

## 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’s 459,589,808 overseas public shares (hereinafter referred to as “H Shares”) were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996. In 1998, the Company obtained approval to issue 110,000,000 domestic shares (hereinafter referred to as “A Shares”), which were listed on the Shenzhen Stock Exchange on 13 July 1999.

On 29 October 2001 and 5 March 2002, the former single largest shareholder of the Company, Guangdong Kelon (Rongsheng) Group Company Limited (“GKG”, the 34.06% shareholder) entered into a share transfer agreement and a supplementary agreement with Greencool Enterprise Development Company Limited (“Greencool Enterprise”), in connection with the transfer of 204,775,755 legal person shares of the Company to Greencool Enterprise, representing 20.64% of the total share capital of the Company. The share transfer was completed on 18 April 2002, and accordingly, the shareholdings of Greencool Enterprise was increased to 20.64% while that of GKG was reduced to 13.42%.

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

### Accounting Regulations and Standards

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

### Accounting principles and basis of valuation

The Company maintains its accounting records on accrual basis and are recorded at historical cost.

### Accounting year

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

### Reporting currency

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

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### Foreign exchange translation

Transactions in foreign currencies (other than the reporting currency) 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.

### Basis of consolidation

#### (1) Consolidation scope

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

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

The Company accounts for the unconsolidated subsidiaries by using equity method.

#### (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 and the consolidated cash flow statement from the effective date of acquisition as appropriate.

All significant intercompany transactions and balances are eliminated on consolidation.

### 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. Shareholders’ equity, except for retained earnings, are translated into Renminbi at the market rates at transaction dates. 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 income. The difference between translated assets and translated liabilities plus equity is shown separately in the balance sheet as exchange differences arising from the translation of the foreign currency financial statements.

The translation of cash flow has been made at the average foreign exchange rate. The effect of foreign exchange rate changes on cash will be treated as adjustments and was shown as “Effect of foreign exchange rate changes on cash” in the cash flow statement. All opening balances shall represent the ending balances arrived at after the above translations and stated in the previous financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### **Cash equivalents**

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

### **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 or those amount with less possibility to be recovered 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 accounted for using the allowance method and 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 raw materials movement. At the end of each period, amortization for cost variances is made to the standard cost to arrive at the actual cost.

Actual cost is applied for the record of movement of work-in-progress and finished goods, and is recognised on a weighted average basis.

### **Provision for inventories**

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENT *(continued)*

### Long-term investments

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

Long-term equity investments is stated at acquisition cost.

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

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

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

When a long-term equity investment is accounted for using the equity method, the difference between the initial investments cost of the Company and the Company's share of equity of the investee enterprise is shown as "long-term equity investment difference". The excess of the initial investments cost over the share of equity of the investee enterprise should be debited to the "long-term equity investment difference" and amortised evenly over a specified investment period. Where the investment period is specified in the contract, it should be amortised over that 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 the share of equity of the investee enterprise, which has been occurred prior to the issuance of document Caikuai [2003] No. 10, should be credited to the "long-term equity investment difference" and amortised evenly over a specified period. Where the investment period is specified in the contract, it should be amortised 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 less than 10 years. While the shortfall of the initial investments cost over the share of equity of the investee enterprise, is occurred after the issue of document Caikuai [2003] No. 10, should be credited to "capital reserve – provision for equity investment".

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

At the end of each period, the Company determines whether an impairment should be recognised for a long-term investment by considering the indications that such a loss may have incurred. Where the recoverable amount of long-term investment is lower than its book value, provision for impairment of long-term investment is recognised for the difference.

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENT *(continued)*

### Calculation of recoverable amount

Recoverable amount represents the higher of the net selling price of the asset and the estimated discounted future cash flow generated from the continuing use of the asset and from the disposal of such asset at the end 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 relatively higher 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:

	Estimated residual values	Estimated useful lives	Annual depreciation rates
Buildings and structures	5%	20-50 years	1.9%-4.75%
Machinery and equipment	5%	10 years	9.5%
Furniture, fixtures and office equipment	5%	5 years	19.0%
Motor vehicles	5%	5 years	19.0%

### Provision for impairment of fixed assets

At the end of each period, the Company determines whether an impairment loss should be recognised for a fixed asset by considering the indication that such a loss may have occurred. Where the recoverable amount of any fixed asset is lower than its carrying amount, an impairment loss on fixed assets is recognised for the difference.

### Construction in progress

Construction in progress is stated at actual cost incurred for the construction.

Cost comprises construction expenditure incurred during the construction period, capitalized borrowing costs incurred on a specific borrowing for the construction of fixed assets before it has reached the working condition for its intended use and other relevant expenses. The construction in progress is transferred to fixed assets when it has reached the working condition for its intended use. 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. An impairment loss is recognised for the shortfall of the recoverable amount of construction in progress below its carrying amount.

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENT *(continued)*

### Intangible assets

Intangible assets are stated at actual cost. The actual cost of the intangible assets injected by the investors is determined by the value having been recognized by each party. The actual cost of acquired intangible assets is determined on the basis of the actual consideration paid. Intangible asset obtained by acquisition of non-cash asset with receivables is recognized at the book value of the disposed asset plus the cash compensation and the related tax expenses.

The land use right which was acquired prior to the implementation of “Enterprise Accounting Regulations” or obtained by payments of grant land premium shall be accounted for as intangible assets and has been amortized evenly by the following method and be stated in the profit and loss. The land use right which was acquired following the implementation of “Enterprise Accounting Regulations” or obtained by payments of grant land premium shall be accounted for as intangible assets before the development and construction for private use purpose and shall be amortized evenly by the following method. When the land being utilized to the construction for private use purpose, the nominal value of the land use right should be entirely transferred to the costs of construction in progress.

Intangible assets shall be amortized evenly by instalment within the estimated tenure of use from the month of acquisition and shall be stated in the profit and loss. Where the estimated tenure of use exceeds the benefited tenure provided in the relevant contract or the valid tenure required by law, the term of amortization shall not be longer than the benefited tenure or the valid tenure whichever is the shorter. Where there is no benefited tenure in the contract nor valid tenure required by law, the tenure of amortization shall be 10 years.

### Provision for impairment of intangible assets

At the end of each period, the Company determines whether an impairment loss should be recognised for an intangible asset by considering the indication that such a loss may have occurred. Where the recoverable amount of any intangible asset is lower than its carrying amount, an impairment loss on intangible assets is recognised for the difference.

### Long-term deferred expenditures

Long-term deferred expenditures are recorded at cost when incurred, and amortised evenly over the expected beneficial period.

### Provision

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENT *(continued)*

### **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 benefits associated with the transactions will flow into the Company and relevant revenue and cost can be reliably measured.

#### *Interest income*

Interest income from bank deposits and fund occupied by related parties is recognised on a time proportion basis at the applicable interest rates.

### **Subsidy income**

Subsidy income is recognised when received.

### **Lease**

Capital lease is the lease having actually transferred all the risks and rewards related to the ownership of assets. The lease other than the capital lease is operating lease.

#### *The company as a lessee under the operating leases*

The rental payment for operating leases are recognised as an expense at the straight line method over the lease term.

#### *The company as a lessor under the operating leases*

The rental income from operating leases are recognised as income at the straight line method over the relevant term.

### **Income tax**

Income tax is provided under the tax payable method.

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



### 3. CHANGE IN THE ACCOUNTING POLICY

The Company has changed the following accounting policies in the year:

According to the MOF Caikuai [2003] No. 10, major overhaul costs of fixed assets are written off directly in the current period where they will not result in expected future economic benefits, in excess of those originally assessed, flowing to the Company; whereas such costs were accrued in advance and deferred in prior years. This change in accounting policy is adopted prospectively. The remaining balance of major overhaul costs arising from the deferred method is still accounted for under the prior year's accounting policy until it diminishes.

