

# KELON 科龙

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

Interim Report

↑ 2004

中期報告

## 追求卓越 再創新高

Reaching New Heights  
Through Innovation



The Board of Directors ("Board") of Guangdong Kelon Electrical Holdings Company Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2003 or the audited comparative figures as at 31 December 2003. The consolidated interim financial statements have not been audited but have been reviewed by the Audit Committee of the Company and the Auditors.

Opinion of the Audit Committee is as follows:

The Audit Committee has reviewed the 2004 interim results of the Company, with reference to the independent review report prepared by the Company's auditors in relation to the 2004 interim results, and has no objection to the points stated in the auditors' independent review report.



## INDEPENDENT REVIEW REPORT

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**TO THE BOARD OF DIRECTORS OF  
GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

### **INTRODUCTION**

We have been instructed by Guangdong Kelon Electrical Holdings Company Limited (the "Company") to review the interim financial report set out on pages 4 to 25.

### **DIRECTORS' RESPONSIBILITIES**

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

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

**INDEPENDENT REVIEW REPORT** – *Continued*

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**REVIEW WORK PERFORMED**

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

**REVIEW CONCLUSION**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

20 August 2004

<b>CONDENSED CONSOLIDATED INCOME STATEMENT</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2004</b>	2003
		<b>RMB'000</b>	RMB'000
		<b>(Unaudited)</b>	(Unaudited)
Turnover	3	<b>4,931,016</b>	3,315,066
Cost of sales		<b>(3,903,005)</b>	(2,510,141)
Gross profit		<b>1,028,011</b>	804,925
Other operating income		<b>45,926</b>	35,420
Distribution costs		<b>(631,919)</b>	(467,012)
Administrative expenses		<b>(192,162)</b>	(143,231)
Other operating expenses		<b>(9,094)</b>	(7,332)
Profit from operations		<b>240,762</b>	222,770
Finance costs		<b>(73,540)</b>	(60,546)
Share of results of associates		<b>(12,338)</b>	(12,675)
Profit before taxation	4	<b>154,884</b>	149,549
Taxation	5	<b>(4,945)</b>	(6,026)
Profit after taxation		<b>149,939</b>	143,523
Minority interests		<b>8,124</b>	(1,291)
Net profit for the period		<b>158,063</b>	142,232
Dividends	6	<b>-</b>	-
Basic earnings per share	7	<b>RMBO.16</b>	RMBO.14

<b>CONDENSED CONSOLIDATED BALANCE SHEET</b>
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At 30 June 2004

(Prepared under International Financial Reporting Standards)

	<u>Notes</u>	<b>30.6.2004</b>	31.12.2003
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>2,557,506</b>	2,407,234
Interests in associates		<b>201,934</b>	220,165
Amount due from a related company		<b>34,000</b>	34,000
Intangible assets	8	<b>852,405</b>	768,631
Other assets		<b>19,368</b>	21,579
Goodwill		<b>28,995</b>	30,779
Negative goodwill		<b>(79,031)</b>	(81,426)
		<b>3,615,177</b>	3,400,962
<b>Current assets</b>			
Inventories		<b>2,299,021</b>	1,945,618
Trade and other receivables	9	<b>2,490,170</b>	2,046,841
Taxation recoverable		-	172
Pledged bank deposits		<b>1,691,003</b>	1,393,134
Bank balances and cash		<b>1,378,326</b>	726,905
		<b>7,858,520</b>	6,112,670
<b>Current liabilities</b>			
Trade and other payables	10	<b>5,122,851</b>	4,046,265
Trade deposits from customers		<b>277,088</b>	456,523
Warranty provision		<b>96,856</b>	89,557
Taxation payable		<b>2,668</b>	4,894
Bank borrowings - amount due within one year		<b>2,221,260</b>	1,264,418
		<b>7,720,723</b>	5,861,657
<b>Net current assets</b>			
		<b>137,797</b>	251,013
		<b>3,752,974</b>	3,651,975

<b>CONDENSED CONSOLIDATED BALANCE SHEET – Continued</b>
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At 30 June 2004

(Prepared under International Financial Reporting Standards)

	<u>Note</u>	<b>30.6.2004</b>	31.12.2003
		<b>RMB'000</b>	RMB'000
		<b>(Unaudited)</b>	(Audited)
<b>Capital and reserves</b>			
Share capital	11	992,007	992,007
Reserves		<u>1,972,391</u>	<u>1,818,859</u>
<b>Shareholders' equity</b>		<u><b>2,964,398</b></u>	<u>2,810,866</u>
<b>Minority interests</b>		<u><b>315,126</b></u>	<u>233,976</u>
<b>Non-current liabilities</b>			
Bank borrowings – amount due after one year		<b>406,432</b>	544,354
Pension liabilities		<b>55,454</b>	54,143
Other payables		<u><b>11,564</b></u>	<u>8,636</u>
		<u><b>473,450</b></u>	<u>607,133</u>
		<u><b>3,752,974</b></u>	<u>3,651,975</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

	Share capital	Share premium	Statutory reserves	Capital reserve	Revaluation reserve	Translation reserve	Accumulated (losses) profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2003	992,007	2,160,621	343,743	1,773	373,570	884	(1,282,530)	2,590,068
Utilisation of the Company's reserves to make up for the Company's accumulated losses	-	(965,024)	(229,162)	-	-	-	1,194,186	-
Share of reserves of an associate	-	-	-	27,562	-	-	-	27,562
Net profit for the year	-	-	-	-	-	-	191,170	191,170
Exchange differences on translation of financial statements of operations outside Mainland China and gains not recognised in the consolidated income statement	-	-	-	-	-	2,066	-	2,066
At 1 January 2004	992,007	1,195,597	114,581	29,335	373,570	2,950	102,826	2,810,866
Net profit for the period	-	-	-	-	-	-	158,063	158,063
Exchange differences on translation of financial statements of operations outside Mainland China and losses not recognised in the condensed consolidated income statement	-	-	-	-	-	(4,531)	-	(4,531)
At 30 June 2004	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>29,335</u>	<u>373,570</u>	<u>(1,581)</u>	<u>260,889</u>	<u>2,964,398</u>
At 1 January 2003	992,007	2,160,621	343,743	1,773	373,570	884	(1,282,530)	2,590,068
Utilisation of the Company's reserves to make up for the Company's accumulated losses	-	(965,024)	(229,162)	-	-	-	1,194,186	-
Share of reserves of an associate	-	-	-	27,135	-	-	-	27,135
Net profit for the period	-	-	-	-	-	-	142,232	142,232
At 30 June 2003	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>28,908</u>	<u>373,570</u>	<u>884</u>	<u>53,888</u>	<u>2,759,435</u>



<b>CONDENSED CONSOLIDATED CASH FLOW STATEMENT</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Net cash from operating activities	<b>419,338</b>	305,566
Net cash used in investing activities	<b>(496,469)</b>	(513,159)
Net cash from financing activities	<b>728,920</b>	323,880
Net increase in cash and cash equivalents	<b>651,789</b>	116,287
Cash and cash equivalents at beginning of the period	<b>726,905</b>	686,638
Effect of foreign exchange rate changes	<b>(368)</b>	-
Cash and cash equivalents at end of the period	<b><u>1,378,326</u></b>	<u>802,925</u>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2004*

(Prepared under International Financial Reporting Standards)

**1. GENERAL**

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

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

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

**2. ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention, except for the revaluation of certain property, plant and equipment. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

### 3. SEGMENT INFORMATION

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

	For the six months ended 30 June 2004					Consolidated
	Refrigerators	Air- conditioners	Freezers	Product components	Elimination	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>TURNOVER</b>						
External sales	1,919,998	2,688,304	149,920	172,794	-	4,931,016
Inter-segment sales	-	-	-	743,722	(743,722)	-
	<b>1,919,998</b>	<b>2,688,304</b>	<b>149,920</b>	<b>916,516</b>	<b>(743,722)</b>	<b>4,931,016</b>
Total revenue	<b>1,919,998</b>	<b>2,688,304</b>	<b>149,920</b>	<b>916,516</b>	<b>(743,722)</b>	<b>4,931,016</b>
Inter-segment sales are charged at prevailing market rates.						
<b>RESULT</b>						
Segment result	<b>125,569</b>	<b>95,175</b>	<b>19,176</b>	<b>6,843</b>	<b>-</b>	<b>246,763</b>
Unallocated corporate expenses						<b>(6,001)</b>
Profit from operations						<b>240,762</b>
Finance costs						<b>(73,540)</b>
Share of results of associates	<b>(4,804)</b>	<b>(6,726)</b>	<b>(375)</b>	<b>(433)</b>	<b>-</b>	<b>(12,338)</b>
Profit before taxation						<b>154,884</b>
Taxation						<b>(4,945)</b>
Profit after taxation						<b>149,939</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

