

## 1. GENERAL

### (a) Revised financial statements

These financial statements are revised financial statements which supersede the original financial statements issued by the Company dated 28 March 2003 and which were the subject of the Company's results announcement dated 31 March 2003.

In the original financial statements, a repayment of bank loans of Guangdong Kelon Refrigerator Co., Ltd. (formerly known as Guangdong Sanyo Electric Kelon Refrigerator Co., Ltd.) ("Sanyo Kelon") in the sum of RMB154 million by Japan Sanyo Electrical Corporation ("Japan Sanyo"), the Company's former joint venture partner, was recognised in the income statement as compensation income. The directors now consider that this payment was not in substance in the nature of compensation and should have been taken into consideration in the determination of the amount of negative goodwill arising on the acquisition of the remaining 56% interest in Sanyo Kelon by the Group as disclosed in note 18. Accordingly, in preparing the revised financial statements compensation income of RMB154 million has been derecognised, impairment loss in respect of goodwill of approximately RMB77 million has been reversed, capital reserve of approximately RMB11.6 million has been derecognised and negative goodwill of approximately RMB88.6 million has been recognised. Of negative goodwill recognised of approximately RMB88.6 million, approximately RMB2.4 million has been released to income statement in the current year.

Also, in the original financial statements, there was a reversal in the income statement of an allowance for slow moving inventories of approximately RMB25 million which had been made in year 2001. The directors now consider that such allowance should not have been reversed and have re-instated it accordingly.

The combined effect of these adjustments is to reduce the net assets of the Group by approximately RMB111.2 million as at 31 December 2002 and the net profit of the Group for the year then ended by approximately RMB99.6 million.

### (b) Other background information

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.

On 29 October 2001, Guangdong Kelon (Rongsheng) Group Company Limited ("GKG"), a company established in the PRC and owned by the government of Ronggui Prefecture, entered into an agreement with Greencool Enterprise Development Company Limited ("Greencool Enterprise") to transfer 204,775,755 legal person shares of the Company for a consideration of RMB560 million. The consideration was subsequently reduced to RMB348 million according to a revised agreement dated 5 March 2002. The share transfer was completed on 18 April 2002 and GKG ceased to be a shareholder of the Company.

Greencool Enterprise held 20.64% of the Company's shares in the form of legal person shares and became a major shareholder of the Company.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain property, plant and equipment, and in accordance with International Financial Reporting Standards (“IFRS”).

The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognised as goodwill (negative goodwill). The interest of minority shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

### **Investments in subsidiaries**

A subsidiary is an enterprise controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company’s balance sheet at cost less any recognised impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### **Investments in associates**

An associate is an enterprise over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group’s interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis over its estimated useful life.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on the analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has been passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

### **Property, plant and equipment**

Construction in progress represents assets in the course of construction for production, rental or administrative purposes, or for purposes not yet determined. They are carried at cost, less any recognised impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes all construction expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment *(continued)*

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

Property, plant and equipment other than construction in progress are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

Certain property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the balance sheet at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation are performed with sufficient regularity such that the carrying amount does not differ materially for that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such property, plant and equipment is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of property, plant and equipment is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Depreciation is charged to write off the carrying value of property, plant and equipment other than construction in progress over their estimated useful lives, after taking into account their estimated residual value, using the straight-line method. The estimated useful lives are as follows:

Buildings	20 to 50 years
Plant, machinery and equipment	5 to 10 years
Moulds	3 years
Motor vehicles	5 years

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings other than investment properties carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### *Trade receivables*

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

#### *Investments*

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

#### *Investments (continued)*

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

#### *Bank borrowings*

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### *Trade payables*

Trade payables are stated at their nominal value.

#### *Equity instruments*

Equity instruments are recorded at the proceeds received, net of direct issue costs.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

### Warranty obligation

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation

Income tax expense represents the sum of the currently payable and deferred tax.

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Research and development expenditure *(continued)*

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Internally-generated intangible assets are amortised on a straight-line basis over their useful lives.

### Pension costs

Pursuant to the PRC laws and regulations, the Company and its subsidiaries established in the PRC makes monthly contributions to the basic old age insurance for the local staff to a government agency. The contributions are made at a specific percentage on the standard salary set by the provincial government, of which 10% is borne by the Company and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement.

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

The Group accounts for pension contributions on an accrual basis. Accrued contributions are shown as pension liabilities in the balance sheet.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are expensed in the period in which they are incurred.

### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.



**2. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Foreign currencies**

The Company and its subsidiaries established in the PRC maintain their books and records in Renminbi.

Transactions denominated in currencies other than Renminbi are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China (the "PBOC") ruling at the dates of transactions. Monetary assets and liabilities denominated in currencies other than Renminbi are re-translated into Renminbi at the applicable rates of exchange quoted by the PBOC on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

The Group's subsidiaries operating outside Mainland China maintain their books and records in the respective reporting currency, which is generally the currency of the country of incorporation of these subsidiaries. Foreign currency transactions of the Group's subsidiaries operating outside Mainland China are translated into their respective reporting currency at the applicable rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into the reporting currency at the applicable rates of exchange prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations operate outside Mainland China are translated into Renminbi at the applicable rates of exchange quoted by the PBOC on the balance sheet date. Income and expense items are translated into Renminbi at the average of the exchange rates quoted by the PBOC for the year. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as an expense in the period in which the operation is disposed of.

