



KELON 科龙

廣東科龍電器股份有限公司
Guangdong Kelon Electrical Holdings Company Limited

二 零 零 三 年 中 期 報 告
Interim Report 2003

The Board of Directors ("Board") of Guangdong Kelon Electrical Holdings Company Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2002 or the audited comparative figures as at 31 December 2002. The consolidated interim financial statements have not been audited but have been reviewed by the Audit Committee of the Company and the Auditors.

Opinion of the Audit Committee is as follows:

The Audit Committee has reviewed the 2003 interim results of the Company, with reference to the review report prepared by the Company's auditors in relation to the 2003 interim results, and has no objection to the points stated in the auditors' independent review report.

德勤·關黃陳方會計師行

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**Deloitte
Touche
Tohmatsu**

INDEPENDENT REVIEW REPORT**TO THE BOARD OF DIRECTORS OF
GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED****INTRODUCTION**

We have been instructed by Guangdong Kelon Electrical Holdings Company Limited (the "Company") to review the interim financial report set out on pages 4 to 23.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

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

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six months ended 30 June 2002 disclosed in the interim financial report may not be comparable with the figures for the current period. The previous auditors explained in their auditors’ report on the financial statements for the year ended 31 December 2001 that they were unable to obtain reasonable representations and assurances on which they could rely for the purposes of their audit and there were no satisfactory audit procedures that they could perform to obtain reasonable assurance that all material transactions were properly recorded and completely disclosed. Against this background, we were unable to conclude as to whether the net assets of the Group as at 31 December 2001 were free from material misstatement. Any adjustments to the opening net assets of the Group as at 1 January 2002 would affect the profit of the Group for the six months ended 30 June 2002.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 15 August 2003

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

	<i>Notes</i>	For the six months ended 30 June	
		2003	2002
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Turnover	3	3,315,066	2,550,332
Cost of sales		(2,510,141)	(1,833,170)
Gross profit		804,925	717,162
Other operating income		35,420	31,702
Distribution costs		(467,012)	(446,944)
Administrative expenses		(150,098)	(130,472)
Other operating expenses		(7,332)	(12,783)
Profit from operations		215,903	158,665
Finance costs		(60,546)	(52,796)
Share of results of associates		(5,808)	2,421
Profit before taxation	4	149,549	108,290
Taxation	5	(6,026)	(2,855)
Profit after taxation		143,523	105,435
Minority interests		(1,291)	(537)
Net profit for the period		142,232	104,898
Dividends	6	-	-
Basic earnings per share	7	RMBO.14	RMBO.11

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2003

(Prepared under International Financial Reporting Standards)

	<i>Notes</i>	30 June 2003	31 December 2002
		RMB'000	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	8	2,391,314	2,504,342
Interests in associates		248,931	234,486
Amounts due from related companies		85,603	85,603
Other assets		39,510	25,912
Goodwill		39,993	42,187
Negative goodwill		(83,821)	(86,216)
		2,721,530	2,806,314
Current assets			
Inventories		1,483,613	1,123,326
Trade and other receivables	9	3,525,032	2,366,365
Taxation recoverable		1,838	2,703
Pledged bank deposits		1,099,670	730,447
Bank balances and cash		802,925	686,638
		6,913,078	4,909,479
Current liabilities			
Trade and other payables	10	3,624,444	2,636,678
Trade deposits from customers		812,033	337,666
Warranty provision		76,265	105,031
Taxation payable		4,951	11,534
Bank borrowings			
– amount due within one year		1,664,045	1,025,398
		6,181,738	4,116,307
Net current assets		731,340	793,172
		3,452,870	3,599,486

CONDENSED CONSOLIDATED BALANCE SHEET - <i>Continued</i>

At 30 June 2003

(Prepared under International Financial Reporting Standards)

	<i>Note</i>	30 June 2003	31 December 2002
		RMB'000	RMB'000
		(Unaudited)	(Audited)
Capital and reserves			
Share capital	11	992,007	992,007
Reserves		<u>1,767,428</u>	<u>1,598,061</u>
		<u>2,759,435</u>	<u>2,590,068</u>
Minority interests		<u>220,120</u>	<u>218,829</u>
Non-current liabilities			
Bank borrowings			
- amount due after one year		400,000	714,767
Pension liabilities		61,887	67,683
Other payables		<u>11,428</u>	<u>8,139</u>
		<u>473,315</u>	<u>790,589</u>
		<u>3,452,870</u>	<u><u>3,599,486</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

	Share capital	Share premium	Statutory reserves	Capital reserve	Revaluation reserve	Translation reserve	Accumulated (losses) profits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2002	992,007	2,160,621	343,743	-	373,570	(3,450)	(1,367,123)	2,499,368
Net loss for the year	-	-	-	-	-	-	84,593	84,593
Contribution by a shareholder of an associate	-	-	-	1,773	-	-	-	1,773
Exchange differences on translation of financial statements of operations outside Mainland China and gains not recognised in the condensed consolidated income statement	-	-	-	-	-	4,334	-	4,334
At 1 January 2003	992,007	2,160,621	343,743	1,773	373,570	884	(1,282,530)	2,590,068
Utilisation of the Company's reserves to make up for the Company's accumulated losses	-	(965,024)	(229,162)	-	-	-	1,194,186	-
Share of reserves of an associate	-	-	-	27,135	-	-	-	27,135
Net profit for the period	-	-	-	-	-	-	142,232	142,232
At 30 June 2003	992,007	1,195,597	114,581	28,908	373,570	884	53,888	2,759,435
At 1 January 2002	992,007	2,160,621	343,743	-	373,570	(3,450)	(1,367,123)	2,499,368
Net profit for the period	-	-	-	-	-	-	104,898	104,898
Exchange differences on translation of financial statements of operations outside Mainland China and gains not recognised in the condensed consolidated income statement	-	-	-	-	-	6,561	-	6,561
At 30 June 2002	992,007	2,160,621	343,743	-	373,570	3,111	(1,262,225)	2,610,827

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
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For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

	For the six months ended 30 June	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash from operating activities	305,566	503,533
Net cash used in investing activities	(513,159)	(281,281)
Net cash from (used in) financing activities	323,880	(343,250)
Net increase (decrease) in cash and cash equivalents	116,287	(120,998)
Cash and cash equivalents at beginning of the period	686,638	651,196
Effect of foreign exchange rate changes	-	4,556
Cash and cash equivalents at end of the period	802,925	534,754

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

1. GENERAL

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

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

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

2. ACCOUNTING POLICIES

The condensed financial 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 accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

3. SEGMENT INFORMATION

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

	For the six months ended 30 June 2003				For the six months ended 30 June 2002			
	Refrigerators	Air- conditioners	Freezers and others	Consolidated	Refrigerators	Air- conditioners	Freezers and others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,445,221	1,641,370	228,475	3,315,066	1,190,463	1,359,869	-	2,550,332
Profit from operations	103,738	92,188	19,977	215,903	72,582	86,083	-	158,665
Profit after taxation but before minority interests	76,931	54,040	12,552	143,523	44,539	60,896	-	105,435
Minority interests	(1,291)	-	-	(1,291)	(537)	-	-	(537)
Net profit for the period	75,640	54,040	12,552	142,232	44,002	60,896	-	104,898

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

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

4. PROFIT BEFORE TAXATION

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

	For the six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Amortisation of goodwill	2,194	50
Depreciation	166,539	216,115
Interest expense	60,546	53,795
Interest income	(8,537)	(11,249)
Release of negative goodwill to income	(2,395)	-

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

5. TAXATION

	For the six months ended 30 June	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
The amount consists of:		
PRC enterprise income tax ("EIT")		
The Company and its subsidiaries	5,934	2,799
Associates	92	56
	6,026	2,855

The Company and its subsidiaries provide for taxation on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes after considering all available tax benefits.

The Company was incorporated in Shunde, Guangdong Province and, pursuant to "Income Tax Law of the PRC 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%.

The Company's subsidiaries, Guangdong Kelon Refrigerator Co., Ltd., Guangdong Kelon Air-Conditioner Co., Ltd., Shunde Rongqi Kelon Fittings Co., Ltd., Shunde Rongsheng Plastic Products Co., Ltd. and Guangdong Kelon Mould Co., Ltd., 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.

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

5. TAXATION – *Continued*

A subsidiary of the Company, Chengdu Kelon Refrigerator Co., Ltd., is subjected 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., established 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.

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003. No interim dividend was declared for the same period last year.

7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share was based on the unaudited consolidated net profit of RMB142,232,000 for the six months ended 30 June 2003 (six months ended 30 June 2002: RMB104,898,000) divided by 992,006,563 ordinary shares (2002: 992,006,563 ordinary shares) in issue during the Period.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group spent RMB140,950,000 (2002: RMB127,449,000) on the acquisition of property, plant and equipment.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

9. TRADE AND OTHER RECEIVABLES

	30 June 2003 <u>RMB'000</u>	31 December 2002 <u>RMB'000</u>
Trade receivables – third parties	1,165,403	381,536
Notes receivable – third parties	746,875	622,628
Other receivables – third parties	1,591,906	1,355,277
Amounts due from related companies	<u>20,848</u>	<u>6,924</u>
	<u>3,525,032</u>	<u>2,366,365</u>

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

Trade receivables were generated mainly from the sales of refrigerators and air-conditioners. At the reporting date, almost all trade receivables were aged less than one year.

10. TRADE AND OTHER PAYABLES

	30 June 2003 <u>RMB'000</u>	31 December 2002 <u>RMB'000</u>
Trade payables – third parties	1,340,230	732,498
Notes payable – third parties	1,440,717	942,592
Other payables – third parties	841,788	959,411
Amounts due to related companies	<u>1,709</u>	<u>2,177</u>
	<u>3,624,444</u>	<u>2,636,678</u>

At the reporting date, the accounts payable were aged less than one year.

11. SHARE CAPITAL

There were no movements in the issued capital of the Company in the Period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – <i>Continued</i>
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For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

13. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out in the ordinary course of business between the Group and related parties for the six months ended 30 June 2003 and the respective balances with the related companies as of 30 June 2003:

I. Transactions with related companies

	For the six months ended 30 June	
	2003 RMB'000	2002 RMB'000
Sale of goods/raw materials to:		
- Chongqing Kelon Electrical Appliance Company Limited ("Chongqing Kelon") (note c (vii))	-	53,945
- Shunde Wangao Import & Export Co., Ltd. ("Wangao Co") (note c (iv))	-	34,159
- Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng") (note c (viii))	49,329	33,213
- Shunde Huaao Electronics Company Limited ("Huaao Electronics") (note c (iii))	-	4,267
- Guangdong Kelon Refrigerator Co., Ltd. (formerly Guangdong Sanyo Kelon Refrigerator Co., Ltd.) ("Sanyo Kelon") (note c (ix))	-	3,685
Purchase of goods/raw materials from:		
- Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing") (note c (xi))	20,689	22,044
- Huaao Electronics (note c (iii))	-	144,120
- Wangao Co (note c (iv))	-	46,969
- Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool") (note b (i))	-	27,000
- Shunde Kelon Household Electrical Appliance Company Limited ("Kelon HEA") (note c (vi))	-	16,538
- Others	-	21

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

13. RELATED PARTY TRANSACTIONS – *Continued*

I. Transactions with related companies – *Continued*

	For the six months ended 30 June	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Loan guarantee provided by:		
- Greencool Enterprise Development Company Limited ("Greencool Enterprise")	385,000	250,000
- Guangdong Kelon (Rongsheng) Group Company Limited ("GKG")	-	340,000
Other transactions:		
Interest charged to Chengdu Xinxing (<i>note c (xi)</i>)	993	1,606
Sale of property, plant and equipment to Huaao Electronics (<i>note c (iii)</i>)	-	1,223
Logistic management fee paid to Guangzhou Antaida Logistic Co. Ltd. ("Guangzhou Antaida") (<i>note c (xii)</i>)	(2,687)	(1,017)
Advertising fee paid to Communication and You Holdings Company Limited ("C&Y") (<i>note c (x)</i>)	-	(350)
	<u> </u>	<u> </u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS - <i>Continued</i>
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For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

13. RELATED PARTY TRANSACTIONS - *Continued*

II. Balances due from/to related companies

	30 June 2003	31 December 2002
	RMB'000	RMB'000
Balance due from GKG (<i>note a</i>), included in other receivables - third parties	684,993	684,993
Balances due from related companies		
Amounts due within one year:		
- Chengdu Xinxing (trade balance)	20,848	-
- Others	1,555	6,924
	22,403	6,924
Amounts due after one year:		
- Chengdu Xinxing (<i>note c (xi)</i>)	34,000	34,000
- Employee Union (<i>note c (v)</i>)	51,603	51,603
	85,603	85,603
	108,006	92,527
Balances due to related companies		
- Hainan Greencool (<i>note b (ii)</i>)	311	149
- Others	1,398	2,028
	1,709	2,177

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

13. RELATED PARTY TRANSACTIONS – Continued

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 any related party relationship.