According to the MOF Caikuai [2003] No. 10, in the event the equity method is adopted for long term equity investment occurred after 17 March 2003, the amount of initial investment less than the percentage of equity interest in the investee is recorded as a credit balance in the account of "capital reserve – provision for equity investment" instead of the previous treatment of being recorded as a credit balance in the account of "long term equity investment – difference in long term equity investment" and amortized on a straight-line basis for the period of investment. The change in accounting policy has been applied prospectively.

According to the MOF's notice re issuance of the CAS – Events Occurring after the Balance Sheet Date (Caikuai [2003] No. 12), a profit distribution to shareholders which the Board of Directors proposed during the period between the balance sheet date and the date of approval for the issue of the financial statements is presented as a separate component of shareholders' equity in the balance sheet instead of recorded as an adjustment item and recognised as dividend payable on the balance sheet date in prior years. The change in accounting policy has been adjusted retrospectively.

The change of accounting policy mentioned above does not have a material effect on the net profit and the net assets for the current year.



#### 4. TAXATION

##### Value-added Tax

The Group is subject to VAT, which is charged at a rate of 17%. Pursuant to VAT regulation, input VAT paid on purchases of goods can be used to offset the output VAT on sales.

##### Enterprise Income Tax

The Company was established in Shunde, Guangdong Province and located in Shunde High New Technology Development Zone. The Company is classified as high new technology enterprise by 廣東省科學技術廳. Pursuant to Shunde Provincial Tax Bureau, the Company is subject to enterprise income tax ("EIT") at a rate of 15%. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 18% in 2003.

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"), Yingkou Kelon Refrigerator Co., Ltd. ("Yingkou Kelon"), Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Freezer") and 杭州科龍製冷電器有限公司 ("Hangzhou 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 subsidiaries, 揚州科龍電器有限公司 ("Yangzhou Kelon") and 江西科龍康拜恩電器有限公司 ("Jiangxi Combine"), established in the economy and technology development zone and is subject to an EIT rate of 15%. Together with 3% of the local enterprise income tax, the effective EIT rate is 18%. The Company's subsidiary, Kelon Mould, is classified as a high new technology enterprise and is subject to an EIT of 15%. Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon") and Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon"), is subject to an EIT rate of 30%. Together with 3% of the local enterprise income tax, the effective EIT rate is 33%.

Pursuant to Income Tax Law, the aforementioned subsidiaries are entitled to preferential tax treatment with full exemption from EIT for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years.

In 2003, 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%. Yingkou Kelon, Jiangxi Kelon, Kelon Freezer and Chengdu Kelon are still in an accumulated tax loss position and are not applicable for tax exemption treatment. Hangzhou Kelon, Yangzhou Kelon and Jiangxi Combine are still at their preliminary stage and are not subject to any EIT.

Shunde Kelon Household Electrical Appliance Company Limited ("Kelon HEA"), Huao Electrical Electronics Co., Ltd. ("Huao Electronics"), Shunde Jiake Electronic Co., Ltd. ("Shunde Jiake"), 順德市崎輝服務有限公司 ("Qifei"), Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Rongsheng"), Shunde Wangao Import & Export Co., Ltd. ("Wangao Co"), Jilin Kelon Electric Appliance Co., Ltd. ("Jilin Kelon") and 商丘科龍電器有限公司 ("Shangqiu Kelon") are subject to an EIT of 30%. Together with the local enterprise income tax rate of 3%, the effective EIT rate is 33%.

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

##### Other tax

Turnover tax	at a rate of 5% on the assessable income
City construction tax	at a rate of 7% on the assessable circular tax

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

As at 31 December 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 year
			Directly	Indirectly			
Pearl River Electric Refrigerator Company Limited ("Pearl River")	Hong Kong	HK\$400,000	–	100%	Trading in raw materials and parts for refrigerators	Limited liability company	Yes
Kelon Electric Appliances Co., Ltd. ("Kelon Electric")	Hong Kong	HK\$10,000	–	100%	Property investment	Limited liability company	Yes
Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic")	PRC	US\$15,800,000	45%	25%	Manufacture of plastic parts	Sino-foreign joint venture enterprise	Yes
Kelon Development Company Limited ("Kelon Development")	Hong Kong	HK\$5,000,000	100%	–	Investment holdings	Limited liability company	Yes
Guangdong Kelon Mould Co., Ltd. ("Kelon Mould")	PRC	US\$15,000,000	40%	30%	Manufacture of moulds	Sino-foreign joint venture enterprise	Yes
Guangdong Kelon Refrigerator Ltd. ("Kelon Refrigerator")	PRC	US\$26,800,000	70%	30%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
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 Islands	US\$1	–	100%	Advertising agency	Foreign company	Yes

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Kelon International Inc. ("KII")	British Virgin Islands	US\$50,000	-	100%	Investment holding and sales of refrigerators and air-conditioners	Foreign company	Yes
Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings")	PRC	US\$5,620,000	70%	30%	Manufacture and sale of components for refrigerators and air-conditioners	Sino-foreign joint venture Menterprise	Yes
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Rongsheng")	PRC	RMB2,000,000	76%	-	Sale of refrigerators	Limited liability company	Yes
Beijing Hengsheng Xin Chuang Technology Company ("Beijing Hengsheng")	PRC	RMB30,000,000	80%	-	Research and develop industrial and commercial IT system	Limited liability company	Yes
Shunde Kelon Jiake Electronic Company Limited ("Jiake Electronic")	PRC	RMB60,000,000	70%	30%	IT and communication technology, and micro-electronics technology development	Limited liability company	Yes
Beijing Kelon Tiandi IT Network Limited ("Kelon Tiandi")	PRC	RMB5,000,000	-	78%	Any business activities not prohibited by laws or regulations	Limited liability company	Yes
Beijing Kelon Shikong Information Technology Company Limited ("Kelon Shikong")	PRC	RMB5,000,000	-	78%	Any business activities not prohibited by laws or regulations	Limited liability company	Yes
Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Freezer")	PRC	RMB237,000,000	44%	56%	Manufacture and sale of freezers	Sino-foreign joint venture enterprise	Yes
Shunde Kelon Household Electrical Appliance Company Limited ("Kelon HEA")	PRC	RMB10,000,000	25%	75%	Manufacture and sales of electrical household appliances	Limited liability company	Yes

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Shunde Wangao Import & Export Co., Ltd. ("Wangao Co")	PRC	RMB3,000,000	20%	80%	Import and export business	Limited liability company	Yes
順德市崎輝服務有限公司 ("Qifei")	PRC	RMB1,000,000	–	100%	Corporate management consultancy, catering services, household decoration designs	Limited liability company	Yes
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")	PRC	US\$29,800,000	60%	40%	Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small electrical appliances	Sino-foreign joint venture enterprise	Yes
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
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

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Hangzhou Kelon Electrical Company Limited ("Hangzhou Kelon")	PRC	US\$24,100,000	40%	30%	Research and development of the technology for environmental friendly refrigerators, production of high efficiency, energy saving and environmental friendly refrigerators, information consultation, warehousing, and sale of the products made by the Company	Sino-foreign joint venture enterprise	Yes
Yangzhou Kelon Electrical Company Limited ("Yangzhou Kelon")	PRC	US\$29,800,000	30%	70%	Production of energy saving and environmental friendly refrigerators and other energy saving cooling appliances, and sale of products made by the Company	Sino-foreign joint venture enterprise	Yes
Shangqiu Kelon Electrical Company Limited ("Shangqiu Kelon")	PRC	RMB150,000,000	–	100%	Research, development, production and sale of household and commercial air-conditioners, refrigerators, freezers, small household electrical appliances and parts and accessories, and provision of relevant information and technical consultancy services	Limited liability company	Yes

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
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 household electrical appliances	Sino-foreign joint venture enterprise	Yes
Zhuhai Kelon Industrial Development Co., Ltd ("Zhuhai Kelon")	PRC	US\$29,980,000	75%	25%	Production and sales of semi-conductor refrigerators, auto air-conditioners, new chlorofluorocarbon free refrigerants and its ancillary equipment, electrical machines, chemical materials, construction materials, textiles (excluding those prohibited by the State), and provision of consultancy service of relevant technology information	Sino-foreign joint venture enterprise	No

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

Kelon Japan was in the process 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" (Chikuai Erzi (96) No. 2) issued by the MOF, Kelon USA and Zhuhai Kelon were not consolidated as its total assets, operating income and net profit are relatively small. The Company accounts for those unconsolidated subsidiaries by equity method.

