

## 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 results announcement on the press on 1 April 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 RMB154,000,000 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 consider that this payment was not in substance in the nature of compensation and should have been taken into consideration with the repayment of bank loans of RMB26,420,000 made by the Company 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 13(iii). Accordingly, in preparing the revised financial statements, compensation income of RMB154,000,000 has been derecognised, impairment loss in respect of goodwill of RMB77,013,680 has been reversed, capital reserve of approximately RMB11,624,800 has been derecognised and negative goodwill of RMB88,611,120 has been recognised. Of negative goodwill recognised of RMB88,611,120, RMB2,394,895 has been released to income statement in the current year.

Also, in the original financial statements, there were a reversal in the income statement of an allowance for slow moving inventories of RMB25,000,000 which had been made in year 2001. The directors 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 RMB111,216,225 as at 31 December 2002 and the net profit of the Group for the year then ended by RMB99,591,425.

### (b) Background information

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, the former single largest shareholder of the Company, Guangdong Kelon (Rongsheng) Group Company Limited ("GKG", then with 34.06% shareholding) entered into a share transfer agreement and a supplementary agreement with Greencool Enterprise Development Company Limited ("Greencool Enterprise"), in connection with the transfer of 204,775,755 legal person shares of the Company to Greencool Enterprise, representing 20.64% of the total share capital of the Company for a consideration of RMB348,000,000. The share transfer was completed on 18 April 2002, and accordingly, the shareholdings of Greencool Enterprise was increased to 20.64% while that of GKG was reduced to 13.42%.

## 1. GENERAL (continued)

### (b) Background information (continued)

GKG signed the “Contract of Transfer of Shares” with Shunde Economic Consultancy Company on 15 April 2002 in connection with the transfer of 68,666,667 legal person shares of the Company, representing 6.92% of the total share capital of the Company. On 26 April 2002, GKG transferred 7,036,894 legal person shares of the Company, representing 0.71% of the total share capital of the Company, to Shunde Dong Heng Development Company Limited according to the order of the court. On 30 April 2002, GKG signed the “Letter of Transfer of Legal Person Shares” with Shunde Xin Hong Enterprise Company in connection with the transfer of 57,436,439 legal person shares of the Company, representing 5.79% of the total share capital of the Company.

After the above-mentioned four shares transfers, GKG, the former single largest shareholder of the Company, did not hold any shares of the Company.

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

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

### Accounting policies

The accounting policies adopted by the Company and the Group are in accordance with “Accounting Standards for Business Enterprises”, “Enterprise Accounting Regulations” and the supplementary regulations.

### Accounting year

The Company adopts the calendar year as its accounting year i.e. from 1 January to 31 December.

### Reporting currency

The reporting currency of the Company is Renminbi (“RMB”).

### Accounting principles and basis of valuation

The Group maintains its accounting records on accrual basis. Assets are recorded at historical cost.

### Foreign exchange translation

Transactions in foreign currencies are translated into Renminbi at the applicable rates of exchange (“market exchange rate”) prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the market exchange rate prevailing at the balance sheet date. Profits and losses arising on exchange are included in financial expenses.

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(continued)*

### **Method for translation of foreign currency financial statements**

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

Assets and liabilities are translated into Renminbi at the market exchange rate prevailing at the balance sheet date. Equity items, except retained earnings, are translated into Renminbi at the market rates. All items in the statements of income and profit appropriation are translated at the applicable average exchange rates for the accounting period of the consolidated financial statements. Retained earnings at the beginning of the year represent the translated closing balance brought forward from the previous year; retained earnings at year end are arrived at after the translation of all other items in the statement of profit. The difference between translated assets and translated liabilities plus equity is stated separately in the balance sheet as exchange differences arising from the translation of the foreign currency financial statements.

All opening balances shall represent the ending balances arrived at after the above translations and stated in the previous financial statements.

### **Consolidation of financial statements**

#### *(1) Consolidation scope*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the equity, or where the Company controls the operation of the investee enterprise via other methods.

However, for those subsidiaries whose total assets, operating revenue and net profit are of an amount not material in accordance with the regulatory document "Answer to the Question about Consolidation Scope" (CKZ (96) No. 2) issued by the Ministry of Finance, their results are not included in consolidation.

#### *(2) Consolidation method*

The principle accounting policies adopted by the subsidiaries are consistent with the Company's policy.

The operating results of subsidiaries during the year are included in the consolidated income statement from the effective date of acquisition as appropriate.

All significant intercompany transactions and balances are eliminated on consolidation.

### **Cash equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are within three months of maturity and subject to limited risk on changes in value.

## 2. SIGNIFICANT ACCOUNTING AND ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION *(continued)*

### Provision for doubtful debts

#### (1) *Criteria for recognition of doubtful debts*

The irrecoverable amount for a debtor who becomes bankrupt after pursuing the statutory recovery procedures;

The irrecoverable amount for a debtor who dies and has no offsetting estate and obligatory undertakers;

The irrecoverable amount with sufficient evidence for a debtor who does not comply with repayment obligation after the debt becomes due.

#### (2) *Accounting for provision for doubtful debts*

Provision for bad debts is provided with reference to the aging analysis of accounts receivable.

The provision percentage is based on the past experiences of the Company, the actual financial position and cash flows condition of the debtor, and other rational estimate from relevant information.

### Inventories

Inventories are stated at actual cost, which includes costs of purchase and processing and those overheads that have been incurred in bringing the inventories to their present location and condition. Inventories include raw materials, work-in-progress and finished goods.

Standard cost is applied for the record of inventory movement. At month end, adjustment for cost variances is made to the standard cost to arrive at the actual cost.

### Provision for inventories

Inventories are measured at the lower of cost and net realisable value. Provision for inventories is made when the net realisable value is lower than the cost. Provision for inventories is provided on an individual basis for the difference between the cost and the net realisable value.

Net realisable value represents the balance of estimated selling price less the estimated cost of completion, the estimated cost of marketing and the relevant taxes and levies during the ordinary course of business.

## 2. PRINCIPAL ACCOUNTING POLICIES AND ASSUMPTIONS AND THE BASIS OF CONSOLIDATION *(continued)*

### Long-term investments

(1) *Accounting for long-term equity investments:*

Long-term equity investments is stated at acquisition cost.

The cost method are used to account for long-term equity investments when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method are used to account for long-term equity investments when the Company can control, joint control or has significant influence over the investee enterprise.

When the cost method is adopted, the amount of investment income recognised by the investing enterprise is limited to the amount distributed out of accumulated net profits after the investment made by the investing enterprise. The amount of profits or cash dividends declared by the investee enterprise in excess of the above threshold are regarded as return on investment and deducted from the carrying amount of investments accordingly.

When the equity method is adopted, the investment gain or loss is a portion of the investee's net income for the year by reference to the investor's interest in investee enterprise. Generally speaking, the Company recognises net losses incurred by an investee enterprise to the extent which the carrying amount of the investment is reduced to zero, except where the Company has committed financial support to the investee enterprise. If the investee enterprise realises net profit in subsequent periods, the carrying amount of the investment will be increased by the excess of the attributable share of profit over the share of unrecognised losses.

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

(2) *Provision for impairment of long-term investment*

When the recoverable amount of investment is lower than its carrying amount 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 is recognised as an investment loss in the current year's financial statements. The recoverable amount is higher of the net sales price and net present value of the estimated future cash-inflow generated from holding the investment and disposal of investment when its maturity.

### Calculation of recoverable amount

Recoverable amount represents the higher of the net selling price an asset and the estimated discounted future cash flow generated from the continued use of such asset and from the disposal of such asset upon the expiry of its useful life.

### Fixed assets and depreciation

Fixed assets are tangible assets held by the Company for production, provision of services, lease or operation, with useful life exceeding one year and with a substantial unit cost.

## 2. PRINCIPAL ACCOUNTING POLICIES AND ASSUMPTIONS AND THE BASIS OF CONSOLIDATION *(continued)*

### Fixed assets and depreciation *(continued)*

Fixed assets are recorded at actual cost on acquisition. Depreciation is provided to write off the cost of each category of fixed assets over their estimated useful lives using straight-line method from the month after they are put into use. The estimated residual values, estimated useful lives and annual depreciation rates of each category of fixed assets are as follows:

	Estimated residual value	Estimated useful life	Annual depreciation rate
Buildings	5%	20–50 years	1.9%–4.75%
Machinery and equipment	5%	10 years	9.5%
Furniture, fixtures and office equipment	5%	5 years	19.0%
Motor vehicles	5%	5 years	19.0%

### Provision for impairment of fixed assets

The fixed assets are valued at lower of the carrying amount and recoverable amount. The Company provides for impairment on fixed assets based on the difference between the carrying amount and recoverable amount. Recoverable amount is the higher of net sales price and net present value of the estimated future cash inflow generated from utilisation of the fixed assets and the disposal of the fixed assets at the end of their useful life.

### Construction in progress

Construction in progress is stated at cost.

Cost comprises construction expenditure incurred during the construction period, capitalised interest, exchange gains or losses and other relevant expenses. Cost on completed construction project is transferred to fixed assets. No depreciation is provided for construction in progress.

Provision for impairment on construction in progress is made when the following situation exist (1) construction project is suspended for a long period and is not expected to be resumed within three years; (2) construction project is technically and physically obsolete and its economic benefits to the Company is uncertain, (3) other evidences can prove the existence of the decline in value of construction project.

### Intangible assets

Intangible assets are stated at actual cost. The actual cost of acquired intangible assets is determined on the basis of the actual consideration paid.

Intangible assets are amortised evenly over the estimated useful life.

