited)              | (Unaudited)   |
| I. Cash flows from operating activities:                  |                          |               |
| Cash received from sale of goods or rendering of services | 2,762,516,763            | 2,331,027,036 |
| Refund of taxes and levies                                | -                        | -             |
| Other cash received relating to operating activities      | 43,788,659               | 385,016,735   |
|   | <hr/>                    | <hr/>         |
| Sub-total of cash inflows                                 | 2,806,305,422            | 2,716,043,771 |
|   | <hr/>                    | <hr/>         |
| Cash paid for purchases of goods and services             | 1,974,905,410            | 1,771,128,458 |
| Cash paid to and on behalf of employees                   | 144,444,705              | 61,061,020    |
| Tax paid  | 23,922,545               | 3,685,839     |
| Other cash paid relating to operating activities          | 507,748,855              | 938,260,214   |
|   | <hr/>                    | <hr/>         |
| Sub-total of cash outflows                                | 2,651,021,515            | 2,774,135,531 |
|   | <hr/>                    | <hr/>         |
| Net cash flows from operating activities                  | 155,283,907              | (58,091,760)  |
|   | <hr/>                    | <hr/>         |

**For the six months ended  
30 June 2002**

|  | <b>Group</b>       | <b>Company</b>     |
|--|--------------------|--------------------|
|  | <b>(Unaudited)</b> | <b>(Unaudited)</b> |
| ii. Cash flows from investing activities:  |                    |                    |
| Cash received from disposal of investment  | -                  | -                  |
| Cash received from investment income   | -                  | -                  |
| Net cash received from disposals of<br>fixed assets, intangible assets and<br>other long-term assets | 15,806,721         | -                  |
| Other cash received relating to<br>investing activities  | 215,785,585        | 210,473,592        |
| Sub-total of cash inflows  | 231,592,306        | 210,473,592        |
| Cash paid for acquisition of fixed assets,<br>intangible assets and other long-term assets           | 76,797,879         | 18,558,878         |
| Cash paid for acquisition of investments   | -                  | -                  |
| Other cash paid relating to investing activities   | -                  | -                  |
| Sub-total of cash outflows   | 76,797,879         | 18,558,878         |
| Net cash flows from investing activities   | 154,794,427        | 191,914,714        |



**For the six months ended  
30 June 2002**

|  | <b>Group</b>       | <b>Company</b>     |
|--|--------------------|--------------------|
|  | <b>(Unaudited)</b> | <b>(Unaudited)</b> |
| III. Cash flows from financing activities:                               |                    |                    |
| Cash received from investment  | -                  | -                  |
| Cash received from the borrowings  | 950,000,000        | 910,000,000        |
| Other cash received relating to<br>financial activities                  | -                  | -                  |
|  | <hr/>              | <hr/>              |
| Sub-total of cash inflows  | 950,000,000        | 910,000,000        |
|  | <hr/>              | <hr/>              |
| Cash paid for repayment of borrowings                                    | 1,328,021,163      | 990,000,000        |
| Cash paid for distribution of dividends,<br>profits or interest expenses | 55,059,500         | 42,602,965         |
| Other cash paid relating to financing activities                         | -                  | -                  |
|  | <hr/>              | <hr/>              |
| Sub-total of cash outflows   | 1,383,080,663      | 1,032,602,965      |
|  | <hr/>              | <hr/>              |
| Net cash flows from financing activities                                 | (433,080,663)      | (122,602,965)      |
|  | <hr/>              | <hr/>              |
| IV. Effect of foreign exchange rate<br>changes on cash                   | 6,560,068          | -                  |
|  | <hr/>              | <hr/>              |
| V. Net (decrease) increase in cash<br>and cash equivalents               | (116,442,261)      | 11,219,989         |
|  | <hr/> <hr/>        | <hr/> <hr/>        |

| Supplemental information:  | Note | For the six months ended |                     |
|--|------|--------------------------|---------------------|
|  |      | 30 June 2002             |                     |
|  |      | Group                    | Company             |
|  |      | (Unaudited)              | (Unaudited)         |
| 1. Reconciliation of net profit to net cash flows from operating activities:     |      |                          |                     |
| Net profit   |      | 112,681,302              | 112,681,302         |
| Add: Minority interests  |      | 143,643                  | -                   |
| Provision for impairment loss of assets  |      | 4,278,734                | 1,644,500           |
| Depreciation of fixed assets   |      | 130,571,860              | 64,290,202          |
| Amortisation of intangible assets  |      | 5,333,355                | 4,460,716           |
| Amortisation of long-term expenditures   |      | 83,214,110               | 11,467,617          |
| Decrease in deferred expenditures  |      |                          |                     |
| (less: increase)   |      | (2,358,757)              | (523,571)           |
| Increase in accruals (less: decrease)  |      | 44,390,361               | (6,316,980)         |
| Loss from disposal of fixed assets, intangible assets and other long-term assets |      | 395,406                  | -                   |
| Loss from write-off of fixed assets  |      | -                        | -                   |
| Financial expenses   |      | 41,547,584               | 33,967,158          |
| Investment profit (add: loss)  |      | 4,284,922                | 17,716,721          |
| Deferred tax credit (less: debit)  |      | -                        | -                   |
| Increase in inventories (add: decrease)  |      | (601,741,368)            | (509,475,463)       |
| Increase in operating receivables  |      |                          |                     |
| (add: decrease)  |      | (272,109,840)            | 163,008,849         |
| Decrease in operating payables   |      |                          |                     |
| (less: decrease)   |      | 604,652,595              | 48,987,189          |
| Others   |      | -                        | -                   |
| Net cash flows from operating activities   |      | <u>155,283,907</u>       | <u>(58,091,760)</u> |

|  |      | For the six months ended<br>30 June 2002 |                   |
|--|------|--|-------------------|
|  | Note | Group                                    | Company           |
|  |      | (Unaudited)                              | (Unaudited)       |
| 2. Non-cash investing and financing activities:          |      |  |                   |
| Debts transferred to capital                             |      | -  | -                 |
| Convertible bonds due within 1 year                      |      | -  | -                 |
| Fixed assets purchased<br>under finance lease            |      | -  | -                 |
|  |      | <u>-</u>                                 | <u>-</u>          |
| 3. Net (decrease) increase in cash and cash equivalents: |      |  |                   |
| Cash at the end of period                                | V-19 | 534,754,303                              | 392,578,825       |
| Less: Cash at the beginning<br>of period                 | V-19 | 651,196,564                              | 381,358,836       |
| Add: Cash equivalent at the end<br>of period             |      | -  | -                 |
| Less: Cash equivalent at the<br>beginning of period      |      | -  | -                 |
|  |      | <u>-</u>                                 | <u>-</u>          |
| Net (decrease) increase in cash and<br>cash equivalents  |      | <u>(116,442,261)</u>                     | <u>11,219,989</u> |

## I. 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.

On 29 October 2001 and 5 March 2002, Guangdong Kelon (Rongsheng) Group Company Limited ("GKG") entered into "Contract of shares transfer of Guangdong Kelon Electrical Holdings Company Limited" and "Supplementary Contract of shares transfer of Guangdong Kelon Electrical Holdings Company Limited" respectively with Shunde Greencool Development Co., Ltd. ("Shunde Greencool") in connection with the transfer of 204,775,755 shares of legal person shares of the Company to Shunde Greencool, representing 20.64% of total share capital of the Company for a consideration of RMB348,000,000. The above-mentioned shares were transferred to Shunde Greencool from GKG on 18 April 2002.

GKG signed the "Contract of transfer of shares" with Shunde Economics Consultancy Company on 15 April 2002 in connection with the transfer of 68,666,667 shares of legal person shares of the Company; and on 26 April 2002, GKG transferred 7,036,894 shares of legal person shares of the Company to Shunde Dong Heng Development Co., Ltd. according to the judgement of the court; GKG signed the "Letter on Transfer of Legal Person Shares" with Shunde Xin Hong Enterprise Co., Ltd. on 30 April 2002 in connection with the transfer of 57,436,439 shares of legal person shares of the Company.

After the above-mentioned four times of shares transfer, GKG, the former single largest shareholder of the Company do not hold any of the Company's shares.

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

## **II. 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", "Enterprise Accounting Regulations", "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 year covers the calendar year from 1 January to 31 December every year. The accounting period for these financial statements is from 1 January 2002 to 30 June 2002.

### **(c) Reporting currency**

The reporting currency is Renminbi ("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; and
- (iii) Intra-group equity investments, investment income and unrealised profit should be eliminated upon consolidation.

**(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 at the date 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 date of transactions. 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 date of the transactions. Income statement items are translated into RMB at the average exchange rates for the accounting period.

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

**(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 debts**

Provision for doubtful accounts receivable and other receivables is provided based on the analysis of collectibility of the closing balance at period 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 labour 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.

**(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 the Board/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.

Investments 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 profit and 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 enterprises. 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.

(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 investment cost over the share of equity of the investee enterprise should generally be amortised over a period not more than ten 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 ten years.



### *Provision for impairment loss of long-term investments*

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.

#### **(I) 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 2 years and unit cost of more than RMB2,000.

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 situation 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:

| <b>Categories</b>       | <b>Estimated useful lives</b> | <b>Estimated residual value</b> | <b>Annual depreciation rates</b> |
|-------------------------|-------------------------------|---------------------------------|----------------------------------|
| 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%                              |
| Office equipment        | 5 years                       | 5%                              | 19%                              |

When the 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 assets 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.

#### **(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 at balance sheet date, the Company and its subsidiaries perform overall assessment of their construction-in-progress. Impairment loss 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 operation.

#### **(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 are stated at cost less accumulated amortisation. Land use right is amortised on a straight-line basis over the estimated useful lives of 20-50 years.

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 operations*

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 ceased 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.

(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.

Income taxes are recorded on tax liability method.

