1. GENERAL

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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

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

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

Investments in subsidiaries

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates

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

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

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

Goodwill

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

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

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

Negative goodwill

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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

Property, plant and equipment

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

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

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

Trademarks

Trademarks are stated at cost less accumulated amortisation and any recognised impairment loss. The cost of trademarks is amortised on a straight-line basis over their estimated useful lives of ten years.

Land use rights

Land use rights in the PRC are stated at cost less accumulated amortisation and any recognised impairment loss. The cost of land use rights is amortised on straight-line basis over the period for which the relevant land use rights have been granted to the Group.

Inventories

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

Impairment

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment *(continued)*

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

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

Financial instruments

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

Trade receivables

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

Investments

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

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

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

Bank borrowings

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Trade payables

Trade payables are stated at their nominal value.

Equity instruments

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

Provisions

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

Warranty obligation

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

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

Taxation

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

Research and development expenditure

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

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

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

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

Pension costs

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Government grants

Government grants related to assets are deducted from the carrying amount of the relevant assets and recognised as income over the lives of depreciable assets by way of a reduced depreciation charge.

Government grants related to income are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.

Operating leases

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

Foreign currencies

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

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

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

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

3. TURNOVER

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

	2003 *RMB'000*	2002 *RMB'000*
Sales of refrigerators	3,016,247	2,252,045
Sales of air-conditioners	2,680,590	2,337,240
Sales of freezers	211,467	103,979
Sales of product components	259,806	184,993
	6,168,110	4,878,257

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

Segment information about these businesses is presented below:

Year 2003

(i) *Income statement*

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Product components *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
TURNOVER						
External sales	3,016,247	2,680,590	211,467	259,806	–	6,168,110
Inter-segment sales	–	–	–	959,071	(959,071)	–
Total revenue	3,016,247	2,680,590	211,467	1,218,877	(959,071)	6,168,110

Inter-segment sales are charged at prevailing market rates.

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Product components *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
RESULT						
Segment result	205,952	150,986	25,352	(8,705)	–	373,585
Unallocated corporate expenses						(12,515)
Profit from operations						361,070
Finance costs						(122,463)
Share of results of associates	(14,481)	(12,870)	(1,015)	(1,248)	–	(29,614)
Profit before taxation						208,993
Taxation						(11,676)
Profit after taxation						197,317

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

(ii) *Balance sheet*

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Segment assets	4,751,602	3,552,659	295,959	621,517	9,221,737
Interests in associates	107,662	95,681	7,548	9,274	220,165
Unallocated corporate assets					71,730
Consolidated total assets					9,513,632
LIABILITIES					
Segment liabilities	2,283,799	2,015,330	93,222	256,713	4,649,064
Unallocated corporate liabilities					1,819,726
Consolidated total liabilities					6,468,790

(iii) *Other information*

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions of property, plant and equipment	171,771	78,527	7,237	31,877	289,412
Additions of intangible assets	396,332	341,426	20,438	24,528	782,724
Depreciation	128,071	90,022	15,067	140,681	373,841
Amortisation of goodwill	6,817	5,970	471	4,048	17,306
Release of negative goodwill to income	–	–	4,790	–	4,790
Amortisation of intangible assets	6,992	6,085	456	560	14,093
Impairment loss recognised in respect of goodwill	–	–	–	7,838	7,838
Loss on disposal of property, plant and equipment	2,185	64	–	380	2,629
(Reversal of allowance) allowance for irrecoverable debts	(3,772)	–	3,420	5,833	5,481
Reversal of allowance for inventories	7,641	15,454	1,678	8,034	32,807

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

Year 2002

(i) *Income statement*

	Refrigerators RMB'000	Air-conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Elimination RMB'000	Consolidated RMB'000
TURNOVER						
External sales	2,252,045	2,337,240	103,979	184,993	–	4,878,257
Inter-segment sales	–	–	–	375,553	(375,553)	–
Total revenue	2,252,045	2,337,240	103,979	560,546	(375,553)	4,878,257

Inter-segment sales are charged at prevailing market rates.