### Provision for impairment of intangible assets

At the end of each period, the Company will determine whether provision for impairment of intangible assets should be made on the basis of any indication of impairment which may have occurred. To the extent the recoverable amount of an intangible asset is lower than its carrying amount, the Company shall make provision for impairment of such intangible asset.

## 2. PRINCIPAL ACCOUNTING POLICIES AND ASSUMPTIONS AND THE BASIS OF CONSOLIDATION *(continued)*

### **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 evenly over the expected beneficial period.

### **Provision**

Provision is recognised when obligations related to contingent items satisfy the following conditions: (1) such obligation is a present obligation of the enterprise, (2) it is probable that an outflow of economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation.

To the extent the amount payable for any provision will be compensated partly or wholly by a third party, such compensation will be recognised only when it is reasonably certain that the amount will be received.

### **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. 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. Other borrowing costs are recorded as financial expenses when incurred.

### **Revenue recognition**

#### *Sales revenue*

Sales revenue is recognised when the Company has transferred the significant risk and rewards of ownership to the buyer; and the Company neither retains the managing rights nor control over the goods sold; and the economic benefit can inflow into the Company and relevant revenue and cost can be reliably measured.

#### *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.

### **Subsidy income**

Subsidy income is recognised when received.

### **Income tax**

Income tax is accounted for under tax payable method.

Income tax provision is calculated based on the accounting results for the year as adjusted for items which are non-assessable or disallowed in accordance with relevant tax laws.



### 3. CORRECTION OF SIGNIFICANT ACCOUNTING ERRORS

During the year, the Company entered into an agreement with an advertising service provider in respect of the termination of a relevant advertising agreement in the previous year. As there was insufficient evidence to support that the related advertising services have been performed in 2001, the accrual for the relating advertising expense recognised last year was excessive.

Guangdong Kelon Mould Co., Ltd. (“Kelon Mould”), a subsidiary of the Company, did not make provision for impairment according to the excess of carrying amount over the recoverable amount of its fixed assets and intangible assets. As such, the Company did not recognise sufficient investment loss for its investment in such subsidiary and did not make provision for such impairment of fixed assets and intangible assets.

The Company did not properly recognise the profit and loss of investment in its subsidiaries by equity method according to the relevant requirements of accounting standards in the previous year.

The above accounting errors have been rectified by retrospectively with an accumulated adjustment of RMB67,699,649 for the Group and RMB95,514,891 for the Company. The major effects of correction on the financial statements are as follows:

	Increase (Decrease) in shareholders' equity	
	Group	Company
	Accumulated losses	Accumulated losses
	RMB	RMB
Balance before retrospective adjustments as at 1 January 2001	174,666,289	174,666,289
Retrospective provision by subsidiary for impairment of fixed assets and intangible assets	(11,981,316)	(11,981,316)
Balance after retrospective adjustments as at 1 January 2001	162,684,973	162,684,973
Balance before retrospective adjustments as at 31 December 2001	(1,380,906,800)	(1,380,906,800)
Retrospective provision by subsidiary for impairment of fixed assets and intangible assets	(11,981,316)	(11,981,316)
Retrospective recognition of return on investment in subsidiaries by equity method	–	27,815,242
Reversal of accrual for advertising expenses ( <i>note</i> )	79,680,965	79,680,965
Balance after retrospective adjustments as at 31 December 2001	(1,313,207,151)	(1,285,391,909)

*Note:* The Company entered into an advertising agency and consultancy service agreement with Regal Lucky Limited (“RLL”) on 26 December 2000. According to the agreement, RLL was appointed by the Company to produce and place advertisements in respective of corporate image, brand name building, product image and the series of products of the Company within and outside the PRC during the period from 1 January 2001 to 31 December 2001. RLL would also provide consultancy and public relation services to the Company during the said period. The relevant advertising and consultancy fee amounted to RMB160,000,000. On this basis, the Company recognised an accrual of RMB160,000,000 for such advertising fee. However, in view that there was insufficient evidence to support that the relevant advertising services have been performed during 2001, the previous auditors expressed a qualified opinion in their auditor's report for 2001 in respect of such accrual.



**3. CORRECTION OF SIGNIFICANT ACCOUNTING ERRORS** *(continued)*

On 18 December 2002, the Company and RLL entered into a supplemental agreement regarding the aforementioned advertising agency and consultancy service agreement. Under the supplemental agreement, RLL confirmed that a first installment payment in the sum of RMB80,000,000 million has been made by the Company. Due to shareholding movements of the Company in 2001, RLL did not receive any further requisition for services contemplated in the above service agreement. As such, both parties have agreed to terminated their respective responsibilities and obligations under the agreement, whereby the Company would no longer request relevant services from RLL and would not be obliged to pay the remaining contractual balance of RMB80,000,000.

The effects of correction of the above significant accounting errors on the profit for 2002 and 2001 are as follows:

	2002		2001	
	Group RMB	Company RMB	Group RMB	Company RMB
Retrospective recognition of return on investment in subsidiaries by equity method	–	–	–	27,815,242
Reversal of excessive accrual for advertising expenses	–	–	79,680,965	79,680,965
	–	–	79,680,965	107,496,207

**4. TAXATION****Value-added Tax**

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.

**Enterprise Income Tax**

The Company was established in Shunde, Guangdong Province and, is normally subject to enterprise income tax (“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%.

The Company’s subsidiaries, Guangdong Kelon Refrigerator Co., Ltd. (“Kelon Refrigerator”), Guangdong Kelon Air-Conditioner Co., Ltd. (“Kelon Air-Conditioner”), Guangdong Kelon Fittings Co., Ltd. (“Kelon Fittings”), Shunde Rongsheng Plastic Products Co., Ltd. (“Rongsheng Plastic”), Sanyo Kelon and Yingkou Kelon Refrigerator Co., Ltd. (“Yingkou Kelon”), established in coastal open economic zone, are subject to an EIT rate of 24%. Together with 3% of the local enterprise income tax, the effective EIT rate is 27%. The Company’s subsidiary, Kelon Mould, is classified as a high new technology enterprise and is subject to an EIT of 15%. Chengdu Kelon Refrigerator Co., Ltd. (“Chengdu Kelon”) and Jiangxi Kelon Industrial Development Co., Ltd. (“Jiangxi Kelon”), is subject to an EIT rate of 30%. Together with 3% of the local enterprise income tax, the effective EIT rate is 33%.

Pursuant to Income Tax Law, the aforementioned subsidiaries 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.

#### 4. TAXATION (continued)

##### Enterprise Income Tax (continued)

In 2002, Rongsheng Plastic is subject to an EIT of 27%, while Kelon Refrigerator, Kelon Air-Conditioner, Kelon Fittings and Yingkou Kelon 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). Kelon Mould is subject to an EIT of 15%. Jiangxi Kelon, Kelon Freezer and Chengdu Kelon are still in an accumulated tax loss position and are not applicable for tax exemption treatment.

Shunde Kelon Household Electrical Appliance Company Limited ("Kelon HEA"), Huaao Electrical Electronics Co., Ltd. ("Huaao Electronics"), Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Rongsheng") and Shunde Wangao Import & Export Co., Ltd. ("Wangao Co") are subject to an EIT of 30%. Together with the local enterprise income tax rate of 3%, the effective EIT rate is 33%. Since Huaao Electronics is still in a loss position, it is not required to pay EIT.

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.

#### 5. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR

As at 31 December 2002, particulars of the subsidiaries of the Company are as follows:

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Pearl River Electric Refrigerator Company Limited ("Pearl River")	Hong Kong	HK\$400,000	–	100%	Trading in raw materials and parts for refrigerators	Limited liability company	Yes
Kelon Electric Appliances Co., Ltd. ("Kelon Electric")	Hong Kong	HK\$10,000	–	100%	Property investment	Limited liability company	Yes
Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic")	PRC	US\$15,800,000	45%	25%	Manufacture of plastic parts	Sino-foreign joint venture enterprise	Yes
Kelon Development Company Limited ("Kelon Development")	Hong Kong	HK\$5,000,000	100%	–	Investment holdings	Limited liability company	Yes
Guangdong Kelon Mould Co., Ltd. venture ("Kelon Mould")	PRC	US\$15,000,000	40%	30%	Manufacture of moulds	Sino-foreign joint enterprise	Yes
Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Refrigerator")	PRC	US\$26,800,000	70%	30%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes

## 5. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR *(continued)*

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner")	PRC	US\$36,150,000	60%	–	Manufacture and sales of air-conditioners	Sino-foreign Mjoint venture enterprise	Yes
Kelon (Japan) Limited ("Kelon Japan")	Japan	JPY1,100,000,000	–	100%	Technical research and trading in electrical household appliances	Foreign company	No
Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon")	PRC	RMB200,000,000	45%	25%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
Yingkou Kelon Refrigerator Co., Ltd. ("Yingkou Kelon")	PRC	RMB200,000,000	42%	36.79%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
Wetherell Development Limited ("Wetherell Development")	British Virgin Island	US\$1	–	100%	Advertising agency	Limited liability company	Yes
Kelon International Inc. ("KII")	British Virgin Island	US\$50,000	–	100%	Investment holding	Limited liability company	Yes
Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings")	PRC	US\$5,620,000	70%	30%	Manufacture and sale of components for refrigerators and air-conditioners	Sino-foreign joint venture Menterprise	Yes
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Rongsheng")	PRC	RMB2,000,000	76%	–	Sale of refrigerators	Limited liability company	Yes
Beijing Hengsheng Xin Chuang Technology Company ("Beijing Hengsheng")	PRC	RMB30,000,000	80%	–	Research and develop industrial and commercial IT system	Limited liability company	Yes

5. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR (continued)