**(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.

### III. CONSOLIDATION SCOPE AND BASIS OF PRESENTATION

As at 30 June 2002, the Company had the following subsidiaries and associates:

| Name of the entity  | Place and date of incorporation/<br>establishment | Investment cost    | Percentage of equity interest attributable to the Company |            | Registered capital | Principal activities                             | Investment period     |
|---|---|--------------------|---|------------|--------------------|--|-----------------------|
|   |   |                    | Directly  | Indirectly |                    |  |                       |
|   |   |                    |   |            |                    |  |                       |
| <b>Subsidiaries</b>   |   |                    |   |            |                    |  |                       |
| Pearl River Electric Refrigerator Company Limited ("Pearl River")       | Hong Kong<br>26 July 1985                         | HK\$<br>400,000    | -   | 100%       | HK\$<br>400,000    | Trading in materials and parts for refrigerators | Without fixed period  |
| Kelon Electric Appliances Co., Ltd. ("Kelon Appliances")                | Hong Kong<br>29 August 1991                       | HK\$<br>10,000     | -   | 100%       | HK\$<br>10,000     | Property investment                              | Without fixed period  |
| Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic") (i)   | PRC<br>18 October 1991                            | RMB<br>91,439,104  | 45%   | 25%        | US\$<br>15,800,000 | Manufacture of plastic parts                     | 1991.10.18-2006.10.18 |
| Kelon Development Company Limited ("Kelon Development")                 | Hong Kong<br>17 August 1993                       | HK\$<br>10,000,000 | 100%  | -          | HK\$<br>5,000,000  | Investment holding                               | Without fixed period  |
| Guangdong Kelon Mould Co., Ltd. ("Kelon Mould") (i)                     | PRC<br>20 July 1994                               | RMB<br>86,940,000  | 40%   | 30%        | US\$<br>15,000,000 | Manufacture of moulds                            | 1994.7.20-2009.7.20   |
| Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Refrigerator") (i)       | PRC<br>25 December 1995                           | US\$<br>26,800,000 | 70%   | 30%        | US\$<br>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<br>19 March 1996                              | RMB<br>281,000,000 | 60%   | -          | US\$<br>36,150,000 | Manufacture and sale of air-conditioners         | 1996.3.19-2026.3.18   |

| Name of the entity   | Place and date of incorporation/<br>establishment | Investment cost      | Percentage of equity interest attributable to the Company |            | Registered capital   | Principal activities  | Investment period     |
|--|---|----------------------|---|------------|----------------------|---|-----------------------|
|  |   |                      | Directly  | Indirectly |                      |   |                       |
|  |   |                      |   |            |                      |   |                       |
| Kelon (Japan) Limited<br>("Kelon Japan")   | Japan<br>22 May 1996                              | JPY<br>1,085,000,000 | -   | 100%       | JPY<br>1,100,000,000 | Technical research and trading of electrical household appliances                         | Without fixed period  |
| Chengdu Kelon Refrigerator Co., Ltd.<br>("Chengdu Kelon") (i)  | PRC<br>19 November 1996                           | RMB<br>140,000,000   | 45%   | 25%        | RMB<br>200,000,000   | Manufacture and sale of refrigerators   | 1996.11.29-2021.11.29 |
| Yingkou Kelon Refrigerator Co., Ltd.<br>("Yingkou Kelon") (i)  | PRC<br>15 December 1996                           | RMB<br>134,000,000   | 42%   | 36.79%     | RMB<br>200,000,000   | Manufacture and sale of refrigerators   | 1996.12.23-2021.12.22 |
| Wetherell Development Limited ("Wetherell Development")  | British Virgin Islands<br>1 July 1997             | US\$1                | -   | 100%       | US\$1                | Advertising agency  | Without fixed period  |
| Kelon International Incorporation ("KII")<br>(formerly known as "Kelon Financial Services Limited")                          | British Virgin Islands<br>13 January 1999         | US\$<br>50,000       | -   | 100%       | US\$<br>50,000       | Investment holding  | Without fixed period  |
| Guangdong Kelon Fittings Co., Ltd.<br>(formerly known as "Shunde Rongqi Kelon Fittings Co., Ltd.")<br>("Kelon Fittings") (i) | PRC<br>24 November 1999                           | US\$<br>5,620,000    | 70%   | 30%        | US\$<br>5,620,000    | Manufacture and sale of components of air-conditioners                                    | 1999.11.24-2029.11.23 |
| Jiangxi Kelon Industrial Development Co., Ltd.<br>("Jiangxi Kelon") (i)(a)   | PRC<br>24 June 2002                               | -                    | 60%   | 40%        | US\$<br>29,800,000   | Manufacturing and sales of refrigerators, air-conditioners and other household appliances | 2002.6.24-2032.6.23   |

| Name of the entity   | Place and date of incorporation/ establishment | Investment cost   | Percentage of equity interest attributable to the Company |            | Registered capital | Principal activities  | Investment period    |
|--|--|-------------------|---|------------|--------------------|---|----------------------|
|  |  |                   | Directly  | Indirectly |                    |   |                      |
|  |  |                   |   |            |                    |   |                      |
| Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Rongsheng") (iii) | PRC<br>21 February 2001                        | RMB<br>1,520,000  | 76%   | -          | RMB<br>2,000,000   | Sales of refrigerators  | 2001.2.21-2003.2.20  |
| Beijing Hengsheng Xin Chuang Technology Company ("Beijing Hengsheng")                  | PRC<br>4 June 2001                             | RMB<br>24,000,000 | 80%   | -          | RMB<br>30,000,000  | Research and develop industrial and commercial IT system                      | 2001.6.4-2016.6.4    |
| Shunde Jiake Electronic Company Limited ("Jiake Electronic") (iii)                     | PRC<br>12 October 2001                         | RMB<br>60,000,000 | 70%   | 30%        | RMB<br>60,000,000  | IT and communication technology, and micro-electronics technology development | Without fixed period |
| Beijing Kelon Tiandi IT Network Limited ("Kelon Tiandi") (iii)                         | PRC<br>8 November 2001                         | RMB<br>3,200,000  | -   | 64%        | RMB<br>5,000,000   | Not specified   | 2001.11.8-2016.11.7  |
| Beijing Kelon Shikong Information Technology Company Limited ("Kelon Shikong") (iii)   | PRC<br>8 November 2001                         | RMB<br>3,200,000  | -   | 64%        | RMB<br>5,000,000   | Not specified   | 2001.11.8-2016.11.8  |

| Name of the entity  | Place and date of incorporation/<br>establishment | Investment cost    | Percentage of equity interest attributable to the Company |            | Registered capital | Principal activities                                    | Investment period         |
|---|---|--------------------|---|------------|--------------------|---|---------------------------|
|   |   |                    | Directly  | Indirectly |                    |   |                           |
|   |   |                    |   |            |                    |   |                           |
| <b>Associates</b>   |   |                    |   |            |                    |   |                           |
| Guangdong Sanyo Kelon Refrigerator Co., Ltd.<br>("Sanyo Kelon") (i)                     | PRC<br>25 December 1995                           | RMB<br>104,280,000 | 44%   | -          | RMB<br>237,000,000 | Manufacture and sale of freezers                        | 1995.12.25-<br>2020.12.24 |
| Huayi Compressor Holdings Company Limited<br>("Huayi Compressor") (ii)                  | PRC<br>13 June 1996                               | RMB<br>255,360,000 | 22.725%   | -          | RMB<br>237,250,000 | Manufacture and sale of compressors                     | Without fixed period      |
| Shunde Kelon Household Electrical Appliance Company Limited<br>("Kelon HEA") (iii)      | PRC<br>16 July 1999                               | RMB<br>2,500,000   | 25%   | -          | RMB<br>10,000,000  | Manufacture and sale of electrical household appliances | Without fixed period      |
| Shanghai Yilian Electric Business Limited<br>("Shanghai Yilian") (iii)                  | PRC<br>15 June 2000                               | RMB<br>10,000,000  | 41.7%   | -          | RMB<br>24,000,000  | Electronic business                                     | Without fixed period      |
| Communication and You Holdings Company Limited ("C&Y")                                  | Hong Kong<br>14 August 2000                       | HK\$<br>12,000,000 | -   | 25%        | HK\$100            | Advertising business                                    | Without fixed period      |
| Zhejiang Kelon Electric Sales Co., Ltd.<br>("Zhejiang Kelon") (iii)                     | PRC<br>10 November 2000                           | RMB<br>1,000,000   | -   | 50%        | RMB<br>2,000,000   | Sale, installation and maintenance of air-conditioner   | 2001.9.5-<br>2004.9.4     |
| Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.<br>("Chongqing Rongsheng") (iii) | PRC<br>19 February 2001                           | RMB<br>280,000     | -   | 28%        | RMB<br>1,000,000   | Refrigerator sales and after sales services             | 2001.2.19-<br>2002.12.3   |



| Name of the entity  | Place and date of incorporation/<br>establishment | Investment cost  | Percentage of equity interest attributable to the Company |            | Registered capital | Principal activities                                   | Investment period         |
|---|---|------------------|---|------------|--------------------|--|---------------------------|
|   |   |                  | Directly  | Indirectly |                    |  |                           |
|   |   |                  |   |            |                    |  |                           |
| Chongqing Kelon Electrical Appliance Company Limited<br>("Chongqing Kelon") (iii) | PRC<br>19 February 2001                           | RMB<br>200,000   | -   | 20%        | RMB<br>1,000,000   | Sale, installation and maintenance of air-conditioners | 2000.11.10-<br>2002.11.30 |
| Shunde Wangao Import & Export Co., Ltd.<br>("Wangao Co") (iii)                    | PRC<br>7 June 2001                                | RMB<br>600,000   | 20%   | -          | RMB<br>3,000,000   | Import and export business                             | Without fixed period      |
| Guangzhou Antaida Logistic Co., Ltd.<br>("GZ Antaida") (iii)                      | PRC<br>11 July 2001                               | RMB<br>2,000,000 | 20%   | -          | RMB<br>10,000,000  | Logistic and storage                                   | 2001.7.11-<br>2031.7.10   |

- (i) established as sino-foreign equity joint venture
- (ii) established as joint stock limited company
- (iii) established as limited liability company

- (a) Jiangxi Kelon is a sino-foreign equity joint venture, jointly invested by Kelon Development and the Company, registered in Nanchang, Jiangxi Province. Jiangxi Kelon was issued the business licence on 24 June 2002, with a registered capital of USD 29,800,000 and operating period of 30 years. As at 30 June 2002, Jiangxi Kelon was still in pre-operation period with no paid-in capital yet.

The financial statements of above subsidiaries are included in the consolidated financial statement.

There is no change in the scope of consolidation for the period as that of last year.

There is no change in the shares or equity held by the Company in its subsidiaries for the period as that of last year.

#### **IV. 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 goods can be used to offset the output VAT on sales.

##### **(b) Enterprise income tax (“EIT”)**

The Company was incorporated in Shunde, Guangdong province and, pursuant to “Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises” (“Income Tax Law”), is normally subject to an EIT at a rate of 24%, which is applicable to enterprises located in coastal open economic zone. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 27%. 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. Therefore, the Company is subject to an EIT rate of 27% since 2002.

The Company’s subsidiaries, Kelon Refrigerator, Kelon Air-Conditioner, Kelon Fittings and Rongsheng Plastic and Kelon Mould, incorporated in coastal open economic zone, are subject to an EIT rate of 24%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 27%. Pursuant to 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 2002, Kelon Refrigerator, Kelon Air-Conditioner, Kelon Fittings and Rongsheng Plastic are subject to an EIT rate of 12% (they are all in the 50% EIT reduction period, during which, EIT rate is 12% with the local enterprise tax rate of 3% being exempted according to local tax preferential policy). Rongsheng Plastic and Kelon Mould are subject to an EIT rate of 27%.

The Company's subsidiary, Chengdu Kelon is subjected to an EIT rate of 30%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 33%. The Company's subsidiary, Yingkou Kelon, incorporated in coastal open economic zone, is subject to an EIT rate of 24%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 27%. 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 at 30 June 2002, Chengdu Kelon is still in loss position and is not required to pay income tax. Yingkou Kelon is subject to an EIT rate of 12% in 2001 (it is in the 50% EIT reduction period, during which, EIT rate is 12% with the local enterprise tax rate of 3% being exempted according to local tax preferential policy).

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.