Hangzhou Kelon, Yangzhou Kelon, Shangqiu Kelon and Jiangxi Combine, all of which are subsidiaries newly incorporated during the year, were included in the scope of consolidated financial statements.

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

Particulars of associates of the Company are as follows:

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



## 6. BANK BALANCES AND CASH

	Group 31 December 2003			Group 31 December 2002		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash						
RMB	–	–	1,472,684	–	–	3,282,856
HKD	30,000	1.0659	31,977	4,767	1.0614	5,059
USD	8,330	8.2770	68,950	8,330	8.2770	68,950
Others	–	–	733	–	–	730
Bank Deposit						
RMB	–	–	591,373,941	–	–	626,665,594
USD	14,957,296	8.2770	123,801,535	5,832,364	8.2770	48,274,480
HKD	4,831,904	1.0659	5,150,327	3,082,079	1.0614	3,271,319
YEN	39,731,673	0.0754	2,995,768	–	–	–
EURO	194,158	9.9106	1,924,219	–	–	–
Others	–	–	84,542	–	–	5,069,152
Other Monetary Assets						
Pledged Deposits						
RMB	–	–	1,378,127,084	–	–	730,447,322
USD	1,813,041	8.2770	15,006,537	–	–	–
			2,120,038,297			1,417,085,462

Pledged deposits represented the deposits secured for bank acceptance notes, commercial acceptance notes, letter of credits and bank borrowings.

## 7. NOTES RECEIVABLE

	Group 31 December 2003 RMB	Group 31 December 2002 RMB
Bank acceptance notes, unsecured	354,560,252	108,722,422
Commercial acceptance notes, unsecured	380,317,337	513,905,384
	734,877,589	622,627,806

**8. ACCOUNTS RECEIVABLE**

The aging analysis of accounts receivable is as follows:

	<b>Group</b>			
	<b>31 December 2003</b>			
	<b>Amount</b>	<b>Ratio</b>	<b>Provision for</b>	<b>Net value</b>
	<b>RMB</b>	<b>%</b>	<b>bad debt</b>	<b>RMB</b>
			<b>RMB</b>	<b>RMB</b>
Within one year	757,635,557	86	26,515,521	731,120,036
One to two years	60,769,251	7	60,769,251	—
Two to three years	45,860,807	5	45,860,807	—
Over three years	16,432,437	2	16,432,437	—
	<b>880,698,052</b>	<b>100</b>	<b>149,578,016</b>	<b>731,120,036</b>

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

	<b>Company</b>			
	<b>31 December 2003</b>			
	<b>Amount</b>	<b>Ratio</b>	<b>Provision for</b>	<b>Net value</b>
	<b>RMB</b>	<b>%</b>	<b>bad debt</b>	<b>RMB</b>
			<b>RMB</b>	<b>RMB</b>
Within one year	288,498,073	74	27,059,981	261,438,092
One to two years	44,861,074	12	44,861,074	—
Two to three years	40,023,455	10	40,023,455	—
Over three years	16,432,437	4	16,432,437	—
	<b>389,815,039</b>	<b>100</b>	<b>128,376,947</b>	<b>261,438,092</b>

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

**8. ACCOUNTS RECEIVABLE (continued)**

The Group's five largest debtors are as follows:

Total amount of five largest debtors	Percentage in total accounts receivable
<i>RMB</i>	%
71,300,982	8

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

**9. OTHER RECEIVABLES**

The aging analysis of other receivables is as follows:

	Group 31 December 2003			
	Amount <i>RMB</i>	Ratio %	Provision for bad debt <i>RMB</i>	Net value <i>RMB</i>
Within one year	56,146,533	41	183,757	55,962,776
One to two years	70,688,378	52	–	70,688,378
Two to three years	8,822,898	6	2,606,868	6,216,030
Over three years	797,700	1	–	797,700
	136,455,509	100	2,790,625	133,664,884

	Group 31 December 2002			
	Amount <i>RMB</i>	Ratio %	Provision for bad debt <i>RMB</i>	Net value <i>RMB</i>
Within one year	279,633,950	23	–	279,633,950
One to two years	952,455,232	77	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
	1,236,662,053	100	178,787,987	1,057,874,066

	Company 31 December 2003			
	Amount <i>RMB</i>	Ratio %	Provision for bad debt <i>RMB</i>	Net value <i>RMB</i>
Within one year	1,009,046,475	61	–	1,009,046,475
One to two years	636,737,092	38	–	636,737,092
Two to three years	6,066,409	1	–	6,066,409
Over three years	782,000	–	–	782,000
	1,652,631,976	100	–	1,652,631,976

**9. OTHER RECEIVABLES (continued)**

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

Particulars of the substantial debtor are as follows:

Name of company	31 December 2003 <i>RMB</i>	31 December 2002 <i>RMB</i>
GKG	–	684,992,532

On 21 November 2002, the Company entered into a debt settlement agreement with GKG, whereby GKG settled its outstanding debts by transferring its trademarks “科龍”, “容聲”, “容升” and the land use rights. The carrying amounts of the debts were used as the cost of trademarks and land use rights. Details are set out in note 44(5)(e)(i).

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

**10. PROVISION FOR BAD DEBT**

	Group At the beginning of the year <i>RMB</i>	Provision for the year <i>RMB</i>	Write back for the year <i>RMB</i>	Reversal for the year <i>RMB</i>	Group At the end of the year <i>RMB</i>
Provision for bad debt:					
Accounts receivable	140,506,141	9,674,351	–	(602,476)	149,578,016
Other receivable	178,787,987	183,757	(172,409,033)	(3,772,086)	2,790,625
Total	319,294,128	9,858,108	(172,409,033)	(4,374,562)	152,368,641

**11. PREPAYMENTS**

The aging analysis of prepayments is as follows:

	Group 31 December 2003		Group 31 December 2002	
	<i>RMB</i>	%	<i>RMB</i>	%
Within one year	165,879,789	100	89,011,737	100

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

**12. SUBSIDY RECEIVABLES**

	<b>Group 31 December 2003 RMB</b>	<b>Group 31 December 2002 RMB</b>
Export tax receivables	187,704,983	164,994,765

Included in export tax receivable was an amount of approximately RMB106,000,000 pledged for bank borrowings. Details are set out in note 19(i).

**13. INVENTORIES**

	<b>Group 31 December 2003</b>		
	<b>Cost RMB</b>	<b>Provision for inventories RMB</b>	<b>Net value RMB</b>
Raw materials	727,298,933	38,461,291	688,837,642
Work in progress	102,903,931	172,000	102,731,931
Finished goods	1,219,334,489	65,286,425	1,154,048,064
	<b>2,049,537,353</b>	<b>103,919,716</b>	<b>1,945,617,637</b>

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

The inventories as at the end of both years included a sum of RMB260,000,000 pledged for long-term bank borrowings.