**3. TURNOVER**

Turnover represents the net amount received and receivable for goods sold during the year. An analysis of the Group's turnover is as follows:

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Sales of refrigerators	2,252,045	2,164,254
Sales of air-conditioners	2,337,240	2,177,207
Sales of freezers	103,979	–
Sales of product components	184,993	40,155
	4,878,257	4,381,616

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into three main operating divisions – refrigerators, air-conditioners and freezers. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Year 2002

#### (i) Income statement

	Refrigerators RMB'000	Air- conditioners RMB'000	Freezers RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
<b>TURNOVER</b>						
External sales	2,252,045	2,337,240	103,979	184,993	–	4,878,257
Inter-segment sales	–	–	–	375,553	(375,553)	–
<b>Total revenue</b>	<b>2,252,045</b>	<b>2,337,240</b>	<b>103,979</b>	<b>560,546</b>	<b>(375,553)</b>	<b>4,878,257</b>
Inter-segment sales are charged at prevailing market rates.						
<b>RESULT</b>						
Segment result	307,664	209,750	(109,044)	(209,582)	–	198,788
Unallocated corporate expenses						(16,782)
Profit from operations						182,006
Finance costs						(90,637)
Share of results of associates	17		(1,398)	(2,753)		(4,134)
Profit before taxation						87,235
Taxation						(3,031)
Profit after taxation						84,204

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS** *(continued)***Business segments** *(continued)*Year 2002 *(continued)*(ii) *Balance sheet*

	Refrigerators	Air- conditioners	Freezers	Others	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>					
Segment assets	3,668,658	2,985,502	172,128	545,596	7,371,884
Interests in associates	118,723	112,357	2,183	1,223	234,486
Unallocated corporate assets					109,423
Consolidated total assets					<u>7,715,793</u>
<b>LIABILITIES</b>					
Segment liabilities	2,425,099	1,970,802	169,166	222,543	4,787,610
Unallocated corporate liabilities					119,286
Consolidated total liabilities					<u>4,906,896</u>

(iii) *Other information*

	Refrigerators	Air- conditioners	Freezers	Others	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital additions	108,545	107,308	759	304	216,916
Depreciation	251,496	134,910	8,677	47,180	442,263
Amortisation	100	–	–	1,497	1,597
Release of negative goodwill to income	–	–	2,395	–	2,395

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

##### Business segments (continued)

Year 2001

##### (i) Income statement

	Refrigerators RMB'000	Air- conditioners RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
TURNOVER					
External sales	2,164,254	2,177,207	40,155	-	4,381,616
Inter-segment sales	-	-	467,010	(467,010)	-
<b>Total revenue</b>	<b>2,164,254</b>	<b>2,177,207</b>	<b>507,165</b>	<b>(467,010)</b>	<b>4,381,616</b>

Inter-segment sales are charged at prevailing market rates.

##### RESULT

Segment result and loss from operations	(608,300)	(740,611)	(58,534)	-	(1,407,445)
Finance costs					(96,295)
Share of results of associates	(611)				(611)
<b>Loss before taxation</b>					<b>(1,504,351)</b>

##### (ii) Balance sheet

	Refrigerators RMB'000	Air- conditioners RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	2,792,950	3,009,282	520,471	6,322,703
Interests in associates	271,339	200	12,720	284,259
<b>Consolidated total assets</b>				<b>6,606,962</b>
LIABILITIES				
Segment liabilities and consolidated total liabilities	1,851,505	1,947,223	90,780	3,889,508

**4. BUSINESS AND GEOGRAPHICAL SEGMENTS** *(continued)***Business segments** *(continued)*Year 2001 *(continued)*(iii) *Other information*

	<b>Refrigerators</b> <i>RMB'000</i>	<b>Air- conditioners</b> <i>RMB'000</i>	<b>Others</b> <i>RMB'000</i>	<b>Consolidated</b> <i>RMB'000</i>
Capital additions	152,491	40,326	25,488	218,305
Depreciation	194,508	115,266	36,543	346,317
Amortisation	100	–	–	100
Impairment loss recognised	–	59,381	11,820	71,201

The average number of employees for the year for each of the Group's principal divisions was as follows:

	<b>2002</b>	<b>2001</b>
Refrigerators	2,688	2,998
Air-conditioners	1,403	1,674
Freezers	477	–
Others	2,296	2,757
	<b>6,864</b>	<b>7,429</b>

**Geographical segments**

More than 90% of the Group's turnover for the year ended 31 December 2002 and 2001 were attributable to operations carried out in the PRC. Almost all of the production facilities of the Group are located in the PRC.

**5. OTHER OPERATING INCOME**

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
An analysis of the Group's other operating income is as follows:		
Sales of scrap materials	14,488	22,233
Interest income	14,680	12,552
Others	18,598	18,702
	<b>47,766</b>	<b>53,487</b>

## 6. OTHER OPERATING EXPENSES

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
An analysis of the Group's other operating expenses is as follows:		
Impairment loss recognised in respect of property, plant and equipment	–	47,236
Loss on disposal of property, plant and equipment	748	16,334
Loss on disposal of a subsidiary (note)	–	11,090
Others	5,792	9,122
	<b>6,540</b>	<b>83,782</b>

Note: EDAS.com (Shenzhen) Limited, a former subsidiary of the Company, commenced liquidation procedures in August 2001. The loss incurred mainly represented intangible assets written off upon its liquidation.

## 7. PROFIT (LOSS) FROM OPERATIONS

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
Profit (loss) from operations has been arrived at after charging:		
Allowance for inventories (note)	–	281,652
Allowance for irrecoverable debts (note)	–	235,223
Amortisation of goodwill (note)	1,597	16,014
Auditors' remuneration	3,600	4,080
Depreciation of property, plant and equipment (note 8)	442,263	346,317
Impairment loss recognised in respect of goodwill (note)	–	59,381
Impairment loss recognised in respect of interests in associates	–	11,820
Research and development expenses	3,285	26,369
Staff costs, including directors' and supervisors' remuneration	301,283	309,683
and after crediting:		
Release of negative goodwill to income (note)	2,395	–
Reversal of allowance for inventories (note)	198,219	–
Reversal of allowance for irrecoverable debts (note)	33,147	–

Note: The amount is included in administrative expenses.

## 8. DEPRECIATION

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
An analysis of the Group's depreciation is as follows:		
Amount charged as cost of sales	268,042	238,366
Amount included in distribution costs	111,335	11,634
Amount included in administrative expenses	62,886	96,317
	<hr/> 442,263	<hr/> 346,317

## 9. FINANCE COSTS

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
Interest on:		
– bank borrowings wholly repayable within five years	63,754	54,154
– borrowings not wholly repayable within five years	1,632	4,807
– discounted note receivables	24,621	33,904
	<hr/> 90,007	<hr/> 92,865
Total borrowing costs	90,007	92,865
Others	630	3,430
	<hr/> 90,637	<hr/> 96,295

## 10. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2002 RMB'000	2001 RMB'000
Directors		
Fees		
– Executive	–	–
– Independent non-executive	1,146	130
	1,146	130
Other emoluments (executive directors)		
– Salaries and other benefits	6,367	20,254
	7,513	20,384
Supervisors		
Fees	–	32
Other emoluments		
– Salaries and other benefits	2,250	721
	2,250	753

Note: Two directors waived a total amount of RMB1,820,000 of their emoluments in year 2001. No director waived any emoluments in year 2002.