*For the six months ended 30 June 2004*

(Prepared under International Financial Reporting Standards)

### 3. SEGMENT INFORMATION – *Continued*

	For the six months ended 30 June 2003					Consolidated
	Refrigerators	Air- conditioners	Freezers	Product components	Elimination	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>TURNOVER</b>						
External sales	1,445,221	1,641,370	139,311	89,164	-	3,315,066
Inter-segment sales	-	-	-	391,288	(391,288)	-
	1,445,221	1,641,370	139,311	480,452	(391,288)	3,315,066
<b>Total revenue</b>						
	1,445,221	1,641,370	139,311	480,452	(391,288)	3,315,066
Inter-segment sales are charged at prevailing market rates.						
<b>RESULT</b>						
Segment result	110,914	100,337	10,814	10,297	-	232,362
Unallocated corporate expenses						(9,592)
Profit from operations						222,770
Finance costs						(60,546)
Share of results of associates	(5,526)	(6,276)	(533)	(340)	-	(12,675)
Profit before taxation						149,549
Taxation						(6,026)
Profit after taxation						143,523

<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

**3. SEGMENT INFORMATION – Continued**

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

	<b>Turnover by geographical market</b>	
	<b>For the six months ended 30 June</b>	
	<b>Group 2004</b>	Group 2003
	<i>RMB'000</i>	<i>RMB'000</i>
The PRC		
Mainland China	<b>2,818,527</b>	2,464,916
Hong Kong	<b>17,745</b>	42,167
	<b>2,836,272</b>	2,507,083
Europe	<b>795,563</b>	471,833
America	<b>662,477</b>	145,546
Others	<b>636,704</b>	190,604
	<b>4,931,016</b>	3,315,066

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.

<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

#### 4. PROFIT BEFORE TAXATION

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

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Amortisation of intangible assets ( <i>note a</i> )	<b>28,107</b>	-
Amortisation of goodwill of associates ( <i>note b</i> )	<b>6,867</b>	6,867
Amortisation of goodwill of subsidiaries ( <i>note a</i> )	<b>1,784</b>	2,194
Depreciation	<b>192,100</b>	166,539
Finance costs	<b>73,540</b>	60,546
Interest income	<b>(13,997)</b>	(8,537)
Release of negative goodwill to income ( <i>note a</i> )	<b>(2,395)</b>	(2,395)
	<b><u>                    </u></b>	<b><u>                    </u></b>

Notes:

(a) The amount is included in administrative expenses.

(b) The amount is included in share of results of associates.

<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

**5. TAXATION**

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
The amount consists of:		
PRC enterprise income tax ("EIT")		
The Company and its subsidiaries	<b>4,344</b>	5,934
Associates	<b>601</b>	92
	<b>4,945</b>	6,026

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

The Company was incorporated in Shunde, Guangdong Province and, pursuant to "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises" ("Income Tax Law"), is normally subject to EIT at a rate of 24%, which is applicable to enterprises located in coastal open economic zone. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 27%. 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%.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS - Continued**

*For the six months ended 30 June 2004*

(Prepared under International Financial Reporting Standards)

**5. TAXATION - Continued**

The Company's subsidiaries, Guangdong Kelon Refrigerator Ltd., Guangdong Kelon Refrigerator Co., Ltd., Guangdong Kelon Air-Conditioner Co., Ltd., Hangzhou Kelon Electrical Co., Ltd., Guangdong Kelon Fittings Co., Ltd., Shunde Rongsheng Plastic Products Co., Ltd. and Yingkou Kelon Refrigerator Co., Ltd., established in coastal open economic zone, are subject to an EIT rate of 24%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 27%. Pursuant to Income Tax Law, they are entitled to preferential tax treatment, with full exemption from 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.

The Company's subsidiaries, Chengdu Kelon Refrigerator Co., Ltd. and Jiangxi Kelon Industrial Development Co., Ltd. are subjected to an EIT rate of 30%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 33%. Pursuant to Income Tax Law, they are also entitled to preferential tax treatment, with full exemption from income tax for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years.

**6. DIVIDENDS**

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004. No interim dividend was declared for the same period last year.

**7. BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share was based on the unaudited net profit of RMB158,063,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: RMB142,232,000) divided by 992,006,563 shares (2003: 992,006,563 shares) outstanding during the period.

No diluted earnings per share have been presented as there were no dilutive potential ordinary shares in issue in both periods.



<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

**8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

During the period, the Group spent RMB154,424,000 (2003: RMB140,950,000) on the acquisition of property, plant and equipment.

During the period, the Group spent RMB100,919,000 (2003: nil) on the acquisition of the land use rights in the PRC.

**9. TRADE AND OTHER RECEIVABLES**

	<u>30.6.2004</u>	<u>31.12.2003</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables – third parties	<b>1,237,547</b>	726,736
Notes receivable – third parties	<b>669,259</b>	734,878
Other receivables – third parties	<b>583,364</b>	566,227
Amounts due from related companies	-	19,000
	<u><b>2,490,170</b></u>	<u>2,046,841</u>

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.

At the reporting date, all trade receivables were aged less than one year.

<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

**10. TRADE AND OTHER PAYABLES**

	<u>30.6.2004</u>	<u>31.12.2003</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables – third parties	1,747,030	1,370,152
Notes payable – third parties	2,603,606	1,896,092
Other payables – third parties	660,973	704,505
Amounts due to related companies	111,242	75,516
	<u>5,122,851</u>	<u>4,046,265</u>

At the reporting date, all trade payables were aged less than one year.

**11. SHARE CAPITAL**

There were no movements in the issued capital of the Company in the interim reporting period.

**12. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS – <i>Continued</i></b>
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*For the six months ended 30 June 2004*

(Prepared under International Financial Reporting Standards)

### 13. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out in the ordinary course of business between the Group and related parties for the six months ended 30 June 2004 and the respective balances with the related parties as of 30 June 2004:

#### I. Transactions with related parties

	For the six months ended 30 June	
	2004	2003
	<b>RMB'000</b>	<b>RMB'000</b>
Sale of goods/raw materials to:		
- Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing") (note a(i))	14,086	-
- Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng") (note a(ii))	32,739	49,329
Purchase of goods/raw materials from:		
- Huayi Compressor Holdings Company Limited ("Huayi") (note a(iii)) and its subsidiaries	125,583	-
- Chengdu Xinxing (note a(i))	22,775	20,689
- Shanghai Yilian Electric Business Limited ("Shanghai Yilian") (note a(iv))	3,171	-
- Chengdu Engine (Group) Company Limited ("Chengdu Engine") (note a(i))	2,756	-
Loan guarantee provided by:		
- Greencool Enterprise Development Company Limited ("Greencool Enterprise") (note a(v))	300,000	385,000
Other transactions:		
- Interest charged to Chengdu Xinxing (note a(i))	993	993
- Logistic management fee paid to Guangzhou Antaida Logistic Co. Ltd. ("Guangzhou Antaida") (note a(vi))	3,846	2,687
	<b>3,846</b>	<b>2,687</b>

<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

**13. RELATED PARTY TRANSACTIONS – Continued**

**II. Balances due from/to related parties**

	<u>30.6.2004</u>	<u>31.12.2003</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Balances due from related parties		
Balance due within one year:		
– 江西發達思家電有限公司		
("Jiangxi Fadasi") (note a(vii))	-	19,000
Balance due after one year:		
– Chengdu Xinxing (note a(i))	<u>34,000</u>	<u>34,000</u>
	<u><b>34,000</b></u>	<u>53,000</u>
Balances due to related companies		
– Huayi and its subsidiaries (note a(iii))	94,219	73,938
– Chengdu Xinxing (note a(i))	2,883	116
– Chongqing Rongsheng (note a(ii))	10,684	-
– 西安高科(集團)公司(note a(viii))	2,649	-
– Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")		
(note a(ix))	-	26
– Others	<u>807</u>	<u>1,436</u>
	<u><b>111,242</b></u>	<u>75,516</u>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued**