The provision for inventories is as follows:

	<b>Raw materials RMB</b>	<b>Work in progress RMB</b>	<b>Finished goods RMB</b>	<b>Total RMB</b>
At the beginning of the year	50,997,459	–	85,729,527	136,726,986
Provision for the year	2,598,000	172,000	32,491,035	35,261,035
Reversal for the year	(15,134,168)	–	(52,934,137)	(68,068,305)
At the end of the year	<b>38,461,291</b>	<b>172,000</b>	<b>65,286,425</b>	<b>103,919,716</b>

## 14. LONG-TERM EQUITY INVESTMENTS

	<b>Group</b> <b>31 December</b> <b>2003</b> <b>RMB</b>	<b>Group</b> <b>31 December</b> <b>2002</b> <b>RMB</b>
Investments in associates	134,358,604	136,626,984
Other long-term equity investments	7,249,050	10,419,066
Long-term equity investment difference	109,814,270	122,328,578
<b>Total</b>	<b>251,421,924</b>	<b>269,374,628</b>
Less: Provision for impairment loss	79,038,525	71,200,641
<b>Net long-term equity investments</b>	<b>172,383,399</b>	<b>198,173,987</b>
	<b>Company</b> <b>31 December</b> <b>2003</b> <b>RMB</b>	<b>Company</b> <b>31 December</b> <b>2002</b> <b>RMB</b>
Investments in subsidiaries	1,235,651,509	986,639,998
Investments in associates	130,319,332	132,390,025
Other long-term equity investments	7,249,050	7,248,851
Long-term equity investment difference	144,516,300	158,250,936
Exchange difference from translation of financial statements denominated in foreign currency	—	(1,814,159)
<b>Total</b>	<b>1,517,736,191</b>	<b>1,282,715,651</b>
Less: Provision for impairment loss	59,381,641	59,381,641
<b>Net long-term equity investments</b>	<b>1,458,354,550</b>	<b>1,223,334,010</b>

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

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

Name of Investee	Cost		Percentage of registered capital of investee %	Change of equity in investee		Carrying amount at the end of the year RMB
	At the beginning of the year	Addition during the year		Change of equity during the year	Accumulated change	
	RMB	RMB		RMB	RMB	
Kelon Development	11,200,000	-	100	(28,955,900)	76,807,848	88,007,848
Kelon Refrigerator	155,552,426	-	70	41,671,513	167,721,336	323,273,762
Kelon Air-Conditioner	214,403,766	-	60	159,308,508	(549,110,549)	(334,706,783)
Rongsheng Plastic	53,270,064	-	45	15,031,123	75,104,477	128,374,541
Chengdu Kelon	90,000,000	-	45	10,789,568	(4,695,849)	85,304,151
Yingkou Kelon	84,000,000	-	42	707,495	(8,073,284)	75,926,716
Kelon Mould	49,860,000	-	40	970,196	4,110,587	53,970,587
Kelon Fittings	32,634,554	-	70	16,496,677	39,306,039	71,940,593
Beijing Hengsheng	24,000,000	-	80	(399,605)	(5,990,961)	18,009,039
Jiake Electronic	42,000,000	-	70	(21,573,088)	(22,365,157)	19,634,843
Sichuan Rongsheng	1,520,000	-	76	17,275	89,228	1,609,228
Wangao Co	600,000	-	20	(1,054,835)	(1,276,340)	(676,340)
Kelon HEA	2,500,000	-	25	(1,104,451)	(1,709,607)	790,393
Kelon Freezer	104,280,000	-	44	10,853,980	(92,446,476)	11,833,524
Jiangxi Kelon	147,763,896	-	60	(3,238,705)	1,088,460	148,852,356
Jilin Kelon	-	180,000,000	90	(20,543,022)	(20,543,022)	159,456,978
Hangzhou Kelon	-	24,000,000	40	-	-	24,000,000
Yangzhou Kelon	-	24,666,950	30	-	-	24,666,950
	1,013,584,706	228,666,950		178,976,729	(341,983,270)	900,268,386
Add: Accrued liability of investee enterprise (i)	(214,403,766)	(600,000)		(158,253,673)	550,386,889	335,383,123
	799,180,940	228,066,950		20,723,056	208,403,619	1,235,651,509

- (i) As at 31 December 2003, Kelon Air-Conditioner and Wangao Co, the Company's subsidiaries, sustained excess losses. The Company has undertaken to continue to extend financial support to Kelon Air-Conditioner and Wangao Co so that Kelon Air-Conditioner and Wangao Co 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 losses. Hence, the excess losses of Kelon Air-Conditioner will totally be borne by the Company. The Company continues to reduce the carrying value of long-term equity investments even the carrying value of long-term equity investments reduced to zero. The credit balance of long-term equity investments is recorded as liability and shown as "accrued liabilities of investee enterprise" in the balance sheet.



**14. LONG-TERM EQUITY INVESTMENTS (continued)**

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

Name of Investee	Cost of Investment RMB	Transfer out RMB	Percentage of registered capital of investee %	Change of equity in investee		Carrying amount transferred to subsidiaries RMB	Carrying amount at the end of the year RMB
				Change of equity during the year RMB	Accumulated change RMB		
Huayi Compressor (i)	118,013,641	-	22.725	(2,340,875)	955,838	-	118,969,479
Shanghai Yilian	11,077,600	-	46.67	-	(2,115,950)	-	8,961,650
Guangzhou Antaila	2,000,000	-	20.00	270,182	388,203	-	2,388,203
Company total	131,091,241	-		(2,070,693)	(771,909)	-	130,319,332
C&Y	3,712,100	-	25.00	-	-	-	3,712,100
Chongqing Kelon (ii)	200,000	(200,000)	12.00	-	16,831	(16,831)	-
Chongqing Rongsheng	280,000	-	19.60	19,144	47,172	-	327,172
Group total	135,283,341	(200,000)		(2,051,549)	(707,906)	(16,831)	134,358,604

(i) In preparing the financial statements for the year ended 2002, the interests in Huayi Compressor's was not accounted for by the Company by using equity method. In the current year, adjustments were made to Huayi Compressor's accumulated equity in accordance with the audited financial statements of Huayi Compressor. An investment loss of RMB29,903,001 was recognised and a provision of equity investment of RMB27,562,126 was made.

(ii) Chongqing Kelon Electrical Appliance Company Limited ("Chongqing Kelon"), an associate of the Company, was liquidated during the year. Its liabilities were borne by 重慶同益電器銷售有限公司, the other investor of Chongqing Kelon, while Kelon Air-conditioner, the another investor, seceded from the Board of Directors of Chongqing Kelon without recovery of its investment cost. During the year, the Company has recognised a loss for its investment cost of RMB200,000 and an accumulated change of equity of RMB16,381.

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

Name of Investee	Cost RMB	At the beginning of the year RMB	Addition during the year RMB	Amortisation period	Amortisation charge for the year RMB	Amounts after accumulated amortisation RMB
Kelon Air-Conditioner	66,596,234	59,381,641	-	10 years	-	59,381,641
Huayi Compressor	137,346,359	98,869,295	-	10 years	13,734,636	85,134,659
Company total	203,942,593	158,250,936	-		13,734,636	144,516,300
C&Y	9,007,892	8,107,103	-	10 years	-	8,107,103
Yingkou Kelon	1,010,737	810,737	-	10 years	100,000	710,737
Kelon Freezer	(88,611,120)	(86,216,225)	-	18.5 years	(4,789,791)	(81,426,434)
Wangao Co	2,744,027	2,629,693	-	10 years	-	2,629,693
Kelon HEA	34,694,631	33,538,143	-	10 years	3,469,463	30,068,680
Huaao Electronic	5,434,634	5,208,191	-	10 years	-	5,208,191
Group total	168,223,394	122,328,578	-		12,514,308	109,814,270

Due to the excess losses of Kelon Air-Conditioner and Wangao Co, the credit balance of long-term equity investments of Kelon Air-conditioner and Wangao Co were shown as "Accrued liability of investee enterprise". The Company has ceased to amortise its long-term equity investment difference of Kelon Air-Conditioner and Wangao Co and a full provision of impairment for long-term equity investment in respect of the remaining unamortised amount was made.