The emoluments of the directors fall within the following bands:

	Number of directors	
	2002	2001
Executive directors:		
Nil to RMB1,000,000	3	11
RMB1,000,001 to RMB2,000,000	3	–
RMB4,000,001 to RMB5,000,000	–	1
RMB6,000,001 to RMB7,000,000	–	1
RMB7,000,001 to RMB8,000,000	–	1
Independent non-executive directors:		
Nil to RMB1,000,000	4	7
	10	21



**10. DIRECTORS' AND SUPERVISORS' REMUNERATION** *(continued)*

The five highest paid individuals included three (2001: three) directors, details of whose emoluments are set out above.

The emoluments of the five highest paid individuals (including directors and employees) were as follows:

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
Salaries and other benefits	8,200	25,233

The emoluments of the five highest paid individuals fall within the following bands:

	<b>Number of individuals</b>	
	<b>2002</b>	<b>2001</b>
RMB1,000,001 to RMB2,000,000	5	–
RMB3,000,001 to RMB4,000,000	–	2
RMB5,000,001 to RMB6,000,000	–	1
RMB6,000,001 to RMB7,000,000	–	1
RMB7,000,001 to RMB8,000,000	–	1
	5	5

**11. TAXATION**

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
Taxation consists of:		
PRC enterprise income tax ("EIT")	1,903	–
Hong Kong Profits Tax	1,128	–
Taxation attributable to the Company and its subsidiaries	3,031	–

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.

## 11. TAXATION *(continued)*

The Company was established 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 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 1 January 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”), established 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 brought forward from the previous years (for a maximum period of 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).

A subsidiary of the Company, Chengdu Kelon Refrigerator Co., Ltd. (“Chengdu Kelon”), is subject to an EIT rate of 30%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 33%. A subsidiary of the Company, 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 brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years. As at 31 December 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.

**11. TAXATION** *(continued)*

At the balance sheet date, deferred tax assets not recognised in the financial statements were analysed into:

	<b>2002</b> <b>RMB'000</b>	<b>2001</b> <b>RMB'000</b>
Tax losses	423,817	366,023
Miscellaneous provisions	120,763	126,887
Revaluation of property, plant and equipment	(34,166)	(34,166)
	<hr/> 510,414	<hr/> 458,744

The tax losses can only be carried forward for a maximum period of five years. The tax losses of 2001 and 2002, which amounted to RMB1,579,049,000 and RMB1,796,656,000 respectively, will expire in 2006 and 2007, respectively.

**12. BASIC EARNINGS (LOSS) PER SHARE**

The calculation of basic earnings (loss) per share for the year is based on the net profit for the year of RMB84,593,000 (2001: net loss for the year of RMB1,491,356,000) and on 992,006,563 shares (2001: 992,006,563 shares) outstanding during the year.

No diluted earnings (loss) per share have been presented as there were no dilutive potential ordinary shares in issue in either 2002 and 2001.

### 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Moulds <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>THE GROUP</b>						
COST OR VALUATION						
At 1 January 2002	1,653,885	2,232,595	559,370	64,047	31,187	4,541,084
Currency realignment	102	83	–	2	–	187
Additions	3,903	32,076	146,618	7,832	26,487	216,916
Reclassification	19,859	26,492	–	–	(46,351)	–
Acquired on acquisition of subsidiaries	70,892	69,866	4,900	580	–	146,238
Disposals	(762)	(14,946)	(131,690)	(3,074)	–	(150,472)
At 31 December 2002	1,747,879	2,346,166	579,198	69,387	11,323	4,753,953
Comprising:						
At cost	907,680	1,500,006	579,198	52,216	11,323	3,050,423
At valuation *	840,199	846,160	–	17,171	–	1,703,530
	1,747,879	2,346,166	579,198	69,387	11,323	4,753,953
DEPRECIATION AND IMPAIRMENT						
At 1 January 2002	330,632	1,139,956	428,247	39,355	–	1,938,190
Currency realignment	11	42	–	–	–	53
Provided for the year	71,398	214,721	144,970	11,174	–	442,263
Eliminated on disposals	(536)	(14,557)	(115,286)	(516)	–	(130,895)
At 31 December 2002	401,505	1,340,162	457,931	50,013	–	2,249,611
NET BOOK VALUE						
At 31 December 2002	1,346,374	1,006,004	121,267	19,374	11,323	2,504,342
At 31 December 2001	1,323,253	1,092,639	131,123	24,692	31,187	2,602,894

**13. PROPERTY, PLANT AND EQUIPMENT** *(continued)*

	Leasehold land and buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Moulds <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>THE COMPANY</b>						
COST OR VALUATION						
At 1 January 2002	1,079,793	835,063	84,426	45,768	16,598	2,061,648
Additions	6,655	14,602	1,836	5,201	10,812	39,106
Reclassification	19,859	–	–	–	(19,859)	–
Transfer to subsidiaries	–	(21,483)	–	–	–	(21,483)
Disposals	–	(605)	(86,262)	(392)	–	(87,259)
At 31 December 2002	1,106,307	827,577	–	50,577	7,551	1,992,012
Comprising:						
At cost	559,314	587,925	–	37,039	7,551	1,191,829
At valuation *	546,993	239,652	–	13,538	–	800,183
	1,106,307	827,577	–	50,577	7,551	1,992,012
DEPRECIATION AND IMPAIRMENT						
At 1 January 2002	230,666	385,403	48,860	25,596	–	690,525
Provided for the year	49,127	90,189	2,609	9,714	–	151,639
Transfer to subsidiaries	–	–	(8,253)	–	–	(8,253)
Eliminated on disposals	–	(571)	(43,216)	(24)	–	(43,811)
At 31 December 2002	279,793	475,021	–	35,286	–	790,100
NET BOOK VALUE						
At 31 December 2002	826,514	352,556	–	15,291	7,551	1,201,912
At 31 December 2001	849,127	449,660	35,566	20,172	16,598	1,371,123

\* The leasehold land and buildings, plant, machinery and equipment and motor vehicles were revalued at 30 April 1996 by Sallmanns (Far East) Limited, independent professional valuers, on the basis of market value.