## V. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE GROUP

### 1. ACCOUNTS RECEIVABLE

(1) Aging analysis of accounts receivable is as follows:

| Aging                 | 30 June 2002       |             |                      |                    | 31 December 2001   |             |                      |                    |
|-----------------------|--------------------|-------------|----------------------|--------------------|--------------------|-------------|----------------------|--------------------|
|                       | Balance            | Percentage  | Provision            | Net                | Balance            | Percentage  | Provision            | Net                |
| Within one year       | 361,008,644        | 69%         | (9,970,482)          | 351,038,162        | 259,347,722        | 63%         | (38,448,673)         | 220,899,049        |
| One to two years      | 84,695,520         | 16%         | (84,695,520)         | -                  | 102,412,901        | 25%         | (102,412,901)        | -                  |
| Two to three years    | 78,194,494         | 15%         | (78,194,494)         | -                  | 48,051,590         | 12%         | (48,051,590)         | -                  |
| More than three years | -                  | -           | -                    | -                  | 1,910,594          | -           | (1,910,594)          | -                  |
| Total                 | <u>523,898,658</u> | <u>100%</u> | <u>(172,860,496)</u> | <u>351,038,162</u> | <u>411,722,807</u> | <u>100%</u> | <u>(190,823,758)</u> | <u>220,899,049</u> |

As at 30 June 2002, the Group's accounts receivable, excluding related party balances which have been disclosed in Note VI, from the top five debtors totally amounted to RMB35,828,394 (31 December 2001: RMB31,803,522), accounts for 7% of the total closing balance of accounts receivable (31 December 2001: 8%)

(2) As at 30 June 2002, the Group's top five debtors were as follows:

| <u>Name</u>   | <u>Outstanding<br/>balance</u> | <u>Aging</u>   | <u>Nature</u> |
|---|--------------------------------|----------------|---------------|
| Jiangsu Suning Household<br>Appliance Co., Ltd.         | 12,554,486                     | Within 1 year  | Credit sales  |
| Harbin Hei Tian E Company Limited                       | 11,875,281                     | Within 2 years | Credit sales  |
| Beijing Jialin Hengxing Network<br>Technology Co., Ltd. | 4,751,048                      | Within 1 year  | Credit sales  |
| Zhejiang Guoda Business and<br>Trade Co., Ltd.          | 3,661,458                      | Within 1 year  | Credit sales  |
| Beijing Xijing Jinhe Trading Co., Ltd.                  | 2,986,121                      | Within 1 year  | Credit sales  |
| Total   | <u>35,828,394</u>              |                |               |

(3) As at 30 June 2002, balances of accounts receivable did not include any significant amounts due from companies which held more than 5% (including 5%) of the Company's share capital.

## 2. OTHER RECEIVABLES

(1) Aging analysis of other receivables is as follows:

| <u>Aging</u>     | <u>30 June 2002</u>  |                   |                      |                    | <u>31 December 2001</u> |                   |                      |                    |
|------------------|----------------------|-------------------|----------------------|--------------------|-------------------------|-------------------|----------------------|--------------------|
|                  | <u>Balance</u>       | <u>Percentage</u> | <u>Provision</u>     | <u>Net</u>         | <u>Balance</u>          | <u>Percentage</u> | <u>Provision</u>     | <u>Net</u>         |
| Within one year  | 1,068,412,957        | 92%               | (172,409,033)        | 896,003,924        | 1,091,521,581           | 100%              | (172,409,033)        | 919,112,548        |
| One to two years | 92,638,605           | 8%                | -                    | 92,638,605         | 1,032,612               | -                 | -                    | 1,032,612          |
| Total            | <u>1,161,051,562</u> | <u>100%</u>       | <u>(172,409,033)</u> | <u>988,642,529</u> | <u>1,092,554,193</u>    | <u>100%</u>       | <u>(172,409,033)</u> | <u>920,145,160</u> |

As at 30 June 2002, other receivables include amount due from GKG of RMB862,045,165 (31 December 2001: RMB692,045,165), arising from related party transactions with GKG in prior year. The management of the Group considers there is a risk of collectibility, so a provision of RMB172,409,033 was made against this balance as at 30 June 2002. The Group is in negotiation with GKG concerning the collection of debts.

- (2) As at 30 June 2002, the Group's other receivables, excluding the amount due from GKG, from the top five debtors totally amounted to RMB240,125,885 (31 December 2001: RMB166,660,370), accounts for 21% of the total closing balance of other receivables (31 December 2001: 15%).

As at 30 June 2002, the Group's top five debtors were as follows:

| <u>Name</u>                                      | <u>Outstanding<br/>balance</u> | <u>Aging</u>   | <u>Nature</u>           |
|--|--------------------------------|----------------|-------------------------|
| Shunde Export Tax Refund Bureau (i)              | 92,638,605                     | Within 2 years | Refund of<br>export VAT |
| Huao Electrical Electronics Co., Ltd.*           | 60,229,978                     | Within 1 year  | Pay on behalf           |
| Shunde Wangao Export & Import Co., Ltd.*         | 46,977,984                     | Within 1 year  | Pay on behalf           |
| Kelon HEA*                                       | 27,571,993                     | Within 1 year  | Pay on behalf           |
| Guangdong Sanyo Kelon<br>Refrigerator Co., Ltd.* | <u>12,707,325</u>              | Within 1 year  | Pay on behalf           |
| Total  | <u><u>240,125,885</u></u>      |                |                         |

\* *Being related party. For related party transactions, detail please refer to Note VI-1*

- (i) As at 30 June 2002, other receivables include export tax refund of approximately RMB93,000,000 (31 December 2001: approximately RMB91,000,000). The balance is the tax refundable of year 2001. The management of the Group considers that there is little risk of collectibility, so no provision is made.

The aging of the remaining balance is within one year, the management of the Group considers there is little risk of collectibility, so no provision is made.

- (3) As at 30 June 2002, the remaining balances of other receivables did not include any significant amounts due from companies which held more than 5% (including 5%) of the Group's share capital.

### 3. INVENTORIES

Breakdown of inventories is as follows:

|                  | 30 June 2002         |                      |                      | 31 December 2001     |                      |                      |
|------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                  | Balance              | Provision            | Net                  | Balance              | Provision            | Net                  |
| Raw materials    | 353,916,991          | (50,761,696)         | 303,155,295          | 355,956,526          | (48,500,305)         | 307,456,221          |
| Work-in-progress | 60,492,040           | (1,646,597)          | 58,845,443           | 55,159,218           | (1,646,597)          | 53,512,621           |
| Finished goods   | 1,591,624,539        | (130,323,727)        | 1,461,300,812        | 1,138,701,977        | (273,831,903)        | 864,870,074          |
| Total            | <u>2,006,033,570</u> | <u>(182,732,020)</u> | <u>1,823,301,550</u> | <u>1,549,817,721</u> | <u>(323,978,805)</u> | <u>1,225,838,916</u> |

### 4. LONG-TERM EQUITY INVESTMENTS

Movement of long-term equity investments is as follows:

|  | 31 December          |                  |                     | 30 June              |
|--|----------------------|------------------|---------------------|----------------------|
|  | 2001                 | Increase         | Decrease            | 2002                 |
| Investments in associates (1)              | 213,799,703          | 1,000,000        | (1,238,539)         | 213,561,164          |
| Other long-term equity investments         | 10,419,066           | -                | (2,353,727)         | 8,065,339            |
| Equity investment difference (2)           | 181,003,412          | -                | (6,650,000)         | 174,353,412          |
|  | <u>405,222,181</u>   | <u>1,000,000</u> | <u>(10,242,266)</u> | <u>395,979,915</u>   |
| Less: Provision for<br>impairment loss (3) | <u>(145,329,641)</u> | <u>-</u>         | <u>3,603,617</u>    | <u>(141,726,024)</u> |
| Total                                      | <u>259,892,540</u>   | <u>1,000,000</u> | <u>(6,638,649)</u>  | <u>254,253,891</u>   |

## (1) Investments in associates

| Investee<br>Company | Investment<br>period | Investment cost     |                      |                           | Share of profit (loss) |                      |                            | Total               |                           |
|---------------------|----------------------|---------------------|----------------------|---------------------------|------------------------|----------------------|----------------------------|---------------------|---------------------------|
|                     |                      | 31 December<br>2001 | during the<br>period | 30 June<br>2002           | 31 December<br>2001    | during the<br>period | 30 June<br>2002            | 31 December<br>2001 | 30 June<br>2002           |
|                     |                      |                     |                      |                           |                        |                      |                            |                     |                           |
| Sanyo Kelon         | 25 years             | 104,280,000         | -                    | <b>104,280,000</b>        | (28,752,429)           | -                    | <b>(28,752,429)</b>        | 75,527,571          | <b>75,527,571</b>         |
| Huayi Compressor    | Unlimited            | 118,013,641         | -                    | <b>118,013,641</b>        | 3,296,713              | 229,784              | <b>3,526,497</b>           | 121,310,354         | <b>121,540,138</b>        |
| Kelon HEA           | Unlimited            | 2,500,000           | -                    | <b>2,500,000</b>          | (1,204,513)            | (452,851)            | <b>(1,657,364)</b>         | 1,295,487           | <b>842,636</b>            |
| Shanghai Yilian     | Unlimited            | 10,000,000          | -                    | <b>10,000,000</b>         | (866,308)              | (638,478)            | <b>(1,504,786)</b>         | 9,133,692           | <b>8,495,214</b>          |
| Wangao Co           | Unlimited            | 600,000             | -                    | <b>600,000</b>            | (10,653)               | (18,532)             | <b>(29,185)</b>            | 589,347             | <b>570,815</b>            |
| GZ Antaida          | 30 years             | 2,000,000           | -                    | <b>2,000,000</b>          | (276,235)              | 158,110              | <b>(118,125)</b>           | 1,723,765           | <b>1,881,875</b>          |
| Zhejiang Kelon      | 3 years              | -                   | 1,000,000            | <b>1,000,000</b>          | -                      | (521,759)            | <b>(521,759)</b>           | -                   | <b>478,241</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>              | 216,831             | <b>216,831</b>            |
| Chongqing Rongsheng | 1 year               | 280,000             | -                    | <b>280,000</b>            | 10,556                 | 5,187                | <b>15,743</b>              | 290,556             | <b>295,743</b>            |
| Total               |                      | <u>241,585,741</u>  | <u>1,000,000</u>     | <b><u>242,585,741</u></b> | <u>(27,786,038)</u>    | <u>(1,238,539)</u>   | <b><u>(29,024,577)</u></b> | <u>213,799,703</u>  | <b><u>213,561,164</u></b> |

## (2) Equity investment difference

| Investee<br>Company   | 31 December<br>2001 | during the<br>period | 30 June<br>2002           | Original value      |                      |                            | Accumulated amortisation |                           |                 | Balance             |                 |
|-----------------------|---------------------|----------------------|---------------------------|---------------------|----------------------|----------------------------|--------------------------|---------------------------|-----------------|---------------------|-----------------|
|                       |                     |                      |                           | 31 December<br>2001 | during the<br>period | 30 June<br>2002            | 31 December<br>2001      | during the<br>period      | 30 June<br>2002 | 31 December<br>2001 | 30 June<br>2002 |
|                       |                     |                      |                           |                     |                      |                            |                          |                           |                 |                     |                 |
| Kelon Air-Conditioner | 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>        | (24,742,428)        | (6,600,000)          | <b>(31,342,428)</b>        | 112,603,931              | <b>106,003,931</b>        |                 |                     |                 |
| C&Y                   | 9,007,892           | -                    | <b>9,007,892</b>          | (900,789)           | -                    | <b>(900,789)</b>           | 8,107,103                | <b>8,107,103</b>          |                 |                     |                 |
| Yingkou Kelon         | 1,010,737           | -                    | <b>1,010,737</b>          | (100,000)           | (50,000)             | <b>(150,000)</b>           | 910,737                  | <b>860,737</b>            |                 |                     |                 |
| Total                 | <u>213,961,222</u>  | <u>-</u>             | <b><u>213,961,222</u></b> | <u>(32,957,810)</u> | <u>(6,650,000)</u>   | <b><u>(39,607,810)</u></b> | <u>181,003,412</u>       | <b><u>174,353,412</u></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 investment period specified in the investment contracts. If the contract does not specify the period, the difference is amortised over ten years.