(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.

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

13. RELATED PARTY TRANSACTIONS - *Continued*

Notes: - *Continued*

(a) Transactions with GKG - *Continued*

(ii) Debt settlement arrangement - *Continued*

The above outstanding debts will be completely settled after the transfer of the Land and the Trademarks being 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 has obtained the land use right certificate of the Land and the application of transfer of the Trademarks is still in progress.

(iii) 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 "Ronshen" trademark registrations as may be assigned to GKG from time to time on freezers, refrigerators and other similar or related products and such other products as may be requested by the Company from time to time which are not objected by GKG, on a worldwide basis, for a term equivalent to the period of validity of the relevant registration. With the prior written consent of the Company, GKG may use and allow third party to use, such trademarks on production other than the types of products covered by the Licence Agreement. At present, the Group has been using the trademarks of "Kelon" and "Ronshen" on the refrigerators products and "Kelon" on the air-conditioners products under the Licence Agreement.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

13. RELATED PARTY TRANSACTIONS – Continued

Notes: – Continued

(b) Transactions with Hainan Greencool

Transactions with Hainan Greencool are summarised as follows:

- (i) During the six months ended 30 June 2002, the Company purchased CFC-free refrigerants from Hainan Greencool of RMB27,000,000.
- (ii) For the six months ended 30 June 2002, the Company received entering and CFC installation fees from 198 engineering units authorised by Greencool Technology Holdings Limited on behalf of Hainan Greencool in the PRC at RMB35,000 per unit, totalling RMB6,930,000. Up to 30 June 2003, RMB6,619,000 had been paid to Hainan Greencool and the balance payable of RMB311,000 was outstanding as at 30 June 2003.

(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.

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

13. RELATED PARTY TRANSACTIONS – *Continued*

Notes: – *Continued*

(c) Transactions with other related parties – *Continued*

- (ii) The Group through a wholly-owned subsidiary, Shunde Jiake Electronic Company Limited (“Jiake Electronic”), entered into an agreement with GKG on 26 November 2001 to acquire GKG’s entire interest in Kelon Advertising, Kelon HEA, Huaao Electronics and Wangao Co.

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

- (iii) Huaao Electronics was formerly a subsidiary of GKG. During the year ended 31 December 2002, GKG transferred its entire equity interest in Huaao Electronics to the Group and Huaao Electronics became a subsidiary of the Company.
- (iv) Wangao Co was formerly an associate of the Group and a subsidiary of GKG. During the year ended 31 December 2002, GKG transferred its entire equity interest in Wangao Co to the Group and Wangao Co became a subsidiary of the Company.
- (v) During the year ended 31 December 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 30 June 2003, the amount due from Employee Union in this connection amounted to approximately RMB51,603,000 (31 December 2002: RMB51,603,000).
- (vi) Kelon HEA was formerly an associate of the Group and also a subsidiary of GKG. During the year ended 31 December 2002, GKG transferred its entire equity interest in Kelon HEA to the Group and Kelon HEA became a subsidiary of the Company.
- (vii) Chongqing Kelon is an associate of the Group.
- (viii) Chongqing Rongsheng is an associate of the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

13. RELATED PARTY TRANSACTIONS – Continued

Notes: – Continued

(c) Transactions with other related parties – Continued

(ix) Sanyo Kelon was formerly an associate of the Group. It became a subsidiary of the Company during the year ended 31 December 2002.

(x) C&Y is an associate of the Group.

As at 30 June 2003, the Group provided corporate guarantees of RMB3,975,000 (31 December 2002: RMB3,975,000) for banking facilities granted to C&Y.

(xi) 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. The prepayment was guaranteed by Chengdu Engine and Chengdu Kelon has the right to deduct from any dividends payable to Chengdu Engine the outstanding amount of any payments (in whatever form) due from Chengdu Xinxing directly or indirectly to the Company. As consideration of 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%.

(xii) 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – <i>Continued</i>
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For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

13. RELATED PARTY TRANSACTIONS – *Continued*

Notes: – Continued

(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 on 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.

14. CAPITAL COMMITMENTS

	30 June 2003	31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements	19,026	37,910

NOTES TO THE CONDENSED FINANCIAL STATEMENTS - <i>Continued</i>
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For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

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

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

	30 June 2003	31 December 2002
	<u>RMB'000</u>	<u>RMB'000</u>
Net assets as per condensed financial statements prepared under IFRS	2,759,435	2,590,068
Adjustment on property, plant and equipment revaluation and related depreciation	(12,693)	(15,067)
	<u> </u>	<u> </u>
Net assets as per financial statements prepared under PRC accounting standards and regulations	<u>2,746,742</u>	<u>2,575,001</u>

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

	For the six months ended 30 June	
	2003	2002
	<u>RMB'000</u>	<u>RMB'000</u>
Net profit for the period as per condensed financial statements prepared under IFRS	142,232	104,898
Adjustments on property, plant and equipment revaluation and related depreciation	2,374	7,732
Adjustments on amortisation of goodwill	-	50
	<u> </u>	<u> </u>
Net profit for the period as per financial statements prepared under PRC accounting standards and regulations	<u>144,606</u>	<u>112,680</u>

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

INTERIM DIVIDENDS

At a meeting of the Board held on 15 August 2003, the Board resolved not to declare any interim dividend for the six months ended 30 June 2003. No interim dividends were distributed for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

1. RESULTS REVIEW

After the successful turnaround from a loss-making position to a profit-making position in 2002, the Group has continued to achieve satisfactory results. During the Period, the Group's turnover increased by approximately 30.0% as compared to the corresponding period in 2002, amounting to approximately RMB3,315 million. Net profit grew by approximately 35.6% to approximately RMB142 million, while basic earnings per share was RMB0.14.

2. BUSINESS REVIEW

Adhering to the management concept of "Technologically Led and Profitability Driven", the Group continued to improve the technological benefits of its products and to strictly enforce its cost control measures. At the same time, the Group actively expanded the application of its unique and leading inventions - "Shuang Xiao Wang" and "Independent Multi-cycling Refrigeration" (IMCR) technologies in new products. Riding on its advantage in product differentiation of the Children's Refrigerator ("I-box") product line and the pricing advantage of the new "Kombine" brand, the Group has successfully expanded its market share, which in turn has made a significant contribution to the increase in the Group's total turnover.

Rapid Increase - Export Operations

The Group manufactures air-conditioners and refrigerators for world renowned international home appliance corporations and distributors through its OEM services, and has maintained excellent results. In the first half of 2003, the Group's revenue from its export operations significantly increased by 93% as compared to the corresponding period last year, remaining as an important growth driver of the Group's profit and income.

2. BUSINESS REVIEW – *Continued***Rapid Increase – Export Operations** – *Continued*

With its export market currently extending to 75 countries and regions around the world, coupled with its pricing and product quality advantages, the Group's export sales grew rapidly. In the first half of 2003, export sales volume and revenue for refrigerators rose by 136.8% and 114.9% respectively as compared to the corresponding period last year, with the relevant sales revenue already exceeding the total export revenue from refrigerators recorded in 2002. Export sales volume and revenue for air-conditioners increased by 95.4% and 70.6% respectively as compared to the corresponding period last year.

Stable Growth – Refrigerator Operations

During the Period, the Group achieved noticeable growth for its refrigerator operations. Total sales revenue from refrigerators recorded an increase of approximately 21.4%, with domestic sales volume and revenue growing by 24.8% and 9.4% respectively as compared to the corresponding period last year.

The Group is committed to product and technology innovations. Further to the development of its world-leading IMCR technology, the Group developed refrigerators with triple and quadruple cycling technologies during the Period. These new products have satisfied the needs of the high-end customers for free selection of temperatures in multiple compartments, precise control of temperature, and the need for environmentally friendly and energy saving features.

2. BUSINESS REVIEW – *Continued*

Intense Competition – Air-conditioner Operations

Despite the outbreak of SARS and a relatively cool summer, the overall performance of the air-conditioner operations recorded a steady growth during the Period. Turnover increased by approximately 20.7% as compared to the corresponding period last year. The domestic sales of air-conditioners both in terms of sales volume and turnover grew by 52.7% and 6.3% respectively as compared to the corresponding period in 2002.

However, competition in the air-conditioner market remained extremely intense. The market price of the products has been decreasing at a faster rate than the decrease in the Group's production costs. Many manufacturers have been forced to sell their products at prices that are lower than their costs, exerting strong pressure on the Group's product prices. As a result, the Group is not able to make a forecast on the profit contribution from its air-conditioner operations this year.

Well-Defined Positioning – Multi-Branding Strategies

On top of its three existing brands – “Kelon”, “Huabao” and “Ronshen”, the Group introduced products under a new brand “Kombine” at the end of 2002 to capture the low-end market.

With the implementation of comprehensive and distinctive branding strategies, the Group successfully achieved all-embracing coverage in the high-, mid- and low-end markets. This has not only led to excellent sales performance, but has also expanded the Group's market share. In the refrigerator market for example, the Group has strived for the high-end market with the world's first IMCR refrigerators, and has endeavoured to satisfy the demand for good function-to-value ratio from the mid- to high-end markets with its computerised refrigerators. At the same time, the Group launched the world's first Children's Refrigerator – the “I-box” to open up and lead in the children's consumer market. The Group uses traditional mechanical refrigerators such as those under the “Kombine” brand to expand its market share in the low-end market.

2. BUSINESS REVIEW – *Continued***Pricing Advantage – Cost Controls**

During the Period, the Group accomplished noticeable results in cost controls. In addition to cutting down the procurement costs of raw materials and components through the analysis of market trends and the employment of flexible purchasing rules, the Group also lowered the design cost of products by optimising the designs of the products and the refrigerating systems. These factors partially offset the increase in production costs caused by the increased cost of raw materials in the first half of 2003.

Sales Channel Expansion – “龍霸行動”

The Group launched “龍霸行動” throughout the PRC in 2003 to actively expand its sales channels, and has achieved satisfactory results. As at June 2003, the number of wholesalers, direct retailers and franchised retailers for “Kelon”, “Huabao” and “Kombine” air-conditioners increased by 33%, 25% and 80% respectively as compared to June 2002. The point of sale for refrigerators has also doubled as compared to the same period last year, bringing the Group’s point of sale coverage for refrigerators in the PRC to approximately 80%.

Improving Competitiveness – “Project of Perfection”

The Group continued to implement the “Project of Perfection” as launched in 2002, aiming for meticulous design, delicate manufacturing techniques, elegant products and attentive customer services. The initiative establishes the Group’s vision to enhance the competitive edge of its products and to achieve leading international standards.

3. FUTURE PROSPECTS

With the hard work of the entire company, the Company's special treatment ("ST") status has been ultimately removed, and the Company is posed on the brink of a bright future. Looking to the future, the Group will strive to maintain its competitiveness in possessing leading technologies, and is dedicated to strengthen its leading position in the domestic refrigeration appliances industry in the PRC. The Group will also actively promote its "Shuang Xiao Wang" and IMCR products, and further expand the application of these advanced technologies to more product lines to enhance the overall technological benefits of its products. This will lead to new driving forces for growth and bring greater competitive edge in the highly competitive market.

The Group will adhere to the "Project of Perfection" and continue to improve product quality and production techniques, with the vision to achieving international standards and attaining a leading position globally.

In addition, the Group will continue to implement its comprehensive multi-branding strategies to strengthen the market coverage and to gain a larger market share. The Group will also strictly control product quality and production costs to increase the market competitiveness of its products and the profitability.

By strengthening its internationalisation strategy in addition to maintaining its leading position in the PRC market, the Group is set to work towards its goal of becoming a leading international domestic appliances manufacturer.