A further valuation at 31 December 2002 on leasehold land and buildings, and plant, machinery and equipment was performed by Greater China Appraisal Limited, independent professional valuers. For land and buildings, and plant, machinery and equipment for production use, the valuation is made on the basis of fair market value in continued use. The valuation of other property, plant and equipment is made on the basis of open market value. The revalued amount does not differ materially from the carrying amount of the above revalued property, plant and equipment.

**13. PROPERTY, PLANT AND EQUIPMENT** *(continued)*

Had the property, plant and equipment been carried at cost less accumulated depreciation, their carrying value would have been stated as follows:

	Leasehold land and buildings <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Moulds <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>THE GROUP</b>						
Cost	1,809,749	2,268,076	579,198	68,104	11,323	4,736,450
Depreciation	413,883	1,359,814	457,931	47,674	–	2,279,302
Net book value at 31 December 2002	1,395,866	908,262	121,267	20,430	11,323	2,457,148
Net book value at 31 December 2001	1,369,653	1,077,461	131,123	26,960	31,187	2,636,384
<b>THE COMPANY</b>						
Cost	1,060,588	674,349	–	47,569	7,551	1,790,057
Depreciation	261,535	359,629	–	29,729	–	650,893
Net book value at 31 December 2002	799,053	314,720	–	17,840	7,551	1,139,164
Net book value at 31 December 2001	823,456	430,822	35,567	22,438	16,598	1,328,881

The net book value of the Group's leasehold land and buildings comprise properties situated on land held under medium-term leases in:

	THE GROUP		THE COMPANY	
	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
PRC, other than in Hong Kong	1,236,190	1,212,149	826,514	849,127
Hong Kong	80,955	81,875	–	–
Japan	29,229	29,229	–	–
	1,346,374	1,323,253	826,514	849,127

Land and buildings and plant, machinery and equipment with a net book value of approximately RMB430,244,000 (2001: RMB161,099,000) and RMB23,717,000 (2001: RMB38,378,000) respectively were pledged as security for the Group's bank borrowings.

## 14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 RMB'000	2001 RMB'000
Unlisted investments, at cost	1,013,585	758,441
Amounts due from subsidiaries	107,259	789,996
	1,120,844	1,548,437

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets in the balance sheet.

The Company had entered into a management agreement with Kelon Air-Conditioner in year 2001. In accordance with the agreement, Kelon Air-Conditioner was required to reimburse management overhead expenses to the Company for the use of the Company's resources. The management fee charged by the Company to Kelon Air-Conditioner in year 2001 amounted to RMB96,000,000 and was included in the amounts due from subsidiaries. There is no such arrangement in year 2002.

Particulars of the Company's principal subsidiaries at 31 December 2002 are set out in note 37.

## 15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Unlisted investments, at cost	281,638	387,940	268,438	374,740
Share of results of associates	1,344	2,365	–	–
Amortisation of goodwill (note)	(39,378)	(25,642)	–	–
	243,604	364,663	268,438	374,740
Impairment loss recognised	(11,819)	(116,100)	–	(104,280)
	231,785	248,563	268,438	270,460
Amounts due from associates	2,701	35,696	2,701	32,581
	234,486	284,259	271,139	303,041

Note: The only movement in goodwill during the year is the amortisation provided for the year amounting to RMB13,736,000.

The amounts due from associates are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets in the balance sheet.

**15. INTERESTS IN ASSOCIATES** *(continued)*

During the year, the Group reviewed the carrying amounts of interests in associates and identified that the estimated discounted net future cash flows (the “recoverable amounts”) from certain associates are less than the carrying amounts. Accordingly, the carrying amounts of these associates are reduced to their respective recoverable amounts which are estimated using market borrowing rates.

Particulars of the Group’s principal associates at 31 December 2002 are set out in note 38.

**16. OTHER ASSETS**

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Long-term investments	10,419	10,419	7,249	7,249
Others	15,493	12,583	6,542	5,616
	25,912	23,002	13,791	12,865

The long-term investments represents unquoted debt securities, the fair value of which cannot be reliably determined. They are stated at cost and subject to a test for impairment loss.

**17. GOODWILL**

	THE GROUP RMB'000
COST	
At 1 January 2002	67,607
Arising on acquisition of subsidiaries	42,873
At 31 December 2002	110,480
AMORTISATION AND IMPAIRMENT	
At 1 January 2002	66,696
Provided for the year	1,597
At 31 December 2002	68,293
CARRYING AMOUNT	
At 31 December 2002	42,187
At 31 December 2001	911

Goodwill is amortised over its estimated useful life ranging from 10 to 20 years.



## 18. NEGATIVE GOODWILL

**2002**  
**RMB'000**

GROSS AMOUNT	
Arising on acquisition of a subsidiary and balance at 31 December 2002	88,611
<hr/>	
RELEASE TO INCOME	
Release in the year	2,395
<hr/>	
CARRYING AMOUNT	
At 31 December 2002	86,216
<hr/>	

The negative goodwill of RMB89 million arose on the Group's acquisition of the remaining 56% interest in Sanyo Kelon in July 2002.

The negative goodwill is released to income on a straight-line basis over a period of 18<sup>1</sup>/<sub>2</sub> years, the remaining joint venture operating period of Sanyo Kelon.

## 19. INVENTORIES

	THE GROUP		THE COMPANY	
	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Raw materials	368,345	307,456	73,314	22,149
Work in progress	70,405	53,513	–	1,394
Finished goods	684,576	864,870	605,818	778,080
	<hr/>	<hr/>	<hr/>	<hr/>
	1,123,326	1,225,839	679,132	801,623
	<hr/>			

The balance of inventories of the Group and the Company at 31 December 2002 includes raw materials and finished goods of approximately RMB492,802,000 (2001: RMB823,124,000) which are carried at net realisable value.

Also included above are finished goods of approximately RMB260,000,000 (2001: nil) which have been pledged as security for the Group's bank borrowings.