	Refrigerators RMB'000	Air-conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Elimination RMB'000	Consolidated RMB'000
RESULT						
Segment result	307,664	209,750	(109,044)	(209,582)	–	198,788
Unallocated corporate expenses						(16,782)
Profit from operations						182,006
Finance costs						(90,637)
Share of results of associates	17	–	(1,398)	(2,753)	–	(4,134)
Profit before taxation						87,235
Taxation						(3,031)
Profit after taxation						84,204

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

(ii) *Balance sheet*

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Segment assets	3,689,018	3,000,046	172,494	545,596	7,407,154
Interests in associates	118,723	112,357	2,183	1,223	234,486
Unallocated corporate assets					109,423
Consolidated total assets					7,751,063
LIABILITIES					
Segment liabilities	1,639,454	1,174,563	103,073	160,355	3,077,445
Unallocated corporate liabilities					1,864,721
Consolidated total liabilities					4,942,166

(iii) *Other information*

	Refrigerators	Air-conditioners	Freezers	Product components	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions of property, plant and equipment	108,545	107,308	759	304	216,916
Depreciation	251,496	134,910	8,677	47,180	442,263
Amortisation of goodwill	6,441	6,580	293	2,019	15,333
Release of negative goodwill to income	–	–	2,395	–	2,395
Loss on disposal of property, plant and equipment	606	107	–	35	748
(Allowance) reversal of allowance for irrecoverable debts	(773)	–	34,050	(130)	33,147
(Allowance) reversal of allowance for inventories	44,571	154,948	(217)	(1,083)	198,219

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

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

	2003	2002
Refrigerators	4,986	2,688
Air-conditioners	2,152	1,403
Freezers	763	477
Product components	1,414	2,296
	9,315	6,864

Geographical segments

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	2003 *RMB'000*	**2002** *RMB'000*
The PRC		
Mainland China	3,922,870	4,563,948
Hong Kong	297,494	10,058
	4,220,364	4,574,006
Europe	1,011,031	66,005
Others	936,715	238,246
	6,168,110	4,878,257

The Group's operations are carried out in the PRC and almost all of the production facilities of the Group are located in the PRC.

5. OTHER OPERATING INCOME

	2003 *RMB'000*	**2002** *RMB'000*
An analysis of the Group's other operating income is as follows:		
Sales of scrap materials	39,678	14,488
Interest income	22,122	14,680
Others	30,102	18,598
	91,902	47,766

6. OTHER OPERATING EXPENSES

	2003 *RMB'000*	2002 *RMB'000*
An analysis of the Group's other operating expenses is as follows:		
Loss on disposal of property, plant and equipment	2,629	748
Others	3,082	5,792
	5,711	6,540

7. PROFIT FROM OPERATIONS

	2003 *RMB'000*	2002 *RMB'000*
Profit from operations has been arrived at after charging:		
Allowance for irrecoverable debts (note)	5,481	–
Amortisation of goodwill (note)	17,306	15,333
Amortisation of intangible assets (note)	14,093	–
Auditors' remuneration	4,200	3,600
Depreciation of property, plant and equipment (note 8)	373,841	442,263
Impairment loss recognised in respect of goodwill (note)	7,838	–
Research and development expenses	3,170	3,285
Staff costs, including directors' and supervisors' remuneration	412,227	301,283
and after crediting:		
Release of negative goodwill to income (note)	4,790	2,395
Reversal of allowance for inventories (note)	32,807	198,219
Reversal of allowance for irrecoverable debts (note)	–	33,147

Note: The amount is included in administrative expenses.

8. DEPRECIATION

	2003 *RMB'000*	2002 *RMB'000*
An analysis of the Group's depreciation is as follows:		
Amount charged as cost of sales	223,001	268,042
Amount included in distribution costs	98,552	111,335
Amount included in administrative expenses	52,288	62,886
	373,841	442,263

9. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on:		
– bank borrowings wholly repayable within five years	65,280	63,754
– borrowings not wholly repayable within five years	–	1,632
– discounted note receivables	56,907	24,621
Total borrowing costs	122,187	90,007
Others	276	630
	122,463	90,637

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2003 RMB'000	2002 RMB'000
Directors		
Fees		
– Executive	–	–
– Independent non-executive	1,440	1,146
	1,440	1,146
Other emoluments (executive directors)		
– Salaries and other benefits	12,000	6,367
	13,440	7,513
Supervisors		
Fees	–	–
Other emoluments		
– Salaries and other benefits	1,500	2,250
	1,500	2,250

Note: No director waived any emoluments in both years.

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

The emoluments of the directors fall within the following bands:

	Number of directors	
	2003	**2002**
Executive directors:		
Nil to RMB1,000,000	2	3
RMB1,000,001 to RMB2,000,000	3	3
RMB5,000,001 to RMB6,000,000	1	–
Independent non-executive directors:		
Nil to RMB1,000,000	4	4
	10	10

The five highest paid individuals included four (2002: three) directors, details of whose emoluments are set out above.