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Shunde Jiake Electronic Company Limited ("Jiake Electronic")	PRC	RMB60,000,000	70%	30%	IT and communication technology, and micro-electronics technology development	Limited liability company	Yes
Beijing Kelon Tiandi IT Network Limited ("Kelon Tiandi")	PRC	RMB5,000,000	–	78%	Any business activities not prohibited by laws or regulations	Limited liability company	Yes
Beijing Kelon Shikong Information Technology Company Limited ("Kelon Shikong")	PRC	RMB5,000,000	–	78%	Any business activities not prohibited by laws or regulations	Limited liability company	Yes
Guangdong Kelon Refrigerator Co., Ltd. ("Sanyo Kelon") (formerly "Guangdong Sanyo Electric Kelon Refrigerator Co., Ltd.")	PRC	RMB237,000,000	44%	56%	Manufacture and sale of freezers	Sino-foreign joint venture enterprise	Yes
Shunde Kelon Household Electrical Appliance Company Limited ("Kelon HEA")	PRC	RMB10,000,000	25%	75%	Manufacture and sales of electrical household appliances	Limited liability company	Yes
Shunde Wangao Import & Export Co., Ltd. ("Wangao Co")	PRC	RMB3,000,000	20%	80%	Import and export business	Limited liability company	Yes
順德市崎輝服務有限公司 ("Qifei")	PRC	RMB1,000,000	–	100%	Corporate management consultancy, catering services, household decoration designs	Limited liability company	Yes
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")	PRC	US\$29,800,000	60%	40%	Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small electrical appliances	Sino-foreign joint venture enterprise	Yes

## 5. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR *(continued)*

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Huaao Electrical Electronics Co., Ltd. ("Huaao Electronics")	PRC	RMB10,000,000	-	70%	Research and development, manufacture and sale of electronic products	Limited liability company	Yes
Kelon Advertising Company ("Kelon Advertising")	PRC	RMB1,000,000	-	80%	Advertising agency	Limited liability company	No
Jilin Kelon Electric Co., Ltd. ("Jilin Kelon")	PRC	RMB200,000,000	90%	10%	Manufacture and sale of electrical appliances	Limited liability company	Yes
Kelon (USA) Inc. ("Kelon USA")	USA	US\$100	-	100%	Business liaison	Foreign company	No

The changes of scope of consolidation for the year are as follows:

Japan Kelon has been strike-off and was not included in the consolidation for the year 2002. Pursuant to regulatory documents including "Answer to the Question about Consolidation Scope" (CKZ (96) No. 2) issued by the Ministry of Finance, Kelon USA was not consolidated as its total assets, operating income and net profit are relatively small.

Sanyo Kelon used to be an associate owned as to 44% by the Company. On 31 May 2002, Kelon Development, a fully-owned subsidiary of the Company, entered into a share transfer agreement with other joint venture partners and acquired the remaining 56% shareholdings in Sanyo Kelon. For details, please see note 13(iii). On this basis, Sanyo Kelon has been included in the consolidated financial statements for the year. The operating results of Sanyo Kelon since its acquisition date have been properly included in the consolidated profit and loss account.

Wangao Co, Kelon HEA, Huaao Electronics and Kelon Advertising were originally subsidiaries of GKG. Wangao Co and Kelon HEA were also associates of the Company with an interest of 20% and 25% attributable to the Company respectively. On 26 November 2001, GKG, the former single largest shareholder of the Company, entered into a share transfer agreement with Jiake Electronics, whereby Jiake Electronics acquired the entire shares in Wangao Co, Kelon HEA, Huaao Electronics and Kelon Advertising. For details, please refer to note 42(5)(a). On this basis, the above companies have been included in the consolidated financial statements for the year. The operating results of such companies since their acquisition date have been properly included in the consolidated profit and loss account.

During the year, Kelon Advertising has been strike-off and was not included in the consolidated financial statements for the year 2002.

Qifei and Jiangxi Kelon were newly incorporated subsidiaries and were included in the consolidated financial statements for the year 2002.

## 5. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR *(continued)*

Particulars of associates of the Company are as follows:

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business
			Directly	Indirectly		
Huayi Compressor Holdings Company Limited ("Huayi Compressor")	PRC	RMB 260,854,000	22.725%	–	Manufacture and sale of compressors	Joint stock limited company
Shanghai Yilian Electric Business Limited ("Shanghai Yilian")	PRC	RMB 24,000,000	46.67%	–	Electronic business	Limited liability company
Communications and You Holdings Company Limited ("C&Y")	Hong Kong	HK\$100	–	25%	Advertising business	Limited liability company
Chongqing Kelon Electrical Appliance Company Limited ("Chongqing Kelon")	PRC	RMB 1,000,000	–	20%	Sale, installation and maintenance of air-conditioners	Limited liability company
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng")	PRC	RMB 1,000,000	–	28%	Sale and after-sale service of refrigerator	Limited liability company
Guangzhou Antaida Logistic Co., Ltd. ("Guangzhou Antaida")	PRC	RMB 10,000,000	20%	–	Logistic and storage	Limited liability company

## 6. BANK BALANCES AND CASH

	Group 31 December 2002			Group 31 December 2001		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash						
RMB	–	–	3,282,856	–	–	1,385,237
HKD	4,767	1.0614	5,059	37,165	1.0606	39,417
USD	8,330	8.2770	68,950	–	–	–
Other	–	–	730	–	–	–
Bank Deposit						
RMB	–	–	626,665,594	–	–	552,390,083
USD	5,832,364	8.2770	48,274,480	8,421,990	8.2766	69,705,446
HKD	3,082,079	1.0614	3,271,319	13,887,746	1.0606	14,729,344
YEN	–	–	–	49,069,286	0.0630	3,091,365
EURO	–	–	–	48,405	7.3178	354,218
Other	–	–	5,069,152	–	–	39,617
Other Monetary Assets						
– Pledged Deposit						
RMB	–	–	730,447,322	–	–	117,722,437
USD	–	–	–	1,120,276	8.2766	9,272,076
– Cash in transit						
RMB	–	–	–	–	–	9,461,837
			1,417,085,462			778,191,077

## 7. NOTES RECEIVABLE

	Group 31 December 2002 RMB	Group 31 December 2001 RMB
Bank acceptance notes, unsecured	108,722,422	178,285,306
Commercial acceptance notes, unsecured	513,905,384	172,903,330
	622,627,806	351,188,636



## 8. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	Group 31 December 2002			
	Amount RMB	Ratio %	Provision for bad debt RMB	Net value RMB
Within one year	400,338,508	77	18,802,611	381,535,897
One to two years	52,783,143	10	52,783,143	–
Two to three years	68,920,387	13	68,920,387	–
	522,042,038	100	140,506,141	381,535,897

	Group 31 December 2001			
	Amount RMB	Ratio %	Provision for bad debt RMB	Net value RMB
Within one year	259,347,722	63	38,448,673	220,899,049
One to two years	102,412,901	25	102,412,901	–
Two to three years	48,051,590	12	48,051,590	–
Over three years	1,910,594	–	1,910,594	–
	411,722,807	100	190,823,758	220,899,049

## 8. ACCOUNTS RECEIVABLE (continued)

	Company 31 December 2002			
	Amount <i>RMB</i>	Ratio %	Provision for bad debt <i>RMB</i>	Net value <i>RMB</i>
Within one year	289,576,625	72	13,915,156	275,661,469
One to two years	45,749,772	11	45,749,772	–
Two to three years	68,712,019	17	68,712,019	–
	404,038,416	100	128,376,947	275,661,469

	Company 31 December 2001			
	Amount <i>RMB</i>	Ratio %	Provision for bad debt <i>RMB</i>	Net value <i>RMB</i>
Within one year	165,636,304	53	38,385,715	127,250,589
One to two years	102,412,901	33	102,412,901	–
Two to three years	42,171,865	14	42,171,865	–
	310,221,070	100	182,970,481	127,250,589

Five largest debtors are as follows:

Total amount of five largest debtors <i>RMB</i>	Percentage in total accounts receivable %
26,195,905	5

The accounts receivable as at end of the year does not include amount due from shareholders holding 5% or more of the shares of the Company.

## 9. OTHER RECEIVABLES

The aging analysis of other receivables is as follows:

	Group 31 December 2002			
	Amount RMB	Ratio %	Provision for bad debt RMB	Net value RMB
Within one year	444,628,715	32	–	444,628,715
One to two years	952,455,232	68	175,015,900	777,439,332
Two to three years	4,541,017	–	3,772,087	768,930
Over three years	31,854	–	–	31,854
	1,401,656,818	100	178,787,987	1,222,868,831

	Group 31 December 2001			
	Amount RMB	Ratio %	Provision for bad debt RMB	Net value RMB
Within one year	1,091,521,581	100	172,409,033	919,112,548
One to two years	1,032,612	–	–	1,032,612
	1,092,554,193	100	172,409,033	920,145,160

	Company 31 December 2002			
	Amount RMB	Ratio %	Provision for bad debt RMB	Net value RMB
Within one year	1,422,288,624	62	–	1,422,288,624
One to two years	857,401,565	38	172,409,033	684,992,532
	2,279,690,189	100	172,409,033	2,107,281,156

	Company 31 December 2001			
	Amount RMB	Ratio %	Provision for bad debt RMB	Net value RMB
Within one year	2,116,852,356	100	172,409,033	1,944,443,323

Particulars of the substantial debtor are as follows:

Company Name	31 December 2002 RMB	31 December 2001 RMB
GKG	684,992,532	689,636,132

The other receivables as at end of the year do not include amount due from shareholders holding 5% or more of the shares of the Company.