**20. TRADE AND OTHER RECEIVABLES**

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Trade receivables – third parties	381,536	172,028	141,729	122,964
Note receivables – third parties	622,628	181,189	613,597	176,602
Other receivables – third parties	670,284	198,438	381,459	45,627
Amount due from former major shareholder (note 30II)	684,993	689,636	684,993	689,636
Amounts due from related companies (note 30II)	6,924	200,808	–	205,827
	2,366,365	1,442,099	1,821,778	1,240,656

As at 31 December 2002 and 2001, all trade receivables were aged less than one year.

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

The directors consider that the carrying amount of trade receivables approximates their fair value.

**21. OTHER FINANCIAL ASSETS****Bank balances and cash**

The amount comprises cash and short-term deposits held by the group treasury function. The carrying amount of these assets approximates their fair value.

**Credit risks**

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowances for irrecoverable receivables, estimated by the Group's management based on past experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

**22. TRADE AND OTHER PAYABLES**

	THE GROUP		THE COMPANY	
	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Trade payables – third parties	732,498	484,392	143,399	7,901
Note payables – third parties	942,592	678,710	1,075,014	824,359
Other payables – third parties	959,411	446,926	511,686	410,066
Amounts due to related companies (note 30II)	2,177	12,907	–	–
	<b>2,636,678</b>	<b>1,622,935</b>	<b>1,730,099</b>	<b>1,242,326</b>

As at 31 December 2002 and 2001, all of the Group's trade payables were aged less than one year.

**23. WARRANTY PROVISION****THE GROUP AND THE COMPANY**

	<i>RMB'000</i>
At 1 January 2002	157,357
Additional provision in the year	52,325
Utilisation of provision	(104,651)
At 31 December 2002	<b>105,031</b>

The warranty provision represents management's best estimate of the Group's liability under warranties granted on electrical products, based on past experience and industries average for defective products.

**24. OTHER FINANCIAL LIABILITIES****Trade and other payables**

The balance principally comprises amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 to 90 days.

The directors consider that the carrying amount of trade payables approximates their fair value.

## 25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Medium-term and long-term bank loans	780,000	234,921	750,000	200,000
Short-term bank loans	960,165	1,323,309	400,000	965,700
	1,740,165	1,558,230	1,150,000	1,165,700
Less: Amount due within one year included under current liabilities	(1,025,398)	(1,528,268)	(460,000)	(1,165,700)
Amount due after one year	714,767	29,962	690,000	–
Analysed as:				
Secured	764,000	337,609	680,000	680,000
Unsecured	976,165	1,220,621	470,000	485,700
	1,740,165	1,558,230	1,150,000	1,165,700
The bank borrowings are repayable as follows:				
Within one year	1,025,398	1,528,268	460,000	1,165,700
Between one to two years	695,495	5,213	690,000	–
Between two to five years	18,182	17,293	–	–
Over five years	1,090	7,456	–	–
	1,740,165	1,558,230	1,150,000	1,165,700

The bank borrowings carry interest at rates ranging from 4.23% to 6.44% (2001: 2.81% to 12.25%) per annum. Bank borrowings of approximately RMB764,000,000 (2001: RMB13,337,609,000) were secured by pledge of property, plant and equipment (see note 13) and inventories (see note 19). Bank borrowings of RMB40,000,000 (2001: RMB430,000,000) and RMB540,000,000 (2001: nil) were guaranteed by GKG and Greencool Enterprise respectively.

The directors estimate that the carrying amount of bank borrowings approximates their fair value.

**26. SHARE CAPITAL**

	<b>Domestic shares RMB'000</b>	<b>H shares RMB'000</b>	<b>A shares RMB'000</b>	<b>Total RMB'000</b>
Shares of RMB1 each				
Balance at 1 January 2001 and 31 December 2001	422,417	459,590	110,000	992,007
Listing of 84,501,000 domestic employee shares	(84,501)	–	84,501	–
<b>Balance at 31 December 2002</b>	<b>337,916</b>	<b>459,590</b>	<b>194,501</b>	<b>992,007</b>

Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investors, domestic shares, H shares and A shares rank pari passu in all respects with each other.

**27. RESERVES**

	<b>Share premium RMB'000</b>	<b>Statutory reserves RMB'000</b>	<b>Revaluation reserve RMB'000</b>	<b>Accumulated profits (losses) RMB'000</b>	<b>Total RMB'000</b>
<b>THE COMPANY</b>					
Balance at 1 January 2001	2,160,621	343,743	336,796	217,882	3,059,042
Net loss for the year	–	–	–	(1,159,557)	(1,159,557)
<b>Balance at 31 December 2001</b>	<b>2,160,621</b>	<b>343,743</b>	<b>336,796</b>	<b>(941,675)</b>	<b>1,899,485</b>
Balance at 1 January 2002					
– As originally stated	2,160,621	343,743	336,796	(1,021,356)	1,819,804
– Prior period adjustment (note 34)	–	–	–	79,681	79,681
<b>– As restated</b>	<b>2,160,621</b>	<b>343,743</b>	<b>336,796</b>	<b>(941,675)</b>	<b>1,899,485</b>
Net loss for the year	–	–	–	(44,192)	(44,192)
<b>Balance at 31 December 2002</b>	<b>2,160,621</b>	<b>343,743</b>	<b>336,796</b>	<b>(985,867)</b>	<b>1,855,293</b>

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

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

**27. RESERVES** *(continued)*

For the year ended 31 December 2002, the directors resolved not to make appropriations to the statutory reserves (2001: nil).

As at 31 December 2002 and 2001, the Company has no reserve available for distribution to its shareholders.

**28. OTHER PAYABLES****The Group and the Company**

The amount mainly represents government grants received for the Group's research and development activities.

**29. ACQUISITION OF SUBSIDIARIES**

The Company acquired several subsidiaries during the year for a total consideration of RMB37,177,000. These transactions have been accounted for by the purchase method of accounting.