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

	2003 *RMB'000*	**2002** *RMB'000*
Salaries and other benefits	12,000	8,200

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

	Number of individuals	
	2003	**2002**
RMB1,000,001 to RMB2,000,000	4	5
RMB5,000,001 to RMB6,000,000	1	–
	5	5

11. TAXATION

	2003 *RMB'000*	**2002** *RMB'000*
Taxation consists of:		
PRC enterprise income tax ("EIT")	11,676	1,903
Hong Kong Profits Tax	–	1,128
Taxation attributable to the Company and its subsidiaries	11,676	3,031

11. TAXATION *(continued)*

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 established in Shunde, Guangdong Province and, pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" ("Income Tax Law"), is normally subject to EIT at a rate of 24%, which is applicable to enterprises located in coastal open economic zone. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 27%. In June 2003, the Company is classified as a high new technology enterprise and is subject to an EIT of 15%. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 18%.

The Company's subsidiaries, Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Refrigerator"), Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner"), Shunde Rongqi Kelon Fittings Co., Ltd. ("Kelon Fittings") and Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic"), established in coastal open economic zone, are subject to an EIT rate of 24%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 27%. Pursuant to Income Tax Law, they are entitled to preferential tax treatment with full exemption from EIT for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years. In years 2003 and 2002, Kelon Refrigerator, Kelon Air-Conditioner and Kelon Fittings 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). In 2003, Rongsheng Plastic is subject to an aggregate EIT rate of 27% (2002: 12%).

A subsidiary of the Company, Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon"), is subject to an EIT rate of 30%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 33%. A subsidiary of the Company, Yingkou Kelon Refrigerator Co., Ltd. ("Yingkou Kelon"), incorporated in coastal open economic zone, is subject to an EIT rate of 24%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 27%. Pursuant to Income Tax Law, they are also entitled to preferential tax treatment, with full exemption from income tax for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years. As at 31 December 2003, Chengdu Kelon and Yingkou Kelong are still in loss position and are not required to pay income tax.

Hong Kong Profits Tax for the Company's subsidiaries in Hong Kong has been provided at a rate of 17.5% (2002: 16%) on estimated assessable profit which was earned in or derived from Hong Kong.

11. TAXATION *(continued)*

The average effective tax rate can be reconciled to applicable tax rate as follows:

	2003 %	**2002** %
Applicable tax rate	27	27
Tax effect of share of results of associates	4	1
Tax effect of income not taxable in determining current year taxable profit	(7)	(67)
Tax effect of expenses not deductible in determining current year taxable profit	96	80
Tax effect of tax losses not recognised	8	29
Tax effect of utilisation of tax losses previously not recognised	(123)	(56)
Reduction of income tax in respect of preferential tax treatment	(3)	(2)
Effect of different tax rates of subsidiaries operating in different jurisdictions	–	3
Others	4	(12)
Average effective tax rate (taxation divided by profit before taxation)	6	3

Note: The applicable tax rate represents the domestic tax rate in the jurisdiction where the operation of the Group is substantially based.

At the balance sheet date, deductible temporary differences not recognised in the financial statements were analysed into:

	2003 ***RMB'000***	**2002** ***RMB'000***
Tax losses	1,050,870	1,670,522
Miscellaneous provisions	456,523	447,270
	1,507,393	2,117,792

No deferred tax asset has been recognised in relation to such deductible temporary differences due to the unpredictability of future profit streams. The tax losses can only be carried forward for a maximum period of five years. The tax losses of years 2002 and 2003, which amounted to RMB1,647,334,000 and RMB1,015,073,000 respectively, will expire in years 2007 and 2008, respectively.

12. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the net profit for the year of RMB191,170,000 (2002: RMB84,593,000) and on 992,006,563 shares (2002: 992,006,563 shares) outstanding during the year.

No diluted earnings per share have been presented as there were no dilutive potential ordinary shares in issue in either year 2003 or 2002.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *RMB'000*	Plant, machinery and equipment *RMB'000*	Moulds *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST OR VALUATION						
At 1 January 2003	1,747,879	2,346,166	579,198	69,387	11,323	4,753,953
Currency realignment	497	266	–	7	–	770
Additions	25,918	50,867	87,032	5,519	120,076	289,412
Disposals	(8,221)	(22,342)	(57,206)	(3,806)	–	(91,575)
Reclassification	3,402	9,403	–	749	(13,554)	–
At 31 December 2003	1,769,475	2,384,360	609,024	71,856	117,845	4,952,560
Comprising:						
At cost	–	–	609,024	–	117,845	726,869
At directors' valuation*	1,769,475	2,384,360	–	71,856	–	4,225,691
	1,769,475	2,384,360	609,024	71,856	117,845	4,952,560
DEPRECIATION AND IMPAIRMENT						
At 1 January 2003	401,505	1,340,162	457,931	50,013	–	2,249,611
Currency realignment	137	159	–	2	–	298
Provided for the year	85,007	194,605	87,652	6,577	–	373,841
Eliminated on disposals	(1,538)	(18,089)	(55,504)	(3,293)	–	(78,424)
At 31 December 2003	485,111	1,516,837	490,079	53,299	–	2,545,326
NET BOOK VALUE						
At 31 December 2003	1,284,364	867,523	118,945	18,557	117,845	2,407,234
At 31 December 2002	1,346,374	1,006,004	121,267	19,374	11,323	2,504,342