4. SIGNIFICANT EVENTS

1. On 18 May 2003, the resignation of Ms. Yu Xiaoyang as an independent non-executive director of the Company and the appointment of Mr. Xu Xiaolu as an independent non-executive director of the Company were approved at the Annual General Meeting.
2. On 18 May 2003, the resolution to utilise the Company's statutory common reserve and capital reserve to make up for the Company's accumulated losses was approved at the Annual General Meeting.
3. On 4 June 2003, the Shenzhen Stock Exchange cancelled the special treatment on the Company's A shares. The stock name abbreviation of the Company on Shenzhen Stock Exchange has been reinstated as “科龍電器”.

SOURCES OF WORKING FUNDS AND CAPITAL

The Group's net cash inflow from operating activities for the six months ended 30 June 2003 amounted to RMB305,566,000.

As at 30 June 2003, the Group had bank balances and cash on hand totaling approximately RMB802,925,000 and bank loan balances of approximately RMB2,064,045,000.

The Company's total capital expenditure for the six months ended 30 June 2003 amounted to RMB513,159,000.

As at 30 June 2003, the net proceeds from the Group's initial public offering and subsequent placement of H shares and public offer of A shares have been applied as the Group's capital expenditure and working capital.

As at 30 June 2003, the gearing ratio of the Group was 74.8%.

TRUST DEPOSITS

As at 30 June 2003, the Company did not have any trust deposits or fixed deposits with any financial institution in the PRC, which are allowed to be withdrawn only upon maturity. All of the Company's deposits have been placed with commercial banks in the PRC and Hong Kong and the Company has not encountered any difficulty in withdrawing the deposits.

UNIFIED INCOME TAX AND LOCAL TAX BENEFIT

The Company is subject to an income tax rate of 27% since 2002.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2003, the Group had approximately 6,180 employees, of which 2,148 were professional staff, representing 34.76% of the total number of employees. Eleven of the Group's employees hold a doctorate's degree while 234 hold a master's degree. There were 556 employees with an official title of middle rank or above. Employees below the age of 30 represent 45.84% of the Group's total number of employees. Besides, the Group has 285 retired staff. For the half year ended 30 June 2003, the Group's staff payroll amounted to RMB84,191,154 (corresponding period in 2002: RMB92,116,180).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2003, the Group's properties, plant and equipment with a value of approximately RMB1,122,040,000 (31 December 2002: RMB453,961,000) were pledged as security for the Group's bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

As most of the sales and purchases of the Group were denominated in Renminbi, the Group had no significant exposure to exchange rate fluctuations. No financial instruments were used by the Group for hedging exchange rate risk.

CONTINGENT LIABILITIES

As at 30 June 2003, the Group had contingent liabilities of RMB3,975,000 in relation to a guarantee for loan facilities granted to a related party.

SHARE CAPITAL STRUCTURE

As at 30 June 2003, there was no change in the share capital structure of the Company and the structure was as follows:

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

SHARE CAPITAL STRUCTURE – <i>Continued</i>
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As at 30 June 2003, there were 74,372 shareholders in total, of which the top ten/substantial shareholders were as follows:

Name of Shareholders	Increase/decrease during the Period	Shareholdings at the end of the Period	Proportion to total share capital (%)	Share class	Nature of Shares
Greencool Enterprise Development Company Limited	0	204,775,755	20.64	Unlisted shares	Legal person shares
Shunde Economic Consultancy Company	0	68,666,667	6.92	Unlisted shares	Legal person shares
Guotai Junan Securities (Hong Kong) Limited	+46,650,000	60,890,000	6.14	Listed shares	H shares
Shunde Xin Hong Enterprise Company Limited	0	57,436,439	5.79	Unlisted shares	Legal person shares
Shenyin Wanguo Securities (H.K.) Limited	-10,649,000	38,563,000	3.89	Listed shares	H shares
First Shanghai Securities Limited	+7,133,000	38,070,000	3.84	Listed shares	H shares
Bank of China (Hong Kong) Ltd.	-10,130,000	28,033,000	2.83	Listed shares	H shares
The Hongkong and Shanghai Banking Corporation Ltd.	-21,440,637	24,568,601	2.48	Listed shares	H shares
Hang Seng Bank Ltd.	-3,799,000	17,846,000	1.80	Listed shares	H shares
Citibank N.A.	-2,633,166	15,330,206	1.55	Listed shares	H shares

SHARE CAPITAL STRUCTURE - *Continued*

Descriptions of shareholding connections among the top ten shareholders:

1. None of the top ten shareholders has any connection with any of the others.
2. During the Period, no shares held by any shareholder who holds 5% (including 5%) or more legal person shares were subject to any charges, freezing orders or other arrangements.
3. During the Period, there was no change in the single largest shareholder or ultimate controlling entity of the Company.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 30 June 2003, the interests or short positions (including interests or short positions which they are deemed or taken to have under the relevant provisions of the Securities and Futures Ordinance) of the directors, supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register required to be kept by the Company under Section 352 of the Securities and Futures Ordinance were as follow:

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

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES - <i>Continued</i>
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Notes:

- (i) Greencool Enterprise Development Company Limited owns 204,775,755 legal person shares in the Company, representing approximately 20.64% of the existing issued share capital of the Company. Mr. Gu Chu Jun owns 90% of the total investment in Greencool Enterprise Development Company Limited.
- (ii) Mr. Gu Chu Jun is the substantial shareholder of Greencool Technology Holdings Limited (a company listed on the Hong Kong Stock Exchange Growth Enterprise Market) and owns approximately 62.5% of its share interests. Two subsidiaries of Greencool Technology Holdings Limited held 3,830,000 H Shares of the Company, representing approximately 0.39% of the issued share capital of the Company.

Save as disclosed above, as of 30 June 2003, the Company was not aware of any interests or short positions (including interests or short positions which they are deemed or taken to have under the relevant provisions of the Securities and Futures Ordinance) held by the directors, supervisors and chief executive of the Company which are required, pursuant to the provisions of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

PURCHASE, SALE AND REDEMPTION OF SHARES

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

STATEMENT OF AFFAIRS RELATED TO THE 2002 AUDITORS' REPORT

In response to the opinion issued by the present auditors in respect of the 2002 financial report of the Company ("Auditors' Report"), the Company has issued an explanation in its 2002 Annual Report, and it wishes to further explain as follows:

1. As the financial statements of the Company for the year 2001 were not audited by the present auditors and the former auditors issued a disclaimer opinion for the year 2001, the present auditors were therefore unable to conclude as to whether the financial data as at 31 December 2001 present a true and fair view. As a result, a qualified opinion in respect of the profit of the Company in 2002, etc. was issued for the year 2002 due to the limitations of the audit scope. The management of the Company understood the reasons for the auditors' opinion. As the management did not discover any material deviation from the balances of the 2001 figures after a period of more than one year, the correctness of the financial data announced in 2002 was confirmed.
2. The audit of one of the Company's associates, the shares of which were listed on the Shenzhen Stock Exchange, had not yet been completed as at the date of release of the Company's 2002 annual results announcement. This resulted in the auditors of the Company being unable to complete the verification of the value of the said associate due to the limitation of scope and a qualified opinion was rendered in respect of the matter. The management of the Company had directly enquired with the said associate as to its financial status for 2002, and arrived at a preliminary conclusion that the financial status of the associate was not expected to have a material impact on the value of the Group's investment in the associate. Subsequently, the associate published its audited 2002 annual report and there were no material differences between its financial status and the data then obtained by the Company. Accordingly, the Company considered that the value of the associate reflected in the Company's 2002 annual report was fair.

AUDIT COMMITTEE

The Company established the Audit Committee on 16 August 2002. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee comprises two independent non-executive directors, Mr. Chan Pei Cheong, Andy and Mr. Li Kung Man. The Audit Committee has reviewed the Group's unaudited interim report for the six months ended 30 June 2003 before it was tabled for the Board's approval. The review of the unaudited interim financial statements was conducted in conjunction with the external auditors of the Group.

CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the Period, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

DOCUMENT AVAILABLE FOR INSPECTION

The original 2003 interim report signed by the chairman is available for inspection at the following address:

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

By Order of the Board

Gu Chu Jun

Chairman

Shunde, 15 August 2003

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

(1) PRINCIPAL FINANCIAL OPERATIONS DURING THE PERIOD

1. Principal Financial Statistics and Indicators

	As at	As at	
	30 June 2003	31 December	Increase/ (decrease)
	<i>RMB</i>	2002	
		<i>RMB</i>	(%)
Current assets	6,763,577,262	4,862,868,408	39.09%
Current liabilities	6,030,975,934	4,068,730,484	48.23%
Total assets	9,474,543,099	7,656,539,329	23.74%
Shareholders' equity (excluding minority interests)	2,746,742,128	2,575,000,833	6.67%
Net assets per share	2.77	2.60	6.67%
Adjusted net assets per share	2.56	2.39	7.15%

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

(1) PRINCIPAL FINANCIAL OPERATIONS DURING THE PERIOD - *Continued*

1. Principal Financial Statistics and Indicators - *Continued*

	January to June 2003	January to June 2002	Increase/ (decrease)
	<u>RMB</u>	<u>RMB</u>	<u>(%)</u>
Net profit	144,606,105	112,681,302	28.33%
Net profit deducted by extraordinary profit	146,455,095	113,778,916	28.72%
Earnings per share	0.15	0.11	28.33%
Return on net assets	5.26%	4.38%	20.31%
Net cash flow from operating activities	334,133,780	155,283,907	115.18%

2. Items of Extraordinary Profit (Loss) During the Period

Extraordinary items	Amount
	<u>RMB</u>
Non-operating income	4,624,096
Non-operating expense	(799,968)
Amortisation on equity investment difference	(6,666,088)
Interest received from related party	992,970
	<hr/>
Total extraordinary profit (loss)	<u><u>(1,848,990)</u></u>

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

(1) PRINCIPAL FINANCIAL OPERATIONS DURING THE PERIOD - *Continued*

3. Difference on Net Profit Calculated in Accordance with IFRS and PRC GAAP

Items	Net profit during the Period
	<i>RMB</i>
Reported in accordance with IFRS	142,231,903
Reported in accordance with PRC GAAP	144,606,105
Difference	(2,374,202)

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

Earnings per share = net profit/weighted average number of ordinary shares outstanding for the Period

Return on net assets = net profit/shareholders' equity as at the end of the Period x 100%

Net assets per share = shareholders' equity as at the end of the Period/number of ordinary shares outstanding as at the end of the Period

Adjusted net assets per share = (shareholders' equity as at the end of the Period - accounts receivable with aging over 3 years - deferred expenditures - long-term deferred expenditures)/number of ordinary shares outstanding as at the end of the Period

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

(2) DETAILS OF NEW APPOINTMENT AND RESIGNATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE PERIOD

At the Company's 2002 Annual General Meeting held on 18 May 2003, the resignation of Ms. Yu Xiaoyang as an independent non-executive director of the Company for personal reasons, and the appointment of Mr. Xu Xiaolu as an independent non-executive director of the Company were approved (for details, please refer to the announcements published in "中國證券報", "證券時報", "Ta Kung Pao", "Hong Kong Economic Journal" and "China Daily" on 20 May 2003).

(3) CHANGES IN TOTAL ASSETS, LONG-TERM LIABILITIES, SHAREHOLDER'S EQUITY, PROFIT FROM PRINCIPAL OPERATIONS AND NET PROFIT OF THE COMPANY DURING THE PERIOD

Indicators	30 June 2003	31 December 2002	Increase/ (decrease)
	<i>RMB</i>	<i>RMB</i>	(%)
Total assets	9,474,543,099	7,656,539,329	23.74%
Long-term liabilities	473,314,724	790,588,699	(40.13%)
Shareholders' equity	2,746,742,128	2,575,000,833	6.67%
Profit from principal operations	807,052,477	717,162,794	12.53%
Net profit	144,606,105	112,681,302	28.33%

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

**(3) CHANGES IN TOTAL ASSETS, LONG-TERM LIABILITIES, SHAREHOLDER'S EQUITY,
PROFIT FROM PRINCIPAL OPERATIONS AND NET PROFIT OF THE COMPANY
DURING THE PERIOD** - *Continued*

Analysis of reasons for the changes:

1. The increase in total assets is caused by the increase in shareholders' equity and the concurrent increases in current assets and current liabilities.
2. The decrease in long-term liabilities is caused by a repayment of long term liabilities in the sum of RMB150,000,000 and the transfer of long-term borrowings to long-term liabilities payable within one year increasing by approximately RMB160,000,000 during the Period.
3. The increase in shareholders' equity is due to the profit realised during the Period.
4. The increase in profit from principal operations is due to the increase in sales during the Period.
5. The increase in net profit is due to the increase in sales and the decrease in costs of management.