	<b>2002</b> <b>RMB'000</b>
Net assets acquired:	
Property, plant and equipment	146,238
Other assets	3,679
Inventories	174,700
Trade and other receivables	366,937
Taxation recoverable	15,662
Bank balances and cash	83,329
Trade and other payables	(704,725)
Minority interests	(1,132)
	84,688
Capital reserve	(1,773)
Goodwill	42,873
Negative goodwill	(88,611)
<b>Total consideration</b>	<b>37,177</b>
Satisfied by:	
Cash	26,420
Reclassified from interests in associates	10,757
	37,177
Net cash inflow arising on acquisition:	
Cash consideration	(26,420)
Bank balances and cash acquired	83,329
	56,909

**30. RELATED PARTY TRANSACTIONS**

The following is a summary of significant transactions between the Group and related parties for the year and the balances with related parties at the balance sheet date:

**I. Transactions with related companies**

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Sales of goods/raw materials to		
– Chongqing Kelon Electrical Appliance Company Limited (“Chongqing Kelon”) (note c (viii))	53,945	57,772
– Shunde Huaao Electronics Co., Ltd. (“Huaao Electronics”) (note c (iv))	38,450	53,025
– Shunde Wangao Import & Export Co., Ltd. (“Wangao Co”) (note c (v))	37,757	13,869
– Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. (“Chongqing Rongsheng”) (note c (ix))	33,213	73,223
– Chengdu Xinxing Electrical Appliance Holdings Company Limited (“Chengdu Xinxing”) (note c (xii))	9,032	–
– Shunde Kelon Household Electrical Appliance Company Limited (“Kelon HEA”) (note c (vii))	4,505	–
– Guangdong Kelon Refrigerator Co., Ltd. (formerly Guangdong Sanyo Kelon Refrigerator Co., Ltd.) (“Sanyo Kelon”) (note c (x))	3,685	25,484
Purchases of goods/raw materials from		
– Huaao Electronics (note c (iv))	144,592	201,303
– Wangao Co (note c (v))	55,376	8,005
– Chengdu Xinxing (note c (xii))	31,090	–
– Hainan Greencool Environmental Protection Engineering Co., Ltd. (“Hainan Greencool”) (note b (i))	27,005	–
– Kelon HEA (note c (vii))	16,538	12,486
Loan guarantee provided by:		
– Greencool Enterprise (note c (i))	540,000	–
– GKG (note a (i))	40,000	430,000
Other transactions:		
– Interest charged to Chengdu Xinxing (note c (xii))	2,599	3,231
– Sale of property, plant and equipment to Huaao Electrical (note c (iv))	1,223	–
– Logistic management fee paid to Guangzhou Antaida Logistic Co. Ltd. (“Guangzhou Antaida”) (note c (xiii))	2,351	–
– Advertising fee paid to Communication and You Holdings Company Limited (“C&Y”) (note c (xi))	350	21,229
– Advertising fee paid to Kelon Advertising Company (“Kelon Advertising”) (note c (iii))	–	47,458

### 30. RELATED PARTY TRANSACTIONS *(continued)*

#### II. Balances due from/to related companies

	The Group	
	2002 RMB'000	2001 RMB'000
Balance due from GKG (see note a (i))	684,993	689,636
Balances due from related companies		
Amounts due within one year:		
– Greencool Enterprise (note c (i))	–	198,000
– Others	6,924	2,808
	6,924	200,808
Amounts due after one year:		
– Chengdu Xinxing (note c (xii))	34,000	34,000
– Employee Union (note c (vi))	51,603	58,140
	85,603	92,140
	92,527	292,948
Balances due to related companies		
– Huaao Electronics (note c (iv))	–	12,566
– Hainan Greencool (note b (ii))	149	–
– Others	2,028	341
	2,177	12,907

Notes:

#### (a) Transactions with GKG

The transactions with GKG are summarised as follows:

##### (i) *Change of shareholdings*

Pursuant 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 Greencool Enterprise dated 29 October 2001 and 5 March 2002 respectively, the transaction was completed on 18 April 2002. Greencool Enterprise became the single largest shareholder of the Company.

In April 2002, GKG 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 related party transaction.



**30. RELATED PARTY TRANSACTIONS** *(continued)*Notes: *(continued)***(a) Transactions with GKG** *(continued)**(ii) Debt settlement arrangement*

On 21 November 2002, the Company entered into several conditional agreements with GKG and/or other relevant parties in order to settle the balance due from GKG and the amount due from the Employee Union of RMB684,993,000 (net of allowance of RMB172,409,000) and RMB51,603,000 respectively. Pursuant to these agreements, the above outstanding debts will be settled by transferring the land use right in respect of a parcel of residential land located at Shunde, Guangdong Province, the PRC (the "Land") and several trademarks (the "Trademarks") to the Group. The aggregate fair values of the Land and the Trademarks approximate the aggregate carrying amount of the balance due from GKG and the amount due from the Employee Union. As a result, no reversal of allowance for balance due from GKG is made.

The above outstanding debts will be completely settled after the transfer of the Land and the Trademarks has been completed and the Company will make a further announcement upon such completion.

Details of the above are set out, inter alia, in the circular dated 12 December 2002 issued by the Company.

Up to the report date, the Group obtained the land use right certificate of the Land and the application of transfer of the Trademarks is in progress.

*(iii) During year 2001, the Group had the following transactions with GKG:*

- (1) The Company paid on GKG's behalf, to Sanyo Kelon (see note (x) of sub-paragraph (c) below), RMB101,370,000 for the settlement of GKG's liability arising from its purchase of goods from Sanyo Kelon.
- (2) The Group provided a guarantee for a maximum amount of up to RMB230,000,000 in favour of the Agriculture Bank of China as security for the bank loans granted to GKG. Prior to 31 December 2001, the Group fulfilled the obligations under the guarantee and repaid RMB211,226,000 of the loans owed by GKG to the Agricultural Bank of China.
- (3) GKG made a payment of RMB9,010,000 to one of the Company's subsidiaries as the service fee for exporting household electric appliances for GKG.

In addition to the above transactions, the Group has significant fund transfers with GKG. During 2001, including the transactions in (1) and (3) above, the Group transferred total funds of approximately RMB5,873,904,000 to GKG and received funds of RMB4,944,471,000 from GKG.