**14. LONG-TERM EQUITY INVESTMENTS** *(continued)*(3) Long-term equity investment difference of the Company and the Group *(continued)*

Besides, due to the excess losses of Huao Electronic, the Company ceased to amortise its long-term equity investment difference and a full provision of impairment for long-term investment in respect of the remaining unamortised amount was made.

## (4) The changes of provision for long-term investment impairment are as follows:

	<b>At the beginning of the year RMB</b>	<b>Provision for the year RMB</b>	<b>Reversal for the year RMB</b>	<b>At the end of the year RMB</b>
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
Wangao Co	–	2,629,693	–	2,629,693
Huao Electronic	–	5,208,191	–	5,208,191
Group total	71,200,641	7,837,884	–	79,038,525

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

	Group				Total RMB
	Buildings and structures RMB	Machinery and equipment RMB	Furniture, fixture and office equipment RMB	Motor vehicles RMB	
<b>Cost</b>					
At 1 January 2003	1,421,575,318	1,840,524,621	305,632,935	68,103,258	3,635,836,132
Additions	27,855,338	37,887,892	7,053,445	6,268,168	79,064,843
Transfer from construction in progress	1,462,966	8,038,386	4,052,685	–	13,554,037
Disposals	(8,220,774)	(17,092,571)	(5,249,597)	(3,806,707)	(34,369,649)
Exchange difference	496,956	242,864	23,470	6,966	770,256
At 31 December 2003	1,443,169,804	1,869,601,192	311,512,938	70,571,685	3,694,855,619
<b>Accumulated depreciation</b>					
At 1 January 2003	321,003,809	1,037,279,093	188,648,100	39,536,591	1,586,467,593
Provision for the year	73,841,792	138,117,199	21,003,934	6,005,071	238,967,996
Eliminated on disposals	(1,539,515)	(14,942,860)	(3,146,250)	(3,292,696)	(22,921,321)
Exchange difference	40,271	137,906	20,703	2,186	201,066
At 31 December 2003	393,346,357	1,160,591,338	206,526,487	42,251,152	1,802,715,334
<b>Provision for impairment</b>					
At 1 January 2003	51,692,513	9,673,692	9,000	–	61,375,205
Provision for the year	–	–	–	–	–
Exchange difference	96,742	–	–	–	96,742
At 31 December 2003	51,789,255	9,673,692	9,000	–	61,471,947
<b>Net value</b>					
At 1 January 2003	1,048,878,996	793,571,836	116,975,835	28,566,667	1,987,993,334
At 31 December 2003	998,034,192	699,336,162	104,977,451	28,320,533	1,830,668,338
Including:					
Net value of fixed assets pledged at 31 December 2003	657,277,474	234,279,988	–	–	891,557,462
Net value of fixed assets from operating lease at 31 December 2003	28,427,553	–	–	–	28,427,553

The net value of fixed assets pledged were secured for commercial acceptance notes, letter of credit and bank borrowings.

## 16. CONSTRUCTION IN PROGRESS

Project Name	Group						Source of capital	
	Budget RMB	At 1 January 2003		Transfer to fixed assets RMB	At 31 December 2003			Percentage of budget %
		RMB	RMB		RMB	RMB		
Installation of production line for refrigerators and freezers	31,000,000	2,600,000	27,930,000	-	30,530,000	100	Self-funding	
Multi-function laboratory for refrigerator testing	3,480,000	2,783,888	521,979	3,305,867	-	100	Self-funding	
Re-construction of factories of Yangzhou Kelon	131,800,000	-	67,734,986	-	67,734,986	51	Self-funding	
Multi-function laboratory for air-conditioners	1,600,000	1,600,000	-	1,600,000	-	100	Self-funding	
Project for Jiangxi Kelon production line	17,015,396	-	9,790,064	-	9,790,064	58	Self-funding	
Others		4,339,174	14,099,156	8,648,170	9,790,160		Self-funding	
<b>Total</b>		<b>11,323,062</b>	<b>120,076,185</b>	<b>13,554,037</b>	<b>117,845,210</b>		<b>Self-funding</b>	

## 17. INTANGIBLE ASSETS

	Group			Total RMB
	Trademarks RMB	Land use rights RMB	Software systems RMB	
<b>Cost</b>				
At 1 January 2003	-	404,997,393	7,268,875	412,266,268
Additions	521,857,699	260,865,911	3,448,770	786,172,380
At 31 December 2003	521,857,699	665,863,304	10,717,645	1,198,438,648
<b>Accumulated amortisation</b>				
At 1 January 2003	-	86,064,479	2,455,923	88,520,402
Provision for the year	13,046,442	14,500,445	3,568,433	31,115,320
At 31 December 2003	13,046,442	100,564,924	6,024,356	119,635,722
<b>Provision for impairment</b>				
At 1 January 2003 and 31 December 2003	-	5,214,752	519,447	5,734,199
<b>Net value</b>				
At 1 January 2003	-	313,718,162	4,293,505	318,011,667
At 31 December 2003	508,811,257	560,083,628	4,173,842	1,073,068,727
<b>Including:</b>				
Net value of intangible assets pledged at 31 December 2003	-	176,153,079	-	176,153,079

**17. INTANGIBLE ASSETS (continued)**

The additions of trademarks and land use rights included an exchange of trademarks of RMB521,857,699 and land use rights of RMB254,737,741 in relation to settlement of an amount due from GKG and Kelon Employee Union and payment of related certificate processing fees, taxes and fees. Details are set out in note 44(5)(e)(i). The trademarks and land use rights are amortized over 10 years and 69 years (of its remaining useful lives) respectively starting from October 2003.

**18. LONG-TERM DEFERRED EXPENDITURES**

	Group				Residual years
	At 1 January 2003 RMB	Additions RMB	Amortization RMB	At 31 December 2003 RMB	
	Moulds and tools	121,266,417	87,032,013	(89,353,985)	
Illustrated advertising	60,855,555	3,334,232	(21,705,086)	42,484,701	1-5 years
Leasehold improvement	4,070,392	1,110,355	(2,233,343)	2,947,404	1-5 years
Others	6,373,599	10,897,654	(10,692,123)	6,579,130	1-3 years
	192,565,963	102,374,254	(123,984,537)	170,955,680	

**19. SHORT-TERM LOANS**

Nature of loans	Group 31 December 2003 RMB	Group 31 December 2002 RMB
Credit loan (i) – RMB	58,900,000	11,500,000
Secured (ii) – RMB	90,000,000	254,000,000
Guaranteed (iii) – RMB	370,000,000	290,000,000
Financing from commercial acceptance notes – RMB	340,000,000	404,664,036
	858,900,000	960,164,036

The above loans bear interest at 4.78% to 6.44% per annum.

- (i) The RMB credit loan is pledged by the export tax receivables.
- (ii) The RMB mortgage loan is secured by the buildings and structures, and machinery and equipment with a net book value of RMB273,736,825 (see note 15).
- (iii) RMB130,000,000 was guaranteed by Greencool Enterprise.

**20. NOTES PAYABLE**

	Group 31 December 2003 RMB	Group 31 December 2002 RMB
Bank acceptance notes	1,804,580,651	424,914,036
Commercial acceptance notes	134,054,354	517,677,693
	1,938,635,005	942,591,729

**21. ACCOUNTS PAYABLE**

At 31 December 2003, the balance does not include any significant amount due to shareholders holding 5% or more of the shares of the Company.

**22. ADVANCE FROM CUSTOMERS**

At 31 December 2003, the balance does not include any significant amount due to shareholders holding 5% or more of the shares of the Company.