*For the six months ended 30 June 2004*

(Prepared under International Financial Reporting Standards)

**13. RELATED PARTY TRANSACTIONS – Continued****II. Balances due from/to related parties – Continued**

*Notes:*

**(a) Transactions with related parties are summarised as follows:**

- (i) 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 of such prepayment, Chengdu Xinxing agreed to repay Chengdu Kelon by supplying an agreed number of refrigeration parts together with interest payments at an annual rate of approximately 9%. 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.
- (ii) Chongqing Rongsheng is an associate of the Group.
- (iii) Huayi is an associate of the Group.
- (iv) Shanghai Yilian is an associate of the Group.
- (v) Greencool Enterprise is the single largest shareholder of the Company.
- (vi) 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.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued**

*For the six months ended 30 June 2004*

(Prepared under International Financial Reporting Standards)

**13. RELATED PARTY TRANSACTIONS – Continued****II. Balances due from/to related parties – Continued**

*Notes: – Continued*

**(a) Transactions with related parties are summarised as follows: – Continued**

(vii) During the year ended 31 December 2003, 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. The maximum amount outstanding during the period is RMB19 million (the maximum amount outstanding during the year ended 31 December 2003: RMB19 million). The amount was settled during the period.

(viii) 西安高科(集團)公司 is a minority investor of a subsidiary of the Company.

(ix) During the year ended 31 December 2003, the Group collected the agency entering fees and the receivables on sales of CFC-free refrigerants on behalf of Hainan Greencool from 1,050 authorised engineering units of Hainan Greencool. In return, Hainan Greencool paid a handling fee of RMB1,575,000 to the Group in this regard. As at 31 December 2003, RMB26,000 was refundable to Hainan Greencool. There was no such arrangement during the six months ended 30 June 2004. Hainan Greencool is a wholly-owned subsidiary of Greencool Technology Holdings Limited. Mr. Gu Chu Jun, the Chairman of the Company, has an equity interest in Greencool Technology Holdings Limited.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued**

*For the six months ended 30 June 2004*

(Prepared under International Financial Reporting Standards)

**13. RELATED PARTY TRANSACTIONS – Continued****II. Balances due from/to related parties – Continued**

*Notes: – Continued*

**(a) Transactions with related parties are summarised as follows: – Continued****(x) 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 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.

**(b) Pricing of the related party transactions**

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

<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS - Continued</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

**13. RELATED PARTY TRANSACTIONS - Continued**

**II. Balances due from/to related parties - Continued**

Notes: - Continued

**(c) 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.

**14. CAPITAL COMMITMENTS**

	<u>30.6.2004</u>	<u>31.12.2003</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements	<u>141,450</u>	<u>105,210</u>



<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS - <i>Continued</i></b>
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*For the six months ended 30 June 2004*

(Prepared under International Financial Reporting Standards)

**15. ACQUISITION OF SUBSIDIARY**

In March 2004, the Group acquired a non-wholly owned subsidiary for cash consideration of RMB70,620,000. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	<i>RMB'000</i>
Net assets acquired	70,620
	<u>70,620</u>
Cash consideration	70,620
	<u>70,620</u>
Net cash outflow arising on acquisition	
Cash consideration	(70,620)
Bank balances and cash acquired	30,423
	<u>(40,197)</u>
	<u>(40,197)</u>

The subsidiary acquired did not make any significant contribution to the results of the Group during the period.

<b>NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued</b>
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For the six months ended 30 June 2004

(Prepared under International Financial Reporting Standards)

**16. DIFFERENCES BETWEEN INTERNATIONAL FINANCIAL REPORTING STANDARDS AND PRC GAAP AS APPLICABLE TO THE GROUP**

The condensed consolidated balance sheet of the Group prepared under International Financial Reporting Standards and that prepared under PRC GAAP have the following major differences:

	<u>30.6.2004</u>	<u>31.12.2003</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets as per condensed financial statements prepared under International Financial Reporting Standards	<b>2,964,398</b>	2,810,866
Adjustment on property, plant and equipment revaluation and related depreciation	<b>(1,006)</b>	(2,135)
Others	<b>126</b>	-
Net assets as per financial statements prepared under PRC GAAP	<b><u>2,963,518</u></b>	<b><u>2,808,731</u></b>

The condensed consolidated income statement of the Group prepared under International Financial Reporting Standards and that prepared under PRC GAAP have the following major differences:

	<b>For the six months ended 30 June</b>	
	<u>2004</u>	<u>2003</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit for the period as per condensed financial statements prepared under International Financial Reporting Standards	<b>158,063</b>	142,232
Adjustment on property, plant and equipment revaluation and related depreciation	<b>1,129</b>	2,374
Net profit for the period as per financial statements prepared under PRC GAAP	<b><u>159,192</u></b>	<b><u>144,606</u></b>

There are differences in other items in the condensed financial statements due to differences in classification between International Financial Reporting Standards and PRC GAAP.

## INTERIM DIVIDENDS

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At a meeting of the Board held on 20 August 2004, the Board resolved not to declare any interim dividend for the six months ended 30 June 2004. No interim dividends were distributed for the corresponding period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

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### A. FINANCIAL REVIEW

Kelon's relentless efforts in 2002 and 2003 to develop its business appeared to be bearing fruit in 2004. The Group's operations have been growing rapidly in the first half of 2004. The management believes 2004 will be a tremendously successful year for the Group.

During the Period, the Group recorded strong growth in turnover, reaching approximately RMB4,931 million, representing a surge of approximately 48.7% over the same period in 2003. It is equivalent to approximately 79.9% of the annual turnover last year. Net profit attributable to shareholders amounted to RMB158 million, representing an increase of approximately 11.1% as compared with that of the corresponding period in 2003. Basic earnings per share were approximately RMB0.16.

To support the rapid growth of the Group, the Board of Director does not recommend payment of an interim dividend (2003: nil).

**MANAGEMENT DISCUSSION AND ANALYSIS** – *Continued***B. BUSINESS REVIEW****Overall Results**

In 2002 and 2003, the Group focused its efforts on optimizing its overall internal management, implementing internationalized production management model to enhance its production efficiencies, adopting strict control on costs, as well as reorganizing and expanding its sales network and sales team. These efforts together with the consistent enhancement of the core competitiveness of its products have propelled the Group into its high growth period.

As for its business distribution, during the Period, the revenue generated from refrigerator business and air-conditioner business accounted for approximately 39.0% and 54.5% respectively of the Group's total turnover, while the remaining 6.5% of the total revenue came from freezer and small home appliance businesses.

During the Period, the export sales of Kelon grew rapidly, and became the main growth driver of the Group's income. As for domestic sales, boasting the advantage of economies of scale, the Group aggressively implemented its multi-branding strategy in the past year and successfully expanded its market share. It launched the "Combine" refrigerators and air-conditioners in 2003. The series, targeting the low-end consumer market, successfully enlarged the Group's market share and built for it a solid foundation for securing continuous profit.

**Export Business – Maintains Strong Growth**

During the Period, with cost, quality and technological advantages, the Group's OEM products continued to attract procurement from international home appliance brands. The income from export business in the first half of 2004 increased a significant 148.5% as compared with the corresponding period in 2003. Its contribution to the overall turnover of the Group surged to 42.8% from 25.6% in the corresponding period in the previous year. As for regional distribution, the European market accounted for 37.7% of the income from the Group's export business while the American market accounted for 31.4%.

**MANAGEMENT DISCUSSION AND ANALYSIS** – *Continued***B. BUSINESS REVIEW** – *Continued***Export Business – Maintains Strong Growth** – *Continued*

The sales revenue from exporting refrigerators and air-conditioners accounted for 38.4% and 54.2% of the total export income respectively, while the remaining 7.4% of the export income came from the sales of freezers and small home appliances.

**Refrigerator Business – Favorable Growth**

Refrigerator business saw outstanding results in the first half of 2004, with revenue increased approximately 32.9% compared with the corresponding period in 2003. The Group launched its “Combine” series in 2003 to capture the low-end market, successfully expanded its market coverage and brought favorable profits to the Group.