### (3) Provision for impairment loss

| Investee<br>Company        | 31 December<br>2001 | Increase<br>during<br>the period | Decrease<br>during<br>the period | 30 June<br>2002           |
|----------------------------|---------------------|----------------------------------|----------------------------------|---------------------------|
| Sanyo Kelon (i)            | 74,129,000          | -                                | (3,603,617)                      | <b>70,525,383</b>         |
| Kelon Air-Conditioner (ii) | 59,381,641          | -                                | -                                | <b>59,381,641</b>         |
| C&Y (iii)                  | 11,819,000          | -                                | -                                | <b>11,819,000</b>         |
| Total                      | <u>145,329,641</u>  | <u>-</u>                         | <u>(3,603,617)</u>               | <u><b>141,726,024</b></u> |

- (i) There was profit noted for Sanyo Kelon during the six months ended 30 June 2002, so there was written back of the provision for impairment loss of long-term investment.
- (ii) Since Kelon Air-Conditioner sustained excess loss, the long-term investment in Kelon Air-Conditioner held by the Group had been reduced to a negative balance. The Group did not provide any amortisation on this equity investment difference and made 100% provision against the remaining balance of the unamortised equity investment difference.
- (iii) C&Y, the Group's associate, sustained losses. The management of the Group considers that the investment cannot be recovered and made 100% provision for impairment loss against the investment cost and equity investment difference.

Except for the above provisions, the management of the Group considers no further impairment loss for long-term equity investment exists as at 30 June 2002.



## 5. FIXED ASSETS

(1) The movement of fixed assets of the Group is as follows:

|  | For the six months ended 30 June 2002 |                         |                   |                    |                      | 2001                 |
|--|---------------------------------------|-------------------------|-------------------|--------------------|----------------------|----------------------|
|  | Buildings                             | Machinery and equipment | Motor vehicles    | Office equipment   | Total                | Total                |
| <b>Cost</b>                            |                                       |                         |                   |                    |                      |                      |
| Beginning of period                    | 1,342,088,817                         | 1,618,170,443           | 61,039,548        | 362,594,015        | 3,383,892,823        | 3,367,402,922        |
| Reclassification                       | -                                     | 50,237,281              | 4,254             | (50,241,535)       | -                    | -                    |
| Additions                              | 1,862,510                             | 19,483,673              | 1,551,679         | 10,922,530         | 33,820,392           | 98,407,820           |
| Transfer from construction-in-progress | 44,790,855                            | -                       | -                 | 157,345            | 44,948,200           | 52,992,521           |
| Disposals                              | (4,854,934)                           | (10,830,813)            | (741,779)         | (15,495,327)       | (31,922,853)         | (129,901,013)        |
| Exchange difference                    | 1,989,469                             | 6,455                   | 3,323             | 54,988             | 2,054,235            | (5,009,427)          |
| End of period                          | <u>1,385,876,717</u>                  | <u>1,677,067,039</u>    | <u>61,857,025</u> | <u>307,992,016</u> | <u>3,432,792,797</u> | <u>3,383,892,823</u> |
| <b>Accumulated depreciation</b>        |                                       |                         |                   |                    |                      |                      |
| Beginning of period                    | 250,989,196                           | 822,083,216             | 27,591,489        | 178,197,699        | 1,278,861,600        | 1,063,555,842        |
| Reclassification                       | -                                     | 10,548,696              | 878               | (10,549,574)       | -                    | -                    |
| Provision for the period               | 24,121,494                            | 83,955,378              | 4,445,645         | 18,049,343         | 130,571,860          | 248,504,370          |
| Eliminated on disposals                | -                                     | (1,931,396)             | (351,422)         | (13,437,908)       | (15,720,726)         | (33,046,879)         |
| Exchange difference                    | 9,706                                 | 5,550                   | 397               | 33,644             | 49,297               | (151,733)            |
| End of period                          | <u>275,120,396</u>                    | <u>914,661,444</u>      | <u>31,686,987</u> | <u>172,293,204</u> | <u>1,393,762,031</u> | <u>1,278,861,600</u> |
| <b>Net book value</b>                  |                                       |                         |                   |                    |                      |                      |
| At 30 June 2002                        | <u>1,110,756,321</u>                  | <u>762,405,595</u>      | <u>30,170,038</u> | <u>135,698,812</u> | <u>2,039,030,766</u> | <u>2,105,031,223</u> |
| At 1 January 2002                      | <u>1,091,099,621</u>                  | <u>796,087,227</u>      | <u>33,448,059</u> | <u>184,396,316</u> | <u>2,105,031,223</u> | <u>2,303,847,080</u> |

Buildings include buildings, plants, office premises, staff quarters situated in PRC, Hong Kong and Japan. As at 30 June 2002, buildings in Hong Kong with net book value of approximately RMB80,176,000 (31 December 2001: approximately RMB80,818,000) were mortgaged as security for the Group's long-term borrowings (Note V-12). As at 30 June 2002, buildings in the PRC (exclude Hong Kong) with the net book value of approximately RMB75,185,000 (31 December 2001: approximately RMB80,281,000) were mortgaged as security for the Group's short-term borrowing and long-term borrowing (Notes V-9, V-12).

As at 30 June 2002, mortgage loans were secured by machinery and equipments with net book value of approximately RMB29,175,000 (31 December 2001: approximately RMB38,378,000) (Note V-9).

(2) Provision for impairment losses for fixed assets

As at 31 December 2001, overseas subsidiaries of the Group 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 in prior year. At the period end, no significant incidence would affect the value of these buildings.

Except for the above assets, the management of the Group considers that no more provision for impairment loss of fixed assets existed as at 30 June 2002.

## 6. CONSTRUCTION-IN-PROGRESS

Movement of construction-in-progress is as follows:

| Project name   | 31 December |                   | Additions         | Transfer to<br>fixed assets | 30 June<br>2002         | Source of<br>capital | Project<br>status |
|--|-------------|-------------------|-------------------|-----------------------------|-------------------------|----------------------|-------------------|
|  | Budget      | 2001              |                   |                             |                         |                      |                   |
| No. 2 refrigerator plants<br>(2nd and 4th floor)             | 12,950,000  | 12,613,535        | 6,573,294         | (19,186,829)                | -                       | Working capital      | 100%              |
| Renovation of the office<br>building for the Group           | 14,900,000  | -                 | 5,122,382         | (5,122,382)                 | -                       | Working capital      | 100%              |
| Restructuring of refrigerator<br>production line No. 2 and 4 | 16,040,000  | 7,863,760         | 9,499,630         | (17,363,390)                | -                       | Working capital      | 100%              |
| Others   | -           | 10,709,911        | 516,040           | (3,275,599)                 | <b>7,950,352</b>        | Working capital      | -                 |
|  |             | <u>31,187,206</u> | <u>21,711,346</u> | <u>(44,948,200)</u>         | <u><b>7,950,352</b></u> |                      |                   |

There was no capitalised interest expense in construction-in-progress.

Management of the Group considers, no indicator of impairment losses existed for the Group's construction-in-progress, and hence no provision is required as at 30 June 2002.

## 7. INTANGIBLE ASSETS

Movement of intangible assets is as follows:

| Nature          | Means of acquisition | Original cost      | 31 December 2001   | Addition       | Amortisation       | Accumulated amortisation | 30 June 2002              | Residual useful life |
|-----------------|----------------------|--------------------|--------------------|----------------|--------------------|--------------------------|---------------------------|----------------------|
| Land use rights | Purchase             | 373,484,114        | 303,983,893        | -              | (4,992,922)        | (74,493,143)             | <b>298,990,971</b>        | 22-40 years          |
| Others          | Purchase             | 3,545,218          | 1,799,912          | 845,350        | (340,433)          | (1,240,389)              | <b>2,304,829</b>          | 2 years              |
| Total           |                      | <u>377,029,332</u> | <u>305,783,805</u> | <u>845,350</u> | <u>(5,333,355)</u> | <u>(75,733,532)</u>      | <u><b>301,295,800</b></u> |                      |

Management of the Group consider, 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 as at 30 June 2002.

## 8. LONG-TERM DEFERRED EXPENDITURES

Movement of long-term deferred expenditures is as follows:

| Items                           | 31 December 2001   | Additions         | Amortisation        | 30 June 2002              |
|---------------------------------|--------------------|-------------------|---------------------|---------------------------|
| Moulds and tools                | 131,123,575        | 62,527,227        | (70,845,911)        | <b>122,804,891</b>        |
| Illuminated advertising display | 70,072,252         | 9,390,157         | (9,703,993)         | <b>69,758,416</b>         |
| Others                          | 9,708,454          | 352,463           | (2,664,206)         | <b>7,396,711</b>          |
|                                 | <u>210,904,281</u> | <u>72,269,847</u> | <u>(83,214,110)</u> | <u><b>199,960,018</b></u> |

## 9. SHORT-TERM LOANS

The breakdown of short-term loans is as follows:

| Nature                                 | Currency | 30 June 2002 |                    |               | 31 December 2001 |                      |               |
|--|----------|--------------|--------------------|---------------|------------------|----------------------|---------------|
|  |          | Original     | RMB                | Annual        | Original         | RMB                  | Annual        |
|  |          |              | equivalent         | interest rate |                  | equivalent           | interest rate |
| Bank loans                             |          |              |                    |               |                  |                      |               |
| - Mortgage loans (i)                   | RMB      | 42,000,000   | 42,000,000         | 5.31-6.44%    | 82,000,000       | 82,000,000           | 7.02%         |
| - Guarantee loans (ii)                 | RMB      | 390,000,000  | 390,000,000        | 4.77-6.44%    | 230,000,000      | 230,000,000          | 4.77-6.44%    |
|  | HK\$     | -            | -                  | -             | 24,159,798       | 25,609,386           | 2.81-9.00%    |
| - Credit loans                         | RMB      | 455,700,000  | 455,700,000        | 5.04-5.85%    | 705,700,000      | 705,700,000          | 5.58-6.14%    |
| - Financing from bank acceptance notes | RMB      | -            | -                  | -             | 280,000,000      | 280,000,000          | 3.24%         |
| Total                                  |          |              | <u>887,700,000</u> |               |                  | <u>1,323,309,386</u> |               |

(i) As at 30 June 2002, RMB mortgage loan was secured by the buildings in PRC with net book value of approximately RMB75,185,000 (31 December 2001: approximately RMB80,281,000) and the machinery and equipment with net book value of approximately RMB29,175,000 (31 December 2001: approximately RMB38,378,000) (Note V-5).