**23. TAXES PAYABLES**

	<b>Group 31 December 2003 RMB</b>	<b>Group 31 December 2002 RMB</b>
Income tax	4,722,147	149,452
Value-added tax	(37,784,327)	39,369,749
Others	240,721	330,653
	<b>(32,821,459)</b>	<b>39,849,854</b>

**24. OTHER PAYABLES**

At 31 December 2003, the balance does not include any significant amount due to shareholders holding 5% or more of the shares of the Company.

**25. ACCRUALS**

	<b>Group 31 December 2003 RMB</b>	<b>Group 31 December 2002 RMB</b>	<b>Reasons for not settled</b>
Installation costs	59,866,538	61,277,048	Installation costs to be paid for products already sold out
Interest expenses	–	3,659,416	Incurred but yet to be paid
Sub-contracting fee	3,490,000	116,160	Incurred but yet to be paid
Sales discounts	55,980,928	39,856,044	Incurred but yet to be paid
Promotion fee	34,838,488	35,048,277	Incurred but yet to be paid
Transportation costs	40,532,276	33,619,626	Incurred but yet to be paid
Storage fee	10,408,778	17,131,167	Incurred but yet to be paid
Utility expenses	3,807,974	1,608,183	Incurred but yet to be paid
Auditors' remuneration	4,477,620	4,000,000	Incurred but yet to be paid
Others	7,832,985	14,760,653	Incurred but yet to be paid
	<b>221,235,587</b>	<b>211,076,574</b>	

## 26. PROVISION

Provision represents the provision for warranty. The Company 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.

## 27. LONG-TERM LOANS DUE WITHIN ONE YEAR

	<b>Group 31 December 2003 RMB</b>	<b>Group 31 December 2002 RMB</b>
Long-term loans due within one year (note 28)	405,517,722	65,233,515

## 28. LONG-TERM LOANS

	<b>Group 31 December 2003</b>		<b>Group 31 December 2002</b>		<b>Rate per annum</b>
	<i>HKD</i>	<i>RMB equivalent</i>	<i>HKD</i>	<i>RMB equivalent</i>	
Long-term loan					
– Mortgage bank loan	23,333,871	24,871,574	28,264,637	30,000,086	4.875%
	–	680,000,000	–	460,000,000	4.23%-5.31%
– Guaranteed bank loan	–	165,000,000	–	220,000,000	5.04%-5.31%
– Guaranteed mortgage bank loan	–	–	–	70,000,000	5.04%-5.31%
– Credit loan	–	80,000,000	–	–	5.31%
		949,871,574		780,000,086	
Less: Amount due within one year		405,517,722		65,233,515	
Amount due after one year		544,353,852		714,766,571	

The mortgage bank loan denominated in HKD is secured by the buildings and structures located in Hong Kong with a net book value of RMB78,928,861. The mortgage bank loan denominated in RMB is secured by the buildings and structures with a net book value of RMB513,698,326, fixed bank deposits of RMB140,000,000, and inventories with a net realisable value of approximately RMB260,000,000 (see notes 13 and 15).

The guaranteed bank loan is guaranteed by Greencool Enterprise (see note 44(5)(d) "Relationship among related parties and relevant transactions").



**29. LONG-TERM PAYABLE**

Items	Group 31 December 2003 RMB	Group 31 December 2002 RMB
Pension liabilities	54,142,638	67,682,983
Special long-term payables	8,636,322	8,139,145
Less: Amount due within one year	62,778,960	75,822,128
Amount due after one year	–	–
	62,778,960	75,822,128

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

**30. SHARE CAPITAL**

	31 December 2003 (shares)	Changes in the year (shares)	31 December 2002 (shares)
A. Unlisted shares			
1. Promoter shares			
– domestic legal person shares	337,915,755	–	337,915,755
Total unlisted shares	337,915,755	–	337,915,755
B. Listed shares			
1. Domestic listed ordinary shares denominated in RMB	194,501,000	–	194,501,000
2. Overseas listed foreign shares	459,589,808	–	459,589,808
Total listed shares	654,090,808	–	654,090,808
C. Total number of shares	992,006,563	–	992,006,563

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

**31. CAPITAL RESERVE**

	Share premium <i>RMB</i>	Provision for donation of assets <i>RMB</i>	Provision for equity investments <i>RMB</i>	Group Total <i>RMB</i>
At 1 January 2003	2,433,526,092	17,696,745	1,773,050	2,452,995,887
Additions (note (1))	–	–	28,816,125	28,816,125
Utilisation of reserves to make up accumulated losses (note (2))	(965,024,306)	–	–	(965,024,306)
At 31 December 2003	1,468,501,786	17,696,745	30,589,175	1,516,787,706

Note (1): Additions for the year represent the share of the increase in capital reserve of the Company's associate.

Note (2): 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 31 December 2002.

**32. REVENUE RESERVE**

	Statutory common reserve <i>RMB</i>	Discretionary reserve <i>RMB</i>	Statutory common welfare fund <i>RMB</i>	Group Total <i>RMB</i>
At 1 January 2003	229,161,802	–	114,580,901	343,742,703
Utilisation of reserves to make up accumulated losses	(229,161,802)	–	–	(229,161,802)
At 31 December 2003	–	–	114,580,901	114,580,901

Statutory common 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.

Utilisation of reserves represents the Company's use of statutory common reserve to make up accumulated losses at 31 December 2002. Details are set out in note 31 (note 2).

**33. UNAPPROPRIATED PROFITS (ACCUMULATED LOSSES)**

	<b>Group Year ended 31 December 2003 RMB</b>	<b>Group Year ended 31 December 2002 RMB</b>
At the beginning of the year	(1,211,930,161)	(1,313,207,151)
Add: Utilisation of statutory common reserve and capital reserve to make up losses	1,194,186,108	–
Add: Net profit of the year	202,180,248	101,276,990
<b>At the end of the year</b>	<b>184,436,195</b>	<b>(1,211,930,161)</b>

The Company used the statutory common reserve and capital reserve at 31 December 2002 to make up accumulated losses. Details are set out in note 31 (note 2).

On 19 April, 2004, the Board of the Company proposed not to distribute any dividend for the year ended 2003. No appropriation of the balance of statutory common reserve will be made to increase the Company's share capital. The proposals are subject to approval in the annual general meeting.

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

	<b>Group Year ended 31 December 2003</b>		<b>Group Year ended 31 December 2002</b>	
	<b>Revenue RMB</b>	<b>Cost RMB</b>	<b>Revenue RMB</b>	<b>Cost RMB</b>
Sales of refrigerators	3,016,246,698	2,136,399,147	2,252,045,608	1,648,537,574
Sales of air-conditioners	2,680,590,406	2,036,509,978	2,337,240,642	1,980,182,294
Sales of freezers	211,466,513	162,028,726	103,978,964	93,159,219
Others	259,806,346	148,264,859	184,991,803	130,660,024
	<b>6,168,109,963</b>	<b>4,483,202,710</b>	<b>4,878,257,017</b>	<b>3,852,539,111</b>

	<b>Company Year ended 31 December 2003</b>		<b>Company Year ended 31 December 2002</b>	
	<b>Revenue RMB</b>	<b>Cost RMB</b>	<b>Revenue RMB</b>	<b>Cost RMB</b>
Sales of refrigerators	2,580,243,005	1,963,294,790	2,038,620,012	1,464,305,926
Sales of air-conditioners	2,645,180,411	2,265,336,031	2,016,706,478	1,732,176,247
Sales of freezers	61,117,640	55,675,926	14,067,706	13,173,189
Others	51,931,286	37,305,050	–	–
	<b>5,338,472,342</b>	<b>4,321,611,797</b>	<b>4,069,394,196</b>	<b>3,209,655,362</b>

<b>Total sales of the five largest customers</b>	<b>Percentage in total sales</b>
<b>RMB</b>	<b>%</b>
361,836,272	6