**10. PROVISION FOR BAD DEBT**

	Group				At 31 December 2002 RMB
	At 1 January 2002 RMB	Increase from acquisition of subsidiaries RMB	Provision for the year RMB	Reversal of provision RMB	
Provision for bad debt:					
Accounts receivable	190,823,758	4,436,086	–	(54,753,703)	140,506,141
Other receivables	172,409,033	–	6,378,954	–	178,787,987
<b>Total</b>	<b>363,232,791</b>	<b>4,436,086</b>	<b>6,378,954</b>	<b>(54,753,703)</b>	<b>319,294,128</b>

**11. PREPAYMENTS**

The aging analysis of prepayments is as follows:

	Group 31 December 2002		Group 31 December 2001	
	RMB	%	RMB	%
Within one year	89,011,737	100	68,102,966	100

The prepayments as at end of the year does not include amount due from shareholders holding 5% or more of the shares of the Company.

**12. INVENTORIES**

	Group 31 December 2002		
	Cost RMB	Provision for impairment RMB	Net value RMB
Raw materials	419,342,800	50,997,459	368,345,341
Work in progress	70,404,891	–	70,404,891
Finished goods	770,305,251	85,729,527	684,575,724
<b>Total</b>	<b>1,260,052,942</b>	<b>136,726,986</b>	<b>1,123,325,956</b>

The inventories as at end of the year includes inventories in a sum of RMB260,000,000 pledged for long-term borrowings.

## 12. INVENTORIES (continued)

	Group 31 December 2001		
	Cost <i>RMB</i>	Provision for impairment <i>RMB</i>	Net value <i>RMB</i>
Raw materials	355,956,526	48,500,305	307,456,221
Work in progress	55,159,218	1,646,597	53,512,621
Finished goods	1,138,701,977	273,831,903	864,870,074
	1,549,817,721	323,978,805	1,225,838,916

The provision for inventories is as follows:

	Raw materials <i>RMB</i>	Work in progress <i>RMB</i>	Finished goods <i>RMB</i>	Total <i>RMB</i>
At 1 January 2002	48,500,305	1,646,597	273,831,903	323,978,805
Increase from acquisition of subsidiaries	6,890,235	–	4,077,457	10,967,692
Provision for the year	13,472,879	–	9,343,774	22,816,653
Reversal of provision for the year	(17,865,960)	(1,646,597)	(201,523,607)	(221,036,164)
At 31 December 2002	50,997,459	–	85,729,527	136,726,986

## 13. LONG-TERM EQUITY INVESTMENTS

	<b>Group 31 December 2002 RMB</b>	<b>Group 31 December 2001 RMB</b>
Investments in associates	136,626,984	213,799,703
Other long-term equity investments	10,419,066	10,419,066
Long-term equity investment difference	122,328,578	181,003,412
<b>Total</b>	<b>269,374,628</b>	<b>405,222,181</b>
Less: Provision for impairment loss	71,200,641	145,329,641
<b>Net long-term equity investments</b>	<b>198,173,987</b>	<b>259,892,540</b>
	<b>Company 31 December 2002 RMB</b>	<b>Company 31 December 2001 RMB</b>
Investments in subsidiaries	986,639,998	929,025,144
Investments in associates	132,390,025	209,580,216
Other long-term equity investments	7,248,851	7,249,047
Long-term equity investment difference	158,250,936	171,985,572
Exchange difference from translation of financial statements denominated in foreign currency	(1,814,159)	(3,448,769)
<b>Total</b>	<b>1,282,715,651</b>	<b>1,314,391,210</b>
Less: Provision for impairment loss	59,381,641	133,510,641
<b>Net long-term equity investments</b>	<b>1,223,334,010</b>	<b>1,180,880,569</b>

The change of provision for impairment loss is as follows:

	<b>At 1 January 2002 RMB</b>	<b>Additions RMB</b>	<b>Reversal RMB</b>	<b>At 31 December 2002 RMB</b>
Sanyo Kelon ( <i>note</i> )	74,129,000	–	(74,129,000)	–
Kelon Air-Conditioner	59,381,641	–	–	59,381,641
<b>Company total</b>	<b>133,510,641</b>	<b>–</b>	<b>(74,129,000)</b>	<b>59,381,641</b>
C&Y	11,819,000	–	–	11,819,000
<b>Consolidated total</b>	<b>145,329,641</b>	<b>–</b>	<b>(74,129,000)</b>	<b>71,200,641</b>

*Note:* The provision for impairment loss has been transferred to the adjustment of profit and loss from long-term investment in equity during the year.

### 13. LONG-TERM EQUITY INVESTMENTS (continued)

(1) Particulars of investments in subsidiaries of the Company are as follows:

Name of entity	Cost of investment RMB	Additional investment RMB	Percentage of registered capital of investee %	Change of equity in investee RMB	Accumulated change RMB	Carrying amount at 31 December 2002 RMB
Kelon Development	11,200,000	—	100	(31,874,033)	105,763,748	116,963,748
Kelon Refrigerator	155,552,426	—	70	(64,464,291)	126,049,823	281,602,249
Kelon Air-Conditioner	214,403,766	—	60	1,834,499	(708,419,057)	(494,015,291)
Rongsheng Plastic	53,270,064	—	45	(305,836)	60,073,354	113,343,418
Chengdu Kelon	90,000,000	—	45	(2,069,066)	(15,485,417)	74,514,583
Yingkou Kelon	84,000,000	—	42	(1,316,413)	(8,780,779)	75,219,221
Kelon Mould	49,860,000	—	40	1,150,939	3,140,391	53,000,391
Kelon Fittings	32,634,554	—	70	5,034,212	22,809,362	55,443,916
Beijing Hengsheng	24,000,000	—	80	(3,191,590)	(5,591,356)	18,408,644
Jiake Electronic	42,000,000	—	70	(764,966)	(792,069)	41,207,931
Sichuan Rongsheng	1,520,000	—	76	71,953	71,953	1,591,953
Wangao Co	600,000	—	20	390,952	(221,505)	378,495
Kelon HEA	2,500,000	—	25	121,794	(605,156)	1,894,844
Sanyo Kelon	104,280,000	—	44	979,544	(103,300,456)	979,544
Jiangxi Kelon	147,763,896	—	60	4,327,166	4,327,165	152,091,061
	1,013,584,706	—		(90,075,136)	(520,959,999)	492,624,707
Add: Accrued liability of investee enterprise (i)	(214,403,766)	—		(1,834,499)	708,419,057	494,015,291
	799,180,940	—		(91,909,635)	187,459,058	986,639,998

- (i) As at 31 December 2001 and 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 IFRS and adopts 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 liabilities of investee enterprise" in the balance sheet.



**13. LONG-TERM EQUITY INVESTMENTS (continued)****(2) Particulars of investments in associates of the Company and the Group are as follows:**

Name of Entity	Cost of investment RMB	Additional investment RMB	Percentage of registered capital of investee %	Change of equity in investee RMB	Accumulated change RMB	Carrying amount transferred to investment in subsidiaries RMB	Carrying amount at 31 December 2002 RMB
Huayi Compressor	118,013,641	-	22.725	-	3,296,713	-	121,310,354
Sanyo Kelon	104,280,000	-	44.00	(75,527,571)	(104,280,000)	-	-
Wangao Co	600,000	-	20.00	(601,804)	(612,457)	12,457	-
Kelon HEA	2,500,000	-	25.00	477,563	(726,950)	(1,773,050)	-
Shanghai Yilian	10,000,000	1,077,600	46.67	(1,249,642)	(2,115,950)	-	8,961,650
Guangzhou Antaida	2,000,000	-	20.00	394,256	118,021	-	2,118,021
<b>Company total</b>	<b>237,393,641</b>	<b>1,077,600</b>		<b>(76,507,198)</b>	<b>(104,320,623)</b>	<b>(1,760,593)</b>	<b>132,390,025</b>
C&Y	3,712,100	-	25.00	-	-	-	3,712,100
Chongqing Kelon	200,000	-	12.00	-	16,831	-	216,831
Chongqing Rongsheng	280,000	-	19.60	17,472	28,028	-	308,028
<b>Group total</b>	<b>241,585,741</b>	<b>1,077,600</b>		<b>(76,489,726)</b>	<b>(104,275,764)</b>	<b>(1,760,593)</b>	<b>136,626,984</b>

**(3) Long-term equity investment difference of the Company and the Group:**

Name of Entity	Cost RMB	Subsequent investment RMB	Increase during the year RMB	Amortisation period	Amortisation during the year RMB	Balance after amortisation RMB
Kelon Air-Conditioner (ii)	66,596,234	59,381,641	-	10 years	-	59,381,641
Huayi Compressor	137,346,359	112,603,931	-	10 years	13,734,636	98,869,295
<b>Company total</b>	<b>203,942,593</b>	<b>171,985,572</b>	<b>-</b>		<b>13,734,636</b>	<b>158,250,936</b>
C&Y	9,007,892	8,107,103	-	10 years	-	8,107,103
Yingkou Kelon	1,010,737	910,737	-	10 years	100,000	810,737
Sanyo Kelon (iii)	(88,611,120)	-	(88,611,120)	18.5 years	(2,394,895)	(86,216,225)
Wangao Co	2,744,027	-	2,744,027	10 years	114,334	2,629,693
Kelon HEA	34,694,631	-	34,694,631	10 years	1,156,488	33,538,143
Huaao Electronic	5,434,634	-	5,434,634	10 years	226,443	5,208,191
<b>Group total</b>	<b>168,223,394</b>	<b>181,003,412</b>	<b>(45,737,828)</b>		<b>12,937,006</b>	<b>122,328,578</b>

Long-term equity investment difference represents the difference of amount paid for acquisition of subsidiaries and associates over (less than) the net assets acquired on the date of acquisition. The difference is amortised on straight-line basis over the investment period specified in the investment contracts. If the contract does not specify the period, a positive difference is amortised within ten years and a negative difference is amortised over ten years.