(ii) Guarantee loans were guaranteed by GKG and Shunde Greencool (Note VI-3).

## 10. NOTES PAYABLE

Breakdown of notes payable is as follows:

| Nature           | 30 June 2002       | 31 December 2001   |
|------------------|--------------------|--------------------|
| Bank draft       | 325,630,371        | 678,568,666        |
| Commercial draft | 594,911,709        | 141,823            |
| Total            | <u>920,542,080</u> | <u>678,710,489</u> |

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. Shunde Greencool provided 70% credit guarantee for the bank draft of RMB136,649,293 of the Group.

## 11. ACCOUNTS PAYABLE

As at 30 June 2002 and 31 December 2001, most of the Group's accounts payable were aged within one year and did not comprise any significant amount due to shareholders who held more than 5% (including 5%) of the Company's share capital.

## 12. LONG-TERM LOAN

| 30 June 2002                            |                 |                 |                           |                    |                                 |
|---|-----------------|-----------------|---------------------------|--------------------|---------------------------------|
| <u>Nature</u>                           | <u>Currency</u> | <u>Original</u> | <u>RMB<br/>equivalent</u> | <u>Loan period</u> | <u>Annual<br/>interest rate</u> |
| Bank loans                              |                 |                 |                           |                    |                                 |
| - Mortgage loans (i)                    | HK\$            | 30,634,272      | 32,509,089                | 1-10 years         | 5%-9%                           |
| - Mortgage loans (i)                    | RMB             | 60,000,000      | 60,000,000                | 2 years            | 5.31%                           |
| - Guarantee loans (ii)                  | RMB             | 200,000,000     | 200,000,000               | 2 years            | 4.77%                           |
| Total                                   |                 |                 | <u>292,509,089</u>        |                    |                                 |
| Less: Amount payable<br>within one year |                 |                 | <u>(205,089,957)</u>      |                    |                                 |
|   |                 |                 | <u>87,419,132</u>         |                    |                                 |

| 31 December 2001                        |                 |                 |                           |                    |                                 |
|---|-----------------|-----------------|---------------------------|--------------------|---------------------------------|
| <u>Nature</u>                           | <u>Currency</u> | <u>Original</u> | <u>RMB<br/>equivalent</u> | <u>Loan period</u> | <u>Annual<br/>interest rate</u> |
| Bank loans                              |                 |                 |                           |                    |                                 |
| - Mortgage loans                        | HK\$            | 32,944,215      | 34,920,866                | 1-10 years         | 5%-9%                           |
| - Guarantee loans                       | RMB             | 200,000,000     | 200,000,000               | 2 years            | 4.77%                           |
| Total                                   |                 |                 | <u>234,920,866</u>        |                    |                                 |
| Less: Amount payable<br>within one year |                 |                 | <u>(204,958,929)</u>      |                    |                                 |
|   |                 |                 | <u>29,961,937</u>         |                    |                                 |

(i) As at 30 June 2002, HK\$ mortgage loan was secured by the buildings in Hong Kong with net book value of approximately RMB80,176,000 (31 December 2001: approximately RMB80,818,000) (Note V-5). RMB mortgage loan was secured by the buildings in PRC with net book value of approximately RMB75,185,000 (31 December 2001: approximately RMB80,281,000) (Note V-5).

(ii) Guarantee loan was secured by GKG. (Note VI-3)

### 13. CAPITAL RESERVE

Movement of capital reserve is as follows:

| Items                       | 31 December          | Addition | Amortisation | 30 June              |
|-----------------------------|----------------------|----------|--------------|----------------------|
|                             | 2001                 |          |              | 2002                 |
| Share Premium               | 2,433,526,092        | -        | -            | 2,433,526,092        |
| Assets received as donation | 17,696,745           | -        | -            | 17,696,745           |
| Total                       | <u>2,451,222,837</u> | <u>-</u> | <u>-</u>     | <u>2,451,222,837</u> |

### 14. REVENUE FROM PRINCIPAL OPERATIONS AND SEGMENT REPORT

The Group is mainly engaged in the manufacturing and sales of refrigerator and air-conditioner, the breakdown of revenue from principal operations and segment report is as follows:

| Items                             | For the six months ended 30 June 2002 |                           |                 |
|-----------------------------------|---------------------------------------|---------------------------|-----------------|
|                                   | Sales of Refrigerators                | Sales of Air-Conditioners | Total           |
| Revenue from principal operations | 1,190,597,355                         | 1,359,909,052             | 2,550,506,407   |
| Cost of principal operations      | (847,478,579)                         | (985,690,938)             | (1,833,169,517) |
| Operation expenses                | (297,511,296)                         | (314,063,823)             | (611,575,119)   |
| Operating profit                  | 53,044,733                            | 62,917,604                | 115,962,337     |
| Total assets                      | 3,420,757,673                         | 3,907,214,564             | 7,327,972,237   |
| Total liabilities                 | 2,137,682,683                         | 2,441,676,877             | 4,579,359,560   |

## 15. PROFIT FROM OTHER OPERATIONS

Breakdown of profit from other operations is as follows:

|   | For the six months ended 30 June |             |
|---|----------------------------------|-------------|
|   | 2002                             | 2001        |
| <b>Other operating income</b>             |                                  |             |
| Sales of raw materials and scraps         | 51,702,966                       | 194,017,619 |
| Others                                    | 8,009,297                        | 646,941     |
| Sub-total                                 | 59,712,263                       | 194,664,560 |
| <b>Other operating cost</b>               |                                  |             |
| Cost of sales of raw materials and scraps | 39,830,592                       | 182,349,669 |
| Others                                    | 9,507,009                        | 509,325     |
| Sub-total                                 | 49,337,601                       | 182,858,994 |
| Profit from other operations              | 10,374,662                       | 11,805,566  |

## 16. FINANCIAL EXPENSES

Breakdown of financial expenses is as follows:

|                           | For the six months ended 30 June |              |
|---------------------------|----------------------------------|--------------|
|                           | 2002                             | 2001         |
| Interest expense          | 53,794,531                       | 43,864,049   |
| Interest income           | (11,248,544)                     | (27,373,054) |
| Exchange (gain) loss, net | (1,873,584)                      | 1,999,501    |
| Bank charges              | 875,181                          | 2,572,515    |
| Total                     | 41,547,584                       | 21,063,011   |

## 17. INVESTMENT LOSS

The breakdown of investment loss is as follows:

|  | For the six months ended 30 June |                    |
|--|----------------------------------|--------------------|
|  | 2002                             | 2001               |
| Investment loss from associates                          | (1,238,539)                      | 7,021,464          |
| Amortisation on equity investment difference             | (6,650,000)                      | (8,648,884)        |
| Written back of impairment loss for long-term investment | 3,603,617                        | -                  |
| Total  | <u>(4,284,922)</u>               | <u>(1,627,420)</u> |

## 18. INCOME TAX

Breakdown of income tax is as follows:

|                                   | For the six months ended 30 June |          |
|-----------------------------------|----------------------------------|----------|
|                                   | 2002                             | 2001     |
| PRC enterprise income tax ("EIT") | 2,799,256                        | -        |
| Hong Kong profits tax             | -                                | -        |
| Others                            | -                                | -        |
| Total                             | <u>2,799,256</u>                 | <u>-</u> |

## 19. SUPPLEMENTARY INFORMATION OF CASH FLOWS

Reconciliation of Cash and bank, and Cash and cash equivalent

|                          | 30 June<br>2002    | 31 December<br>2001 |
|--------------------------|--------------------|---------------------|
| Cash and bank            | 1,056,115,152      | 778,191,077         |
| Less: Pledged deposit    | (521,360,849)      | (126,994,513)       |
| Cash and cash equivalent | <u>534,754,303</u> | <u>651,196,564</u>  |



## VI. RELATIONSHIP WITH RELATED PARTIES AND 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 enterprise;
- (iv) principal individual investors, key management personnel, or the 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 individual.

#### (1) Related party with controlling relationship:

Except for subsidiaries as disclosed in Note 3, related party with controlling relationship also include:

| <u>Name of Company</u>   | <u>Place of<br/>Incorporation</u> | <u>Principal activities</u>  | <u>Relationship</u>   | <u>Enterprise<br/>nature</u>    | <u>Legal<br/>representative</u> |
|--|-----------------------------------|--|---|---------------------------------|---------------------------------|
| Shunde Greencool<br>Development<br>Co., Ltd.<br>("Shunde Greencool") | Shunde,<br>Guangdong              | Research,<br>manufacture, and<br>sale of refrigeration<br>equipment, fittings<br>fluorine-free cryogen | Company<br>owned by<br>chairman of the<br>Company, major<br>shareholder | Limited<br>liability<br>company | Gu Chu Jun                      |

(2) *Movements of registered capital of related party with controlling relationship*

| Name             | Beginning of period | For six months ended 30 June 2002 |          |               |
|------------------|---------------------|-----------------------------------|----------|---------------|
|                  |                     | Increase                          | Decrease | End of period |
| GKG              | 30,000,000          | -                                 | -        | 30,000,000    |
| Shunde Greencool | 1,200,000,000       | -                                 | -        | 1,200,000,000 |

(3) *Movements of the Company's share capital held by related party with controlling relationship*

Major shareholders

| Name             | For six months ended 30 June 2002 |            |             |            |               |            |               |            |
|------------------|-----------------------------------|------------|-------------|------------|---------------|------------|---------------|------------|
|                  | Beginning of period               |            | Increase    |            | Decrease      |            | End of period |            |
|                  | Amount                            | Percentage | Amount      | Percentage | Amount        | Percentage | Amount        | Percentage |
| Shunde Greencool | -                                 | -          | 204,775,755 | 20.64%     | -             | -          | 204,775,755   | 20.64%     |
| GKG              | 337,915,755                       | 34.06%     | -           | -          | (337,915,755) | (34.06%)   | -             | -          |

(4) *Related parties without controlling relationship and their relationship with the Group*

| Name   | Relationship  |
|--|---|
| Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")    | Associate of minority shareholder of Chengdu Kelon              |
| Kelon Advertising Company ("Kelon Advertising")                                      | Subsidiary of GKG   |
| Shunde Huaao Electrical Company Limited ("Huaao Electrical")                         | Subsidiary of GKG   |
| Kelon HEA  | Associate of the Group, Subsidiary of GKG                       |
| Sanyo Kelon  | Associate of the Group  |
| Wangao Co  | Associate of the Group, Subsidiary of GKG                       |
| C&Y  | Associate of the Group  |
| GZ Antaida   | Associate of the Group  |
| Huayi Compressor   | Associate of the Group  |
| Chongqing Kelon  | Associate of the Group  |
| Chongqing Rongsheng  | Associate of the Group  |
| Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool") | Subsidiary indirectly controlled by the Chairman of the Company |
| Kelon Employee Union   | Entity organised and owned by employee of the Company           |