## 35. OTHER OPERATING PROFIT (LOSS)

Items	Group Year ended 31 December 2003 RMB	Group Year ended 31 December 2002 RMB
Profit from disposal of scrap materials	39,677,575	14,487,206
Others	8,722,367	2,125,336
	48,399,942	16,612,542

## 36. FINANCIAL EXPENSES

Items	Group Year ended 31 December 2003 RMB	Group Year ended 31 December 2002 RMB
Interest expenses	122,187,067	90,008,597
Less: interest income	22,122,290	14,680,145
Exchange gain	(9,607,442)	(1,952,321)
Others	9,939,923	2,160,033
	100,397,258	75,536,164

## 37. INVESTMENT (LOSS) PROFIT

Items	Group Year ended 31 December 2003 RMB	Group Year ended 31 December 2002 RMB
Loss on disposal of investee companies	(216,831)	-
Loss on share of results of investments in associates	(29,613,675)	(4,133,776)
Amortisation of long-term equity investment difference	(12,514,308)	(12,937,006)
Provision for impairment of long-term equity investments	(7,837,884)	-
	(50,182,698)	(17,070,782)

**37. INVESTMENT (LOSS) PROFIT** *(continued)*

	<b>Company Year ended 31 December 2003 RMB</b>	<b>Company Year ended 31 December 2002 RMB</b>
Share of results of subsidiaries	175,897,172	(90,075,136)
Share of results of associates	(29,632,819)	(4,151,247)
Amortisation of long-term equity investment difference	(13,734,636)	(13,734,636)
	<b>132,529,717</b>	<b>(107,961,019)</b>

**38. NON-OPERATING INCOME**

	<b>Group Year ended 31 December 2003 RMB</b>	<b>Group Year ended 31 December 2002 RMB</b>
Gain on disposal of fixed assets	1,796,809	58,547
Penalty income	5,749,171	781,874
Insurance compensation income	1,144,156	1,323,593
Others	1,712,651	7,777,480
	<b>10,402,787</b>	<b>9,941,494</b>

**39. NON-OPERATING EXPENSES**

	<b>Group Year ended 31 December 2003 RMB</b>	<b>Group Year ended 31 December 2002 RMB</b>
Loss on disposal of fixed assets	2,629,116	748,140
Others	2,865,183	3,351,624
	<b>5,494,299</b>	<b>4,099,764</b>

**40. INCOME TAX**

	<b>Group Year ended 31 December 2003 RMB</b>	<b>Group Year ended 31 December 2002 RMB</b>
Income tax payable by the Company (note)	—	—
Income tax payable by subsidiaries	11,676,111	3,031,454
	<b>11,676,111</b>	<b>3,031,454</b>

Note: No income tax is provided as the Company incurred estimated tax loss for the year.

## 41. OTHER CASH PAID AND RECEIVED RELATING TO INVESTING ACTIVITIES

	<b>Group Year ended 31 December 2003 RMB</b>	<b>Group Year ended 31 December 2002 RMB</b>
Increase in pledged deposits	662,686,299	603,452,809
Other cash paid relating to investing activities	662,686,299	603,452,809

## 42. CASH AND CASH EQUIVALENTS

	<b>Group 2003 RMB</b>	<b>Group 2002 RMB</b>
Bank balances and cash (note 6)	2,120,038,297	1,417,085,462
Less: Pledged deposits (note 6)	1,393,133,621	730,447,322
	726,904,676	686,638,140

	<b>Company 2003 RMB</b>	<b>Company 2002 RMB</b>
Bank balances and cash	1,595,877,944	1,065,118,299
Less: Pledged deposits	1,264,565,690	708,890,280
	331,312,254	356,228,019

#### 43. SEGMENT INFORMATION

Items	Refrigerators RMB	Air- conditioners RMB	Freezers RMB	Others RMB	Elimination RMB	Total RMB
1. Revenue from principal operations:						
External sales	3,016,246,698	2,680,590,406	211,466,513	259,806,346	–	6,168,109,963
Inter-segment sales	–	–	–	959,071,311	(959,071,311)	–
Total revenue from principal operations	3,016,246,698	2,680,590,406	211,466,513	1,218,877,657	(959,071,311)	6,168,109,963
2. Cost of sales:						
External cost of sales	2,136,399,147	2,036,509,978	162,028,726	148,264,859	–	4,483,202,710
Inter-segment cost of sales	–	–	–	959,071,311	(959,071,311)	–
Total cost of sales	2,136,399,147	2,036,509,978	162,028,726	1,107,336,170	(959,071,311)	4,483,202,710
3. Total expenses	726,440,164	574,939,139	31,296,293	86,972,133	–	1,419,647,729
4. Total operating profits	153,407,387	69,141,289	18,141,494	24,569,354	–	265,259,524
5. Total assets	4,681,340,496	3,502,249,352	375,269,361	873,932,005	–	9,432,791,214
6. Total liabilities	3,166,555,123	2,814,729,705	111,427,592	293,981,395	–	6,386,693,815

## 44. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

### (1) Except for the subsidiaries as disclosed in note 5, major related parties 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")	Company owned by the major shareholder of the Company and the chairman of the Company after 18 April 2002	Limited liability company	Gu Chu Jun
GKG	Shunde, Guangdong	Investment holding	The former single largest shareholder of the Company before 18 April 2002	Limited liability company	Li Zheng Hua

### (2) Movement and changes of the registered capital of the major shareholder and related parties

#### (i) Major Shareholder

Name of related party	At	Additions	Deduction	At
	1 January 2003			31 December 2003
	RMB	RMB	RMB	RMB
Greencool Enterprise	1,200,000,000	-	-	1,200,000,000

(ii) Details of no changes in the registered capital of the other related parties are set out in note 5.

### (3) Movements in the Company's share capital or equity held by major shareholder and related companies in which the Company has controlling interests

#### (i) Major shareholder

Name of related party	At 1 January 2003		Additions		Deduction		At 31 December 2003	
	RMB	%	RMB	%	RMB	%	RMB	%
Greencool Enterprise	204,775,755	20.64	-	-	-	-	204,775,755	20.64

#### (ii) Subsidiaries

Details of the movement and changes of the share capital or equity of the subsidiaries are set out in note 5.



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

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

Name of related party	Relationship with the Company
Huayi Compressor	Associate of the Company
Shanghai Yilian	Associate of the Company
C&Y	Associate of the Company
Chongqing Rongsheng	Associate of the Company
Guangzhou Antaida	Associate of the Company
Kelon Employee Union	Entity organised and owned by employees of the Company
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")	Related party of Greencool Enterprise
江西發達思家電有限公司 ("Fadasi")	Minority shareholder of Jiangxi Combine
Greencool Refrigerant (China) Co., Ltd ("Greencool (China)")	Related party of Greencool Enterprise
Greencool Technology Holdings Limited ("Greencool Holdings")	Investor of Greencool Enterprise
Chengdu Engine (Group) Company Limited ("Chengdu Engine")	Minority shareholder of Chengdu Kelon
Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")	Associate of the minority shareholder of Chengdu Kelon
合肥美菱股份有限公司 ("Meiling")	Related party of Greencool Enterprise

Wangao Co, Kelon HEA and Huaao Electronics were previously the subsidiaries of GKG, while Wangao Co and Kelon HEA were the associates of the Company. In 2002, these parties have become the subsidiaries of the Company. The subsidiaries' transactions with the above related parties prior to the change in the shareholdings were deemed as related party transactions.