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

(4) ANALYSIS OF REVENUE FROM PRINCIPAL OPERATIONS BY GEOGRAPHIC SEGMENT

(Unit: RMB'0000)

Operation indicators	Revenue from principal operations	Increase ratio (%)
Domestic market	246,492	17%
Overseas market	85,015	93%
Total	331,507	30%

(5) STATEMENT OF PRINCIPAL OPERATIONS BY INDUSTRY/PRODUCT

(Unit: RMB'0000)

By product	Revenue from principal operations	Cost of principal operations	Gross profit margin (%)	Change in revenue from principal operations as compared to corresponding period last year (%)	Change in cost of principal operations as compared to corresponding period last year (%)	Change in gross profit margin as compared to corresponding period last year (%)
Refrigerators	144,522	102,281	29.23%	21.39%	20.69%	0.41%
Air Conditioners	164,137	129,515	21.09%	20.70%	31.40%	-6.42%
Freezers	13,931	11,438	17.90%	-	-	-
Others	8,916	7,542	15.41%	-	-	-

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

(6) INVESTMENTS OF THE COMPANY DURING THE PERIOD

1. During the Period, there was no application of raised funds nor was there an application of raised funds in the previous period that continued through to the Period.
2. Progress on significant investments made by the Company without raising funds:
 - (a) During the Period, Jiangxi Kelon Industrial Development Co. Ltd., which was set up by the Company in June 2002, was still in its construction phase. However, the Company expects that it will be put into production before the end of 2003.
 - (b) On 28 May 2003, a joint venture agreement was entered into between the Company and 杭州西冷集團有限公司, pursuant to which a joint venture company, 杭州科龍製冷電器有限公司 (「杭州科龍」), was established. The registered capital was RMB200,000,000. The Company holds a 70% interest in 杭州科龍 while 杭州西冷集團有限公司 holds the remaining 30% interest.

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

(7) HIGHLIGHTS ON ACQUISITIONS MADE BY THE COMPANY DURING THE PERIOD OR PREVIOUS PERIODS BUT CONTINUING THROUGH TO THE PERIOD

1. On 14 September 2002, the Company acquired the operational assets from 吉林吉諾爾電器(集團)有限公司 for a consideration of RMB40,000,000 and, on this basis, established 吉林科龍電器有限公司 on 6 November 2002. As at the end of the Period, 吉林科龍電器有限公司 was already in the trial-production phase.
2. In July 2002, the Company acquired the 56% interest which was held by external parties in its associated company, Guangdong Sanyo Kelon Refrigerator Co. Ltd., at a consideration of RMB3. Such company became a wholly-owned subsidiary of the Company, and was renamed as Guangdong Kelon Refrigerator Co. Ltd. The share transfer has been completed as at the end of the Period.

(8) OTHER SIGNIFICANT EVENTS

1. During the Period, neither the Company nor any of its subsidiaries was involved in any material litigation or arbitration.
2. During the Period, the Company was not involved in any material connected transactions, guarantee or other significant events that may have a material impact on the Company.
3. During the Period, there was no trust, subcontract and lease of other companies' assets by the Company and there was no trust, subcontract and lease of the Company's assets by other companies.

(9) PRINCIPAL FINANCIAL STATEMENTS FOR A-SHARE

Regarding the principal financial statements for A-Share in the Company's A Share interim results announcement, please refer to the financial statements prepared in accordance with the PRC accounting standards and regulations ("PRC GAAP") set out on pages 45 to 119.

BALANCE SHEET

At 30 June 2003

(Prepared in accordance with PRC GAAP)

Unit: RMB

Assets	Notes	30 June 2003		31 December 2002	
		Group	Company	Group	Company
Current Assets:					
Bank balances and cash	5	1,902,594,833	1,380,080,025	1,417,085,462	1,065,118,299
Notes receivable	6	746,874,538	653,878,775	622,627,806	613,597,439
Accounts receivable	7	1,166,958,252	278,194,451	381,535,897	275,661,469
Other receivables	8	1,315,604,102	2,545,257,568	1,222,868,831	2,107,281,156
Prepayments	10	135,538,051	44,576,451	89,011,737	36,549,630
Inventories	11	1,483,612,796	770,552,085	1,123,325,956	679,131,994
Deferred expenditures		11,295,877	3,976,853	6,411,749	5,135,474
Other current assets		1,098,813	970	970	970
Total current assets		6,763,577,262	5,676,517,178	4,862,868,408	4,782,476,431
Long-term Investments:					
Long-term equity investments	12	223,526,174	1,359,382,660	198,173,987	1,223,334,010
Fixed Assets:					
Fixed assets, cost	13	3,594,118,098	1,416,384,295	3,635,836,132	1,420,958,597
Less: Accumulated depreciation	13	1,679,131,592	536,557,753	1,586,467,593	509,851,837
Fixed assets, net book value	13	1,914,986,506	879,826,542	2,049,368,539	911,106,760
Less: Provision for impairment loss of fixed assets	13	36,927,236	-	61,375,205	-
Fixed assets, net value	13	1,878,059,270	879,826,542	1,987,993,334	911,106,760
Construction in progress	14	14,990,566	7,613,888	11,323,062	7,550,688
Total fixed assets		1,893,049,836	887,440,430	1,999,316,396	918,657,448
Intangible Assets and Other Assets:					
Intangible assets	15	314,849,234	194,454,745	313,881,774	198,209,350
Long-term deferred expenditures	16	193,937,685	57,999,735	196,695,856	66,644,180
Long-term receivables due after one year	39(5)(d)	85,602,908	51,602,908	85,602,908	51,602,908
Total intangible assets and other assets		594,389,827	304,057,388	596,180,538	316,456,438
Total assets		9,474,543,099	8,227,397,656	7,656,539,329	7,240,924,327

The notes set out below constitute an integral part of the financial statements.

BALANCE SHEET - *Continued*

At 30 June 2003

(Prepared in accordance with PRC GAAP)

Unit: RMB

Liabilities and shareholders' Equity	Notes	30 June 2003		31 December 2002	
		Group	Company	Group	Company
Current Liabilities:					
Short-term loans	17	1,449,045,154	535,700,000	960,164,036	400,000,000
Notes payable	18	1,440,716,764	1,805,112,639	942,591,729	1,075,014,036
Accounts payable	19	1,319,381,499	652,933,647	739,184,874	652,568,689
Advance from customers	20	812,032,842	638,044,910	337,665,921	300,245,037
Accrued payroll		43,655,125	7,434,440	44,211,152	30,370,421
Staff welfare payable		6,073,916	1,293,069	3,986,906	1,489,938
Dividends payable		-	-	52,409	-
Taxes payables	21	(24,256,828)	16,032,797	39,849,854	62,552,141
Payable to others		1,545,495	318,981	2,944,393	2,029,317
Other payables	22	402,829,517	433,528,772	616,737,987	519,065,990
Accruals	23	288,687,714	231,830,222	211,076,574	185,670,788
Provision	24	76,264,736	76,264,736	105,031,134	105,031,134
Long-term loans due within one year	25	215,000,000	215,000,000	65,233,515	60,000,000
Total current liabilities		6,030,975,934	4,613,494,213	4,068,730,484	3,394,037,491
Long-term Liabilities:					
Long-term loans	26	400,000,000	400,000,000	714,766,571	690,000,000
Long-term payable	27	73,314,724	65,781,108	75,822,128	70,126,659
Accrued liabilities of investee enterprise	12 (2)	-	394,452,224	-	494,015,291
Total long-term liabilities		473,314,724	860,233,332	790,588,699	1,254,141,950
Total liabilities		6,504,290,658	5,473,727,545	4,859,319,183	4,648,179,441
Minority Interests		223,510,313	-	222,219,313	-
Shareholders' Equity:					
Share capital	28	992,006,563	992,006,563	992,006,563	992,006,563
Capital reserve	29	1,515,106,771	1,515,106,771	2,452,995,887	2,452,995,887
Revenue reserve	30	114,580,901	114,580,901	343,742,703	343,742,703
Including: Statutory common welfare fund	30	114,580,901	114,580,901	114,580,901	114,580,901
Unappropriated profits (accumulated losses)	31	126,862,052	133,790,035	(1,211,930,161)	(1,194,186,108)
Exchange difference		(1,814,159)	(1,814,159)	(1,814,159)	(1,814,159)
Total shareholders' equity		2,746,742,128	2,753,670,111	2,575,000,833	2,592,744,886
Total liabilities and shareholders' equity		9,474,543,099	8,227,397,656	7,656,539,329	7,240,924,327

The notes set out below constitute an integral part of the financial statements.

STATEMENT OF INCOME AND PROFIT APPROPRIATION

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

Unit: RMB

Items	Notes	From January to June 2003		From January to June 2002	
		Group	Company	Group	Company
1. Revenue from principal operations	32	3,315,066,447	2,328,509,987	2,550,506,407	2,078,130,087
Less: Cost of sales	32	2,507,767,367	1,924,172,394	1,833,169,517	1,478,480,580
Sale tax		246,603	136,151	174,096	120,272
2. Profit from principal operations		807,052,477	404,201,442	717,162,794	599,529,235
Add: Other operating profit (loss)		15,708,524	1,209,348	10,374,662	(690,253)
Less: Distribution costs		466,765,323	408,659,880	446,943,789	414,782,070
Administrative expenses		141,579,779	9,102,811	123,083,746	18,854,128
Financial expenses	33	53,643,822	24,281,566	41,547,584	33,967,159
3. Operating profit (loss)		160,772,077	(36,633,467)	115,962,337	131,235,625
Add: Investment profit (loss)	34	(12,783,202)	168,476,327	(4,284,922)	(20,723,080)
Subsidy income		18,190	18,190	-	-
Non-operating income		4,624,096	2,506,806	4,921,767	2,456,337
Less: Non-operating expenses		799,968	577,821	974,981	287,580
4. Profit before taxation		151,831,193	133,790,035	115,624,201	112,681,302
Less: Income tax	35	5,934,088	-	2,799,256	-
Add: Minority interests		(1,291,000)	-	(143,643)	-
5. Net profit for the period		144,606,105	133,790,035	112,681,302	112,681,302

STATEMENT OF INCOME AND PROFIT APPROPRIATION - *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

Unit: RMB

Items	Notes	From January to June 2003		From January to June 2002	
		Group	Company	Group	Company
5. Net profit for the period		144,606,105	133,790,035	112,681,302	112,681,302
Add: Accumulated losses, beginning of period		(1,211,930,161)	(1,194,186,108)	(1,313,207,151)	(1,285,391,909)
Add: Utilisation of statutory common reserve to make up accumulated losses	31	229,161,802	229,161,802	-	-
Utilisation of capital reserve to make up accumulated losses	31	965,024,306	965,024,306	-	-
6. Profits available for appropriation (accumulated losses)		126,862,052	133,790,035	(1,200,525,849)	(1,172,710,607)
Less: Appropriations to statutory common reserve fund		-	-	-	-
Appropriations to statutory common welfare fund		-	-	-	-
7. Profits available for appropriation to shareholders (accumulated losses)		126,862,052	133,790,035	(1,200,525,849)	(1,172,710,607)
Less: Appropriations to discretionary reserve		-	-	-	-
Dividends on ordinary shares		-	-	-	-
8. Unappropriated profits (accumulated losses), end of the period		126,862,052	133,790,035	(1,200,525,849)	(1,172,710,607)