### 13. LONG-TERM EQUITY INVESTMENTS (continued)

- (ii) Due to the excess losses of Kelon Air-Conditioner, a deficit arose in the long-term investment in this subsidiary and has been stated as "Accrued liability of investee enterprise". As such, the Company has terminated the amortisation of the relevant equity investment difference and made a full provision of impairment for long-term investment in respect of the remaining unamortised amount.
- (iii) The Group owned 44% interest in Sanyo Kelon, which is mainly engaged in the manufacturing and sale of freezers under the brandname of Sanyo. Japan Sanyo and two other shareholders held 46% and 10% respectively of the remaining interest of Sanyo Kelon, Sanyo Kelon had a negative net asset value as a result of losses in previous years. The Group shared the losses of Sanyo Kelon to the extent of its investment cost and has written down the carrying amount of its investment in Sanyo Kelon to zero. Sanyo Kelon had a loan of RMB180,240,000 secured by a standby letter of credit issued by a Japanese bank, which was guaranteed by Japan Sanyo.

On 31 May 2002, the Company entered into a Share Transfer Agreement and an Agreement relating to Sharing of Guaranteed Liability with Japan Sanyo and two other shareholders. The two agreements were integral to each other. Pursuant to the Share Transfer Agreement, Japan Sanyo and the two other shareholders agreed to transfer their combined interest of 56% in Sanyo Kelon to Kelon Development, a wholly-owned subsidiary of the Company, for a consideration of RMB3. As a pre-requisite of the share transfer, it is stipulated in the Agreement relating to Sharing of Guaranteed Liability that the Company and Japan Sanyo shall agree to repay the principal of the loan of RMB180,240,000 which was secured by a standby letter of credit issued by a Japanese bank. Japan Sanyo shall repay RMB154,000,000 on behalf of Sanyo Kelon with no recourse, so as to take up the operating loss of Sanyo Kelon. The balance of approximately RMB26,420,000 shall be repaid by the Company on behalf of Sanyo Kelon.

As at 30 June 2002, both parties have repaid the loan and the standby letter of credit issued by the Japanese bank was released accordingly. The acquisition of 56% interest in Sanyo Kelon by Kelon Development was completed in July 2002. As at the date of share transfer, the net asset value of Sanyo Kelon was RMB115,031,123. Taking into account the above contribution of RMB26,420,003, the long-term equity investment difference was a credit balance of RMB88,611,120.

## 14. FIXED ASSETS, ACCUMULATED DEPRECIATION AND PROVISION FOR IMPAIRMENT

	Group				
	Buildings and structures <i>RMB</i>	Machinery and equipment <i>RMB</i>	Furniture, fixture and office equipment <i>RMB</i>	Motor vehicles <i>RMB</i>	Total <i>RMB</i>
<b>Cost</b>					
At 1 January 2002	1,342,088,817	1,618,170,443	362,594,015	61,039,548	3,383,892,823
Reclassification	–	44,984,086	(44,988,340)	4,254	–
Acquired on acquisition of subsidiaries	56,332,697	121,622,862	13,145,789	2,320,852	193,422,200
Additions	7,488,619	57,741,920	6,973,886	7,815,512	80,019,937
Transfer from construction in progress	19,859,026	26,492,420	–	–	46,351,446
Disposal	(4,347,707)	(28,562,668)	(32,100,236)	(3,079,075)	(68,089,686)
Exchange differences	153,866	75,558	7,821	2,167	239,412
<b>At 31 December 2002</b>	<b>1,421,575,318</b>	<b>1,840,524,621</b>	<b>305,632,935</b>	<b>68,103,258</b>	<b>3,635,836,132</b>
<b>Accumulated depreciation</b>					
At 1 January 2002	250,989,196	822,083,216	178,197,699	27,591,489	1,278,861,600
Reclassification	–	29,043,892	(31,070,438)	2,026,546	–
Acquired on acquisition of subsidiaries	12,857,117	54,738,861	7,956,270	1,741,197	77,293,445
Provision for the year	57,682,437	143,226,476	34,357,123	10,602,426	245,868,462
Eliminated on disposal	(535,610)	(11,848,485)	(798,998)	(2,425,315)	(15,608,408)
Exchange differences	10,669	35,133	6,444	248	52,494
<b>At 31 December 2002</b>	<b>321,003,809</b>	<b>1,037,279,093</b>	<b>188,648,100</b>	<b>39,536,591</b>	<b>1,586,467,593</b>
<b>Provision for impairment</b>					
At 1 January 2002	51,662,414	7,466,170	9,000	–	59,137,584
Acquired on acquisition of subsidiaries	–	2,207,522	–	–	2,207,522
Exchange differences	30,099	–	–	–	30,099
<b>At 31 December 2002</b>	<b>51,692,513</b>	<b>9,673,692</b>	<b>9,000</b>	<b>–</b>	<b>61,375,205</b>
<b>Net value</b>					
At 1 January 2002	1,039,437,207	788,621,057	184,387,316	33,448,059	2,045,893,639
<b>At 31 December 2002</b>	<b>1,048,878,996</b>	<b>793,571,836</b>	<b>116,975,835</b>	<b>28,566,667</b>	<b>1,987,993,334</b>
Including:					
Net assets pledged					
at 31 December 2002	430,244,029	23,716,812	–	–	453,960,841

## 15. CONSTRUCTION IN PROGRESS

Project Name	Group						
	Budget RMB	At 1 January 2002 RMB	Additions RMB	Transfer to fixed assets RMB	At 31 December 2002 RMB	Percentage of budget %	Source of capital
No. 2 Refrigerator plant	19,859,026	12,613,535	7,245,491	(19,859,026)	–	100	Self-funding
Restructuring of production No. 1 and No. 2 line of refrigerator	19,412,215	7,863,760	11,687,890	(19,262,050)	289,600	98	Self-funding
Installation of production line for refrigerators and freezers	13,000,000	–	2,600,000	–	2,600,000	20	Self-funding
Multi-function laboratory for refrigerator testing	3,480,000	1,043,958	1,739,930	–	2,783,888	20	Self-funding
Others		9,665,953	3,213,991	(7,230,370)	5,649,574		Self-funding
<b>Total</b>		<b>31,187,206</b>	<b>26,487,302</b>	<b>(46,351,446)</b>	<b>11,323,062</b>		

## 16. INTANGIBLE ASSETS

	Group		
	Land use rights RMB	Software systems RMB	Total RMB
<b>Cost</b>			
At 1 January 2002	373,484,114	2,699,868	376,183,982
Acquired on acquisition of subsidiaries	31,513,280	760,166	32,273,446
Additions	–	2,963,490	2,963,490
Transfer to long-term deferred expenditures	–	(5,473,358)	(5,473,358)
<b>At 31 December 2002</b>	<b>404,997,394</b>	<b>950,166</b>	<b>405,947,560</b>
<b>Accumulated amortisation</b>			
At 1 January 2002	69,500,221	899,956	70,400,177
Acquired on acquisition of subsidiaries	4,096,726	240,719	4,337,445
Provision for the year	12,467,532	1,080,428	13,547,960
Transfer to long-term deferred expenditures	–	(1,953,995)	(1,953,995)
<b>At 31 December 2002</b>	<b>86,064,479</b>	<b>267,108</b>	<b>86,331,587</b>
<b>Provision for impairment</b>			
At 1 January 2002	5,214,752	–	5,214,752
Acquired on acquisition of subsidiaries	–	519,447	519,447
<b>At 31 December 2002</b>	<b>5,214,752</b>	<b>519,447</b>	<b>5,734,199</b>
<b>Net value</b>			
At 1 January 2002	298,769,141	1,799,912	300,569,053
<b>At 31 December 2002</b>	<b>313,718,163</b>	<b>163,611</b>	<b>313,881,774</b>

## 17. LONG-TERM DEFERRED EXPENDITURES

Nature	Group						Residual years
	At	Acquired on	Additions	Disposal	Amortisation	At	
	1 January	acquisition of				31 December	
2002	subsidiaries	RMB	RMB	RMB	RMB	RMB	
Moulds and tools	131,123,575	4,899,764	146,617,634	(16,404,377)	(144,970,179)	121,266,417	1-3 years
Illuminated advertising display	70,072,252	-	13,496,338	-	(22,713,035)	60,855,555	1-5 years
Leasehold improvement	3,057,561	1,679,697	1,236,192	-	(1,903,058)	4,070,392	1-5 years
Computer software	-	-	6,318,708	-	(2,188,815)	4,129,893	1-2 years
Others	6,650,893	-	7,294,848	-	(7,572,142)	6,373,599	1-3 years
	210,904,281	6,579,461	174,963,720	(16,404,377)	(179,347,229)	196,695,856	

## 18. SHORT-TERM LOANS

Nature of loans	Group 31 December 2002 RMB	Group 31 December 2001 RMB
Credit loan		
– RMB	61,500,000	705,700,000
Secured (i)		
– RMB	204,000,000	82,000,000
Unsecured (ii)		
– RMB	290,000,000	230,000,000
– HKD	-	25,609,386
Financing from commercial acceptance notes		
– RMB	404,664,036	280,000,000
	960,164,036	1,323,309,386

The above loans bear interest at 5.04% to 6.44% per annum.

- (i) The RMB mortgage loan is secured by the buildings and structures, and machinery and equipment with a net book value of RMB159,970,000 (see note 14).
- (ii) RMB250,000,000 was guaranteed by Greencool Enterprise and RMB40,000,000 by GKG.