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

(5) The Company and the above related parties entered into the following major related party transactions during the year:

## (a) Sales and purchases

Details of sales to and purchases from the related parties are as follows:

	Group Year ended 31 December 2003 RMB	Group Year ended 31 December 2002 RMB
Sales		
– Huaao Electronics	–	38,449,879
– Wangao Co	–	37,757,424
– Kelon Refrigerator	–	3,684,850
– Kelon HEA	–	4,505,359
– Chengdu Xinxing	18,421,493	9,031,636
– Chongqing Kelon	–	53,944,503
– Chongqing Rongsheng	69,783,858	33,212,615
	88,205,351	180,586,266
Purchases		
– Huaao Electronics	–	144,592,405
– Wangao Co	–	55,376,180
– Kelon HEA	–	16,537,733
– Chengdu Xinxing	42,663,295	31,089,799
– Hainan Greencool	–	27,005,385
– Huayi Compressor (note)	144,495,833	41,221,345
– Chengdu Engine	5,043,682	–
– Shanghai Yilian	7,174,279	–
	199,377,089	315,822,847

Note: Including Huayi Compressor and its subsidiaries.

## (b) Asset transactions

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

	Group Year ended 31 December 2003 RMB	Group Year ended 31 December 2002 RMB
Sales		
– Huaao Electronics	–	1,222,603

Transactions detailed in (a) and (b) above were entered into with reference to relevant market prices and/or carried out on terms in accordance with the contracted agreement governing the transaction.

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

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

## (c) Use of trademark

On 3 April 2003, the Company and Greencool China have entered into a licence agreement on the use of trademark (“Licence Agreement”), whereby Greencool China granted the Company and its subsidiaries a right to use the trademark “Combine” for no consideration. In 2003, the Company and its subsidiaries have applied the trademark “Combine” on their products under the Licence Agreement.

## (d) Others

	Group 2003 RMB	Group 2002 RMB
Security for loans provided to related parties – C&Y	–	3,975,000
Security for loans provided by related parties – GKG – Greencool Enterprise	– 295,000,000	40,000,000 540,000,000
	295,000,000	580,000,000
Other income (expenses) received from (paid to) related parties – Interest income from Chengdu Xinxing (ii) – Handling income from Hainan Greencool (iii) – Advertising fee to C&Y – Logistics management fee to Guangzhou Antaida (iv)	1,985,940 1,575,000 – (5,639,691)	2,599,000 – (350,414) (2,351,475)
	(2,078,751)	(102,889)

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

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

## (e) Particulars of liability balance

Items	Related parties	Group 31 December 2003 RMB	Group 31 December 2002 RMB
Accounts receivable	Chongqing	2,890,959	–
	Rongsheng		
	Shanghai Yilian	1,542,818	–
		4,433,777	–
Other receivables	Fadasi	19,000,000	–
	GKG (i)	–	684,992,532
	Others	–	3,026,780
		19,000,000	688,019,312
Long-term receivables due after one year	Employee Union (i)	–	51,602,908
	Chengdu Xinxing (ii)	34,000,000	34,000,000
		34,000,000	85,602,908
Bills payable	Huayi Compressor (note)	42,542,637	–
Accounts payable	Hainan Greencool (iii)	26,000	149,000
	Chengdu Xinxing	116,091	5,087,833
	Huayi Compressor (note)	31,395,113	20,739,314
		31,537,204	25,976,147
Others payable	Chengdu Engine	533,940	–
	Meiling	902,485	–
		1,436,425	–

Note: Including Huayi Compressor and its subsidiaries.

Except for the balance due from Chengdu Xinxing which is interest bearing and due after one year, the other related party balances are unsecured, non-interest bearing and repayable on demand.

**44. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS** *(continued)***(5) The Group and the above related parties entered into the following major related party transactions in the year** *(continued)*:**(e) Particulars of liability balance** *(continued)***(i) Transactions with GKG**Licence agreement on the use of trademark

Under a licence agreement for the use of trademark (“Licence Agreement”) dated 6 July 1996 entered into between GKG, the former single largest shareholder of the Company, and the Company, GKG granted the Company at nil an exclusive right to use the trademarks “Kelon” and “Ronshn” 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 trademarks as may be assigned to GKG from time to time and may not restrict other products from using such trademarks 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.

Debt Settlement Arrangement

For the year ended 31 December 2002, the Company’s balance due from GKG and the Employee Union were RMB857,401,566 (before deducting the allowance for bad debts of RMB172,409,033) and RMB51,602,907 respectively. In order to enable GKG to settle the Outstanding Debt, the Company entered into a number of conditional agreements with GKG and/or the Relevant Parties on 21 November 2002.

Pursuant to the agreements, (a) GKG transferred the exclusive right to use the trademarks of “科龍”, “容聲” and “容升” 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; (d) the Land Development Centre agreed to use RMB 51,602,907 of the balance amount of the land use right transfer consideration receivable from the Company to settle the above debts owed by Rongqiang Investment on behalf of Rongqiang Investment; the amount owed by the Employee Union to the Company can be directly settled by the land transfer fee payable by the Company to Land Development Centre.

In addition, according to the agreement entered into between the Company and Land Development Centre, an amount of RMB40,000,000 was paid by the Company to Land Development Centre as the handling charge for transfer of land use rights and tax payment for the year, and was included in the cost of land use rights.

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

As at 30 September 2003, the Company has completed the transfer of the land use rights, GKG has transferred most of the use rights of its trademarks to the Company. Therefore, the Company was of the opinion that its debt transfer arrangement with GKG has substantially completed on 30 September 2003, and the relevant land use rights and the exclusive rights of trademarks have been recorded in the account books and amortised since October 2003.

(ii) *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 9.504%. 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. Chengdu Kelon received an interest of RMB1,985,940 from Chengdu Xinxing in 2003.

(iii) *Hainan Greencool*

In 2003, the Company received entering and CFC installation fees from 1,050 (2002: 198) engineering units authorised by Greencool Technology Holdings Limited on behalf of Hainan Greencool in the PRC and Hainan Greencool paid RMB1,575,000 (2002: nil) to the Company as handling fees. As at 31 December 2003, accounts payable to Hainan Greencool was RMB26,000 (2002: RMB149,000).

(iv) *Guangzhou Antaida*

The Company and Guangzhou Antaida had entered into a logistic service agreement in 2001, which Guangzhou Antaida provides transportation service to the Company. A 4% service fee is charged on the delivery and discharge of goods.

**45. CONTINGENT LIABILITIES**

	<b>31 December 2003 RMB'000</b>	<b>31 December 2002 RMB'000</b>
Loan guarantee provided for associates (note 44(5)(d))	–	3,975
Discounted and undue commercial acceptance notes	–	35,270
<b>Total</b>	–	<b>39,245</b>

**46. CAPITAL COMMITMENT**

	<b>31 December 2003 RMB'000</b>	<b>31 December 2002 RMB'000</b>
Contracted for but not provided in the financial statements – Commitment on acquisition and construction of assets	105,210	37,910

**47. SUBSEQUENT EVENTS**

Under the approval granted by its board of directors on 24 January 2003, Kelon Development, a subsidiary of the Company, signed a shareholding transfer agreement with Modern Treasure Limited (“MTL”) on 28 January 2003. Pursuant to the agreement, Kelon Development will transfer to MTL its 25% shareholding in C&Y for a consideration of HKD3,500,000 in cash and HKD20,000,000 contract value of advertisement broadcasting service. According to the agreement, the shares transfer will also be completed upon settlement of the consideration. On 3 March 2004 and the transfer of shareholding in C&Y was completed, Kelon Development and MTL signed a supplemental agreement, whereby the contractual transfer consideration was amended to HKD3,500,000. the transfer consideration was settled on 3 March 2004 and the transfer of shareholding in C&Y was completed. As at 31 December 2003, the carrying amount of the shareholding is RMB11,819,203. The Company has fully provided for the impairment of the remaining investment in the associate company.

**48. COMPARATIVE FIGURES**

The comparative figures for the year 2002 have been regrouped to conform to those presented in the financial statements at 31 December 2003.

\*\*\* End of The Financial Statements \*\*\*