STATEMENT OF CASH FLOWS

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

Unit: RMB

Items	Notes	From January to June 2003		From January to June 2002	
		Group	Company	Group	Company
1. Cash flows from operating activities:					
Cash received from sales of goods and rendering of services		3,263,357,958	2,478,701,340	2,762,516,763	2,331,027,036
Other cash received relating to operating activities		28,888,308	11,099,675	43,788,659	385,016,735
Sub-total of cash inflows		3,292,246,266	2,489,801,015	2,806,305,422	2,716,043,771
Cash paid for purchases of goods and services		2,426,390,916	1,917,309,407	1,974,905,410	1,771,128,458
Cash paid to and on behalf of employees		213,901,174	85,637,720	144,444,705	61,061,020
Tax paid		39,767,214	28,408,063	23,922,545	3,685,839
Other cash paid relating to operating activities		278,053,182	77,363,279	507,748,855	938,260,214
Sub-total of cash outflows		2,958,112,486	2,108,718,469	2,651,021,515	2,774,135,531
Net cash flows from operating activities		334,133,780	381,082,546	155,283,907	(58,091,760)
2. Cash flows from investing activities:					
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		10,611,877	8,230,434	15,806,721	-
Other cash received relating to investing activities		-	-	215,785,585	210,473,592
Sub-total of cash inflows		10,611,877	8,230,434	231,592,306	210,473,592
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		113,034,347	12,744,123	76,797,879	18,558,878
Cash paid for acquisition of investments		11,000,000	35,000,000	-	-
Other cash paid relating to investing activities	36	369,222,378	335,602,720	-	-
Sub-total of cash outflows		493,256,725	383,346,843	76,797,879	18,558,878
Net cash flows from investing activities		(482,644,848)	(375,116,409)	154,794,427	191,914,714

STATEMENT OF CASH FLOWS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

Unit: RMB

Items	Notes	From January to June 2003		From January to June 2002	
		Group	Company	Group	Company
3. Cash flows from financing activities:					
Cash received from borrowings		<u>1,174,700,000</u>	<u>325,000,000</u>	950,000,000	910,000,000
Sub-total of cash inflows		<u>1,174,700,000</u>	<u>325,000,000</u>	950,000,000	910,000,000
Cash paid for repayment of borrowings		<u>850,818,968</u>	<u>324,300,000</u>	1,328,021,163	990,000,000
Cash paid for distribution of dividends, profit or interest expenses		<u>59,082,971</u>	<u>27,307,131</u>	55,059,500	42,602,965
Sub-total of cash outflows		<u>909,901,939</u>	<u>351,607,131</u>	1,383,080,663	1,032,602,965
Net cash flows from financing activities		<u>264,798,061</u>	<u>(26,607,131)</u>	(433,080,663)	(122,602,965)
4. Effect of foreign exchange rate changes on cash		-	-	6,560,068	-
5. Net increase (decrease) in cash and cash equivalents		<u>116,286,993</u>	<u>(20,640,994)</u>	(116,442,261)	11,219,989

STATEMENT OF CASH FLOWS - *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

Supplemental information:

Unit: RMB

Items	Notes	From January to June 2003		From January to June 2002	
		Group	Company	Group	Company
1. Reconciliation of net profit to net cash flows from operating activities:					
Net profit		144,606,105	133,790,035	112,681,302	112,681,302
Add: Minority interests		1,291,000	-	143,643	-
Provision or reversal of provision for impairment loss of assets		(49,283,542)	(52,499,389)	4,278,734	1,644,500
Depreciation of fixed assets		109,782,501	31,861,157	130,571,860	64,290,202
Amortisation of intangible assets		5,745,841	3,754,605	5,333,355	4,460,716
Amortisation of long-term expenditures		51,128,245	11,918,239	83,214,110	11,467,617
Decrease in deferred expenditures (less: increase)		(4,884,128)	1,158,621	(2,358,757)	(523,571)
Increase in accruals (less: decrease)		49,356,351	14,480,746	44,390,361	(6,316,980)
Loss from disposal of fixed assets, intangible assets and other long-term assets (less: gain)		43,823,154	595,756	395,406	-
Financial expenses		58,518,953	30,219,421	41,547,584	33,967,158
Investment loss (less: gain)		12,783,202	(168,476,327)	4,284,922	17,716,721
Decrease in inventories (less: increase)		(324,868,992)	(53,937,628)	(601,741,368)	(509,475,463)
Decrease in operating receivables (less: increase)		(1,036,162,821)	(478,800,825)	(272,109,840)	163,008,849
Increase in operating payables (less: decrease)		1,272,297,911	907,018,135	604,652,595	48,987,189
Net cash flows from operating activities		<u>334,133,780</u>	<u>381,082,546</u>	<u>155,283,907</u>	<u>(58,091,760)</u>

STATEMENT OF CASH FLOWS - *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

Supplemental information:

Unit: RMB

Items	Notes	From January to June 2003		From January to June 2002	
		Group	Company	Group	Company
2. Investing and financing activities not involving in cash receipts and payments:		-	-	-	-
3. Net increase in cash and cash equivalents:					
Cash and cash equivalent at end of period	37	802,925,133	335,587,025	534,754,303	392,578,825
Less: Cash and cash equivalent at beginning of period		686,638,140	356,228,019	651,196,564	381,358,836
Net increase (decrease) in cash and cash equivalents		116,286,993	(20,640,994)	(116,442,261)	11,219,989

The notes set out below constitute an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

1. GENERAL

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.

As of 30 June 2003, the Company has issued an aggregate of 992,006,563 shares, of which, 337,915,755 shares are domestic legal person shares, 194,501,000 shares are ordinary shares dominated in RMB and 459,589,808 shares are overseas listed foreign shares, as detailed in note 28.

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 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. The accounting period for these financial statements is the six months period from 1 January 2003 to 30 June 2003.

Reporting currency

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

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION – *Continued*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - Continued

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION - Continued**Consolidation of financial statements***(1) Consolidation scope*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the end of the period. 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.

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT 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.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION – Continued**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.

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.

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION – *Continued*

Long-term investments – *Continued*

(1) Accounting for long-term equity investments: – Continued

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.

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION – *Continued*

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.

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:

Category	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%

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION – *Continued*

Provision for impairment of fixed assets

At period end, the Company assesses if there is any indication that fixed assets are suffered from an impairment loss and determines whether provision for impairment of fixed assets should be made accordingly. When the recoverable amount is lower than the carrying amount of the fixed assets, provision for impairment of fixed assets will be made according to the difference between them.

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.

The land use rights purchased or acquired by way of payment of land premium prior to 1 January 2002 are accounted for as intangible assets and are amortised over the following term.

NOTES TO THE FINANCIAL STATEMENTS - Continued

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION - Continued**Intangible assets - Continued**

The land use rights purchased or acquired by way of payment of land premium after 1 January 2002 are accounted for as intangible assets prior to the development or construction for own-use and are amortised over the following term. In the case of construction of premises for own-use by the use of land, the carrying value of the land use rights are fully transferred to the cost of construction in progress.

Intangible assets are amortised evenly throughout the estimated useful life from the month of acquisition and are credited to the profit and loss account. If the estimated useful life exceeds the beneficial life prescribed in the relevant contracts or the effective life provided under the laws, then they are amortised over the shorter of the beneficial life and the effective life. If there is no beneficial life specified in contracts or effective life under the laws, then they are amortised over a period of ten (10) years.

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.

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.

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION – *Continued*

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.

NOTES TO THE FINANCIAL STATEMENTS - Continued

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATION - Continued**Revenue recognition - Continued***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.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Leases other than finance leases are classified as operating leases.

Rentals applicable to operating leases are recognized as expenses on the straight-line basis over the lease terms.

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.

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

3. 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"), Guangdong Kelon Freezer Co., Ltd. ("Kelon Freezer") 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"), Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Jiangxi Combine") 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.

NOTES TO THE FINANCIAL STATEMENTS - Continued

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

3. TAXATION - Continued**Enterprise Income Tax - Continued**

In the accounting period, 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.

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

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

As at 30 June 2003, 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 current reporting period
			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

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

4. 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 current reporting period
			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 joint 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

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

4. 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 current reporting period
			Directly	Indirectly			
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 enterprise	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
Beijing Kelon Tiandi IT Network Limited ("Kelon Tiandi")	PRC	RMB5,000,000	-	64%	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	-	64%	Any business activities not prohibited by laws or regulations	Limited liability company	Yes

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

4. 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 current reporting period
			Directly	Indirectly			
Guangdong Kelon Refrigerator Co., Ltd. (*Sanyo Kelon*)	PRC	RMB237,000,000	44%	56%	Manufacture and sale of freezers	Sino-foreign joint venture enterprise	Yes
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
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
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

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

4. 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 current reporting period
			Directly	Indirectly			
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
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Jiangxi Combine")	PRC	RMB20,000,000	-	55%	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small electrical appliances	Sino-foreign joint venture enterprise	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

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

4. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR – *Continued*

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

Japan Kelon was in the course of liquidation and was not included in the consolidation for the year 2003.

Pursuant to regulatory documents including “Answer to the Question about Consolidation Scope” (CKZ (96) No. 2) issued by the Ministry of Finance, Kelon USA and Jiangxi Combine were not consolidated as its total assets, operating income and net profit are relatively small.

Jiangxi Combine was a subsidiary newly incorporated in the current reporting period.

As at 30 June 2003, 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
Guangzhou Antaida Logistic Co., Ltd. (“Guangzhou Antaida”)	PRC	RMB 10,000,000	20%	-	Logistic and storage	Limited liability company
Communications and You Holdings Company Limited (“C&Y”)	Hong Kong	HK\$100	-	25%	Advertising business	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

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

5. BANK BALANCES AND CASH

	Group 30 June 2003			Group 31 December 2002		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash						
RMB	-	-	227,725	-	-	3,282,856
HKD	4,767	1.0612	5,059	4,767	1.0614	5,059
USD	8,330	8.2774	68,951	8,330	8.2770	68,950
Other	-	-	-	-	-	730
Bank Deposit						
RMB	-	-	701,359,283	-	-	626,665,594
USD	9,385,624	8.2774	77,688,562	5,832,364	8.2770	48,274,480
HKD	4,587,585	1.0612	4,868,345	3,082,079	1.0614	3,271,319
YEN	38,830,456	0.06928	2,690,174	-	-	-
EURO	1,635,969	9.4649	15,484,279	-	-	-
Other	-	-	532,755	-	-	5,069,152
Other Monetary Assets						
- Pledged Deposit						
RMB	-	-	1,099,669,700	-	-	730,447,322
			<u>1,902,594,833</u>			<u>1,417,085,462</u>

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

6. NOTES RECEIVABLE

	Group	Group
	30 June	31 December
	2003	2002
	RMB	RMB
Bank acceptance notes, unsecured	1,104,256	108,722,422
Commercial acceptance notes, unsecured	745,770,282	513,905,384
	746,874,538	622,627,806

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

7. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	Group 30 June 2003			
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
Within one year	1,189,890,679	92	22,932,427	1,166,958,252
One to two years	36,982,227	3	36,982,227	-
Two to three years	66,725,793	5	66,725,793	-
	<u>1,293,598,699</u>	<u>100</u>	<u>126,640,447</u>	<u>1,166,958,252</u>

	Group 31 December 2002			
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
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	-
	<u>522,042,038</u>	<u>100</u>	<u>140,506,141</u>	<u>381,535,897</u>

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

7. ACCOUNTS RECEIVABLE – *Continued*

	Company 30 June 2003			
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
Within one year	288,625,588	74	10,431,137	278,194,451
One to two years	36,203,091	9	36,203,091	-
Two to three years	66,725,793	17	66,725,793	-
	<u>391,554,472</u>	<u>100</u>	<u>113,360,021</u>	<u>278,194,451</u>

	Company 31 December 2002			
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<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	-
	<u>404,038,416</u>	<u>100</u>	<u>128,376,947</u>	<u>275,661,469</u>

Total amount of five largest debtors is RMB76,532,571, presenting approximately 6% of the balance as at end of the period.

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

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

8. OTHER RECEIVABLES

The aging analysis of other receivables is as follows:

	Group			Net value
	30 June 2003			
	Amount	Ratio	Provision for bad debt	
RMB	(%)	RMB	RMB	
Within one year	326,049,482	22	-	326,049,482
One to two years	365,498,663	24	-	365,498,663
Two to three years	798,576,984	54	175,015,900	623,561,084
Over three years	4,266,960	-	3,772,087	494,873
	1,494,392,089	100	178,787,987	1,315,604,102

	Group			Net value
	31 December 2002			
	Amount	Ratio	Provision for bad debt	
RMB	(%)	RMB	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

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

8. OTHER RECEIVABLES – *Continued*

	Company 30 June 2003			
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
Within one year	1,782,277,966	66	-	1,782,277,966
One to two years	77,987,070	3	-	77,987,070
Two to three years	857,401,565	31	172,409,033	684,992,532
	<u>2,717,666,601</u>	<u>100</u>	<u>172,409,033</u>	<u>2,545,257,568</u>
	Company 31 December 2002			
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
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
	<u>2,279,690,189</u>	<u>100</u>	<u>172,409,033</u>	<u>2,107,281,156</u>

Total amount of five largest debtors is RMB1,042,661,087, presenting approximately 70% of the balance as at end of the period.