According to a research on sales of refrigerators in China in 2003 conducted by National Bureau of Statistics of China, the total shares of “Kelon” and “Ronshen”, targeting the high- to mid-end markets respectively, topped the market for the tenth time after leading for nine consecutive years from 1991 to 1999. Launched in 2003, the “Combine” refrigerator series recorded outstanding sales performance, with aggregate market share way ahead of its competitors in China’s refrigerator market.

**Air-conditioner Business – Persistently Competitive Market**

During the Period, the overall revenue from air-conditioner business increased by approximately 63.8% as compared with the corresponding period in 2003. The Group implemented its multi-branding strategy to strengthen its market coverage and further consolidate its position in air-conditioner industry. In terms of market share, competitors were losing more and more ground to Kelon. However, since competition in the air-conditioner market remained extremely intense, the rate of growth in profit still fell behind that of sales.

**MANAGEMENT DISCUSSION AND ANALYSIS** – *Continued***B. BUSINESS REVIEW** – *Continued***High Technology Products – Remain Leading Position**

Kelon is committed to developing world leading high technology products. It has directed substantial resources into developing core technologies, in particular those in relation to environmental protection and energy saving. Capitalizing on its enhanced core technologies, the Group has been producing world leading environmentally friendly products, which are expected to revolutionize the market for environmentally friendly domestic appliances in China.

**Third Generation Foaming Agent for Refrigerator – Successfully Developed**

Kelon pioneered the research and development of HFC-245fa, the third generation foaming agent for refrigerators, and led the market in its application. In June this year, HFC-245fa received professional accreditation from an expert committee comprising representatives from the State Administration of Environmental Protection, Department of Science and Technology of Guangdong Province, Guangdong Environmental Protection Bureau, the China Household Electrical Appliance Association and China Association of Refrigeration.

HFC-245fa has good heat insulating capability, hence can reduce the energy consumption of a refrigerator by about 10%. More importantly, this foaming agent is not damaging to the ozone layer. With such favorable environmentally friendly quality, it is currently the best refrigerator foaming agent in the world.

**“United Nations Energy Saving Grand Prix” – Sales Champion**

According to the research on the best selling energy saving refrigerators in China in the first five months of 2004 conducted by Market Economy Research Centre of State Council Development Research Center and the Beijing GuNeng Market Research Center, the Group’s Ronshen BCD-209S refrigerator, which was named the “United Nations Energy Saving Grand Prix” in 2003, was the top seller in China’s energy saving refrigerators market with a 10.5% share.

**B. BUSINESS REVIEW** – *Continued***“Shuang Xiao Wang” Air-Conditioner – Breaks World Record in Cooling Efficiencies**

In April 2002, applying the highly efficient digital air-conditioning technology it successfully developed, Kelon launched the first generation “Shuang Xiao Wang” with cooling efficiency reaching 3.8 and heating efficiency reaching 4.2. Since then, the Group had made numerous breakthroughs with the latest being the fourth generation “Shuang Xiao Wang” air-conditioner KFR-22GW, with cooling efficiency reaching 6.65. The achievement made during the Period broke the world energy efficiency record.

**Capacity Reaching Controlling Market Position**

After several acquisitions of additional production lines, the Group has effectively enhanced its production capacity and assumed controlling position in the market in terms of refrigerator output. As for the production of air-conditioners, in order to support its fast business growth, the Group plans to build new production plants and set up its own production lines instead of acquiring production lines as the former is more cost effective.

**Cost Advantage**

In the past two years, through streamlining its procurement system, optimizing product and cooling efficiency system designs, and further strengthening organizational structure, the Group has achieved high cost control level surpassing those of its peers. With the relief of price pressure and possibly downward price adjustment of steel, the major raw material in the manufacture of refrigerators and air-conditioners, the Group has been able to maintain costs at a satisfactory level.

During the Period, with economies of scale leverage, Kelon and its sister company, Hefei Meiling Co., Ltd., cooperated in the aspects of procurement, R&D, sales and marketing, and servicing network, benefiting from the complementary effects and sharing of resources. Both significantly raised their bargaining power and profit levels, as well as lowered their costs.

**MANAGEMENT DISCUSSION AND ANALYSIS** – *Continued***C. PROSPECTS**

As a result of Kelon's efforts in the past two years to adjust its internal structure and adopt an internationalized management model, the Group saw great enhancement in its competitiveness. The Group's leadership in the domestic appliance market has never been so strong as it is now. Concurrently, by implementing at full strength its international development strategies, the Group looks forward to entering a new and fast growing period in the next few years starting from 2004.

Considering that many regions in China are facing the growing problem of power shortages, environmental protection and energy saving has become the dominant requirements for domestic appliances in China. This trend is conducive to the development of the Group, which is already a leader of environmental protection in the domestic appliance industry.

While we are confident of the export business retaining strong growth in 2004, the Group is also expecting its competitiveness and profitability to elevate as a result of the continuous success of its multi-branding strategy which accounted for its capturing of the high-, mid- and low-end markets.

Although the market prices of refrigerators declined in 2004, the industry consolidated and competition was brought back to a manageable level with little room for further drop in price. Hence, the Group has strong confidence in the future development of its refrigerator business.

As for its air-conditioner business, in spite of the price war in 2004 which resulted in the revenue growth falling behind growth in sales, boasting the most effective cost control capability in the market helped by its multi-branding strategy, the Group's air-conditioner products have assumed greater control over the market. The Group believes as the market consolidates, its air-conditioner business will perform favorably.

The Group will strive to grasp all opportunities to expand its business during the fast growing period in the next few years. It is committed to becoming a leading international domestic refrigeration appliance manufacturer and bringing fruitful returns to shareholders.



**MANAGEMENT DISCUSSION AND ANALYSIS** – *Continued*

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**D. SIGNIFICANT EVENTS**

Mr. Gu Chu Jun, Chairman of Kelon, through his controlled company, Greencool Enterprise Development Company Limited (“Greencool Enterprise”), entered into a conditional agreement to purchase 57,436,439 Legal Person Shares of the Company from Foshan Shunde Xinhong Enterprise Company Limited on 10 June, 2004. This share transaction of 5.79% interest of the Company was made at a consideration of RMB 1.70 per share. Upon completion of the transaction, the stakes in the Group held by its single largest shareholder, Greencool Enterprise, will increase from 20.64% to 26.43%.

**SOURCES OF WORKING FUNDS AND CAPITAL**

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The Group’s net cash inflow from operating activities for the six months ended 30 June 2004 amounted to RMB419,338,000.

As at 30 June 2004, the Group had bank balances and cash on hand totaling approximately RMB1,378,326,000 and bank loan balances of approximately RMB2,627,692,000.

The Company’s total capital expenditure for the six months ended 30 June 2004 amounted to RMB496,469,000.

As at 30 June 2004, the net proceeds from the Group’s initial public offering and subsequent placement of H shares and public offer of A shares have been applied as the Group’s capital expenditure and working capital.

As at 30 June 2004, the gearing ratio of the Group was 88.6%.

**TRUST DEPOSITS**

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As at 30 June 2004, the Company did not have any trust deposits with any financial institution in the PRC. All of the Company’s deposits have been placed with commercial banks in the PRC and Hong Kong.

## **UNIFIED INCOME TAX AND LOCAL TAX BENEFIT**

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The Company is subject to an income tax rate of 18% since June 2003.

## **HUMAN RESOURCES AND EMPLOYEES' REMUNERATION**

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As at 30 June 2004, the Group had approximately 24,900 employees, comprising 1,030 technicians, 6,600 marketing staff (promotion staff included), 450 financial staff, 1,030 administrative staff, and 15,760 production staff (seasonal staff included). Among the Group's employees, there are 18 doctorate graduates, 408 master graduates and 2,858 university graduates, 797 employees with official titles of middle rank or above. Besides, the Group has 75 retired staff. For the half year ended 30 June 2004, the Group's staff payroll amounted to RMB219,218,016 (corresponding period in 2003: RMB84,191,154).

## **CHARGE ON THE GROUP'S ASSETS**

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As at 30 June 2004, the Group's properties, plant and equipment with a value of approximately RMB381,983,000 (31 December 2003: RMB1,067,711,000) were pledged as security for the Group's bank borrowings.