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

### 30. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

#### (a) Transactions with GKG *(continued)*

##### (iv) Licence agreement on the use of trademark

Under a licence agreement (“Licence Agreement”) dated 6 July 1996 entered into between the Company and GKG, GKG granted to the Company an exclusive right to use the trademarks “Kelon” and “Ronshen” for no consideration (a) as registered in the 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 “Rongsheng” trademark registrations as may be assigned to GKG from time to time on freezers, refrigerators and other similar or related products and such other products as may be requested by the Company from time to time which are not objected by GKG, on a worldwide basis, for a term equivalent to the period of validity of the relevant registration. 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 been using the trademarks of “Kelon” and “Rongsheng” on the refrigerators products and “Kelon” on the air-conditioners products under the Licence Agreement.

#### (b) Transactions with Hainan Greencool

The transactions with Hainan Greencool during the current year are summarised as follows:

- (i) The Company purchased CFC-free refrigerants from Hainan Greencool of RMB27,000,000.
- (ii) The Company received entering and CFC installation fees from 198 engineering units authorised by Greencool Technology Holdings Limited on behalf of Hainan Greencool in the PRC at RMB35,000 per unit, totalling RMB6,930,000. Up to 31 December 2002, RMB6,781,000 had been paid to Hainan Greencool and the balance payable of RMB149,000 was outstanding as at 31 December 2002.

#### (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 Greencool Enterprise. 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 Greencool Enterprise. As at 31 December 2001, an amount of RMB150,000,000 had been settled by Greencool Enterprise. Further payment of RMB198,000,000 was made by Greencool Enterprise on 25 April 2002 and the total debt of RMB348,000,000 had been fully settled as at 31 December 2002.

**30. RELATED PARTY TRANSACTIONS** *(continued)*Notes: *(continued)***(c) Transactions with other related parties** *(continued)*

- (ii) 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, Huao Electronics and Wangao Co.

On 6 August 2002, the transfer of shares of Kelon Advertising, Wangao Co and Huao Electronics held by GKG to Jiake Electronic was completed. The acquisition of Kelon HEA was completed on 4 September 2002.

- (iii) Kelon Advertising was formerly a subsidiary of GKG. During the year, GKG transferred its entire equity interest in Kelon Advertising to the Group and Kelon Advertising became a subsidiary of the Company.
- (iv) Huao Electronics was formerly a subsidiary of GKG. During the year, GKG transferred its entire equity interest in Huao Electronics to the Group and Huao Electronics became a subsidiary of the Company.

The Group also provided funding to Huao Electronics for its operations in year 2001.

- (v) Wangao Co was formerly an associate of the Group and also a subsidiary of GKG. During the year, GKG transferred its entire equity interest in Wangao Co to the Group and Wangao Co became a subsidiary of the Company.
- (vi) During year 2001, the Company provided funds of RMB116,000,000 to Employee Union, an employee association owned by the employees of the Company and controlled through their delegates. As at 31 December 2002, the amount due from Employee Union in this connection amounted to approximately RMB51,603,000 (2001: RMB58,140,000).
- (vii) Kelon HEA was formerly an associate of the Group and also a subsidiary of GKG. During the year, GKG transferred its entire equity interest in Kelon HEA to the Group and Kelon HEA became a subsidiary of the Company.

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

- (viii) Chongqing Kelon is an associate of the Group.
- (ix) Chongqing Rongsheng is an associate of the Group.
- (x) Sanyo Kelon was formerly an associate of the Group. It became a subsidiary of the Company during the year.
- (xi) C&Y is an associate of the Group.

As at 31 December 2002, the Group provided corporate guarantees of RMB3,975,000 (2001: RMB3,975,000) for banking facilities granted to C&Y.

**30. RELATED PARTY TRANSACTIONS** *(continued)*Notes: *(continued)***(c) Transactions with other related parties** *(continued)*

- (xii) The Company made prepayments amounting to an aggregate of RMB34,000,000 indirectly through its subsidiary, Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon"), to Chengdu Xinxing, which is an associate of Chengdu Engine (Group) Company Limited ("Chengdu Engine"), the minority investor of Chengdu Kelon. As consideration for such prepayment, Chengdu Xinxing 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.
- (xiii) Guangzhou Antaida is an associate of the Group. The Group and Guangzhou Antaida entered into a logistic service agreement, pursuant to which Guangzhou Antaida provides transportation service to the Group. A 4% service fee is charged on delivery and discharge of goods.

**(d) Pricing of the related party transactions**

The pricing of the transactions set out in (a) to (c) above was determined with reference to comparable market prices and/or with reference to the term of the relevant agreements.

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

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

**(f) Violation of Listing Rules**

As disclosed in the Company's announcement dated 13 March 2002, the Group was 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.

**31. CAPITAL COMMITMENTS**

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the financial statements	37,910	51,740	10,400	29,467

**32. CONTINGENT LIABILITIES**

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Guarantees for loan facilities granted to:				
– associates	3,975	3,975	–	–
– subsidiaries	–	–	–	83,635
Discounted bills with recourse	35,270	582,930	–	592,893
	39,245	586,905	–	676,528

In year 2001, a subsidiary of the Company executed a debt guarantee of RMB230,000,000 to secure borrowings of GKG without proper approval. This guarantee has been enforced and the Company settled RMB211,226,000 of GKG's liabilities as a result.

**33. RETIREMENT BENEFITS SCHEMES**

The Group contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Group. According to such scheme, the Group shall pay an amount, calculated at a percentage of the total salaries and wages of the employees, to a retirement reserve.

The total cost charged to the income statement of approximately RMB10,007,000 (2001: RMB8,960,000) represents contribution payable to the schemes by the Group at rates specified in the rules of the schemes.

**34. PRIOR PERIOD ADJUSTMENTS**

The effect of correction of accounting errors accounted for as prior period adjustments is as follows:

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Error in recognising accrual for advertising expenses (note a)	79,681	–	79,681	–
Excess loss of minority shareholders of subsidiaries taken up by the Group (note b)	–	(158,116)	–	–
	79,681	(158,116)	79,681	–

**34. PRIOR PERIOD ADJUSTMENTS** *(continued)*

Notes:

- (a) Included in the other payables as at 31 December 2001 was an accrual for advertising fees amounting to approximately RMB80 million. However, no advertising services have been received by the Group in connection with this accrual. Accordingly, the present directors have concluded that there was no proper basis for recognising this accrual in 2001 and have made a prior period adjustment in respect of this amount.
- (b) As of 31 December 2000, accumulated losses attributable to the minority interest of one of the Group's subsidiaries exceeded the minority interest in the equity of that subsidiary ("excess loss") by approximately RMB158,116,000. The excess loss was charged to the minority interest in the consolidated financial statements for the year ended 31 December 2000 with the belief that the minority interest would agree to absorb the excess loss through additional funding. During year 2001, management considered that it was not probable that the minority shareholder would provide additional financial contribution to absorb the excess loss. Accordingly, the excess loss of RMB158,116,000 was considered as a correction of accounting error and was charged to the consolidated income statement for the year ended 31 December 2000.