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

8. OTHER RECEIVABLES - *Continued*

Particulars of the substantial debtor are as follows:

Company Name	30 June 2003 <i>RMB</i>	31 December 2002 <i>RMB</i>
Guangdong Kelon (Rongsheng) Group Company Limited ("GKG") (see note 39(5)(d))	684,992,532	684,992,532

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.

9. PROVISION FOR BAD DEBT

	Group			At 30 June 2003 <i>RMB</i>
	At 1 January 2003 <i>RMB</i>	Provision for the period <i>RMB</i>	Reversal of provision <i>RMB</i>	
Provision for bad debt:				
Accounts receivable	140,506,141	1,794,704	(15,660,398)	126,640,447
Other receivables	178,787,987	-	-	178,787,987
Total	319,294,128	1,794,704	(15,660,398)	305,428,434

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

10. PREPAYMENTS

The aging analysis of prepayments is as follows:

	Group 30 June 2003		Group 31 December 2002	
	RMB	%	RMB	%
Within one year	<u>135,538,051</u>	<u>100</u>	<u>89,011,737</u>	<u>100</u>

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

11. INVENTORIES AND PROVISION FOR INVENTORIES

	Group 30 June 2003		
	Cost	Provision for impairment	Net value
	RMB	RMB	RMB
Raw materials	537,716,171	20,540,693	517,175,478
Work in progress	69,020,275	-	69,020,275
Finished goods	<u>978,185,488</u>	<u>80,768,445</u>	<u>897,417,043</u>
	<u>1,584,921,934</u>	<u>101,309,138</u>	<u>1,483,612,796</u>

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

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

11. INVENTORIES AND PROVISION FOR INVENTORIES – *Continued*

	Group 31 December 2002		
	Cost	Provision for impairment	Net value
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>1,260,052,942</u>	<u>136,726,986</u>	<u>1,123,325,956</u>

The provision for inventories is as follows:

	Raw materials	Work in progress	Finished goods	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At 1 January 2003	50,997,459	–	85,729,527	136,726,986
Provision for the period	–	–	–	–
Reversal of provision for the period	(30,456,766)	–	(4,961,082)	(35,417,848)
At 30 June 2003	<u>20,540,693</u>	<u>–</u>	<u>80,768,445</u>	<u>101,309,138</u>

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

12. LONG-TERM EQUITY INVESTMENTS

	Group 30 June 2003 <u>RMB</u>	Group 31 December 2002 <u>RMB</u>
Investments in unconsolidated subsidiaries	11,000,000	–
Investments in associates	157,645,059	136,626,984
Other long-term equity investments	10,419,266	10,419,066
Long-term equity investment difference	<u>115,662,490</u>	<u>122,328,578</u>
Total	294,726,815	269,374,628
Less: Provision for impairment loss	<u>71,200,641</u>	<u>71,200,641</u>
Net long-term equity investments	<u>223,526,174</u>	<u>198,173,987</u>
	Company 30 June 2003 <u>RMB</u>	Company 31 December 2002 <u>RMB</u>
Investments in subsidiaries	1,108,334,824	986,639,998
Investments in associates	153,610,968	132,390,025
Other long-term equity investments	7,249,050	7,248,851
Long-term equity investment difference	151,383,618	158,250,936
Exchange difference from translation of financial statements denominated in foreign currency	<u>(1,814,159)</u>	<u>(1,814,159)</u>
Total	1,418,764,301	1,282,715,651
Less: Provision for impairment loss	<u>59,381,641</u>	<u>59,381,641</u>
Net long-term equity investments	<u>1,359,382,660</u>	<u>1,223,334,010</u>

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

12. LONG-TERM EQUITY INVESTMENTS – *Continued*

The change of provision for impairment loss is as follows:

	At 1 January 2003			At 30 June 2003
	Additions	Reversal		
	RMB	RMB	RMB	RMB
Kelon Air-Conditioner	59,381,641	-	-	59,381,641
Company total	59,381,641	-	-	59,381,641
C&Y	11,819,000	-	-	11,819,000
Consolidated total	71,200,641	-	-	71,200,641

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

Name of entity	Date of incorporation	Cost of investment		Change of equity		Carrying amount at	Percentage of
		1 January		Accumulated		30 June	registered
		2003	Change	Change	change	2003	capital of investee
		RMB	RMB	RMB	RMB	RMB	%
江西康拜恩	May 2003	-	11,000,000	-	-	11,000,000	55

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

12. LONG-TERM EQUITY INVESTMENTS – *Continued*

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

Name of entity	Cost of investment	Additional investment	Percentage of registered capital of investee	Change of equity in investee	Accumulated change	Carrying amount at 30 June 2003
	RMB	RMB	%	RMB	RMB	RMB
Kelon Development	11,200,000	-	100	16,023,519	121,787,267	132,987,267
Kelon Refrigerator	155,552,426	-	70	(4,699,467)	121,350,356	276,902,782
Kelon Air-Conditioner	214,403,766	-	60	99,563,065	(608,855,992)	(394,452,224)
Rongsheng Plastic	53,270,064	-	45	3,972,535	64,045,889	117,315,953
Chengdu Kelon	90,000,000	-	45	3,524	(15,481,893)	74,518,107
Yingkou Kelon	84,000,000	-	42	(477,968)	(9,258,747)	74,741,253
Kelon Mould	49,860,000	-	40	437,955	3,578,346	53,438,346
Kelon Fittings	32,634,554	-	70	9,136,571	31,945,933	64,580,487
Beijing Hengsheng	24,000,000	-	80	(399,607)	(5,990,963)	18,009,037
Jiake Electronic	42,000,000	-	70	(3,238,007)	(4,030,076)	37,969,924
Sichuan Rongsheng	1,520,000	-	76	17,274	89,227	1,609,227
Wangao Co	600,000	-	20	(9,237)	(230,742)	369,258
Kelon HEA	2,500,000	-	25	(22,724)	(627,880)	1,872,120
Sanyo Kelon	104,280,000	-	44	2,838,005	(100,462,451)	3,817,549
Jiangxi Kelon	147,763,896	-	60	58,112,453	62,439,618	210,203,514
Jilin Kelon	40,000,000	-	90	-	-	40,000,000
	<u>1,053,584,706</u>	<u>-</u>		<u>181,257,891</u>	<u>(339,702,108)</u>	<u>713,882,600</u>
Add: Accrued liability of investee enterprise (i)	(214,403,766)	-		(99,563,065)	608,855,992	394,452,224
	<u>839,180,940</u>	<u>-</u>		<u>81,694,826</u>	<u>269,153,884</u>	<u>1,108,334,824</u>

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

12. LONG-TERM EQUITY INVESTMENTS – *Continued*

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

– *Continued*

- (i) As at 31 December 2002 and 30 June 2003, 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.

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

12. LONG-TERM EQUITY INVESTMENTS – *Continued*

(3) Particulars of investments in associates of the Company and the Group are as follows:

Name of Entity	Cost of investment	Additional investment	Percentage of registered capital of investee	Change of equity in investee	Accumulated change	Carrying amount transferred to investment in subsidiaries	Carrying
							amount at 30 June 2003
	RMB	RMB	%	RMB	RMB	RMB	RMB
Huayi Compressor	118,013,641	-	22.725	21,581,524	24,878,237	-	142,891,878
Shanghai Yilian	11,077,600	-	46.67	(536,008)	(2,651,958)	-	8,425,642
Guangzhou Antaida	2,000,000	-	20.00	175,427	293,448	-	2,293,448
Company total	131,091,241	-		21,220,943	22,519,727	-	153,610,968
C&Y	3,712,100	-	25.00	-	-	-	3,712,100
Chongqing Kelon	200,000	-	20.00	-	16,831	(216,831)	-
Chongqing Rongsheng	280,000	-	28.00	13,963	41,991	-	321,991
Group total	135,283,341	-		21,234,906	22,578,549	(216,831)	157,645,059

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

12. LONG-TERM EQUITY INVESTMENTS – *Continued***(4) Long-term equity investment difference of the Company and the Group:**

Name of Entity	Cost	Balance at	Increase	Amortisation	Amortisation	Balance after
		1 January	during		during	amortisation
	2003	the period	the period	the period	at 30 June	2003
	RMB	RMB	RMB		RMB	RMB
Kelon Air-Conditioner (ii)	66,596,234	59,381,641	-	10 years	-	59,381,641
Huayi Compressor	137,346,359	98,869,295	-	10 years	6,867,318	92,001,977
Company total	203,942,593	158,250,936	-		6,867,318	151,383,618
C&Y	9,007,892	8,107,103	-	10 years	-	8,107,103
Yingkou Kelon	1,010,737	810,737	-	10 years	50,000	760,737
Sanyo Kelon	(88,611,120)	(86,216,225)	-	18.5 years	(2,394,895)	(83,821,330)
Wangao Co	2,744,027	2,629,693	-	10 years	137,202	2,492,491
Kelon HEA	34,694,631	33,538,143	-	10 years	1,734,732	31,803,411
Huao Electronic	5,434,634	5,208,191	-	10 years	271,731	4,936,460
Group total	168,223,394	122,328,578	-		6,666,088	115,662,490

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.

- (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.

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

13. FIXED ASSETS, ACCUMULATED DEPRECIATION AND PROVISION FOR IMPAIRMENT

	Group				Total
	Buildings and structures	Machinery and equipment	Furniture, fixture and office equipment	Motor vehicles	
	RMB	RMB	RMB	RMB	
Cost					
At 1 January 2003	1,421,575,318	1,840,524,621	305,632,935	68,103,258	3,635,836,132
Reclassification	–	(1,817,169)	(1,602,565)	3,419,734	–
Additions	25,186,015	18,880,028	5,777,564	1,036,892	50,880,499
Transfer from construction in progress	1,183,769	1,582,816	636,384	–	3,402,969
Disposal	(65,290,744)	(21,133,882)	(5,792,479)	(3,784,397)	(96,001,502)
At 30 June 2003	1,382,654,358	1,838,036,414	304,651,839	68,775,487	3,594,118,098
Accumulated depreciation					
At 1 January 2003	321,003,809	1,037,279,093	188,648,100	39,536,591	1,586,467,593
Reclassification	–	(1,758,695)	(1,508,921)	3,267,616	–
Provision for the period	30,442,065	60,307,074	13,208,026	5,825,336	109,782,501
Eliminated on disposal	(4,941,068)	(6,994,207)	(3,023,247)	(2,159,980)	(17,118,502)
At 30 June 2003	346,504,806	1,088,833,265	197,323,958	46,469,563	1,679,131,592
Provision for impairment					
At 1 January 2003	51,692,513	9,673,692	9,000	–	61,375,205
Reversal	(24,447,969)	–	–	–	(24,447,969)
At 30 June 2003	27,244,544	9,673,692	9,000	–	36,927,236
Net book value					
At 1 January 2003	1,048,878,996	793,571,836	116,975,835	28,566,667	1,987,993,334
At 30 June 2003	1,008,905,008	739,529,457	107,318,881	22,305,924	1,878,059,270
Including:					
Net assets pledged at 30 June 2003	866,567,790	255,472,296	–	–	1,122,040,086

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

14. CONSTRUCTION IN PROGRESS

Project Name	Group						Source of capital	
	Budget	At 1 January 2003		Transfer to fixed assets	At 30 June 2003			Percentage of budget
		Additions						
	RMB	RMB	RMB	RMB	RMB	%		
Restructuring of production No. 1 and No. 2 line of refrigerator	19,412,215	289,600	-	-	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	2,783,888	-	-	2,783,888	20	Self-funding	
Others		5,649,574	7,070,473	(3,402,969)	9,317,078		Self-funding	
Total		<u>11,323,062</u>	<u>7,070,473</u>	<u>(3,402,969)</u>	<u>14,990,566</u>			

