



Chairman's Statement

The MELON logo consists of the word "MELON" in a bold, blue, sans-serif font. To the left of the text is a small red icon resembling a stylized arrow or a drop. The logo is positioned on a glass panel above the main entrance of the building.

Chairman's Statement



A year has passed since the major shareholding change of Guangdong Kelon Electrical Holdings Co., Ltd. (“Kelon” or the “Group”) took place. With the hard work of the new management team and all employees, Kelon has successfully stepped out of the shadows of being a ST company, and has achieved a net profit to march towards a bright future.

After formulating the management concept and development strategy of “Technologically Led and Profitability Driven” when the new management came on board, the product development objective of “Original Concepts and Basic Features” has been further drawn up. Based on these strategies, the Group introduced the world leading refrigeration technology, as well as the air-conditioning technology with the best cooling and heating efficiencies in the industry. These technologies were flexibly adopted in product development during the year, with the successful launch of technologically advanced products such as the “Shuang Xiao Wang” Cooling and Heating Air-Conditioners, “Independent Multi Cycling Refrigeration” Refrigerators and Children’s Refrigerators. At the same time, the implementation of “Project of Perfection” has greatly improved the quality and design of Kelon’s products, narrowing its gap with the world’s leading brand names. Furthermore, Kelon’s consistently high product quality and its implementation of stringent quality control measures have secured it a leading position in China’s domestic refrigeration appliances industry.

Kelon's success in 2002 was also attributable to the implementation of stringent cost control measures to lower overall costs substantially, resulting in a 8.78% and 13.05% decrease respectively in the costs of refrigerators and air-conditioners as compared to 2001. In addition, the Group has achieved further increases in sales revenues, with revenues from refrigerators and air-conditioners increasing by 4.06% and 7.35% respectively as compared to 2001. These measures have therefore contributed to Kelon's achievement of a net profit exceeding RMB84 million last year. Compared to the losses suffered in the past two financial years, the Group has seen tremendous improvement. However, the Group is not satisfied with these results, and is aggressively preparing for an even more arduous business environment.

In the past year, some historical issues have been resolved, enabling Kelon to march forward towards its defined objectives without burdens. Agreements regarding the settlement of the debt owed by Guangdong Kelon (Rongsheng) Group Company Limited ("GKG") were signed during the year. GKG agreed to transfer the "Kelon", "Ronshen" and "Rongsheng" trademarks to Kelon and to procure that a parcel of residential land located at Waihuan Road, Ronggui District, Shunde City be transferred by the Land Development Centre to Kelon, in settlement of its debt to Kelon. Upon completion of the relevant transfer procedures, the debt owed by GKG to Kelon will be completely settled.

To further expand its market share, Kelon launched a new brand name – "Combine" at the end of 2002, targeting the low-end market. Possessing the same competitive advantages as Kelon's leading refrigeration technology, quality and services, the introduction of "Combine" products broadens Kelon's product lines to cover all segments, including the high-, mid- and low-end markets. This also satisfies comprehensive customer needs while strengthening and enhancing the Group's profit base.

In 2002, competition in China's domestic appliance market remained intense, and the market situation was not optimistic with the gross profit margin for products further declining. Looking to 2003, the Group will take cautious steps, seeking stronger growth drivers in the progressively competitive marketplace, to gain even greater competitive advantages.

In the future, Kelon will continue to improve its technology, adapting and applying the “Independent Multi Cycling Refrigeration” technology and “Shuang Xiao Wang” air-conditioning technology in more products, with a view to maintaining its leading position in the competitive market. Concurrently, the Group will continue to implement its “Project of Perfection” to ensure that Kelon’s products are comparable to leading international brand names in terms of both quality and product design. In addition, Kelon believes that a talented team is the driving force for corporate development. The Group will continue to recruit top quality technical expertise and management professionals to strengthen research and management teams, improving the Group’s operating efficiencies and building strong foundations in its objective to become a leading international domestic appliances manufacturer.

Kelon’s success is not only attributable to the hard work of its directors, management and employees, it is also a result of the support of its shareholders, suppliers and customers. On behalf of Kelon, I would like to express my heartfelt gratitude to all of them. With its prudent attitude and enthusiastic spirit, Kelon hopes to achieve better results and bring better returns to shareholders.

Gu Chu Jun

Chairman of the Board

Shunde, China, 3 April 2003