## (2) Related party balances

|   | 30 June<br>2002      | 31 December<br>2001  |
|---|----------------------|----------------------|
| Notes receivable                          |                      |                      |
| – GKG                                     | –                    | 170,000,000          |
| Accounts receivable                       |                      |                      |
| – Huaao Electrical (Note (c) (ii) (iv))   | 34,942,653           | 34,154,564           |
| – Wangao Co (Note (c) (ii) (v))           | 2,938,509            | 9,813,628            |
| – Sanyo Kelon (Note (c) (xi))             | 37,923,284           | 37,050,000           |
| – Huayi Compressor                        | 2,483,616            | 2,483,616            |
| – Chongqing Kelon                         | 340,351              | –                    |
| – Chongqing Rongsheng                     | –                    | 2,318,665            |
| – Kelon HEA                               | 602,215              | –                    |
| – Others                                  | –                    | 100,384              |
|   | <u>79,230,628</u>    | <u>85,920,857</u>    |
| Less: Bad debt provision (Note (c) (xi))  | <u>(37,050,000)</u>  | <u>(37,050,000)</u>  |
|   | <u>42,180,628</u>    | <u>48,870,857</u>    |
| Other receivables                         |                      |                      |
| – GKG (Note (a))                          | 862,045,165          | 692,045,165          |
| – Shunde Greencool (Note (c) (i))         | –                    | 198,000,000          |
| – Huaao Electrical (Note (c) (iv))        | 60,229,978           | 46,956,257           |
| – Sanyo Kelon (Note (c) (xi))             | 12,707,325           | –                    |
| – Wangao Co (Note (c) (v))                | 46,977,984           | 5,574,993            |
| – Kelon HEA (Note (c) (vii))              | 27,571,993           | 23,850,685           |
| – Others                                  | –                    | 273,937              |
|   | <u>1,009,532,445</u> | <u>966,701,037</u>   |
| Less: Bad debt provision (Note (a) (iii)) | <u>(172,409,033)</u> | <u>(172,409,033)</u> |
|   | <u>837,123,412</u>   | <u>794,292,004</u>   |

|   | <b>30 June<br/>2002</b> | 31 December<br>2001 |
|---|-------------------------|---------------------|
| Long-term receivables due over one year         |                         |                     |
| - Kelon Employee Union ( <i>Note (c) (vi)</i> ) | <b>51,602,906</b>       | 58,139,947          |
| - Chengdu Xinxing ( <i>Note (c) (xiii)</i> )    | <b>34,000,000</b>       | 34,000,000          |
|   | <b>85,602,906</b>       | 92,139,947          |
| Accounts payable                                |                         |                     |
| - Wangao Co ( <i>Note (c) (v)</i> )             | <b>31,559,762</b>       | -                   |
| - Sanyo Kelon ( <i>Note (c) (xi)</i> )          | <b>34,232</b>           | -                   |
| - Huao Electrical ( <i>Note (c) (iv)</i> )      | <b>190,956,124</b>      | 93,676,908          |
|   | <b>222,550,118</b>      | 93,676,908          |
| Other payables                                  |                         |                     |
| - Hainan Greencool ( <i>Note (b) (ii)</i> )     | <b>297,000</b>          | -                   |
| - Others  | <b>87,390</b>           | 263,100             |
|   | <b>384,390</b>          | 263,100             |
| Advance from customer                           |                         |                     |
| - Chongqing Rongsheng                           | <b>684,483</b>          | -                   |

### (3) Related party transactions

|   | For the six months ended 30 June |              |
|---|----------------------------------|--------------|
|   | 2002                             | 2001         |
| Sale of goods/raw materials to  |                                  |              |
| - Huaao Electrical ( <i>Note (c) (iv)</i> )                               | 4,266,926                        | 22,025,583   |
| - Wangao Co ( <i>Note (c) (v)</i> )                                       | 34,159,083                       | -            |
| - Sichuan Rongsheng ( <i>Note (c) (viii)</i> )                            | -                                | 47,480,960   |
| - Chongqing Kelon ( <i>Note (c) (ix)</i> )                                | 53,944,503                       | 57,771,537   |
| - Chongqing Rongsheng ( <i>Note (c) (x)</i> )                             | 33,212,615                       | 56,306,920   |
| - Sanyo Kelon ( <i>Note (c) (xi)</i> )                                    | 3,684,850                        | 11,524,848   |
| - GKG   | -                                | 9,776,700    |
| Purchase of goods/raw materials from                                      |                                  |              |
| - Hainan Greencool ( <i>Note (b) (i)</i> )                                | 27,000,000                       | -            |
| - Huaao Electrical ( <i>Note (c) (iv)</i> )                               | 144,119,851                      | 185,212,612  |
| - Wangao Co ( <i>Note (c) (v)</i> )                                       | 46,969,246                       | -            |
| - Kelon HEA ( <i>Note (c) (vii)</i> )                                     | 16,537,733                       | -            |
| - GKG   | -                                | 101,029,415  |
| - Sanyo Kelon   | -                                | 1,369,320    |
| - Others  | 21,120                           | -            |
| Sale of net fixed assets to   |                                  |              |
| - Huaao Electrical ( <i>Note (c) (iv)</i> )                               | 1,222,603                        | -            |
| Loan guarantee provided by  |                                  |              |
| - GKG   | 340,000,000                      | -            |
| - Shunde Greencool  | 250,000,000                      | -            |
| Loan guarantee provided to  |                                  |              |
| - C&Y ( <i>Note (c) (xii)</i> )   | 3,975,000                        | -            |
| Other expenses received from (paid to)                                    |                                  |              |
| - Advertising fee paid to<br>Kelon Advertising ( <i>Note (c) (iii)</i> )  | -                                | (19,299,000) |
| - Advertising fee paid to C&Y<br>( <i>Note (c) (xii)</i> )                | (350,414)                        | (19,080,000) |
| - Interest charged to Chengdu Xinxing<br>( <i>Note (c) (xiii)</i> )       | 1,605,600                        | -            |
| - Logistic management fee paid to<br>GZ Antaida ( <i>Note (c) (xiv)</i> ) | (1,017,273)                      | -            |

a. Transactions with GKG

*The transactions with GKG are summarised as follows:*

(i) Change of shareholdings

In accordance to the "Contract of shares transfer of Guangdong Kelon Electrical Holdings Company Limited" and "Supplementary Contract of shares transfer of Guangdong Kelon Electrical Holdings Company Limited" signed between GKG, former single largest shareholder of the Company, and Shunde Greencool dated 29 October 2001 and 5 March 2002 respectively, both parties had already completed the transaction on 18 April 2002. From the date of shares transfer, Shunde Greencool becomes the single largest shareholder of the Company.

In April 2002, GKG also transferred the remaining shareholdings of the Company to Shunde Economic Consultancy Company, Shunde Dong Heng Development Company Limited and Shunde Xin Hong Enterprise Company Limited.

No shareholdings were held by GKG after the completion of the transactions as mentioned above. Any business undertaken between GKG and the Group would no longer constitute any related party relationship. However, GKG was still disclosed as a related party as GKG still had significant influence over the Company in this reporting period.

(ii) Licence agreement on the use of trademark

Under a licence agreement ("Licence Agreement") dated 6 July 1996 made between GKG, the former single largest shareholder of the Company, and the Company, GKG granted to the Company an exclusive right to use the trademarks "Kelon" and "Ronshen" for no consideration: a) as registered in PRC and Hong Kong, and/or b) as may from time to time be registered and/or in respect of which applications for registration may be made with the trademarks registry of any other territory by GKG and/or c) all "Kelon" or "Ronshen" 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. With the prior written consent of the Company, GKG may use and allow third party to use, such trademarks on production

other than the types of products covered by the Licence Agreement. At present, the Group has used the trademarks of "Kelon" and "Ronshen" on the refrigerators' products and "Kelon" on the air-conditioners products under the above-mentioned Licence Agreement.

- (iii) As at 30 June 2002, the balances due from GKG resulting from the above transactions amounted to approximately RMB862,045,000 (2001: approximately RMB862,045,000). Based on the continuous negotiations with management of GKG has estimated that RMB172,409,000 of the outstanding balance may not be recoverable and therefore had made an allowance of that amount was made as at 30 June 2002 (2001: RMB172,409,000).

b. Transactions with Hainan Greencool

The transaction with Hainan Greencool are summarised as follows:

- (i) On 9 April 2002, an agreement signed between the Company and Hainan Greencool regarding the purchase of Model R411 chlorofluorocarbon ("CFC") from the latter amounting to RMB27,000,000. All the goods were received, checked, and put into production.
- (ii) For the six months period ended 30 June 2002, the Company received entering and CFC installation fees from 198 engineering units authorised by Greencool Technology Holdings Limited on behalf of Hainan Greencool in PRC at RMB35,000 per unit, totalling RMB6,930,000. As at 30 June 2002, RMB6,633,000 had been paid to Hainan Greencool and the balance payable of RMB297,000 was outstanding at the period end.

c. Transactions with other related parties

Other related party transactions are summarised as follows:

- (i) On 23 December 2001, GKG entered into a debt transfer agreement with the Company and Shunde Greencool. The debt transfer agreement was subsequently revised on 22 March, 2002. In accordance with the agreements, the acquisition cost was RMB348,000,000. For the settlement arrangement, GKG transferred its debt owing to the Company, amounting to RMB348,000,000, to Shunde Greencool. As at 31 December 2001, an amount of RMB150,000,000 had been settled by Shunde Greencool. Further payment of RMB198,000,000 was made by Shunde Greencool on 25 April 2002 and the total debt of RMB348,000,000 had been fully settled as at 30 June 2002.

- (ii) In consideration of the Company's plan to consolidate its import/export business and to use the household mini electrical appliances business as a platform to market the Company's refrigerators and air-conditioners, the Group through its wholly-owned subsidiary Jiake Electronic entered into an agreement with GKG on 26 November 2001 to acquire GKG's entire interest in Kelon Advertising, Kelon HEA, Huaao Electrical and Wangao Co respectively.

On 6 August 2002, the transfer of shares of Kelon Advertising, Wangao Co and Huaao Electrical held by GKG to Jiake Electronic had been completed. As at reporting date, Jiake Electronic holds 70% interests in Huaao Electrical, 80% interests in Wangao Co and 80% interests in Kelon Advertising. The acquisition of Kelon HEA is still in progress.

After completion of shareholdings transfer during the reporting period, no shareholdings were held by GKG. So GKG and its subsidiaries would no longer constitute any related party relationship as at reporting date. However, these companies were still disclosed as related parties as they still had significant influence over the Company in this reporting period.

- (iii) Kelon Advertising is a directly-controlled subsidiary of GKG. The Group engaged Kelon Advertising as one of its advertising agencies. For the six months period ended 30 June 2001, the Group paid advertising fee of approximately RMB19,299,000 to Kelon Advertising. For the six months period ended 30 June 2002, no such business occurred.
- (iv) Huaao Electrical is a subsidiary of GKG. For the six months period ended 30 June 2002, the Group purchased certain materials amounting to approximately RMB144,120,000 (six months period ended 30 June 2001: approximately RMB185,213,000) from Huaao Electrical.

The Group also sold electronic spare parts to Huaao Electrical. For the six months period ended 30 June 2002, the amount of sales to Huaao Electrical by the Group amounted to approximately RMB4,267,000 (six months period ended 30 June 2001: approximately RMB22,026,000).