## 19. NOTES PAYABLE

	<b>Group 31 December 2002 RMB</b>	<b>Group 31 December 2001 RMB</b>
Bank acceptance notes	424,914,036	678,568,666
Commercial acceptance notes	517,677,693	141,823
	<hr/> 942,591,729	<hr/> 678,710,489

## 20. ACCOUNTS PAYABLE

At 31 December 2002, the balance did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital.

## 21. ADVANCE FROM CUSTOMERS

At 31 December 2002, the balance did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital.

## 22. TAXES PAYABLES

	<b>Group 31 December 2002 RMB</b>	<b>Group 31 December 2001 RMB</b>
Income tax	149,452	(293,680)
Value-added tax	39,369,749	(155,098,731)
Business tax	2,500	-
Others	328,153	(2,439,639)
	<hr/> 39,849,854	<hr/> (157,832,050)

## 23. OTHER PAYABLES

At 31 December 2002, the balance did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital.

**24. ACCRUALS**

	<b>Group 31 December 2002 RMB</b>	<b>Group 31 December 2001 RMB</b>	<b>Reasons for not settled</b>
Installation costs	61,277,048	54,911,126	Installation costs to be incurred for products sold
Interest expenses	3,659,416	3,983,440	Incurred but yet to be paid
Sub-contracting fee	116,160	7,778,494	Incurred but invoices not yet received
Sales discounts	39,856,044	38,981,398	For sales for the year not yet paid
Promotion fees	35,048,277	176,665,911	Incurred but invoices not yet received
Transportation costs	33,619,626	11,262,800	Incurred but invoices not yet received
Storage fees	17,131,167	3,287,000	Incurred but invoices not yet received
Others	20,368,836	13,184,276	
	<b>211,076,574</b>	<b>310,054,445</b>	

**25. PROVISION**

Provision represent the provision for warranty. The Group offers 3 to 5 years warranty for all products sold. During the warranty period, customers are entitled to maintenance services free of charge. In line with common practice of the industry, provision for warranty is determined on the basis of the warranty years, estimated repairing rate and the average repairing cost.

**26. LONG-TERM LOANS DUE WITHIN ONE YEAR**

	<b>Group 31 December 2002 RMB</b>	<b>Group 31 December 2001 RMB</b>
Long-term loan due within one year ( <i>note 27</i> )	65,233,515	204,958,929
Long-term payables due within one year ( <i>note 28</i> )	—	—
	<b>65,233,515</b>	<b>204,958,929</b>



**27. LONG-TERM LOANS**

	Group 31 December 2002		Group 31 December 2001	
	HKD	RMB equivalent	HKD	RMB equivalent
Long-term loan				
– Mortgage bank loan	28,264,637	30,000,086	32,944,215	34,920,866
	–	460,000,000	–	–
– Guaranteed bank loan	–	220,000,000	–	200,000,000
– Guaranteed mortgage bank loan	–	70,000,000	–	–
		780,000,086		234,920,866
Less: Amount payable within one year	–	65,233,515	–	204,958,929
Amount payable after one year		714,766,571		29,961,937

HKD mortgage loan is secured by the buildings and structures in Hong Kong with a net book value of RMB79,827,257. RMB mortgage loan is secured by the buildings and structures in the PRC with a net book value of RMB296,782,000 and inventories with a net book value of RMB260,000,000 (see notes 12 & 14).

Guaranteed loan is secured by Greencool Enterprise. For details, please see note 42(5)(d) “Relationships with Related Parties and Related Party Transactions”.

**28. LONG-TERM PAYABLE**

Items	Group 31 December 2002 RMB	Group 31 December 2001 RMB
Pension liabilities	67,682,983	109,094,101
Special long-term payables	8,139,145	7,398,377
	75,822,128	116,492,478
Less: Amount due within one year	–	–
Amount due after one year	75,822,128	116,492,478

Pension liabilities represents the contributions paid by the employees and the Company, which are payable to the employees after their retirement.

**29. SHARE CAPITAL**

	31 December 2001 (share)	Changes in the year (share)	31 December 2002 (share)
A. Unlisted shares			
1. Promoter shares			
– domestic legal person shares	337,915,755	–	337,915,755
2. Employees' shares	84,501,000	(84,501,000)	–
Total unlisted shares	422,416,755	(84,501,000)	337,915,755
B. Listed shares			
1. Domestic listed ordinary shares denominated in RMB	110,000,000	84,501,000	194,501,000
2. Overseas listed foreign shares	459,589,808	–	459,589,808
Total listed shares	569,589,808	84,501,000	654,090,808
C. Total number of shares	992,006,563	–	992,006,563

The face value of the above shares is RMB1.00 each.

**30. CAPITAL RESERVE**

	Share premium		Provision for donation of assets	Provision for equity investments	Total
	H shares and domestic legal person shares RMB	A shares RMB	RMB	RMB	RMB
At 1 January 2002	1,499,662,592	933,863,500	17,696,745	–	2,451,222,837
Additions (note)	–	–	–	1,773,050	1,773,050
<b>At 31 December 2002</b>	1,499,662,592	933,863,500	17,696,745	1,773,050	2,452,995,887

Note: Additions of the year represents the increase in capital reserve in respect of the donation to Kelon HEA attributable to the Company.

**31. REVENUE RESERVE**

	Statutory common reserve <i>RMB</i>	Discretionary reserve <i>RMB</i>	Statutory common welfare fund <i>RMB</i>	Total <i>RMB</i>
At 1 January 2002 and 31 December 2002	229,161,802	–	114,580,901	343,742,703

Statutory surplus reserve can be used to make up future losses, to expand operations or to increase share capital by means of conversion. Statutory common welfare fund can be utilised for staff welfare.

**32. ACCUMULATED LOSSES**

	Group 31 December 2002 <i>RMB</i>	Group 31 December 2001 <i>RMB</i>
At 1 January 2002 (as adjusted, <i>note 3</i> )	(1,313,207,151)	162,684,973
Add: Net profit (loss) of the year	101,276,990	(1,475,892,124)
At 31 December 2002	(1,211,930,161)	(1,313,207,151)

On 3 April 2003, the Board of the Company resolved to pass the “Proposal to utilise the Company’s statutory common reserve and capital reserve to make up for the Company’s accumulated losses”. The Company proposed to use RMB229,161,802 and RMB982,768,359 (balances as at 31 December 2002) out of its statutory common reserve and capital reserve respectively to make up for the Company’s accumulated losses at the end of year. The proposal is subject to be approved by next annual general meeting.

**33. REVENUE AND COST FROM PRINCIPAL OPERATIONS**

	Group 2002		Group 2001	
	Revenue <i>RMB</i>	Cost <i>RMB</i>	Revenue <i>RMB</i>	Cost <i>RMB</i>
Sales of refrigerators	2,252,045,608	1,648,537,574	2,164,254,362	1,775,523,113
Sales of air-conditioners	2,337,240,642	1,980,182,294	2,177,206,505	1,823,664,781
Sales of freezers	103,978,964	93,159,219	–	–
Others	184,991,803	130,660,024	40,155,501	16,528,177
	4,878,257,017	3,852,539,111	4,381,616,368	3,615,716,071

**33. REVENUE AND COST FROM PRINCIPAL OPERATIONS** *(continued)*

	Company 2002		Company 2001	
	Revenue RMB	Cost RMB	Revenue RMB	Cost RMB
Sales of refrigerators	2,038,620,012	1,464,305,926	1,873,787,788	1,569,731,194
Sales of air-conditioners	2,016,706,478	1,732,176,247	1,824,531,271	1,491,528,891
Sales of freezers	14,067,706	13,173,189	–	–
	4,069,394,196	3,209,655,362	3,698,319,059	3,061,260,085

Total sales of the five largest customers RMB	Percentage in total sales %
384,209,032	8

**34. FINANCIAL EXPENSES**

	Group 2002 RMB	Group 2001 RMB
Interest expenses	90,008,597	92,864,732
Less: interest income	14,680,145	12,552,101
Exchange (loss) gain	(1,952,321)	2,946,181
Others	2,160,033	3,429,059
	75,536,164	86,687,871

**35. INVESTMENT LOSS**

Group	2002 RMB	2001 RMB
Loss on disposal of investee companies	–	(11,089,152)
Loss on investments in associates	(4,133,776)	(611,426)
Amortisation of long-term investment difference	(12,937,006)	(16,014,647)
Provision for impairment of long-term investments	–	(71,200,641)
Others	–	(147,398)
	(17,070,782)	(99,063,264)

**35. INVESTMENT LOSS** *(continued)*

<b>Company</b>	<b>2002 RMB</b>	<b>2001 RMB</b>
Loss on investments in subsidiaries	(90,075,136)	(284,802,456)
Loss on disposal of investee companies	–	(11,089,152)
Loss on investments in associates	(4,151,247)	(638,813)
Amortisation of long-term investment difference	(13,734,636)	(15,013,858)
Provision for impairment of long-term investments	–	(59,381,641)
Others	–	(147,187)
	<b>(107,961,019)</b>	<b>(371,073,107)</b>

**36. NON-OPERATING EXPENSES**

	<b>Group 2002 RMB</b>	<b>Group 2001 RMB</b>
Loss on disposal of fixed assets	748,140	15,057,482
Provision for impairment of fixed assets	–	47,236,170
Others	3,351,624	10,989,023
	<b>4,099,764</b>	<b>73,282,675</b>

**37. INCOME TAX**

	<b>Group 2002 RMB</b>	<b>Group 2001 RMB</b>
Income tax payable by the Company <i>(note)</i>	–	–
Income tax payable by subsidiaries	3,031,454	–
	<b>3,031,454</b>	<b>–</b>

*Note:* No income tax is provided for as the Company recorded losses for the year.