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

15. INTANGIBLE ASSETS

	Group		Total
	Land use rights	Software systems	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Cost			
At 1 January 2003	404,997,394	950,166	405,947,560
Additions	6,128,170	585,131	6,713,301
At 30 June 2003	411,125,564	1,535,297	412,660,861
Accumulated amortisation			
At 1 January 2003	86,064,479	267,108	86,331,587
Provision for the period	5,616,652	129,189	5,745,841
At 30 June 2003	91,681,131	396,297	92,077,428
Provision for impairment			
At 1 January 2003 and 30 June 2003	5,214,752	519,447	5,734,199
Net value			
At 1 January 2003	313,718,163	163,611	313,881,774
At 30 June 2003	314,229,681	619,553	314,849,234

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

16. LONG-TERM DEFERRED EXPENDITURES

Nature	Group					
	At				At	Residual
	1 January				30 June	
	2003	Additions	Disposal	Amortisation	2003	years
RMB	RMB	RMB	RMB	RMB		
Moulds and tools	121,266,417	42,682,861	(1,490,483)	(37,801,981)	124,656,814	1–3 years
Illuminated advertising display	60,855,555	2,674,495	–	(10,967,938)	52,562,112	1–5 years
Leasehold improvement	4,070,392	162,831	–	(1,166,206)	3,067,017	1–5 years
Computer software	4,129,893	599,299	–	(336,481)	4,392,711	1–2 years
Others	6,373,599	3,741,071	–	(855,639)	9,259,031	1–3 years
	<u>196,695,856</u>	<u>49,860,557</u>	<u>(1,490,483)</u>	<u>(51,128,245)</u>	<u>193,937,685</u>	

17. SHORT-TERM LOANS

Nature of loans	Group	Group
	30 June	31 December
	2003	2002
	RMB	RMB
Credit loan		
– RMB	47,930,000	61,500,000
Secured (i)		
– RMB	289,000,000	204,000,000
– HKD	27,415,154	–
Unsecured (ii)		
– RMB	374,700,000	290,000,000
Financing from commercial acceptance notes		
– RMB	710,000,000	404,664,036
	<u>1,449,045,154</u>	<u>960,164,036</u>

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

17. SHORT-TERM LOANS – *Continued*

The above loans bear interest at 4.779% to 5.8411% per annum.

- (i) The HKD mortgage loan is secured by the buildings and structures in Hong Kong with a net book value of RMB104,760,180. The RMB mortgage loan is secured by the buildings and structures, and machinery and equipment with a net book value of RMB958,219,562 (see note 13).
- (ii) RMB220,000,000 was guaranteed by Greencool Enterprise (see note 39(5)(c)) and RMB154,700,000 by the Company for its subsidiaries' loans.

18. NOTES PAYABLE

	Group 30 June 2003 <u>RMB</u>	Group 31 December 2002 <u>RMB</u>
Bank acceptance notes	91,133,064	424,914,036
Commercial acceptance notes	<u>1,349,583,700</u>	<u>517,677,693</u>
	<u><u>1,440,716,764</u></u>	<u><u>942,591,729</u></u>

19. ACCOUNTS PAYABLE

At 30 June 2003, the balance did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital.

20. ADVANCE FROM CUSTOMERS

At 30 June 2003, the balance did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital.

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

21. TAXES PAYABLES

	Group 30 June 2003 <u>RMB</u>	Group 31 December 2002 <u>RMB</u>
Income tax	3,112,607	149,452
Value-added tax	(27,732,822)	39,369,749
Business tax	90,140	2,500
Others	273,247	328,153
	<u>(24,256,828)</u>	<u>39,849,854</u>

22. OTHER PAYABLES

At 30 June 2003, the balance did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital.

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

23. ACCRUALS

	Group 30 June 2003 <u>RMB</u>	Group 31 December 2002 <u>RMB</u>	<u>Reasons for not settled</u>
Installation costs	61,011,418	61,277,048	Installation costs to be incurred for products sold
Interest expenses	3,147,807	3,659,416	Incurred but yet to be paid
Sub-contracting fee	5,317,875	116,160	Incurred but invoices not yet received
Sales discounts	91,612,610	39,856,044	For sales for the year not yet paid
Promotion fees	43,731,097	35,048,277	Incurred but invoices not yet received
Transportation costs	36,406,490	33,619,626	Incurred but invoices not yet received
Storage fees	16,879,418	17,131,167	Incurred but invoices not yet received
Others	30,580,999	20,368,836	
	<u>288,687,714</u>	<u>211,076,574</u>	

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

24. PROVISION

It represents 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.

25. LONG-TERM LOANS DUE WITHIN ONE YEAR

	Group 30 June 2003 <u>RMB</u>	Group 31 December 2002 <u>RMB</u>
Long-term loan due within one year (note 26)	215,000,000	65,233,515
Long-term payables due within one year (note 27)	-	-
	<u>215,000,000</u>	<u>65,233,515</u>

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

26. LONG-TERM LOANS

	Group 30 June 2003		Group 31 December 2002	
	HKD	RMB equivalent	HKD	RMB equivalent
Long-term loan				
- Mortgage bank loan (i)	-	-	28,264,637	30,000,086
	-	450,000,000	-	460,000,000
- Guaranteed bank loan (ii)	-	165,000,000	-	220,000,000
- Guaranteed mortgage bank loan	-	-	-	70,000,000
		615,000,000		780,000,086
Less: Amount due within one year	-	215,000,000	-	65,233,515
Amount due after one year		400,000,000		714,766,571

(i) RMB mortgage loan is secured by machinery and equipment with a net book value of RMB59,060,344 and inventories of RMB260,000,000 (see notes 11 & 13).

(ii) Guaranteed loan is secured by Greencool Enterprise (see note 39(5)(c)).

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

27. LONG-TERM PAYABLE

	Group 30 June 2003 <u>RMB</u>	Group 31 December 2002 <u>RMB</u>
Pension liabilities	61,887,432	67,682,983
Special long-term payables	11,427,292	8,139,145
	73,314,724	75,822,128
Less: Amount due within one year	-	-
Amount due after one year	<u>73,314,724</u>	<u>75,822,128</u>

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

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

28. SHARE CAPITAL

	30 June 2003 and 31 December 2002
	<i>(share)</i>
A. Unlisted shares	
1. Promoter shares	
– domestic legal person shares	337,915,755
2. Employees' shares	–
	<hr/>
Total unlisted shares	337,915,755
	<hr/>
B. Listed shares	
1. Domestic listed ordinary shares denominated in RMB	194,501,000
2. Overseas listed foreign shares	459,589,808
	<hr/>
Total listed shares	654,090,808
	<hr/>
C. Total number of shares	992,006,563
	<hr/> <hr/>

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

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

29. CAPITAL RESERVE

	Share premium		Provision for donation of non-cash assets	Provision for equity investments	Group Total
	H shares and domestic legal person shares	A shares			
	RMB	RMB			
At 1 January 2003	1,499,662,592	933,863,500	17,696,745	1,773,050	2,452,995,887
Utilisation of reserves to make up accumulated losses (note (1))	(965,024,306)	-	-	-	(965,024,306)
Additions (note (2))	-	-	-	27,135,190	27,135,190
At 30 June 2003	534,638,286	933,863,500	17,696,745	28,908,240	1,515,106,771

Notes:

- (1) On 18 May 2003, it was resolved, at the annual general meeting for the year 2002, 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 RMB965,024,306 (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 2002.
- (2) Additions of the year represents the increase in capital reserve in respect of associates.

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

30. REVENUE RESERVE

	Statutory common reserve	Discretionary reserve	Statutory common welfare fund	Group Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At 1 January 2003	229,161,802	-	114,580,901	343,742,703
Utilisation of reserves to make up accumulated losses (<i>Note</i>)	(229,161,802)	-	-	(229,161,802)
At 30 June 2003	-	-	114,580,901	114,580,901

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.

Note: The Company used the statutory surplus reserve in 31 December 2002 to make up accumulated loss as detailed in note 29 (*note 1*).

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

31. UNAPPROPRIATED PROFITS (ACCUMULATED LOSSES)

	<u>Group</u>	<u>Company</u>
	<i>RMB</i>	<i>RMB</i>
At 1 January 2003	(1,211,930,161)	(1,194,186,108)
Add: Utilisation of reserves to make up accumulated losses (<i>Note</i>)	1,194,186,108	1,194,186,108
Add: Net profit of the year	144,606,105	133,790,035
At 30 June 2003	<u>126,862,052</u>	<u>133,790,035</u>

The Company used the statutory surplus reserve and capital reserve in 31 December 2002 to make up accumulated losses as detailed in note 29 (note 1).

32. REVENUE AND COST FROM PRINCIPAL OPERATIONS

	Group		Group	
	From January to June 2003		From January to June 2002	
	Revenue	Cost	Revenue	Cost
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Sales of refrigerators	1,445,220,685	1,022,811,354	1,190,597,355	847,478,579
Sales of air-conditioners	1,641,370,163	1,295,150,984	1,359,909,052	985,690,938
Sales of freezers	139,311,374	114,381,586	-	-
Others	89,164,225	75,423,443	-	-
	<u>3,315,066,447</u>	<u>2,507,767,367</u>	<u>2,550,506,407</u>	<u>1,833,169,517</u>

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

32. REVENUE AND COST FROM PRINCIPAL OPERATIONS - *Continued*

	Company From January to June 2003		Company From January to June 2002	
	Revenue	Cost	Revenue	Cost
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Sales of refrigerators	1,154,750,364	920,476,406	1,036,641,057	743,659,624
Sales of air-conditioners	1,121,881,083	959,342,379	1,041,489,030	734,820,956
Sales of freezers	51,878,540	44,353,609	-	-
	<u>2,328,509,987</u>	<u>1,924,172,394</u>	<u>2,078,130,087</u>	<u>1,478,480,580</u>
Total sales of the five largest customers	<i>RMB</i>		Percentage in total sales	
			%	
	339,306,323		10	

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

33. FINANCIAL EXPENSES

Group	From January to June 2003	From January to June 2002
	<u>RMB</u>	<u>RMB</u>
Interest expenses	58,518,953	53,794,531
Less: interest income	8,537,498	11,248,544
Exchange gain (loss)	364,614	(1,873,584)
Others	3,297,753	875,181
	<u>53,643,822</u>	<u>41,547,584</u>

34. INVESTMENT PROFIT (LOSS)

Group	From January to June 2003	From January to June 2002
	<u>RMB</u>	<u>RMB</u>
Loss on disposal of investee companies	(216,831)	-
Loss on investments in associates	(5,900,283)	(1,238,539)
Amortisation of long-term equity investment difference	(6,666,088)	(6,650,000)
Provision for impairment of long-term investments	-	3,603,617
	<u>(12,783,202)</u>	<u>(4,284,922)</u>

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

34. INVESTMENT PROFIT (LOSS) – *Continued*

Company	From January to June 2003	From January to June 2002
	<i>RMB</i>	<i>RMB</i>
Profit (loss) on investments in subsidiaries	181,257,891	(17,004,730)
Loss on investments in associates	(5,914,246)	(721,967)
Amortisation of long-term equity investment difference	(6,867,318)	(6,600,000)
Provision for impairment of long-term investments	-	3,603,617
	<u>168,476,327</u>	<u>(20,723,080)</u>

35. INCOME TAX

Group	From January to June 2003	From January to June 2002
	<i>RMB</i>	<i>RMB</i>
Income tax payable by the Company (<i>note</i>)	-	-
Income tax payable by subsidiaries	5,934,088	2,799,256
	<u>5,934,088</u>	<u>2,799,256</u>

Note: No income tax is provided for as the Company recorded loss for the current reporting period.