* The directors' valuation is made with reference to a valuation at 31 December 2002 on leasehold land and buildings, and plant, machinery and equipment was performed by Greater China Appraisal Limited, independent professional valuers. For land and buildings, and plant, machinery and equipment for production use, the valuation was made on the basis of fair market value in continued use. The valuation of other property, plant and equipment was made on the basis of open market value.

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

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

	Leasehold land and buildings *RMB'000*	Plant, machinery and equipment *RMB'000*	Moulds *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost	1,831,343	2,306,366	609,024	70,572	117,845	4,935,150
Depreciation	499,776	1,522,710	490,079	50,388	–	2,562,953
Net book value at 31 December 2003	1,331,567	783,656	118,945	20,184	117,845	2,372,197
Net book value at 31 December 2002	1,395,866	908,262	121,267	20,430	11,323	2,457,148

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

	2003 *RMB'000*	2002 *RMB'000*
PRC, other than in Hong Kong	1,178,291	1,236,190
Hong Kong	77,111	80,955
Japan	28,962	29,229
	1,284,364	1,346,374

Land and buildings, and plant, machinery and equipment with a net book value of approximately RMB833,431,000 (2002: RMB430,244,000) and RMB234,280,000 (2002: RMB23,717,000) respectively were pledged as security for the Group's bank borrowings.

14. INTERESTS IN SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2003 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company Directly	Percentage of equity interest attributable to the Company Indirectly	Principal activities
Entities operate in the PRC:					
Shunde Rongsheng Plastic Products Co., Ltd.	PRC (i) 18 October 1991	US$15,800,000	45%	25%	Manufacture of plastic parts
Guangdong Kelon Mould Co., Ltd.	PRC (i) 20 July 1994	US$15,000,000	40%	30%	Manufacture of moulds
Guangdong Kelon Refrigerator Ltd.	PRC (i) 25 December 1995	US$26,800,000	70%	30%	Manufacture and sale of refrigerators
Guangdong Kelon Air-Conditioner Co., Ltd.	PRC (i) 19 March 1996	US$36,150,000	60%	–	Manufacture and sale of air-conditioners
Chengdu Kelon Refrigerator Co., Ltd.	PRC (i) 19 November 1996	RMB200,000,000	45%	25%	Manufacture and sale of refrigerators
Yingkou Kelon Refrigerator Co., Ltd.	PRC (i) 15 December 1996	RMB200,000,000	42%	36.79%	Manufacture and sale of refrigerators
Guangdong Kelon Fittings Co., Ltd.	PRC (i) 24 November 1999	US$5,620,000	70%	30%	Manufacture and sale of spare parts for air-conditioners and refrigerators
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited	PRC (ii) 21 February 2001	RMB2,000,000	76%	–	Sale of refrigerators
Beijing Hengsheng Xing Chuang Technology Company Limited	PRC (ii) 4 June 2001	RMB30,000,000	80%	–	Research and development of industrial and commercial IT system

14. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
Shunde Jiake Electronic Company Limited	PRC (ii) 12 October 2001	RMB60,000,000	70%	30%	IT and communication technology, and micro-electronics technology development
Guangdong Kelon Refrigerator Co., Ltd.	PRC (i) 25 December 1995	RMB237,000,000	44%	56%	Manufacture and sale of freezers
Shunde Wangao Import & Export Co., Ltd.	PRC (ii) 7 June 2001	RMB3,000,000	20%	80%	Import and export business
Shunde Kelon Household Electrical Appliance Company Limited	PRC (ii) 16 July 1999	RMB10,000,000	25%	75%	Manufacture and sale of electrical household appliances
Jiangxi Kelon Industrial Development Co., Ltd.	PRC (i) 24 June 2002	US$29,800,000	60%	40%	Manufacture and sale of refrigerators, air-conditioners and other household appliances
Shunde Huaao Electronics Co., Ltd.	PRC (ii) 23 November 2000	RMB10,000,000	–	70%	Manufacture and sale of electronic products
Entities operate in Hong Kong:					
Pearl River Electric Refrigerator Company Limited	Hong Kong 26 July 1985	HK$400,000	–	100%	Trading in materials and parts for refrigerators and import and export business
Kelon Electric Appliances Co., Ltd.	Hong Kong 29 August 1991	HK$10,000	–	100%	Property investment

14. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
Kelon Development Company Limited	Hong Kong 17 August 1993	HK$5,000,000	100%	–	Investment holding
Kelon International Inc.	British Virgin Islands 13 January 1999	US$50,000	–	100%	Trading in materials and parts for refrigerators and import and export business

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

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

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

15. INTERESTS IN ASSOCIATES

	2003 *RMB'000*	2002 *RMB'000*
Share of net assets	130,647	132,915
Goodwill (note)	85,134	98,870
	215,781	231,785
Amounts due from associates	4,384	2,701
	220,165	234,486

Note: Goodwill is amortised over its estimated useful life of ten years. The only movement in goodwill during the year is the amortisation provided for the year amounting to RMB13,736,000 (2002: RMB13,736,000).

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

15. INTERESTS IN ASSOCIATES *(continued)*

Details of the Group's principal associates as at 31 December 2003 are as follows:

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

(i) Established as joint stock limited company.

(ii) Established as limited liability company.

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

16. INTANGIBLE ASSETS

	Land use rights *RMB'000*	Trademarks *RMB'000*	Total *RMB'000*
COST			
Acquired during the year and balance at 31 December 2003	260,866	521,858	782,724
AMORTISATION			
Charge for the year and balance at 31 December 2003	1,046	13,047	14,093
CARRYING AMOUNT			
At 31 December 2003	259,820	508,811	768,631

16. INTANGIBLE ASSETS *(Continued)*

Land use rights of approximately RMB215 million and trademarks "Kelon" and "Ronshen" were transferred from Guangdong Kelon (Rongseng) Group Company Limited ("GKG"), the former single largest shareholder, for settlement of the amount due from that shareholder. Details of the arrangement are set out, inter alia, in the circular dated 12 December 2002 issued by the Company.

Land use rights in the PRC are amortised over their estimated relevant lease term ranging from 50 to 69 years. Trademarks are amortised over their estimated useful lives of ten years.

17. OTHER ASSETS

	2003 *RMB'000*	2002 *RMB'000*
Unquoted long-term investments, at cost	7,249	10,419
Others	14,330	15,493
	21,579	25,912

18. GOODWILL

	RMB'000
COST	
At 1 January 2003 and 31 December 2003	110,480
AMORTISATION AND IMPAIRMENT	
At 1 January 2003	68,293
Provided for the year	3,570
Impairment loss	7,838
At 31 December 2003	79,701
CARRYING AMOUNT	
At 31 December 2003	30,779
At 31 December 2002	42,187

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

During the year, the Group reviewed the carrying amounts of goodwill on acquisition of subsidiaries and identified that the estimated discounted net future cash flows (the "recoverable amounts") from certain subsidiaries are less than the carrying amounts. Accordingly, the carrying amounts of goodwill of these subsidiaries is reduced to their respective recoverable amounts which are estimated using market borrowing rates.

19. NEGATIVE GOODWILL

	RMB'000
GROSS AMOUNT	
At 1 January 2003 and 31 December 2003	88,611
RELEASE TO INCOME	
At 1 January 2003	2,395
Release in the year	4,790
At 31 December 2003	7,185
CARRYING AMOUNT	
At 31 December 2003	81,426
At 31 December 2002	86,216

The negative goodwill arose on the Group's acquisition of a subsidiary in year 2002. The negative goodwill is released to income on a straight-line basis over a period of 18$^1/_2$ years, the remaining operating period of that subsidiary.

20. INVENTORIES

	2003 *RMB'000*	**2002** *RMB'000*
Raw materials	688,838	368,345
Work in progress	102,732	70,405
Finished goods	1,154,048	684,576
	1,945,618	1,123,326

The balance of inventories at 31 December 2003 includes raw materials and finished goods of approximately RMB295,080,000 (2002: RMB492,802,000) which are carried at net realisable value.

Also included above are finished goods of approximately RMB260,000,000 (2002: RMB260,000,000) which have been pledged as security for the Group's bank borrowings.