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES**

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

## **CONTINGENT LIABILITIES**

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As at 30 June 2004, the Group had no material contingent liabilities.

## SHARE CAPITAL STRUCTURE

As at 30 June 2004, there was no change in the share capital structure of the Company and the structure was as follows:

	Number of Shares	Percentage of total issued share capital
Domestic shares	337,915,755	34.06%
H shares	459,589,808	46.33%
A shares	194,501,000	19.61%
Total	992,006,563	100.00%

As at 30 June 2004, there were 66,132 shareholders in total, of which the top ten/substantial shareholders were as follows:

Names of Shareholders	Increase/ decrease during the Period	Shareholdings at the end of the period	Proportion to total share capital (%)	Share class (listed or unlisted)	Number of shares pledged or frozen	Nature of Shares (domestic or foreign shareholders)
Greencool Enterprise Development Company Limited	0	204,775,755	20.64%	Unlisted	0	Domestic legal person shares
The Hongkong and Shanghai Banking Corporation Ltd.	+38,987,237	148,511,596	14.97%	Listed	Unknown	H shares
Shunde Economic Consultancy Company	0	68,666,667	6.92%	Unlisted	0	Domestic legal person shares
Standard Chartered Bank (HK) Ltd	+31,665,000	60,991,000	6.15%	Listed	Unknown	H shares
Foshan Shunde Xinhong Enterprise Company Limited	0	57,436,439	5.79%	Unlisted	0	Domestic legal person shares
Guotai Junan Securities (Hong Kong) Limited	-8,099,000	37,010,000	3.73%	Listed	unknown	H shares
First Shanghai Securities Limited	+110,000	27,109,000	2.73%	Listed	unknown	H shares

<b>SHARE CAPITAL STRUCTURE – Continued</b>
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<b>Names of Shareholders</b>	<b>Increase/ decrease during the Period</b>	<b>Shareholdings at the end of the period</b>	<b>Proportion to total share capital (%)</b>	<b>Share class (listed or unlisted)</b>	<b>Number of shares pledged or frozen</b>	<b>Nature of Shares (domestic or foreign shareholders)</b>
Shenyin Wanguo Securities (H.K.) Limited	-10,149,000	23,735,000	2.39%	Listed	unknown	H shares
Citibank N.A.	-5,378,200	17,916,484	1.81%	Listed	unknown	H shares
Liu Chong Hing Bank Limited	+6,000,000	16,000,000	1.61%	Listed	unknown	H shares

Descriptions:

- (1) Except those held by the legal person shareholders, all of the shares held by the above top ten shareholders has not been pledged or under freezing orders during the Period. The Company does not know whether any shares held by the other shareholders have been pledged or under freezing orders during the Period.
- (2) Among the top ten shareholders, none of the legal person shareholders is connected with any of the others or is a party acting in concert with any of the others as defined in Administrative Measures for Information Disclosure of the Shareholders of Listed Companies (上市公司股東持股變動信息管理辦法). Furthermore, the Company does not know whether any shareholders is connected with any of the others or is a party acting in concert with any of the others as defined in Administrative Measures for Information Disclosure of the Shareholders of Listed Companies.
- (3) Foshan Shunde Xinhong Enterprise Company Limited ("Xinhong Enterprise"), a legal person shareholder who holds 5% of issued shares of the Company, entered into a "Legal Person Share Transfer Agreement" with Greencool Enterprise Development Company Limited ("Greencool Enterprise"), the Company's single substantial shareholder on 10 June 2004. Xinhong Enterprise transferred 57,436,439 legal person shares of the Company held by it. Further information has been disclosed in the "中國證券報" and "證券時報" both dated 11 June 2004. The Company has not received any document and share transfer confirmation letter from China Securities Depository & Clearing Corporation Limited Shenzhen Branch as yet.

## SHARE CAPITAL STRUCTURE – Continued

- (4) The name of the Company's single substantial shareholder which was previously known as "順德市格林柯爾企業發展有限公司" has been changed to "廣東格林柯爾企業發展有限公司" on 20 April 2004 because of the change in plotting of administrative zone of Shunde.

## SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

Name of Shareholders (full name)	Number of listed shares at the end of the period	Class (A, B, H share or others)
The Hongkong and Shanghai Banking Corporation Ltd.	148,511,596	H shares
Standard Chartered Bank (HK) Ltd	60,991,000	H shares
Guotai Junan Securities (Hong Kong) Limited	37,010,000	H shares
First Shanghai Securities Limited	27,109,000	H shares
Shenyin Wanguo Securities (H.K.) Limited	23,735,000	H shares
Citibank N.A.	17,916,484	H shares
Liu Chong Hing Bank Limited	16,000,000	H shares
Dah Sing Bank Limited	15,000,000	H shares
哈爾濱哈里投資股份有限公司	14,789,903	A shares
Deutsche Securities Asia Ltd.	11,147,200	H shares

*Description:* The Company does not know whether any one of the top ten shareholders is connected with any one of the other nine nor any one of them is a party acting in concert with any one of the other nine as defined in Administrative Measures for Information Disclosure of the Shareholders of Listed Companies.

## INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 30 June 2004, the interests or short positions (including interests or short positions which they are deemed or taken to have under the relevant provisions of the Securities and Futures Ordinance) of the directors, supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register required to be kept by the Company under Section 352 of the Securities and Futures Ordinance were as follow:

Name	Position	Type of interest	Number of Shares
Gu Chu Jun (i)	Director	Corporate	262,212,194 Legal Person Shares
Gu Chu Jun (ii)	Director	Corporate	3,830,000 H Shares
He Si	Supervisor	Personal/Family	50,000 A Shares

Notes:

- (i) Greencool Enterprise Development Company Limited owns 204,775,755 legal person shares in the Company, representing approximately 20.64% of the existing issued share capital of the Company. Mr. Gu Chu Jun owns 60% of the total investment in Greencool Enterprise Development Company Limited. On 10 June, 2004, Greencool Enterprise Development Company Limited entered into a conditional agreement to purchase 57,436,439 Legal Person Shares of the Company from Foshan Shunde Xinhong Enterprise Company Limited. For the purpose of the Securities and Futures Ordinance, Mr. Gu Chu Jun is interested in such shares through his shareholdings in Greencool Enterprise Development Company Limited. As at 30 June, 2004, this transaction has not been completed.
- (ii) Mr. Gu Chu Jun is the substantial shareholder of Greencool Technology Holdings Limited (a company listed on the Hong Kong Stock Exchange Growth Enterprise Market) and owns approximately 62.5% of its share interests. Two subsidiaries of Greencool Technology Holdings Limited held 3,830,000 H Shares of the Company, representing approximately 0.39% of the issued share capital of the Company.

Save as disclosed above, as of 30 June 2004, the Company was not aware of any interests or short positions (including interests or short positions which they are deemed or taken to have under the relevant provisions of the Securities and Futures Ordinance) held by the directors, supervisors and chief executive of the Company which are required, pursuant to the provisions of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

<b>SUBSTANTIAL SHAREHOLDERS</b>
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As at 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that the following shareholders hold underlying interests and short positions in the issued share capital of the Company:

<u>Name</u>	<u>Class of Shares</u>	<u>Number of issued ordinary shares held</u>	<u>Proportion to the relevant class of issued share capital of the Company</u>	<u>Proportion to the total issued share capital of the Company</u>
Greencool Enterprise Development Company Limited ( <i>Note 1</i> )	Domestic legal person shares	262,212,194	77.60%	26.43%
Shunde Economic Consultancy Company	Domestic legal person shares	68,666,667	20.32%	6.92%
Foshan Shunde Xinhong Enterprise Company Limited	Domestic legal person shares	57,436,439	16.99%	5.79%
The Hongkong and Shanghai Banking Corporation Ltd.	H shares	148,511,596	32.31%	14.97%
Standard Chartered Bank	H shares	60,991,000	13.27%	6.15%
Guotai Junan Securities (Hong Kong) Limited	H shares	37,010,000	8.05%	3.73%
First Shanghai Securities Limited	H shares	27,109,000	5.90%	2.73%
Shenyin Wanguo Securities (H.K.) Limited	H shares	23,735,000	5.16%	2.39%

*Note 1:*

Greencool Enterprise Development Company Limited owns 204,775,755 legal person shares of the Company, representing approximately 20.64% of the existing issued share capital of the Company. Mr. Gu Chu Jun owns 60% of the total investment in Greencool Enterprise Development Company Limited. On 10 June, 2004, Greencool Enterprise Development Company Limited entered into a conditional agreement to purchase 57,436,439 legal person shares of the Company from Foshan Shunde Xinhong Enterprise Company Limited. For the purpose of the Securities and Futures Ordinance, Mr. Gu Chu Jun is interested in such shares through his shareholdings in Greencool Enterprise Development Company Limited. As at 30 June, 2004, this transaction has not been completed.