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

36. OTHER CASH PAID AND RECEIVED RELATING TO INVESTING ACTIVITIES

	Group From January to June 2003
	<u>RMB</u>
Increase in pledged deposits	<u>369,222,378</u>
Other cash paid relating to investing activities	<u><u>369,222,378</u></u>

37. CASH AND CASH EQUIVALENTS

Group	30 June 2003	31 December 2002
	<u>RMB</u>	<u>RMB</u>
Bank balances and cash (<i>note 5</i>)	1,902,594,833	1,417,085,462
Less: Pledged deposits	<u>1,099,669,700</u>	<u>730,447,322</u>
	<u><u>802,925,133</u></u>	<u><u>686,638,140</u></u>
Company	30 June 2003	31 December 2002
	<u>RMB</u>	<u>RMB</u>
Bank balances and cash	1,380,080,025	1,065,118,299
Less: Pledged deposits	<u>1,044,493,000</u>	<u>708,890,280</u>
	<u><u>335,587,025</u></u>	<u><u>356,228,019</u></u>

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

38. SEGMENT INFORMATION

Items	Air-		Freezers	Others	Elimination	Total
	Refrigerators	conditioners				
	RMB	RMB	RMB	RMB	RMB	RMB
1. Revenue from						
principal operations:						
External sales	1,445,220,685	1,641,370,163	139,311,374	89,164,225	-	3,315,066,447
Inter-segment						
sales	-	-	-	391,288,405	(391,288,405)	-
Total revenue from						
principal operations	1,445,220,685	1,641,370,163	139,311,374	480,452,630	(391,288,405)	3,315,066,447
2. Cost of sales:						
External cost of sales	1,022,811,354	1,295,150,984	114,381,586	75,423,443	-	2,507,767,367
Inter-segment cost						
of sales	-	-	-	382,826,082	(382,826,082)	-
Total cost of sales	1,022,811,354	1,295,150,984	114,381,586	458,249,525	(382,826,082)	2,507,767,367
3. Total expenses	293,248,751	300,227,648	21,464,807	31,585,797	-	646,527,003
4. Operating profit (loss)	129,160,580	45,991,531	3,464,981	(9,382,692)	(8,462,323)	160,772,077
5. Total assets	4,685,238,677	4,075,518,687	249,646,287	898,193,067	-	9,908,596,718
6. Total liabilities	3,044,937,252	3,404,772,195	125,938,916	362,695,914	-	6,938,344,277

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

- (1) Except for the subsidiaries as disclosed in note 4, 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
Greencool Enterprise	Shunde, Guangdong	Research, manufacture and sale of refrigeration equipment, fittings and chlorofluorocarbon ("CFC")	Substantial shareholder of the Company and 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
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- (2) Movement in registered capital of related parties with controlling interests

Name of related party	At			At
	1 January 2003	Additions	Deduction	30 June 2003
	RMB	RMB	RMB	RMB
Greencool Enterprise	1,200,000,000	-	-	1,200,000,000

There is no change in the registered capital of related parties in which the Company has controlling interests in the accounting period end as disclosed in note 4.

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – *Continued*

(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 2003		Additions		Deduction		At 30 June 2003	
	RMB	%	RMB	%	RMB	%	RMB	%
Greencool Enterprise	204,775,755	20.64	-	-	-	-	204,775,755	20.64

(ii) *Subsidiaries*

For the movement of the Company's share capital or equity in subsidiaries, please refer to note 4.

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – *Continued*

(4) Relationship of related parties in which the Company does not have controlling interests

<u>Name of related party</u>	<u>Relationship with the Company</u>
Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")	Associate of the minority shareholder of Chengdu Kelon
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 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

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period:

(a) *Sales and purchases*

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

	Group January to June 2003	Group January to June 2002
	<i>RMB</i>	<i>RMB</i>
Sales to		
- Huaao Electronics	-	4,266,926
- Wangao Co	-	34,159,083
- Sanyo Kelon	-	3,684,850
- Chongqing Kelon	-	53,944,503
- Chongqing Rongsheng	49,328,572	33,212,615
	49,328,572	129,267,977
Purchases from		
- Kelon HEA	-	16,537,733
- Huaao Electronics	-	144,119,851
- Wangao Co	-	46,969,246
- Chengdu Xinxing	20,689,107	22,043,612
- Hainan Greencool	-	27,000,000
	20,689,107	256,670,442

(b) *Asset transactions*

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

	Group January to June 2003	Group January to June 2002
	<i>RMB</i>	<i>RMB</i>
Sales to		
- Huaao Electronics	-	1,222,603

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period: - *Continued*

(c) *Others*

	Group January to June 2003	Group January to June 2002
	<u>RMB</u>	<u>RMB</u>
Loan guarantee provided to related parties		
- C&Y	<u>3,975,000</u>	<u>3,975,000</u>
Loan guarantee provided by related parties		
- GKG	-	340,000,000
- Greencool Enterprise	<u>385,000,000</u>	<u>250,000,000</u>
	<u>385,000,000</u>	<u>590,000,000</u>
Other income (expenses) obtained from (paid to) related parties		
- Advertising fee paid to C&Y	-	(350,414)
- Logistics management fee paid to Guangzhou Antaida	<u>(2,687,232)</u>	<u>(1,017,273)</u>
- Interest income from Chengdu Xinxing (see note 39(5)(d)(iii))	<u>992,970</u>	<u>1,605,600</u>
	<u>(1,694,262)</u>	<u>237,913</u>

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period: – *Continued*

(d) *Particulars of liability balance*

Items	Name of related parties	Group	Group
		30 June 2003	31 December 2002
		RMB	RMB
Accounts receivable	Chongqing Kelon	1,554,822	-
Other receivables	GKG (i)	684,992,532	684,992,532
	Others	-	3,026,780
Advance to customers	Chengdu Xinxing	20,848,340	-
		707,395,694	688,019,312
Long-term receivables due after one year	Kelon Employee Union (ii)	51,602,908	51,602,908
	Chengdu Xinxing (iii)	34,000,000	34,000,000
		85,602,908	85,602,908
		792,998,602	773,622,220
Accounts payable	Greencool Enterprise	310,500	149,000
	Chengdu Xinxing	-	5,087,833
		310,500	5,236,833

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period: – *Continued*

(d) *Particulars of liability balance – Continued*

(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, former single largest shareholder of the Company, 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.

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period: – *Continued*

(d) *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. From the date of share transfer, Greencool Enterprise became the single largest shareholder of the Company with a 20.64% shareholding and the shareholding of GKG decreased to 13.42%. Business transactions between the Group and GKG do not constitute connected transactions.

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.

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period: – *Continued*

(d) *Particulars of liability balance – Continued*

(i) Related transactions with GKG – Continued

Debt settlement arrangement

As at 31 December 2002, the balance due from GKG amounted to RMB857,401,532 (before deducting the provisions of bad debt amounting to RMB172,409,000). 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”);
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”);

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period: – *Continued*

(d) *Particulars of liability balance – Continued*

(i) Related transactions with GKG – Continued

Debt settlement arrangement – *Continued*

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.

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period: – *Continued*

(d) *Particulars of liability balance – Continued*

(i) *Related transactions with GKG – Continued*

Debt settlement arrangement – *Continued*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period:** – *Continued***(d) Particulars of liability balance** – *Continued**(i) Related transactions with GKG – Continued*

Debt settlement arrangement – *Continued*

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 30 June 2003.

(ii) 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 30 June 2003, the amount due from Kelon Employee Union in this connection amounted to RMB51,602,907.

NOTES TO THE FINANCIAL STATEMENTS – <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

39. 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 accounting period: – *Continued*

(d) *Particulars of liability balance* – *Continued*

(iii) *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.

40. CONTINGENT LIABILITIES

	30 June 2003	31 December 2002
	<i>RMB'000</i>	<i>RMB'000</i>
Loan guarantee provided for associates (note 39(5)(c))	3,975	3,975
Discounted and undue commercial acceptance notes	-	35,270
Total	<u>3,975</u>	<u>39,245</u>

NOTES TO THE FINANCIAL STATEMENTS - <i>Continued</i>
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For the period ended 30 June 2003

(Prepared in accordance with PRC GAAP)

41. CAPITAL COMMITMENT

	30 June	31 December
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for but not provided in the financial statements		
- Commitment on acquisition and construction of assets	19,026	37,910

SUPPLEMENTAL INFORMATION

1. DIFFERENCE BETWEEN IFRS AND PRC GAAP

These financial statements are prepared according to PRC GAAP, which are different from these financial statements prepared according to IFRS.

As at 30 June 2003, the net profit and net assets of the financial statements prepared according to PRC GAAP were approximately RMB144,606,000 and RMB2,746,742,000 respectively. These figures can be reconciled to those under IFRS as follows:

	Net profit for the period from January to June 2003	Net assets at 30 June 2003
	<u>RMB'000</u>	<u>RMB'000</u>
Amounts stated in financial statements as per PRC GAAP	144,606	2,746,742
Adjustment according to IFRS:		
– Adjustment on property, plant and equipment revaluation and related depreciation	<u>(2,374)</u>	<u>12,693</u>
Amounts stated in financial statements as per IFRS	<u><u>142,232</u></u>	<u><u>2,759,435</u></u>

SUPPLEMENTAL INFORMATION - <i>Continued</i>

2. FULLY DILUTED AND WEIGHTED AVERAGE RETURNS ON NET ASSETS AND EARNINGS PER SHARE

Profit for the reporting period	From January to June 2003				From January to June 2002			
	Returns on net assets (%)		Earnings per share (RMB)		Returns on net assets (%)		Earnings per share (RMB)	
	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average
Profit from principal operations	29.38%	31.11%	0.81	0.81	32.00%	31.94%	0.72	0.72
Operating profits	5.85%	6.20%	0.16	0.16	5.85%	6.36%	0.12	0.12
Net profit	5.26%	5.57%	0.15	0.15	5.26%	5.72%	0.11	0.11
Net profit after extraordinary items	5.33%	5.65%	0.15	0.15	5.33%	5.80%	0.11	0.11

3. PROVISION FOR ASSETS IMPAIRMENT AT 30 JUNE 2003

Unit: RMB

Items	Group			At 30 June 2003
	At 1 January 2003	Increase for the Period	Write-back for the Period	
1. Total provision for bad debt	319,294,128	1,794,704	(15,660,398)	305,428,434
Including: Accounts receivable	140,506,141	1,794,704	(15,660,398)	126,640,447
Other receivables	178,787,987	-	-	178,787,987
2. Total provision for impairment of short-term investments	-	-	-	-
Including: Stock investments	-	-	-	-
3. Total provision for impairment of inventories	136,726,986	-	(35,417,848)	101,309,138
Including: Finished goods	85,729,527	-	(4,961,082)	80,768,445
Work in progress	-	-	-	-
Raw materials	50,997,459	-	(30,456,766)	20,540,693
4. Total provision for impairment of fixed assets	61,375,205	-	(24,447,969)	36,927,236
Including: Buildings and structures	51,692,513	-	(24,447,969)	27,244,544
Machinery and equipment	9,673,692	-	-	9,673,692
Furniture, fixture and office equipment	9,000	-	-	9,000
5. Total provision for impairment of long-term investments	71,200,641	-	-	71,200,641
Including: Long-term equity investments	71,200,641	-	-	71,200,641
Long-term debt investments	-	-	-	-

4. THE EXPLANATIONS TO THE ITEMS IN FINANCIAL STATEMENTS WHOSE FLUCTUATION RANGE IS OVER 30% (INCLUDING 30%) AND COVER THE TOTAL ASSETS OF BALANCE SHEET DATE OVER 5% (INCLUDING 5%) OR COVER THE TOTAL PROFIT IN THIS TEAR OVER 10% (INCLUDING 10%) AREAS FOLLOWS:

Items in balance sheet:

- (1) The increase in the amount of monetary asset was attributable to the increase in the amount of pledged deposit.
- (2) The increase in trade receivable was attributable to the increase in sales revenue.
- (3) The increase in inventory was attributable to the increase in reserve of materials and finished goods in sales peak season.
- (4) The increase in short-term loans was attributable to the increase in adjustment to the discounted notes payable.
- (5) The increase in notes payable and trade payables was attributable to the deferred payment and the use of notes payable for the settlement of goods.
- (6) The increase in advance from customers was attributable to the increase in deposits from customers in sales peak season.
- (7) The decrease in capital reserve was attributable to the utilisation of reserves to make up for the Company's accumulated losses.

Items in statement of income and profit appropriation:

- (1) The increase in sales revenue was attributable to the increase in sales of goods.
- (2) The increase in cost of sales was attributable to the increase in sales of goods.
- (3) The increase in other operating profit was attributable to the increase of sales of materials.

5. DOCUMENTS AVAILABLE FOR INSPECTION

Including the following documents:

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

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

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 **KELON** 科龙

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