21. TRADE AND OTHER RECEIVABLES

	2003	2002
	RMB'000	*RMB'000*
Trade receivables – third parties	726,736	416,806
Note receivables – third parties	734,878	622,628
Other receivables – third parties	566,227	670,284
Amount due from GKG (note 30II)	–	684,993
Amounts due from related companies (note 30II)	19,000	6,924
	2,046,841	2,401,635

As at 31 December 2003 and 2002, all trade receivables were aged less than one year.

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

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

22. OTHER FINANCIAL ASSETS

Bank balances and cash

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

Credit risks

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

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

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

23. TRADE AND OTHER PAYABLES

	2003 *RMB'000*	2002 *RMB'000*
Trade payables – third parties	1,370,152	732,498
Note payables – third parties	1,896,092	942,592
Other payables – third parties	704,505	959,411
Amounts due to related companies (note 30II)	75,516	2,177
	4,046,265	2,636,678

As at 31 December 2003 and 2002, all of the Group's trade payables were aged less than one year.

24. WARRANTY PROVISION

	RMB'000
At 1 January 2003	105,031
Additional provision in the year	4,939
Utilisation of provision	(20,413)
At 31 December 2003	89,557

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

25. OTHER FINANCIAL LIABILITIES

Trade and other payables

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

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

Trade deposits from customers

The directors consider that the carrying amount of trade deposits from customers approximates their fair value.

Pension liabilities

The directors consider that the carrying amount of pension liabilities approximates their fair value.

26. BANK BORROWINGS

	2003 *RMB'000*	2002 *RMB'000*
Medium-term and long-term bank loans	949,872	780,000
Short-term bank loans	858,900	995,435
	1,808,772	1,775,435
Less: Amount due within one year included under current liabilities	(1,264,418)	(1,060,668)
Amount due after one year	544,354	714,767
Analysed as:		
Secured	794,872	764,000
Unsecured	1,013,900	1,011,435
	1,808,772	1,775,435
The bank borrowings are repayable as follows:		
Within one year	1,264,418	1,060,668
Between one to two years	530,793	695,495
Between two to five years	13,561	18,182
Over five years	–	1,090
	1,808,772	1,775,435

The bank borrowings carry interest at rates ranging from 4.23% to 6.44% (2002: 4.23% to 6.44%) per annum. Bank borrowings of approximately RMB794,872,000 (2002: RMB764,000,000) were secured by pledge of property, plant and equipment (see note 13) and inventories (see note 20). Bank borrowings of RMB295,000,000 (2002: RMB540,000,000) were guaranteed by Greencool Enterprise Development Company Limited ("Greencool Enterprise"), a major shareholder of the Company.

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

27. SHARE CAPITAL

	2003 & 2002
	RMB'000
Shares of RMB1 each	
337,915,755 Domestic shares	337,916
459,589,808 H shares	459,590
194,501,000 A shares	194,501
	992,007

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

28. OTHER PAYABLES

The amount mainly represents government grants received for the Group's research and development activities. Government grants recognised as income for the year amounted to RMB1,254,000 (2002: nil).

29. ACQUISITION OF SUBSIDIARIES

The Company acquired several subsidiaries in year 2002 for a total consideration of RMB37,177,000. These transactions have been accounted for by the purchase method of accounting.

	2003 *RMB'000*	2002 *RMB'000*
Net assets acquired:		
Property, plant and equipment	–	146,238
Other assets	–	3,679
Inventories	–	174,700
Trade and other receivables	–	366,937
Taxation recoverable	–	15,662
Bank balances and cash	–	83,329
Trade and other payables	–	(704,725)
Minority interests	–	(1,132)
	–	84,688
Capital reserve	–	(1,773)
Goodwill	–	42,873
Negative goodwill	–	(88,611)
Total consideration	–	37,177
Satisfied by:		
Cash	–	26,420
Reclassified from interests in associates	–	10,757
	–	37,177
Net cash inflow arising on acquisition:		
Cash consideration	–	(26,420)
Bank balances and cash acquired	–	83,329
	–	56,909