**35. SIGNIFICANT POST BALANCE SHEET EVENT**

On 28 January 2003, the Group entered into an agreement for sale and purchase of shares in C&Y with the major shareholder of C&Y. Pursuant to the agreement, the Group disposed of its entire equity interest in C&Y for a total consideration of HK\$23,500,000 of which HK\$3,500,000 will be satisfied in cash and HK\$20,000,000 will be satisfied by an equivalent worth of advertisement and/or sponsorship airtime in two years' time after the date of execution of the agreement. The transaction is expected to be completed in year 2005.

**36. DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP**

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

	2002 <i>RMB'000</i> (As restated)	2001 <i>RMB'000</i> (As restated)
Net assets as per financial statements prepared under IFRS	2,590,068	2,499,368
Adjustment on property, plant and equipment revaluation and related depreciation	(15,067)	(17,070)
Net assets as per financial statements prepared under PRC accounting standards and regulations	2,575,001	2,482,298

## 36. DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP *(continued)*

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

	2002 RMB'000 (As restated)	2001 RMB'000 (As restated)
Net profit (loss) for the year as per financial statements prepared under IFRS	84,593	(1,491,356)
Adjustment on property, plant and equipment revaluation and related depreciation	16,684	15,464
Net profit (loss) for the year as per financial statements prepared under PRC accounting standards and regulations	101,277	(1,475,892)

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

## 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2002 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
<b>PRC entities:</b>					
Shunde Rongsheng Plastic Products Co., Ltd.	PRC (i) 18 October 1991	US\$15,800,000	45%	25%	Manufacture of plastic parts
Guangdong Kelon Mould Co., Ltd.	PRC (i) 20 July 1994	US\$15,000,000	40%	30%	Manufacture of moulds
Guangdong Kelon Refrigerator Co., Ltd.	PRC (i) 25 December 1995	US\$26,800,000	70%	30%	Manufacture and sale of refrigerators
Guangdong Kelon Air-Conditioner Co., Ltd.	PRC (i) 19 March 1996	US\$36,150,000	60%	–	Manufacture and sale of air-conditioners
Chengdu Kelon Refrigerator Co., Ltd.	PRC (i) 19 November 1996	RMB200,000,000	45%	25%	Manufacture and sale of refrigerators

### 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
<b>PRC entities: (continued)</b>					
Yingkou Kelon Refrigerator Co., Ltd.	PRC (i) 15 December 1996	RMB200,000,000	42%	36.79%	Manufacture and sale of refrigerators
Guangdong Kelon Fittings Co., Ltd.	PRC (i) 24 November 1999	US\$5,620,000	70%	30%	Manufacture and sale of spare parts for air-conditioner and refrigerator
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited	PRC (ii) 21 February 2001	RMB2,000,000	76%	–	Sale of refrigerators
Beijing Hengsheng Xing Chuang Technology Company Limited	PRC (ii) 4 June 2001	RMB30,000,000	80%	–	Research and development of industrial and commercial IT system
Shunde Jiake Electronic Company Limited	PRC (ii) 12 October 2001	RMB60,000,000	70%	30%	IT and communication technology, and micro-electronics technology development
Guangdong Kelon Refrigerator Co., Ltd. (formerly Guangdong Sanyo Kelon Refrigerator Co., Ltd.)	PRC (i) 25 December 1995	RMB237,000,000	44%	56%	Manufacture and sale of freezers
Shunde Wangao Import & Export Co., Ltd.	PRC (ii) 7 June 2001	RMB3,000,000	20%	80%	Import and export business
Shunde Kelon Household Electrical Appliance Company Limited	PRC (ii) 16 July 1999	RMB10,000,000	25%	75%	Manufacture and sale of electrical household appliances



## 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Jiangxi Kelon Industrial Development Co., Ltd.	PRC (i) 24 June 2002	US\$29,800,000	60%	40%	Manufacture and sale of refrigerators, air-conditioners and other household appliances
Shunde Huao Electronics Co., Ltd.	PRC (ii) 23 November 2000	RMB10,000,000	–	70%	Manufacture and sale of electronic products
<b>Hong Kong entities:</b>					
Pearl River Electric Refrigerator Company Limited	Hong Kong 26 July 1985	HK\$400,000	–	100%	Trading in materials and parts for refrigerators and import and export business
Kelon Electric Appliances Co., Ltd.	Hong Kong 29 August 1991	HK\$10,000	–	100%	Property investment
Kelon Development Company Limited	Hong Kong 17 August 1993	HK\$5,000,000	100%	–	Investment holding
<b>Other entity:</b>					
Kelon International Inc.	British Virgin Islands 13 January 1999	US\$50,000	–	100%	Trading in materials and parts for refrigerators and import and export business

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

(ii) Established as limited liability company in the PRC.

**37. PARTICULARS OF PRINCIPAL SUBSIDIARIES** *(continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

**38. PARTICULARS OF PRINCIPAL ASSOCIATES**

Particulars of the Group's principal associates as at 31 December 2002 are as follows:

Name of associate	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Huayi Compressor Holdings Company Limited	PRC (i) 13 June 1996	RMB260,850,000	22.73%	–	Manufacture and sale of compressors
Shanghai Yilian Electric Business Limited	PRC (ii) 15 June 2000	RMB24,000,000	46.7%	–	Electric business
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	PRC (ii) 19 February 2001	RMB1,000,000	–	28%	Refrigerator sales and after sales service
Guangzhou Antaida Logistic Co., Ltd.	PRC (ii) 11 July 2001	RMB10,000,000	20%	–	Provision of logistic and storage services

(i) Established as joint stock limited company.

(ii) Established as limited liability company.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.