Other than as disclosed above, the Company is unaware of any other holdings of underlying interests or short positions in the issued share capital of the Company as at 30 June 2004.

## **PURCHASE, SALE AND REDEMPTION OF SHARES**

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

## **AUDIT COMMITTEE**

The Company established the Audit Committee on 16 August 2002. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors, Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu. The Audit Committee has reviewed and approved both the interim results announcement and the results report.

## **CODE OF BEST PRACTICE**

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

## **PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE OF HONG KONG LIMITED'S WEBSITE**

A detailed results announcement containing all the information in respect of the Company required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on The Stock Exchange of Hong Kong Limited's website.

## **DOCUMENT AVAILABLE FOR INSPECTION AND ADDRESS FOR INSPECTION TO DOCUMENT**

The original 2004 interim report signed by the Chairman is available for inspection at the following address:

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

By Order of the Board  
**Gu Chu Jun**  
 Chairman

Shunde District, Foshan City, 20 August 2004



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

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

**1. Principal Financial Statistics and Indicators**

	<b>As at 30 June 2004</b>	<b>As at 31 December 2003</b>	<b>Increase/ (decrease)</b>
	<i>RMB</i>	<i>RMB</i>	(%)
Current assets	7,785,325,751	6,033,869,860	29.03%
Current liabilities	7,649,354,318	5,779,561,003	32.35%
Total assets	11,404,839,090	9,432,791,214	20.91%
Shareholders' equity (excluding minority interests)	2,963,518,393	2,808,730,941	5.51%
Net assets per share	2,9874	2,8314	5.65%
Adjusted net assets per share	2.8252	2.6439	7.20%

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

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

**1. Principal Financial Statistics and Indicators – *Continued***

*(Unit: RMB)*

	<b>January to June 2004</b>	<b>January to June 2003</b>	<b>Increase/ (decrease)</b>
			(%)
Net profit	159,192,418	144,606,105	10.09%
Net profit deducted by extraordinary items	155,840,621	146,455,095	6.41%
Earnings per share	0.1604	0.1457	10.09%
Return on net assets	5.37%	5.26%	0.11%
Net cash flow from operating activities	526,158,872	334,133,780	57.47%

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

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

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

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

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

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

**1. Principal Financial Statistics and Indicators – *Continued***

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

Net cash flow from = Net cash flow from operating activities/number of  
operating activities ordinary shares outstanding as at the end of the period  
per share

**2. Difference on Net Profit Calculated in Accordance with the International  
Financial Reporting Standards (“IFRS”) and PRC Accounting Standards  
and Regulations (“PRC GAAP”)**

	<b>Net profit during the Period</b>
	<i>RMB'000</i>
Reported in accordance with IFRS	158,063
Reported in accordance with PRC GAAP	159,192
	(1,129)
	(1,129)

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

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

**3. Appendix to profit and loss account**

	Return rate of net assets		Return per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
	%	%	RMB	RMB
Profit derived from principal operations	34.69	35.59	1.04	1.04
Operating profit	5.74	5.89	0.17	0.17
Net profit	5.37	5.51	0.16	0.16
Net profit less of extraordinary items	5.26	5.40	0.16	0.16

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

There was no new appointment and resignation of the Directors, Supervisors and Senior Management of the Company during the Period.

**(3) SHAREHOLDINGS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT  
OF THE COMPANY HAD NOT BEEN CHANGED DURING THE PERIOD**

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

**(4) ANALYSIS OF FINANCIAL POSITION AND OPERATION RESULTS DURING THE PERIOD**

<b>Items</b>	<b>30 June 2004</b>	<b>31 December 2003</b>	<b>Increase/ Decrease</b>
	<i>RMB</i>	<i>RMB</i>	(%)
Bank balances and cash	3,069,328,829	2,120,038,297	44.78%
Accounts receivable	1,237,547,446	731,120,036	69.27%
Subsidy receivables	60,640,782	187,704,983	-67.69%
Short-term loans	1,815,626,723	858,900,000	111.39%
Notes payable	2,636,174,952	1,938,635,005	35.98%
Accounts payable	1,811,562,539	1,401,689,440	29.24%
Advance from customers	277,087,969	456,523,479	-39.30%

<b>Items</b>	<b>January-June 2004</b>	<b>January-June 2003</b>	<b>Increase/ Decrease</b>
	<i>RMB</i>	<i>RMB</i>	(%)
Revenue from principal operations	4,931,016,244	3,315,066,447	48.75%

Descriptions:

1. The increase in bank balances and cash was attributable to the increase in pledged deposits and sales.
2. The increase in accounts receivable was attributable to the increase in sales.
3. The decrease in subsidy receivables was due to receipt of export tax receivables in prior years.

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

**(4) ANALYSIS OF FINANCIAL POSITION AND OPERATION RESULTS DURING THE PERIOD**  
– *Continued*

4. The increase in short-term loans was attributable to the increase in sales and adjusted discounted notes payable.
5. The increase in notes payable and accounts payable was attributable to the deferred payment during the peak season and the use of notes payable for the settlement of goods purchased.
6. The decrease in advance from customers was due to the increase in products picked up by customers in sales peak season which offset the advance from customers previously received.
7. The increase in sales was attributable to the increase in sales quantity.

**1. Analysis of revenue from principal operations by geographic segment**

*(Unit: RMB)*

<u>Operation indicators</u>	<u>Revenue from principal operations</u>	<u>Increase ratio (%)</u>
Domestic market	2,818,526,872	14.35%
Overseas market	<u>2,112,489,372</u>	148.48%
Total	<u><u>4,931,016,244</u></u>	<u><u>48.75%</u></u>

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

**(4) ANALYSIS OF FINANCIAL POSITION AND OPERATION RESULTS DURING THE PERIOD**  
– *Continued*

**2. Analysis of the Company's income and profit from principal operations  
by industry/product**

*(Unit: RMB)*

<b>By product</b>	<b>Revenue from principal operations</b>	<b>Cost of principal operations</b>	<b>Gross profit margin (%)</b>	<b>Change in revenue from principal operations as compared to corresponding period last year (%)</b>	<b>Change in cost of principal operations as compared to corresponding period last year (%)</b>	<b>Change in gross profit margin as compared to corresponding period last year (%)</b>
Refrigerators	1,919,997,521	1,468,621,312	23.51%	32.85%	43.59%	-5.72%
Air Conditioners	2,688,303,308	2,168,823,167	19.32%	63.78%	67.46%	-1.77%
Freezers	149,920,103	112,822,390	24.74%	7.62%	-1.36%	6.85%
Others	172,795,312	152,619,203	11.68%	93.79%	102.34%	-3.73%
Attributable to:						
Related party transactions			32,740,000			
Principal policy of related party transactions				On market prices		

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

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**(5) INVESTMENTS OF THE COMPANY DURING THE PERIOD**

1. During the Period, there was no application of raised funds nor was there an application of raised funds in the previous period that continued through to the Period.
2. Progress on and revenue from significant investments made by the Company without raising funds.
  - (1) As at the end of the Period, the second phase project of Hangzhou Kelon Electric Co. Ltd. (杭州科龍電器有限公司) was under construction and expected to commence operation by the end of 2004;
  - (2) As at the end of the Period, Kaifeng Kelon Air-conditioners Co. Ltd. (開封科龍空調有限責任公司) commenced production of the two heat exchangers for its air-conditioners, i.e. the evaporator (蒸發器) and the condenser (冷凝器), while whole air-conditioner production was on test stage;
  - (3) As at the end of the Period, the ice-making machine project of Shangqiu Kelon Electric Co. Ltd. (商丘科龍電器有限公司) commenced formal operation and the second phase expansion project was in progress;
  - (4) As at the end of the Period, the construction work of Zhuhai Kelon Development Co. Ltd. (珠海科龍實業發展有限公司) (“Zhuhai Kelon”), a subsidiary set up by the Company through an investment on December 2003, was still in progress and expected to commence operation in the first half of the coming year.
  - (5) As at the end of the Period, the first phase infrastructure project of 揚州科龍電器有限公司 was almost complete with production equipments in the process of installation.