30. RELATED PARTY TRANSACTIONS

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

I. Transactions with related companies

	2003 *RMB'000*	2002 *RMB'000*
Sales of goods/raw materials to		
– Chongqing Kelon Electrical Appliance Company Limited ("Chongqing Kelon") (note b (vii))	–	53,945
– Shunde Huaao Electronics Co., Ltd. ("Huaao Electronics") (note b (iii))	–	38,450
– Shunde Wangao Import & Export Co., Ltd. ("Wangao Co") (note b (iv))	–	37,757
– Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng") (note b (viii))	69,784	33,213
– Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing") (note b (xii))	18,421	9,032
– Shunde Kelon Household Electrical Appliance Company Limited ("Kelon HEA") (note b (vi))	–	4,505
– Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Freezer") (note b (x))	–	3,685
Purchases of goods/raw materials from		
– Huaao Electronics (note b (iii))	–	144,592
– Wangao Co (note b (iv))	–	55,376
– Chengdu Xinxing (note b (xii))	42,663	31,090
– Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool") (note a (ii))	–	27,005
– Kelon HEA (note b (vi))	–	16,538
– Huayi Compressor Holdings Company Limited ("Huayi") (note b (ix)) and its subsidiaries	144,496	41,221
– Shanghai Yilian Electric Business Limited ("Shanghai Yilian") (note b (xvi))	7,174	–
– Chengdu Engine (Group) Company Limited ("Chengdu Engine") (note b (xii))	5,044	–
Loan guarantee provided by:		
– Greencool Enterprise	295,000	540,000
– GKG	–	40,000
Other transactions:		
– Handling fee charged to Hainan Greencool (note a (i))	1,575	–
– Interest charged to Chengdu Xinxing (note b (xii))	1,986	2,599
– Sale of property, plant and equipment to Huaao Electrical (note b (iii))	–	1,223
– Logistic management fee paid to Guangzhou Antaida Logistic Co. Ltd. ("Guangzhou Antaida") (note b (xiii))	5,640	2,351
– Advertising fee paid to Communication and You Holdings Company Limited ("C&Y") (note b (xi))	–	350

30. RELATED PARTY TRANSACTIONS *(continued)*

II. Balances due from/to related companies

	2003 *RMB'000*	2002 *RMB'000*
Balance due from GKG (see note 31)	–	684,993
Balances due from related companies		
Amounts due within one year:		
– 江西發達思家電有限公司 ("Jiangxi Fadasi") (note b (xv))	19,000	–
– Others	–	6,924
	19,000	6,924
Amounts due after one year:		
– Chengdu Xinxing (note b (xii))	34,000	34,000
– Employee Union (note b (v))	–	51,603
	34,000	85,603
	53,000	92,527
Balances due to related companies		
– Huayi (note b (ix))	73,938	–
– Hainan Greencool (note a (i))	26	149
– Others	1,552	2,028
	75,516	2,177

Notes:

(a) Transactions with Hainan Greencool

The transactions with Hainan Greencool are summarised as follows:

(i) During the year, the Group collected the agency entering fees and the receivables on sales of CFC-free refrigerants on behalf of Hainan Greencool from 1,050 (2002: 198) authorised engineering units of Hainan Greencool. In return, Hainan Greencool paid a handling fee of RMB1,575,000 (2002: nil) to the Group in this regard. As at 31 December 2003, RMB26,000 (2002: RMB149,000) was refundable to Hainan Greencool. Hainan Greencool is a wholly-owned subsidiary of Greencool Technology.

(ii) During year 2002, the Company purchased CFC-free refrigerants from Hainan Greencool of RMB27,005,000.

30. RELATED PARTY TRANSACTIONS *(continued)*

II. Balances due from/to related companies *(continued)*

Notes: *(continued)*

(b) 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.

(ii) The Group through its 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 Company, Kelon HEA, Huaao Electronics and Wangao Co.

On 6 August 2002, the transfer of shares of Kelon Advertising Company, 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 year 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 also a subsidiary of GKG. During year 2002, GKG transferred its entire equity interest in Wangao Co to the Group and Wangao Co became a subsidiary of the Company.

(v) During year 2001, the Company provided funds of RMB116,000,000 to Employee Union, an employee association owned by the employees of the Company and controlled through their delegates. As at 31 December 2002, the amount due from Employee Union in this connection amounted to approximately RMB51,603,000. The amount was settled during the year (see note 31).

(vi) Kelon HEA was formerly an associate of the Group and also a subsidiary of GKG. During year 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.

(ix) Huayi is an associate of the Group.

(x) Kelon Freezer was formerly an associate of the Group. It became a subsidiary of the Company during year 2002.

30. RELATED PARTY TRANSACTIONS *(continued)*

II. Balances due from/to related companies *(continued)*

Notes: *(continued)*

(b) Transactions with other related parties *(continued)*

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

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

(xii) The Company made prepayments amounting to an aggregate of RMB34,000,000 indirectly through its subsidiary, Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon"), to Chengdu Xinxing, which is an associate of Chengdu Engine, the minority investor of Chengdu Kelon. As consideration for such prepayment, Chengdu Xinxing agreed to repay Chengdu Kelon by supplying an agreed number of refrigeration parts together with interest payments at an annual rate of approximately 9%. The prepayment was guaranteed by Chengdu Engine and Chengdu Kelon has the right to deduct from any dividends payable to Chengdu Engine the outstanding amount of any payments (in whatever form) due from Chengdu Xinxing directly or indirectly to the Company.