**38. OTHER CASH PAID AND RECEIVED RELATING TO INVESTING ACTIVITIES**

	<b>Group 2002 RMB</b>
Increase in pledged deposits	603,452,809
Other cash paid relating to investing activities	603,452,809
Repayment from Greencool Enterprise	198,000,000
Repayment from Kelon Employee Union	6,537,039
Other cash received relating to investing activities	204,537,039

**39. CASH AND CASH EQUIVALENTS**

	<b>Group 31 December 2002 RMB</b>	<b>Group 31 December 2001 RMB</b>
Bank balances and cash (note 6)	1,417,085,462	778,191,077
Less: Pledged deposits	730,447,322	126,994,513
	686,638,140	651,196,564

  

	<b>Company 31 December 2002 RMB</b>	<b>Company 31 December 2001 RMB</b>
Bank balances and cash	1,065,118,299	492,198,063
Less: Pledged deposits	708,890,280	110,839,227
	356,228,019	381,358,836

#### 40. ACQUISITION OF SUBSIDIARIES

	<i>RMB</i>
(1) Total consideration	40,081,953
Cash consideration in the total consideration	26,420,003
Consideration settled by other receivables	10,769,600
Consideration originally credited to long-term equity investments	2,892,350
(2) Cash consideration in the total consideration	26,420,003
Monetary assets of subsidiaries acquired on acquisition of subsidiaries	83,329,421
	<hr/>
Net cash inflow on acquisition of subsidiaries	56,909,418
(3) Major non-cash assets and liabilities acquired on acquisition of subsidiaries:	
Non-cash assets:	
Receivables	363,774,804
Inventories	174,699,465
Other current assets	3,161,892
Long-term investment	2,000,000
Net fixed assets	113,921,233
Intangible and other assets	33,996,015
Liabilities:	
Payables	(681,703,195)
Accruals	(23,021,399)
Taxes payables	15,661,545
	<hr/>
Total non-cash assets and liabilities acquired on acquisition of subsidiaries	2,490,360
(4) Total consideration	40,081,953
Less: Total net assets acquired on acquisition of subsidiaries	85,819,781
	<hr/>
Long-term investment difference	(45,737,828)
	<hr/>

**41. SEGMENT INFORMATION**

Items	Refrigerators	Air-conditioners	Freezers	Others	Elimination	Unit: RMB Total
1. Revenue from principal operations:						
External sales	2,252,045,608	2,337,240,642	103,978,964	184,991,803	–	4,878,257,017
Inter-segment sales	–	–	–	375,552,851	(375,552,851)	–
Total revenue from principal operations	2,252,045,608	2,337,240,642	103,978,964	560,544,654	(375,552,851)	4,878,257,017
2. Cost of sales:						
External cost of sales	1,648,537,574	1,980,182,294	93,159,219	130,660,024	–	3,852,539,111
Inter-segment cost of sales	–	–	–	366,368,787	(366,368,787)	–
Total cost of sales	1,648,537,574	1,980,182,294	93,159,219	497,028,811	(366,368,787)	3,852,539,111
3. Total expenses	402,167,680	198,467,389	149,269,180	160,681,694	–	910,585,943
4. Operating profit (loss)	201,340,354	158,590,959	(138,449,435)	(97,165,851)	(9,184,064)	115,131,963
5. Total assets	3,757,729,741	3,149,545,710	54,968,076	694,295,802	–	7,656,539,329
6. Total liabilities	2,447,952,779	1,987,488,705	169,280,881	254,596,818	–	4,859,319,183

**42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

(1) Except for the subsidiaries as disclosed in note 5, related parties in which the Company has controlling interests include:

Name of related party	Place of incorporation	Principal activities	Relationship	Nature of business	Legal representative
Substantial shareholder after 18 April 2002:					
Greencool Enterprise	Shunde, Guangdong	Research, manufacture and sale of refrigeration equipment, fittings and chlorofluorocarbon ("CFC")	Substantial shareholder of the Company Subsidiary owned by the chairman of the Company	Limited liability company	Gu Chu Jun
Single largest shareholder of the Company before 18 April 2002:					
GKG	Shunde, Guangdong	Investment holding	The former single largest shareholder of the Company	Limited liability company	Li Zheng Hua



**42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS** *(continued)***(2) Movement in registered capital of related parties with controlling interests**

Name of related party	At	Additions	Deduction	At
	1 January 2002			31 December 2002
GKG	RMB30,000,000	–	–	RMB30,000,000
Greencool Enterprise	RMB1,200,000,000	–	–	RMB1,200,000,000
Kelon Japan	JPY1,100,000,000	–	JPY1,100,000,000	–
Qifei	–	RMB1,000,000	–	RMB1,000,000
Jiangxi Kelon	–	USD29,800,000	–	USD29,800,000
Kelon Advertising	RMB1,000,000	–	RMB1,000,000	–

There is no change in the registered capital of related parties in which the Company has controlling interests in the year as disclosed in note 5.

**(3) Movements in the Company's share capital or equity held by related parties in which the Company has controlling interest:***(i) Substantial shareholder*

Name of related party	At 1 January 2002		Additions		Deduction		At 31 December 2002	
	RMB	%	RMB	%	RMB	%	RMB	%
Greencool Enterprise	–	–	204,775,755	20.64	–	–	204,775,755	20.64
GKG	337,915,755	34.06	–	–	(337,915,755)	(34.06)	–	–

*(ii) Subsidiaries*

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

**42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS** *(continued)***(4) Relationship of related parties in which the Company does not have controlling interests**

<b>Name of related party</b>	<b>Relationship with the Company</b>
Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")	Associate of the minority shareholder of Chengdu Kelon
Huayi Compressor	Associate of the Company
Shanghai Yilian	Associate of the Company
C&Y	Associate of the Company
Chongqing Kelon	Associate of the Company
Chongqing Rongsheng	Associate of the Company
Guangzhou Antaida	Associate of the Company
Kelon HEA	Former associate and current subsidiary of the Company
Sanyo Kelon	Former associate and current subsidiary of the Company
Wangao Co	Former associate and current subsidiary of the Company
Huaao Electronics	Former subsidiary of GKG and current subsidiary of the Company
Kelon Advertising	Former subsidiary of GKG and current subsidiary of the Company
Kelon Employee Union	Entity organised and owned by employees of the Company
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")	Subsidiary indirectly controlled by the chairman of the Company

**(5) The Group and the above related parties entered into the following major related party transactions in the year:****(a) Transfer of equity interest**

Wangao Co, Kelon HEA, Huaao Electronics and Kelon Advertising are former subsidiaries of GKG. Wangao Co and Kelon HEA are also associates of the Company, with shareholdings of 20% and 25% respectively.

GKG, the former single largest shareholder of the Group, entered into an agreement on shares transfer with Jiake Electronic, a subsidiary of the Company, on 26 November 2001 to acquire GKG's entire interest in Wangao Co, Kelon HEA, Huaao Electronic and Kelon Advertising. According to the agreement, Jiake Electronic acquired 80% equity interest in Wangao Co at a consideration of RMB2,694,200, and the shares transfer was completed on 31 July 2002. As Kelon HEA had a loss amounted to RMB7,092,220, after negotiation by both parties, Jiake Electronic acquired 75% equity interest in Kelon HEA at nil consideration, with GKG bearing the loss of RMB7,092,200 attributable to its shareholdings in the operating period, and the shares transfer was completed on 30 August 2002. Jiake Electronic acquired 70% equity interest in Huaao Electronics at a consideration of RMB8,075,400, and the shares transfer was completed on 31 July 2002. Jiake Electronic acquired 80% equity interest in Kelon Advertising at a consideration of RMB966,200. Kelon Advertising was strike-off in the year.

**42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS** *(continued)***(5) The Group and the above related parties entered into the following major related party transactions in the year:** *(continued)***(a) Transfer of equity interest** *(continued)*

The aggregate price of the above shares transfers is RMB11,735,800. After deducting the operating loss of RMB7,092,200, the actual price payable for the acquisition of equity is RMB4,643,600. The Company used the amount of RMB4,643,600 received from GKG to settle the price of shares transfer in the acquisition of the above company by Jiake Electronic.

As at 31 December 2002, Wangao Co and Kelon HEA has changed from associates to subsidiaries. However, the transactions entered by the Group with the above related parties before the above shares transfers are still classified as related party transactions.