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

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**(6) OTHER SIGNIFICANT EVENTS**

**1. Company Governance**

The Company has been continuing to optimize its corporate governance structure, to establish a modern corporate system and to regulate the operation of the Company by strictly complying with the requirements of the Company Law, the Securities Law and the relevant laws and regulations stipulated by the CSRC. During the Period, the Company has amended its Articles of Association pursuant to the requirements of the CSRC in order to improve the relevant provisions of external guarantees. The Company has also improved the Resolution Rules for the General Meeting and the Resolution Rules for the Board of Directors.

2. The Company did not make any profit appropriation for the interim period of 2004 and did not make any reserve fund transferring to increase the share capital.
3. During the Period, the Company was not involved in any material litigation and arbitration events in 2004.
4. During the Period, the Company acquired 71% equity interests of 西安高科遠東制冷有限責任公司 (Xi'an Hi-Tech Far East Refrigerating Co. Ltd.) and changed its registered name to 西安科龍有限公司 (「西安科龍」) Xi'an Kelon Co. Ltd. ("Xi'an Kelon"). Some of the new compressor lines of Xi'an Kelon commenced production during the period. It is expected that the relocation of the original production lines will be completed at the end of 2004.
5. During the Period, the Company's subsidiaries purchased raw materials of approximately RMB126,000,000 from an associated company, Huayi at market prices. The amount represented less than 3% of total purchase.

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

**(6) OTHER SIGNIFICANT EVENTS – Continued**

6. There were no assets of other companies being assigned, underwritten or leased by the Company during the Period, or occurred prior to the period and continued to be subsisting at the date of this report that were material to the Company.
7. The following are the material guarantees given during the Period, or given prior to the period and continued to be subsisting at the date of this report:-

Secured Objects	Date (Day of Agreement)	Secured amount (RMB ten thousand)	Guarantee type	Guarantee period		Whether the guarantee is given	
						Performance complete or not	to a related party (Y or N)
Guangdong Kelon Refrigerator Ltd.	2003-7-10	6,000.00	Joint and several liabilities	2003-7-10	2004-7-10	N	N
Guangdong Kelon Refrigerator Ltd.	2004-5-20	3,652.00	Joint and several liabilities	2004-5-20	2004-8-25	N	N
Guangdong Kelon Refrigerator Ltd.	2004-6-7	7,627.70	Joint and several liabilities	2004-6-7	2004-9-5	N	N
Chengdu Kelon Refrigerator Ltd.	2004-3-10	700.00	Joint and several liabilities	2004-3-10	2004-9-10	N	N
Chengdu Kelon Refrigerator Ltd.	2004-3-15	700.00	Joint and several liabilities	2004-3-15	2004-9-15	N	N
Guangdong Kelon Refrigerator Ltd.	2004-3-19	5,000.00	Joint and several liabilities	2004-3-19	2004-9-19	N	N
Guangdong Kelon Refrigerator Ltd.	2004-3-24	4,500.00	Joint and several liabilities	2004-3-24	2004-9-24	N	N
Guangdong Kelon Refrigerator Ltd.	2004-6-25	2,490.00	Joint and several liabilities	2004-6-25	2004-9-24	N	N
Yingkou Kelon Refrigerator Ltd.	2004-3-25	3,000.00	Joint and several liabilities	2004-3-25	2004-9-25	N	N
Guangdong Keon Air-Conditioner Co., Ltd.	2003-10-9	5,000.00	Joint and several liabilities	2003-10-9	2004-10-9	N	N
Jiangxi Kelon Industrial Development Co., Ltd.	2004-4-15	80.90	Joint and several liabilities	2004-4-15	2004-10-15	N	N

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

**(6) OTHER SIGNIFICANT EVENTS – *Continued***

**7. – *Continued***

Secured Objects	Date (Day of Agreement)	Secured amount (RMB ten thousand)	Guarantee type	Guarantee period		Performance complete or not	Whether the guarantee is given
							to a related party (Y or N)
Jiangxi Kelon Industrial Development Co., Ltd.	2004-4-19	119.60	Joint and several liabilities	2004-4-19	2004-10-19	N	N
Guangdong Kelon Refrigerator Ltd.	2004-6-25	2,988.00	Joint and several liabilities	2004-6-25	2004-10-24	N	N
Jiangxi Kelon Industrial Development Co., Ltd.	2004-4-27	2,098.79	Joint and several liabilities	2004-4-27	2004-10-27	N	N
Jiangxi Kelon Industrial Development Co., Ltd.	2004-5-24	5,492.00	Joint and several liabilities	2004-5-24	2004-11-24	N	N
Jiangxi Kelon Industrial Development Co., Ltd.	2004-5-28	73.55	Joint and several liabilities	2004-5-28	2004-11-28	N	N
Jiangxi Kelon Industrial Development Co., Ltd.	2004-6-21	89.24	Joint and several liabilities	2004-6-21	2004-12-21	N	N
Jiangxi Kelon Industrial Development Co., Ltd.	2004-6-28	335.00	Joint and several liabilities	2004-6-28	2004-12-28	N	N
Guangdong Kelon Refrigerator Ltd.	2004-1-20	5,000.00	Joint and several liabilities	2004-1-20	2005-1-20	N	N
Chengdu Kelon Refrigerator Ltd.	2004-3-10	600.00	Joint and several liabilities	2004-3-10	2005-3-10	N	N
Chengdu Kelon Refrigerator Ltd.	2004-3-15	600.00	Joint and several liabilities	2004-3-15	2005-3-15	N	N
Guangdong Kelon Refrigerator Ltd.	2004-3-18	8,300.00	Joint and several liabilities	2004-3-18	2005-3-17	N	N

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

**(6) OTHER SIGNIFICANT EVENTS – Continued**

**7. – Continued**

Secured Objects	Date (Day of Agreement)	Secured amount (RMB ten thousand)	Guarantee type	Guarantee period		Performance complete or not	Whether the guarantee is given
							to a related party (Y or N)
Yingkou Kelon Refrigerator Co., Ltd.	2004-3-24	3,000.00	Joint and several liabilities	2004-3-24	2005-3-23	N	N
Chengdu Kelon Refrigerator Ltd.	2004-4-22	400.00	Joint and several liabilities	2004-4-22	2005-4-22	N	N
Chengdu Kelon Refrigerator Ltd.	2004-4-30	1,000.00	Joint and several liabilities	2004-4-30	2005-4-30	N	N
民豐特種紙股份有限公司	2001-12-01	2,000.00	Joint and several liabilities	2001-12-20	2004-11-25	N	N
民豐特種紙股份有限公司	2004-03-01	1,500.00	Joint and several liabilities	2004-03-05	2005-03-04	N	N
民豐特種紙股份有限公司	2004-06-01	827.00	Joint and several liabilities	2004-06-25	2004-09-23	N	N
中寶科控投資股份有限公司	2004-04-01	2,500.00	Joint and several liabilities	2004-04-16	2005-04-15	N	N
中寶科控投資股份有限公司	2004-03-01	500.00	Joint and several liabilities	2004-03-26	2005-03-23	N	N
浙江嘉欣絲綢股份有限公司	2004-01-01	350.00	Joint and several liabilities	2004-01-07	2005-01-05	N	N
浙江嘉欣絲綢股份有限公司	2004-06-01	650.00	Joint and several liabilities	2004-06-24	2005-06-10	N	N
浙江嘉欣絲綢股份有限公司	2003-10-01	1,000.00	Joint and several liabilities	2003-10-23	2004-10-22	N	N
浙江嘉欣絲綢股份有限公司	2003-11-01	1,000.00	Joint and several liabilities	2003-11-06	2004-11-05	N	N
Total amount of guarantees incurred							1,262.11
Total balance of guarantees							1,262.11
Including balance of related party guarantees							0
Total amount of non performance guarantees							0
Proportion of total guarantees to net assets of the Company							23.66%
Total amount of guarantees given to subsidiaries by the listed holding company							68,846.78

**Note:** The guarantees in favor of 民豐特種紙股份有限公司，中寶科控投資股份有限公司 and 浙江嘉欣絲綢股份有限公司 were given by 加西貝拉壓縮機股份有限公司, a subsidiary of 華意壓縮機股份有限公司 which in turn is an associated company with 22.725% equity interests held by the Company.