(xiii) Guangzhou Antaida is an associate of the Group. The Group and Guangzhou Antaida entered into a logistic service agreement, pursuant to which Guangzhou Antaida provides transportation service to the Group. A 4% service fee is charged on delivery and discharge of goods.

(xiv) Licence agreement on the use of trademark

Under a licence agreement ("Licence Agreement") dated 3 April 2003 entered into between the Company and Greencool Refrigerant (China) Co., Ltd. ("Greencool China"), Greencool China granted to the Company an exclusive right to use the trademark "Combine" 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 Greencool China; and/or (c) all "Combine" trademark registrations as may be assigned to Greencool China 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 Greencool China, 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, Greencool China 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 trademark of "Combine" on the refrigerators products and air-conditioners products under the Licence Agreement. Mr. Gu Chu Jun, the Chairman of the Company, has an equity interest in Greencool China.

(xv) During the year, the Group entered into an agreement with Jiangxi Fadasi to establish a company, 江西科龍康拜恩電器有限公司 ("Jiangxi Combine"), to engage in the manufacturing and sale of refrigerators, air-conditioners and other household appliances. Jiangxi Combine is now owned as to 55% by the Group and 45% by Jiangxi Fadasi. As at 31 December 2003, Jiangxi Fadasi owed the Group RMB19 million (also being the maximum amount outstanding during the year).

(xvi) Shanghai Yilian is an associate of the Group.

30. RELATED PARTY TRANSACTIONS *(continued)*

II. Balances due from/to related companies *(continued)*

Notes: *(continued)*

(c) Pricing of the related party transactions

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

(d) 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.

(e) Violation of Listing Rules

As disclosed in the Company's announcement dated 13 March 2002, the Group was not in compliance with the listing rules and regulations of The Stock Exchange of Hong Kong Limited and Shenzhen Stock Exchange with regard to certain of its connected transactions. The relevant Stock Exchanges have indicated to the Company that they reserve the right to take any action, if appropriate, under the relevant listing rules and regulations against the Company and/or the responsible directors.

31. MAJOR NON-CASH TRANSACTIONS

The amount 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 (note 30II) were settled by transferring to the Group the land use right in respect of a parcel of residential land located at Shunde, Guangdong Province, the PRC and the trademarks "Kelon" and "Ronshen" (see note 16).

32. CAPITAL COMMITMENTS

	2003 *RMB'000*	2002 *RMB'000*
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the financial statements	105,210	37,910

33. CONTINGENT LIABILITIES

	2003 *RMB'000*	2002 *RMB'000*
Guarantees for loan facilities granted to an associate	–	3,975

34. RETIREMENT BENEFITS SCHEMES

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

The total cost charged to the income statement of approximately RMB15,566,000 (2002: RMB10,007,000) represents contribution payable to the schemes by the Group at rates specified in the rules of the schemes.

35. RESERVES

(a) Statutory reserves

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

(b) Distributable reserves of the Company

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

As at 31 December 2003, the Company's reserves available for distribution to its shareholders amounted to approximately RMB197,891,000 (2002: nil).

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

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

	2003 *RMB'000*	2002 *RMB'000*
Net assets as per financial statements prepared under IFRS	2,810,866	2,590,068
Adjustment on property, plant and equipment revaluation and related depreciation	(2,135)	(15,067)
Net assets as per financial statements prepared under PRC accounting standards and regulations	2,808,731	2,575,001

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

	2003 *RMB'000*	2002 *RMB'000*
Net profit for the year as per financial statements prepared under IFRS	191,170	84,593
Adjustment on property, plant and equipment revaluation and related depreciation	11,010	16,684
Net profit for the year as per financial statements prepared under PRC accounting standards and regulations	202,180	101,277

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

37. BALANCE SHEET OF THE COMPANY

	2003 *RMB'000*	2002 *RMB'000*
Non-current assets	3,385,709	2,659,289
Current assets	3,802,190	3,566,028
Current liabilities	(3,534,430)	(2,617,890)
Net current assets	267,760	948,138
	3,653,469	3,607,427
Capital and reserves		
Share capital	992,007	992,007
Reserves	2,078,476	1,855,293
	3,070,483	2,847,300
Non-current liabilities	582,986	760,127
	3,653,469	3,607,427