



Chairman's Statement



Guangdong Kelon Electrical Holdings Co., Ltd. (“Kelon” or the “Group”) went through an aggressive year in 2003. Its business development continued to move on with its upward path, while achieving stable growth in its results under the management concept and development strategy of “Technologically Led and Profitability Driven”. The Group achieved encouraging results in setting a new record in its turnover, amounting to approximately RMB6,168,110,000.

During the Reporting Period, Kelon continued to devote itself to the technological development of its products, with an objective to consolidating and developing the market through high technology and high value-added domestic refrigeration appliances. The Group also implemented the “Project of Perfection” to enhance the overall competitiveness of its products. Moreover, the Group put strong efforts in promoting the “Combine” brand which was targeted at the low-end and agricultural consumer markets. This not only enhanced the market position of the original “Kelon”, “Ronshen” and “Huabao” brands, the four brands also effectively satisfied different consumer needs. This was instrumental in expanding the Group’s market share and improving its market competitiveness, as well as facilitating strong sales growth and the sustainable improvement of profitability.

In 2003, the Group achieved remarkable performance in its export business, with turnover significantly increased by over 145%. The export business has become the Group’s major growth driver as its contribution to the Group’s turnover was increased from approximately 15% in 2002 to approximately 30%. Despite the falling of the average product price brought about by intense market competition, the strong boost in export orders and the imminent elimination of an increasing number of small brands heavily dependent on export business have given the Group strong confidence in the overall performance of its export business in the future. The Group believes that the export business will become its strongest growth driver for profitability in the future.

Turning to the domestic market for refrigerators, Kelon achieved considerable success in controlling the market price during the Reporting Period. The "Combine" brand refrigerators, in particular, brought the Group a satisfactory level of profitability. Through effective consolidation of the domestic production lines for refrigerators, the Group was able to build a relatively higher cost barrier than its competitors, which brought positive effects to the Group's gross profit and net profit margins. With Kelon's cost control measures currently leading in the industry, the Group's management is very positive about the overall performance of the refrigerator business in the future and is confident in maintaining continuous growth.

The past year was an extremely difficult year for the air-conditioner industry in China, and the small brands were continuously being eliminated. Nevertheless, with a multi-branding marketing strategy and the launch of air-conditioners with high technology, especially the "Kelon" air-conditioners with efficiencies reaching 6.0, Kelon was able to achieve strong competitive edge in the highly competitive market. The Group believes that the air-conditioner industry will experience an even more difficult time in 2004. Coupled with the inflation of raw materials costs, the Group is thus unable to anticipate the profitability of the air-conditioner business in 2004. As the Group maintains a leading position in terms of cost controls in the industry in China, the management believes that the market share for air-conditioners would be geared towards big brands such as "Kelon" in the future. The Group will therefore continue to develop its air-conditioner business, and is confident in gaining a larger market share. The management also believes that the air-conditioner business will eventually make a positive contribution to the Group in the coming two to three years.

Kelon believes that top quality talents are essential to the success of an enterprise. During the Reporting Period, the Group further recruited talented management professionals holding doctorate degrees from both the

Mainland and overseas, in order to strengthen the management team. The management's efforts were recognized in early 2004. Kelon won the "2003 Best Small Cap Company – China" Award and the "2003 Most Improved in Corporate Governance – China" Award in the 12th "Best Managed Companies" poll by the world-renowned financial magazine *AsiaMoney*. This is not only the best encouragement to the management, but also the most powerful motivation for the Group to be fully committed to striving for even more fruitful results.

In the future, riding on its well-established distribution network, comprehensive product lines, quality products, well-defined brand positioning and stringent cost controls, Kelon will endeavour to capitalize on its economies of scale. Kelon will proactively improve its existing R&D capabilities and recruit internationally qualified R&D personnel to apply advanced and creative technologies to more products. Facing the keen competition in the domestic refrigeration appliances manufacturing industry in China, the Group will step forward cautiously to strive for stronger competitive edge, in order to become a leading international domestic refrigeration appliances manufacturer.

Kelon's outstanding results recorded in the Reporting Period testified the hard work of directors, management and all staff. On behalf of Kelon, I would like to extend my heartfelt gratitude to all. In order to thank our investors, business partners and clients for their support, Kelon will keep on working hard, joining hands to seize every opportunity to reach new heights.

Gu Chu Jun

Chairman of the Board

Shunde, China, 19 April 2004