For the six months period ended 30 June 2002, the Company sold fixed assets to Huaao Electrical amounting to approximately RMB1,223,000 (six months period ended 30 June 2001: nil).

As at 30 June 2002, the amount due to Huaao Electrical in connection with the above amounted to approximately RMB95,783,000 (2001: approximately RMB12,566,000).



- (v) Wangao Co is an associate of the Group, and also is a subsidiary of GKG, which was established in June 2001. For the six months period ended 30 June 2002, Wangao Co imported materials of approximately RMB9,879,000 (six months period ended 30 June 2001: nil) on behalf of Rongsheng Plastic, a subsidiary of the Company. For the same period, Pearl River and KII, subsidiaries of the Company, also purchased mini household electrical appliances amounted to approximately RMB37,089,000 (six months period ended 30 June 2001: nil) for export purposes. On the other hand, Wangao Co purchased refrigerators amounting to approximately RMB34,159,000 from the Group for trading purpose during 2002 (six months period ended 30 June 2001: nil).

As at 30 June 2002, the amount due from Wangao Co in connection with the above amounted to approximately RMB18,357,000 (2001: approximately RMB15,389,000).

- (vi) During 2001, the Company had provided funds of RMB116,000,000 to Kelon Employee Union, an employee association owned by the employees of the Group and controlled through their delegates. As at 30 June 2002, the amount due from Kelon Employee Union in this connection amounted to approximately RMB51,603,000 (2001: approximately RMB58,140,000).

- (vii) Kelon HEA is a company which is 75% and 25% held by GKG and the Company respectively. For the six months period ended 30 June 2002, Kelon HEA purchased refrigerators and air-conditioners from the Group and sold them in the market and the sales amount of the Group to Kelon HEA amounted to approximately RMB16,538,000 (six months ended period 30 June 2001: nil).

As at 30 June 2002, amount due from Kelon HEA in connection with the above amounted to approximately RMB28,174,000 (2001: approximately RMB23,851,000)

- (viii) As the Company further acquired the interests of Sichuan Rongsheng, it is not regarded as a related company. Sichuan Rongsheng was an associate of the Group, so only disclosure of sale amount in last period was made.

- (ix) Chongqing Kelon is an associate of the Group. For the six months ended 30 June 2002, the Group sold goods to Chongqing Kelon amounting to approximately RMB53,945,000 (six months period ended 30 June 2001: approximately RMB57,772,000).

- (x) Chongqing Rongsheng is an associate of the Group. For the six months ended 30 June 2002, the Group sold goods to Chongqing Rongsheng amounting to approximately RMB33,213,000 (six months period ended 30 June 2001: approximately RMB56,307,000).
- (xi) Sanyo Kelon is an associate of the Group. For the six months ended 30 June 2002, the Group sold goods to Sanyo Kelon amounting to approximately RMB3,685,000 (six months period ended 30 June 2001: approximately RMB11,525,000).

In accordance with contract on transfer of shares signed with the former shareholder of Sanyo Kelon (Note VIII-2), the Company already repaid the loan of RMB12,350,000 on 24 June 2002 on behalf of Sanyo Kelon.

As at 30 June 2002, the amount due from Sanyo Kelon was RMB50,596,000. The management of the Group considered that there was risk of recoverability of the remaining balance, so allowance of RMB37,050,000 was made as at 30 June 2002 (2001: approximately RMB37,050,000).

- (xii) C&Y is an associate of the Group and it is principally engaged in the media advertising and marketing business.

As at 30 June 2002, the Group provided guarantee on the secured bank loan amounting to approximately RMB3,975,000 to C&Y (six months period ended 30 June 2001: nil).

For the six months ended 30 June 2002, the Group paid advertising fee of approximately RMB350,000 to C&Y (six months period ended 30 June 2001: approximately RMB19,080,000).

As at 30 June 2001, due to the poor operating results in C&Y, the management had made full allowance of RMB11,819,000 for impairment in value of the Group's investment in C&Y (Note V-4).

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

For the six months period ended 30 June 2002, the Group received interest payments of RMB1,606,000 (six months period ended 30 June 2001: nil) from Chengdu Xinxing.

(xiv) GZ Antaida is an associate of the Group. The Group and GZ Antaida entered into a logistic service agreement where GZ Antaida is responsible for providing transportation service to the Group, a 4% service fee is charged on delivery and discharge of goods. For the six months ended 30 June 2002, the Group paid to GZ Antaida the logistic management fee of approximately RMB1,017,000 (six months period ended 30 June 2001: nil).

d. Terms of related party balances

Save as the balance due from Chengdu Xinxing, all other related party balances are unsecured, non-interest bearing and repayable on demand.

e. Violation of Hong Kong Listing Rules

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

## VII. CAPITAL COMMITMENTS

|  | <b>30 June<br/>2002</b>  | 31 December<br>2001      |
|--|--------------------------|--------------------------|
| Authorised and contracted for                              |                          |                          |
| – Purchase of fixed assets and<br>construction-in-progress | <b>10,105,000</b>        | 51,740,000               |
| – Purchase of moulds                                       | <b>48,839,000</b>        | –                        |
| Total  | <b><u>58,944,000</u></b> | <b><u>51,740,000</u></b> |

## VIII. SIGNIFICANT SUBSEQUENT EVENTS

1. In consideration of the Company's plan to consolidate its import/export business and to use the household mini electrical appliances business as a platform to market the Company's refrigerators and air-conditioners, the Company through its wholly-owned subsidiary Jiake Electronic entered into an agreement with GKG on 26 November 2001 to acquire GKG's entire interest in Kelon Advertising, Kelon HEA, Huao Electrical and Wangao Co respectively.

On 6 August 2002, the transfer of shares of Kelon Advertising, Wangao Co and Huao Electrical held by GKG to Jiake Electronic had been completed. As at reporting date, Jiake Electronic holds 70% interests in Huao Electrical, 80% interests in Wangao Co and 80% interests in Kelon Advertising. The acquisition of Kelon HEA is still in progress.

2. In July 2002, the acquisition of Sanyo Kelon (being an associate of the Group before acquisition) was completed. Before acquisition, Sanyo Electric Co., Ltd., Sanyo Electric (China) Co., Ltd., Nishoiwai (China) Co., Ltd. and the Company held 46%, 5%, 5% and 44% interests in Sanyo Kelon respectively. After acquisition, Sanyo Kelon is wholly owned by the Group.

## IX. IMPACT OF IAS ADJUSTMENTS ON NET PROFIT/NET ASSETS

|   | Consolidated net profit<br>for the six months<br>ended 30 June |                   | Consolidated net<br>assets as at |                      |
|---|--|-------------------|----------------------------------|----------------------|
|   | 2002   | 2001              | 30 June<br>2002                  | 31 December<br>2001  |
|   |  |                   |                                  |                      |
| As reported in<br>accordance with<br>PRC GAAP                                       | 112,681,302  | 19,750,961        | 2,521,857,904                    | 2,402,616,534        |
| Impact of adjustments:  |  |                   |                                  |                      |
| - Adjustments on<br>amortisation of<br>long-term<br>equity investment<br>difference | (50,000)   | 3,771,166         | (50,000)                         | -                    |
| - Adjustments on fixed<br>assets revaluation<br>surplus and related<br>depreciation | (7,731,842)  | (7,823,557)       | 9,337,835                        | 17,069,677           |
| As restated in<br>accordance with IAS   | <u>104,899,460</u>   | <u>15,698,570</u> | <u>2,531,145,739</u>             | <u>2,419,686,211</u> |

## X. MAJOR CHANGES IN THE CONSOLIDATED FINANCIAL STATEMENTS

The accounts in the consolidated financial statements, whose fluctuation between 30 June 2002 and 31 December 2001 is over 30% and accounted for over 5% of the total assets of the Group as at 30 June 2002, or over 10% of the profit before taxation for the reporting period, are as follows:

| Items in Balance Sheet | 30 June              | 31 December   | Fluctuation |      |
|------------------------|----------------------|---------------|-------------|------|
|                        | 2002                 | 2001          | Amount      | %    |
| Inventories (i)        | <b>1,823,301,550</b> | 1,225,838,916 | 597,462,634 | 49%  |
| Accounts payable (ii)  | <b>1,501,927,994</b> | 578,148,753   | 923,779,241 | 160% |

- (i) As the end of the period is the mid-season for sales, the inventories increased significantly comparing with the beginning of the period.
- (ii) As the end of the period being the mid-season for sales, the purchase and inventories increased significantly and the transaction with the suppliers is frequent, the accounts payable will be settled subsequently.

| Items in Income Statement  | For the six months ended June 30 |            | Fluctuation |      |
|----------------------------|----------------------------------|------------|-------------|------|
|                            | 2002                             | 2001       | Amount      | %    |
| Operating profit (i)       | <b>115,962,337</b>               | 14,750,642 | 101,211,695 | 686% |
| Profit before taxation (i) | <b>115,624,201</b>               | 15,568,156 | 100,056,045 | 643% |
| Net profit (i)             | <b>112,681,302</b>               | 19,750,961 | 92,930,341  | 471% |

- (i) With the improvement of sales structure of products, the unit GP ratio has increased and the profitability of product has been improved. Besides, the Company undertakes cost control measures and strengthens the control over expenditure, which resulted in the decrease of distribution costs and administrative expenses for the period.

## XI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

### 1. ACCOUNTS RECEIVABLE

(1) *Aging analysis of accounts receivable is as follows:*

| Aging              | 30 June 2002       |             |                      |                    | 31 December 2001   |             |                      |                    |
|--------------------|--------------------|-------------|----------------------|--------------------|--------------------|-------------|----------------------|--------------------|
|                    | Balance            | Percentage  | Provision            | Net                | Balance            | Percentage  | Provision            | Net                |
| Within one year    | 136,643,760        | 47%         | (9,970,482)          | 126,673,278        | 165,636,304        | 53%         | (38,385,715)         | 127,250,589        |
| One to two years   | 83,845,794         | 29%         | (83,845,794)         | -                  | 102,412,901        | 33%         | (102,412,901)        | -                  |
| Two to three years | 71,190,943         | 24%         | (71,190,943)         | -                  | 42,171,865         | 14%         | (42,171,865)         | -                  |
| Total              | <u>291,680,497</u> | <u>100%</u> | <u>(165,007,219)</u> | <u>126,673,278</u> | <u>310,221,070</u> | <u>100%</u> | <u>(182,970,481)</u> | <u>127,250,589</u> |

As at 30 June 2002, the Company's accounts receivable from the top five debtors totally amounted to 35,828,394 (31 December 2001: 28,474,652), accounts for 12% of the total closing balance of account receivable (31 December 2001: 9%).

