

Chairman's Interview

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1. Mr. Gu, it has been a year since you bought into Kelon, what are your thoughts on the changes in Kelon for the past year?

When I became part of Kelon last year, the most important task was to remove Kelon's ST status and turn around from loss-making position to profit-making position in 2002. This indeed was an immense form of pressure, however, this pressure was also the source of my motivation. In view of this, the Group swiftly formulated and executed its "Technology Led, Profit Driven" management concept. During the year, all staff members in Kelon have given their best in every way to achieve profits, lower costs and improve efficiency. New high technology products were also launched to strengthen and expand market share. While I am very pleased with Kelon's achievements, however, I cannot say that I am satisfied. I believe that this has only been a start to get Kelon back on to its rising track and to move forward quickly, and there is still potential which has not been developed. I personally think that Kelon, with its business scale and solid foundations, has absolute advantages in achieving better results.

2. During the Reporting Period, there have been some adjustments in Kelon’s personnel arrangement. Has the current team been finalized? What is Kelon’s strategy for recruiting talented people?

Kelon has always been implementing the strategy of “recruiting specialized talents” in its staff recruitment. In the past year, Kelon experienced normal and necessary personnel changes, and has built a new and strong management team. The team was quickly finalized, establishing solid foundations for the Group’s future development. We strongly



believe that only an experienced, competent and bold management team will systematically and steadily lead the Group towards further development. Additionally, Kelon rewards and promotes employees with outstanding performances and contribution.

3. The “Kelon” and “Ronshen” brands have been around for a long time, and are among China’s well-known brand names. Why did Kelon launch the new brand “Combine”? Will this increase competition among Kelon’s brands?

Presently, Kelon launched the “Combine” brand to target the economical and practical consumers of the low-end market. As a leading domestic refrigeration appliances manufacturer in China, Kelon leverages its advantages in its branding, refrigeration technology, product quality and services, together with prices comparable with third-tier domestic appliances, to expand its market share in the low-end market.

Although “Kelon” and “Ronshen” brands are well received by consumers, these brands are designed to target the high- and mid-end markets, which is different from the target market of “Combine”. As such, these three brands will not be competing with each other. On the contrary, they complement one another, and on the whole completing Kelon’s branding strategy.

4. Mr. Gu, what do you think of the future direction for the development of the business environment for China's domestic appliances market? How do you describe the blue-print for Kelon's future development?

With more and more foreign domestic appliances manufacturers entering China's market, as well as the price war in China's domestic appliances market, we believe the business environment for China's domestic appliances market will remain rigorous in 2003. Nowadays, customers are looking for high quality products at low prices. As such, Kelon will improve its competitiveness in these two areas. Apart from improving product quality, production technology and product design, Kelon also launched the new brand name "Combine" during the Reporting Period to target the low-end market. We believe the launch of this new brand will speed up the elimination of the weak players and the consolidation in the market, providing a strong driving force for Kelon to stand out in the midst of competition.

In the future, Kelon's goal is to maintain its position in China's market, while steadily expanding into the international market, ultimately emulating the global domestic appliance enterprises, and become a mainstream international domestic refrigeration appliances manufacturer.

5. After a year, how is Kelon's current financial situation? In relation to financial management policies, what measures have been implemented?

In the past year, Kelon has made improvements to its financial management in many ways, including remedial changes to accounting records management system, stringent use of legal person's seal, as well as formation of an audit committee to examine and monitor the financial reporting processes and internal controls, etc.

Having worked on improving profitability and strengthening financial management, Kelon's current financial standing is healthy. As at the end of 2002, cash inflow from operating activities improved as compared to the end of 2001, reaching RMB384,000,000. Net assets was also recorded at approximately RMB2,600,000,000.