**(b) Sales and purchases**

The particulars of the Group's sales to and purchases from the related parties are as follows:

	<b>Group 2002 RMB</b>	<b>Group 2001 RMB</b>
Sales to		
– Huaao Electronics	38,449,879	53,024,758
– Wangao Co	37,757,424	13,868,651
– Sanyo Kelon	3,684,850	25,483,847
– Kelon HEA	4,505,359	–
– Chengdu Xinxing	9,031,636	–
– Chongqing Kelon	53,944,503	57,771,537
– Chongqing Rongsheng	33,212,615	73,222,962
	<hr/> 180,586,266	<hr/> 223,371,755
Purchases from		
– Kelon HEA	16,537,733	12,485,857
– Huaao Electronics	144,592,405	201,302,903
– Wangao Co	55,376,180	8,004,543
– Chengdu Xinxing	31,089,799	–
– Hainan Greencool	27,005,385	–
	<hr/> 274,601,502	<hr/> 221,793,303

## 42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS (continued)

- (5) The Group and the above related parties entered into the following major related party transactions in the year: (continued)

(c) *Asset transactions*

The particulars of the sale of assets to related parties by the Group are as follows:

	Group 2002 RMB	Group 2001 RMB
Sales		
– Huao Electronics	1,222,603	–

(d) *Others*

	Group 2002 RMB	Group 2001 RMB
Loan guarantee provided to related parties		
– C&Y	3,975,000	3,975,000
Loan guarantee provided by related parties		
– GKG	40,000,000	230,000,000
– Greencool Enterprise	540,000,000	–
	580,000,000	230,000,000
Other income (expenses) obtained from (paid to) related parties		
– Service fees from GKG for exporting appliances	–	9,010,000
– Advertising fee paid to Kelon Advertising	–	(47,458,371)
– Advertising fee paid to C&Y	(350,414)	(21,229,000)
– Logistics management fee paid to Guangzhou Antaida	(2,351,475)	–
– Interest income from Chengdu Xinxing (see note 42(5)(e)(iv))	2,599,000	3,231,360
	(102,889)	(56,446,011)

## 42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

(5) The Group and the above related parties entered into the following major related party transactions in the year: *(continued)*

(e) *Particulars of liability balance*

Items	Name of related parties	Group 31 December 2002 RMB	Group 31 December 2001 RMB
Notes receivable	GKG (i)	–	170,000,000
Other receivables	GKG (i)	684,992,532	519,636,132
	Greencool Enterprise (ii)	–	198,000,000
	Others	3,026,780	273,937
Long-term receivables due after one year	Kelon Employee Union (iii)	51,602,908	58,139,947
	Chengdu Xinxing (iv)	34,000,000	34,000,000
		773,622,220	980,050,016
Accounts payable	Greencool Enterprise (v)	149,000	–
	Chengdu Xinxing	5,087,833	–
Other payables	Others	–	263,100
Advance from customers	Chongqing Kelon	–	5,902,078
		5,236,833	6,165,178

(i) *Related transactions with GKG*

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.

## 42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

### (5) The Group and the above related parties entered into the following major related party transactions in the year: *(continued)*

#### (e) *Particulars of liability balance (continued)*

##### (i) *Related transactions with GKG (continued)*

Change of shareholdings in the single largest shareholder

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.

Debt settlement arrangement

As at 1 January 2002, the balance due from GKG amounted to RMB862,045,132 (before deducting the provisions of bad debt amounting to RMB172,409,000). Subsequently, GKG used the transfer consideration in the acquisition of the shareholdings in its subsidiary by Jiake Electronic, a subsidiary of the Company, to offset GKG’s debt owing to the Company amounting to RMB4,643,600 (*see note 42(5)(a)*). Therefore, as at 31 December 2002, GKG still owed the Company an amount of RMB857,401,532. For GKG to settle the above debt balance, the Company, GKG and other related parties entered into the following agreements on 21 November 2002:

1. A debt settlement agreement entered into between GKG and the Company to settle the above debt balance (“Debt Settlement Agreement”);
2. An agreement entered into between the Company and GKG for the transfer of an exclusive right from GKG to the Company to use the trademarks of “Kelon” and “Rongsheng” (“Trademark Transfer Agreement”);
3. An agreement entered into between the Company and GKG to terminate the trademark licence agreement dated 6 July 1996 (“Trademark Licence Termination Agreement”);

## 42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

### (5) The Group and the above related parties entered into the following major related party transactions in the year: *(continued)*

#### (e) *Particulars of liability balance (continued)*

##### (i) *Related transactions with GKG (continued)*

4. An agreement entered into between Land Development Centre and the Company to transfer a land use right (“Land Use Right Transfer Agreement”);
5. The first agreement entered into between the Company, Land Development Centre and GKG for the payment of the consideration of the above land use right transfer and the settlement of debts (the “Supplemental Agreement No.1”);
6. The second agreement entered into between the Company, Land Development Centre, Kelon Employee Union and Shunde Ronggui Rongqiang Investment Holdings Company Limited (“Rongqiang Investment”) for the payment of the consideration and the settlement of debts (the “Supplemental Agreement No.2”).

Pursuant to the Debt Settlement Agreement, (a) GKG transferred the exclusive right to use the trademarks of “Kelon” and “Rongsheng” to the Company at a consideration of RMB644,000,000 to repay part of the balance; (b) GKG shall procure Land Development Centre to transfer its land use right to the Company and to use RMB213,397,093 in the transfer consideration to repay the related part of the debt balance on behalf of GKG; (c) the Company agreed to waive the funds proprietary fee amounting to RMB50,436,632, which is non-cash income and never recognised as an income and therefore will not have any impact on the Company’s profit after it is waived, after the transfer of registered trademark licence and land use right is completed.

Pursuant to the Trademark Transfer Agreement, GKG permanently transferred the trademark to the Company at a consideration of RMB644,000,000 settled the balance due from GKG. The trademark transfer consideration was arrived at after negotiation between both parties with reference to the appraisal report prepared by Vigers Hong Kong Limited and 珠海市正大新資產評估事務所有限公司, both independent and qualified valuers.

Pursuant to the Trademark Licence Termination Agreement, the Company and GKG both agreed to terminate the trademark licence agreement entered into between GKG and the Company dated 6 July 1996. The effective date of terminating the trademark licence agreement is the date on which the Company obtained the exclusive right to use the trademarks according to the provisions of the Trademark Transfer Agreement.

**42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS** *(continued)***(5) The Group and the above related parties entered into the following major related party transactions in the year:** *(continued)***(e) Particulars of liability balance** *(continued)**(i) Related transactions with GKG (continued)*

Pursuant to the Land Use Right Transfer Agreement, the Company agreed to acquire the land use right from Land Development Centre. The aggregate price of the land use right transfer amounted to RMB265,000,000, which was based on the appraisal report prepared by Vigers Hong Kong Limited and 廣東財興資產評估公司, both independent and qualified valuers. The transfer consideration was settled by the way of eliminating debts pursuant to the Supplemental Agreement No.1 and the Supplemental Agreement No.2 as mentioned below.

The Supplemental Agreement No.1 is a supplemental agreement of the Land Use Right Transfer Agreement. Pursuant to the agreement, Land Development Centre agreed to use RMB213,397,093 in the land use right transfer consideration receivable from the Company to settle part of the debt balance on behalf of GKG.

The Company and Kelon Employee Union both confirmed that, as at 21 November 2002, Kelon Employee Union owed the Company an amount of RMB51,602,907. Rongqiang Investment and Kelon Employee Union both confirmed that, as at 21 November 2002, Rongqiang Investment owed Kelon Employee Union an amount of RMB51,602,907. The Supplemental Agreement No.2 is also a supplemental agreement of the Land Use Right Transfer Agreement. Pursuant to the Supplemental Agreement No.2, (a) Land Development Centre agreed to use RMB51,602,907 of the balance amount of the land use right transfer consideration receivable from the Company to settle the above debts owed by Rongqiang Investment to Kelon Employee Union on behalf of Rongqiang Investment; (b) the above debts owed by Kelon Employee Union to the Company can be directly settled by the land transfer fee payable by the Company to Land Development Centre.

The above transaction was not yet completed as at 31 December 2002.

*(ii) Greencool Enterprise*

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.



**42. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS** *(continued)***(5) The Group and the above related parties entered into the following major related party transactions in the year:** *(continued)***(e) Particulars of liability balance** *(continued)**(iii) Kelon Employee Union*

During year 2001, the Company provided funds of RMB116,000,000 to Kelon 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 Kelon Employee Union in this connection amounted to RMB51,602,907.

*(iv) Chengdu Xinxing*

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 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.

*(v) Hainan Greencool*

On 9 April 2002, an agreement was signed between the Company and Hainan Greencool regarding the purchase of Model R411 CFC of RMB27,000,000. All the goods were received, checked and put into production.

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.

## 43. CONTINGENT LIABILITIES

	31 December 2002 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>
Loan guarantee provided for associates (note 42(5)(d))	3,975	3,975
Discounted and undue commercial acceptance notes	35,270	582,930
<b>Total</b>	<b>39,245</b>	<b>586,905</b>

## 44. CAPITAL COMMITMENT

	31 December 2002 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>
Contracted for but not provided in the financial statements – Commitment on acquisition and construction of assets	37,910	51,740

## 45. SUBSEQUENT EVENTS

Under the approval granted by its board of directors on 24 January 2003, Kelon Development, a subsidiary of the Company, signed a shareholding transfer agreement with Modern Treasure Limited (“MTL”) on 18 January 2003. Pursuant to the agreement, Kelon Development will transfer to MTL its 25% shareholding in C&Y for a consideration of HKD3,500,000 in cash and HKD20,000,000 contract value of advertisement broadcasting service. According to the agreement, the above consideration shall be settled within two years according to the agreement, and the shares transfer will also be completed upon settlement of the consideration. As at 31 December 2002, the carrying amount of the shareholding is RMB11,819,203. The Company has fully provided for the impairment of the remaining investment in the associate company.

## 46. OTHER IMPORTANT INFORMATION

The Company received on 30 August 2002 from the Guangzhou Securities Administration Office of the China Securities Regulatory Commission (“CSRC”) a notice containing instructions which require the Company to make remedial changes to certain problems within a prescribed period. The notice was issued pursuant to an inquiry carried out by the Guangzhou Examination Bureau of the CSRC for suspected breach of securities laws and regulations for the period prior to Greencool Enterprise becoming the single largest shareholder of the Company. The Company has made changes to such matters pursuant to the notice and has rectified the problems relating to its financial management and accounting audits before 2002. Upon receipt of the notice, the Company immediately carried out the remedial changes and announced the result on 2 January 2003. The board of directors of the Company believes that the various problems encountered by the Company in relation to certain aspects of its financial management and accounting audits prior to 2002 have now been remedied.