(2) *As at 30 June 2002, the Company's top five debtors were as follows:*

| Name  | Outstanding<br>balance | Aging          | Nature       |
|---|------------------------|----------------|--------------|
| Jiangsu Suning Household<br>Appliance Co., Ltd.         | 12,554,486             | Within 1 year  | Credit sales |
| Harbin Hei Tian E Company Limited                       | 11,875,281             | Within 2 years | Credit sales |
| Beijing Jialin Hengxing Network<br>Technology Co., Ltd. | 4,751,048              | Within 1 year  | Credit sales |
| Zhejiang Guoda Business and<br>Trade Co., Ltd..         | 3,661,458              | Within 1 year  | Credit sales |
| Beijing Xijing Jinhe Trading Co., Ltd.                  | 2,986,121              | Within 1 year  | Credit sales |
| Total   | <u>35,828,394</u>      |                |              |

## 2. OTHER RECEIVABLES

(1) *Aging analysis of other receivables is as follows:*

| Aging           | 30 June 2002         |             |                      |                      | 31 December 2001     |             |                      |                      |
|-----------------|----------------------|-------------|----------------------|----------------------|----------------------|-------------|----------------------|----------------------|
|                 | Balance              | Percentage  | Provision            | Net                  | Balance              | Percentage  | Provision            | Net                  |
| Within one year | 1,648,921,301        | 100%        | (172,409,033)        | 1,476,512,268        | 2,116,852,356        | 100%        | (172,409,033)        | 1,944,443,323        |
| Total           | <u>1,648,921,301</u> | <u>100%</u> | <u>(172,409,033)</u> | <u>1,476,512,268</u> | <u>2,116,852,356</u> | <u>100%</u> | <u>(172,409,033)</u> | <u>1,944,443,323</u> |

As at 30 June 2002, other receivables include amount due from GKG of RMB862,045,165 (31 December 2001: RMB692,045,165), arising from related party transactions with GKG in prior year. The management of the Group considers there is a risk of collectibility, so a provision of RMB172,409,033 was made against this balance as at 30 June 2002. The Group is in negotiation with GKG concerning the collection of debts.

(2) As at 30 June 2002, the Company's other receivables, excluding the amount due from GKG and other consolidated subsidiaries, from the top five debtors totally amounted to RMB64,430,975 (31 December 2001: RMB46,140,440), accounts for 4% of the total closing balance of other receivables (31 December 2001: 2%).

As at 30 June 2002, the Company's five largest other receivables balances were as follows:

| Name                                    | Outstanding balance | Aging           | Nature        |
|---|---------------------|-----------------|---------------|
| Kelon HEA*                              | 27,571,993          | Within one year | Pay on behalf |
| Huao Electrical*                        | 17,434,491          | Within one year | Pay on behalf |
| Sanyo Kelon*                            | 12,353,417          | Within one year | Pay on behalf |
| Wangao Co*                              | 5,765,574           | Within one year | Pay on behalf |
| Beijing Pai Li Marketing Management Co. | 1,305,500           | Within one year | Prepayment    |
| Total                                   | <u>64,430,975</u>   |                 |               |

\* *Being related party. For related party transactions, please refer to Note VI-1.*



### 3. LONG-TERM EQUITY INVESTMENTS

Movement of long-term investments is as follows:

|  | 31 December<br>2001         | Increase                    | Decrease                    | 30 June<br>2002             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Investments in subsidiaries (a)                                      | 913,191,218                 | -                           | (30,771,010)                | <b>882,420,208</b>          |
| Investments in associates (b)  | 209,580,216                 | -                           | (721,967)                   | <b>208,858,249</b>          |
| Other long-term equity investments                                   | 7,249,047                   | -                           | -                           | <b>7,249,047</b>            |
| Equity investment difference   | 171,985,572                 | -                           | (6,600,000)                 | <b>165,385,572</b>          |
|  | <u>1,302,006,053</u>        | <u>                    </u> | <u>(38,092,977)</u>         | <u><b>1,263,913,076</b></u> |
| Less: Provision for impairment in value of investments in associates | (133,510,641)               | -                           | 3,603,617                   | <b>(129,907,024)</b>        |
| Total  | <u>1,168,495,412</u>        | <u>                    </u> | <u>(34,489,360)</u>         | <u><b>1,134,006,052</b></u> |

#### (a) Investments in subsidiaries

| Investee company                       | 31 December<br>2001         | Increase during<br>the period | Equity Increase<br>during the period | Profit distributed<br>during the period | June 30<br>2002             |
|--|-----------------------------|-------------------------------|--------------------------------------|---|-----------------------------|
|  | <u>                    </u> | <u>                    </u>   | <u>                    </u>          | <u>                    </u>             | <u>                    </u> |
| Kelon Development                      | 11,200,000                  | -                             | -                                    | -                                       | 11,200,000                  |
| Kelon Refrigerator                     | 155,552,426                 | -                             | -                                    | -                                       | 155,552,426                 |
| Kelon Air-conditioner                  | 214,403,766                 | -                             | -                                    | -                                       | 214,403,766                 |
| Rongsheng Plastic                      | 53,270,064                  | -                             | -                                    | -                                       | 53,270,064                  |
| Chengdu Kelon                          | 90,000,000                  | -                             | -                                    | -                                       | 90,000,000                  |
| Yingkou Kelon                          | 84,000,000                  | -                             | -                                    | -                                       | 84,000,000                  |
| Kelon Mould                            | 49,860,000                  | -                             | -                                    | -                                       | 49,860,000                  |
| Kelon Fittings                         | 32,634,554                  | -                             | -                                    | -                                       | 32,634,554                  |
| Beijing Hengsheng                      | 24,000,000                  | -                             | -                                    | -                                       | 24,000,000                  |
| Jiaoke Electronics                     | 42,000,000                  | -                             | -                                    | -                                       | 42,000,000                  |
| Sichuan Rongsheng                      | 1,520,000                   | -                             | -                                    | -                                       | 1,520,000                   |
| Total Investment                       | 758,440,810                 | -                             | -                                    | -                                       | 758,440,810                 |
| Accumulated equity decrease            | (341,099,381)               | <u>                    </u>   | (17,004,730)                         | <u>                    </u>             | (358,104,111)               |
|  | 417,341,429                 | -                             | (17,004,730)                         | -                                       | 400,336,699                 |
| Add: Liability of Investee company (i) | 495,849,789                 | -                             | (13,766,280)                         | -                                       | 482,083,509                 |
| Total                                  | <u>913,191,218</u>          | <u>                    </u>   | <u>(30,771,010)</u>                  | <u>                    </u>             | <u><b>882,420,208</b></u>   |

- (i) As up to 30 June 2002, 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 will 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 International Accounting Standards and adopt equity method of accounting to account for the result of the subsidiary and continue to reduce the carrying value after the carrying value 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.

(b) Investments in associates

| Investee company  | Investment period | Investment cost    |                                       |                           | Share of profit (loss) |                                       |                            | Total              |                           |
|-------------------|-------------------|--------------------|---------------------------------------|---------------------------|------------------------|---------------------------------------|----------------------------|--------------------|---------------------------|
|                   |                   | 31 December 2001   | Increase (decrease) during the period | 30 June 2002              | 31 December 2001       | Increase (decrease) during the period | 30 June 2002               | 31 December 2001   | 30 June 2002              |
| Sanyo Kelon       | 25 years          | 104,280,000        | -                                     | <b>104,280,000</b>        | (28,752,429)           | -                                     | <b>(28,752,429)</b>        | 75,527,571         | <b>75,527,571</b>         |
| Huayil Compressor | Unlimited         | 118,013,641        | -                                     | <b>118,013,641</b>        | 3,296,713              | 229,784                               | <b>3,526,497</b>           | 121,310,354        | <b>121,540,138</b>        |
| Kelon HEA         | Unlimited         | 2,500,000          | -                                     | <b>2,500,000</b>          | (1,204,513)            | (452,851)                             | <b>(1,657,364)</b>         | 1,295,487          | <b>842,636</b>            |
| Shanghai Yilian   | Unlimited         | 10,000,000         | -                                     | <b>10,000,000</b>         | (866,308)              | (638,478)                             | <b>(1,504,786)</b>         | 9,133,692          | <b>8,495,214</b>          |
| Wangao Co         | Unlimited         | 600,000            | -                                     | <b>600,000</b>            | (10,653)               | (18,532)                              | <b>(29,185)</b>            | 589,347            | <b>570,815</b>            |
| GZ Antaida        | 30 years          | 2,000,000          | -                                     | <b>2,000,000</b>          | (276,235)              | 158,110                               | <b>(118,125)</b>           | 1,723,765          | <b>1,881,875</b>          |
| Total             |                   | <u>237,393,641</u> | <u>-</u>                              | <u><b>237,393,641</b></u> | <u>(27,813,425)</u>    | <u>(721,967)</u>                      | <u><b>(28,535,392)</b></u> | <u>209,580,216</u> | <u><b>208,858,249</b></u> |

#### 4. REVENUE FROM PRINCIPAL OPERATIONS AND SEGMENT REPORT

The Company is mainly engaged in the manufacturing and sales of refrigerator and air-conditioner, the breakdown of revenue from principal operations and segment report is as follows:

| Items                             | For the six months ended 30 June 2002 |                          |                 |
|-----------------------------------|---------------------------------------|--------------------------|-----------------|
|                                   | Sales of Refrigerator                 | Sales of Air-Conditioner | Total           |
| Revenue from principal operations | 1,036,641,057                         | 1,041,489,030            | 2,078,130,087   |
| Cost of principal operations      | (743,659,624)                         | (734,820,956)            | (1,478,480,580) |
| Operation expenses                | (203,180,174)                         | (264,423,183)            | (467,603,357)   |
| Operating profit                  | 89,200,366                            | 42,035,259               | 131,235,625     |
| Total assets                      | 3,212,405,134                         | 3,227,428,321            | 6,439,833,455   |
| Total liabilities                 | 1,955,969,764                         | 1,965,117,086            | 3,921,086,850   |

## 5. INVESTMENT (LOSS) INCOME

The breakdown of investment (loss) income is as follows:

|   | For the six months ended 30 June |                  |
|---|----------------------------------|------------------|
|   | 2002                             | 2001             |
| Investment (loss) income from subsidiaries                      | (17,004,730)                     | 10,765,747       |
| Investment (loss) income from associates                        | (721,967)                        | 4,507,937        |
| Amortisation on equity investment difference                    | (6,600,000)                      | (8,648,884)      |
| Written back of impairment loss for long-term equity investment | 3,603,617                        | -                |
| Total   | <u>(20,723,080)</u>              | <u>6,624,800</u> |

## 6. SUPPLEMENTARY INFORMATION OF CASH FLOWS

Reconciliation of cash and bank, and cash and cash equivalent

|                          | 30 June<br>2002      | 31 December<br>2001  |
|--------------------------|----------------------|----------------------|
| Cash and bank            | 872,788,027          | 492,198,063          |
| Less: Pledged deposit    | <u>(480,209,202)</u> | <u>(110,839,227)</u> |
| Cash and cash equivalent | <u>392,578,825</u>   | <u>381,358,836</u>   |

## XII. COMPARATIVE FIGURES

Certain of 2001 comparative figures have been reclassified to conform to current period's presentation.

## XIII. DOCUMENTS AVAILABLE FOR INSPECTION

Including the following documents:

1. A copy of the interim report signed by the Chairman of the Company;
2. A copy of the financial statements signed and stamped by the authorized representative and financial supervisor of the Company;
3. Original copies of all announcements published in 《中國證券報》and《證券時報》 during the Period;
4. Articles of Association of the Company; and
5. A copy of the interim report published in other stock exchange.

The above documents will be available for inspection at: The Secretariat to the Board of Directors the Company, No. 8 Ronggang Road, Ronggui, Shunde, Guangdong Province, the PRC.