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

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**(6) OTHER SIGNIFICANT EVENTS – *Continued***

8. No material cash assets management was assigned by the Company during the Period or occurred prior to the period and continued to be subsisting at the date of this report.
9. During the Period, neither the Company nor shareholders who held more than 5% of the shares of the Company had given any undertakings which might materially affect the operating results and financial position of the Company nor did any of such occurred prior to the period and continued to be subsisting at the date of this report.
10. During the Period, the Company did not change the auditor.
11. During the Period, neither the Company nor the board and directors of the Company was subject to any investigation, or administrative penalty, or notice of criticism by the CSRC, or subject to penalty by other administrative departments or public censure by any stock exchange. The directors and the relevant management personnel of the Company were not subject to by any legal enforcement.

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

**(6) OTHER SIGNIFICANT EVENTS – *Continued***

**12. Specific explanation on the use of funds by the Controlling Shareholders and its subsidiaries**

<u>Use of fund</u>	<u>Name of related parties</u>	<u>Relationship</u>	<u>Amount</u>	<u>Accounting category</u>	<u>Period-end balance</u>	<u>Remarks</u>
Assigned loan	Nil	Nil	Nil	Nil	Nil	Nil
Assigned investments by related parties	Nil	Nil	Nil	Nil	Nil	Nil
Issue of commercial bills of acceptance with no substantial transactions	Nil	Nil	Nil	Nil	Nil	Nil
Repayment of loans	Nil	Nil	Nil	Nil	Nil	Nil
Others (such as advances)	Nil	Nil	Nil	Nil	Nil	Nil

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

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**(6) OTHER SIGNIFICANT EVENTS – *Continued***

13. Specific independent opinions by independent directors on the Company's accumulated and current external guarantees and anti-law guarantees

In accordance with the regulations and requirements of the "Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their Connected Parties and the Provision of Security by Listed Companies to external Parties" (Zhengjian [2003] No.56) issued by the China Securities Regulatory Commission, we, with bona fides, have carried out due diligence and careful investigation on the security provided by the Company to external parties, details of which are reported as follows:

- (1) As at 30 June 2004, the Company has accumulated external guarantees of RMB688,467,800 which were all provided to its controlling subsidiaries. The Company has not provided any security to its shareholders, subsidiaries of shareholders, affiliates of shareholders, other connected parties holding less than 50% shares of the Company, any non-legal entities and individuals.
- (2) The accumulated and current external security of the Company amounted to RMB12,621,100. The total accumulated external security of RMB55,538,600 was provided in favour of Jiaxipera, the subsidiaries of Huayi Compressor Holding Company Limited in which the Company holds a 22.725% equity interest. Therefore, the external security of the Company amounted to RMB12,621,100.

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

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**(6) OTHER SIGNIFICANT EVENTS – *Continued***

**13. – *Continued***

- (3) The “Articles of Association” has been amended by Guangdong Kelon Electrical Holdings Company Limited in accordance with the requirements of CSRC 【2003】 No.56 document and has been passed by special resolution during the 2003 annual general meeting. We believe Guangdong Kelon Electrical Holdings Company Limited has complied with the relevant requirements stipulated by CSRC 【2003】 No.56 document with the risks associated with external guarantees being effectively controlled and investors interests safeguarded.

Independent non-executive directors: Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man, Mr. Xu Xiao Lu.

**(7) PRINCIPLE FINANCIAL STATEMENTS FOR A-SHARE**

Regarding the principal financial statements for A-Share in the Company’s A Share interim results announcement, please refer to the financial statements prepared in accordance with the PRC accounting standards and regulations (“PRC GAAP”) set out on pages 63 to 123.



**BALANCE SHEET**

At 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

(Unit: RMB)

	Notes	Group 30 June 2004 (Unaudited)	Company 30 June 2004 (Unaudited)	Group 31 December 2003 (Audited)	Company 31 December 2003 (Audited)
<b>Assets</b>					
Current Assets:					
Bank balances and cash	5	3,069,328,829	1,776,880,243	2,120,038,297	1,595,877,944
Notes receivable	6	669,259,122	539,251,617	734,877,589	548,232,619
Accounts receivable	7	1,237,547,446	129,036,398	731,120,036	261,438,092
Other receivables	8	302,640,143	1,998,833,328	133,664,884	1,652,631,976
Prepayments	10	141,881,045	18,488,933	165,879,789	20,599,915
Subsidy receivables	11	60,640,782	-	187,704,983	-
Inventories	12	2,299,020,331	1,008,180,164	1,945,617,637	961,962,539
Deferred expenditures		5,008,053	2,975,716	14,966,645	13,870,001
Total current assets		<b>7,785,325,751</b>	<b>5,473,646,399</b>	6,033,869,860	5,054,613,086
Long-term investments					
Long-term equity investments	13	160,053,812	1,888,390,442	172,383,399	1,458,354,550
Fixed Assets:					
Fixed assets, cost	14	3,960,912,530	1,421,169,269	3,694,855,619	1,427,389,640
Less: Accumulated depreciation	14	1,943,163,948	621,946,858	1,802,715,334	584,404,702
Fixed assets, net book value	14	2,017,748,582	799,222,411	1,892,140,285	842,984,938
Less: Provision for impairment loss of fixed assets	14	61,388,103	-	61,471,947	-
Fixed assets, net value	14	1,956,360,479	799,222,411	1,830,668,338	842,984,938
Construction in progress	15	153,474,594	41,653,512	117,845,210	33,015,098
Total fixed assets		<b>2,109,835,073</b>	<b>840,875,923</b>	1,948,513,548	876,000,036
Intangible Assets and Other Assets:					
Intangible assets	16	1,159,719,323	920,762,517	1,073,068,727	953,917,703
Long-term deferred expenditure	17	155,905,131	33,873,545	170,955,680	43,368,194
Long-term receivables due after one year	39(5)d	34,000,000	-	34,000,000	-
Total intangible assets and other assets		<b>1,349,624,454</b>	<b>954,636,062</b>	1,278,024,407	997,285,897
Total assets		<b>11,404,839,090</b>	<b>9,157,548,826</b>	9,432,791,214	8,386,253,569

The accompanying notes are part of the financial statements.

**BALANCE SHEET - Continued**

At 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

(Unit: RMB)

	Notes	Group 30 June 2004 (Unaudited)	Company 30 June 2004 (Unaudited)	Group 31 December 2003 (Audited)	Company 31 December 2003 (Audited)
<b>Liabilities and Shareholders' Equity</b>					
Current Liabilities:					
Short-term loans	18	1,815,626,723	788,766,000	858,900,000	310,000,000
Notes payable	19	2,636,174,952	2,389,190,195	1,938,635,005	1,940,688,655
Accounts payable	20	1,811,562,539	720,051,043	1,401,689,440	365,938,682
Advance from customers	21	277,087,969	109,799,462	456,523,479	414,162,842
Accrued payroll		28,096,579	6,530,854	28,064,768	9,858,676
Staff welfare payable		2,539,240	-	220,777	-
Taxes payables	22	30,425,583	39,370,625	(32,821,459)	(48,587,455)
Payable to others		1,599,286	106,932	5,833,042	230,783
Other payables	23	275,831,539	380,596,298	406,206,061	649,808,149
Accruals	24	267,920,967	201,787,859	221,235,587	191,113,522
Provision	25	96,856,037	96,856,037	89,556,581	89,556,581
Long-term loans due within one year	26	405,632,904	400,000,000	405,517,722	400,000,000
<b>Total current liabilities</b>		<b>7,649,354,318</b>	<b>5,133,055,305</b>	<b>5,779,561,003</b>	<b>4,322,770,435</b>
Long-term liabilities:					
Long-term loans	27	406,432,332	360,000,000	544,353,852	525,000,000
Long-term payable	28	67,017,922	60,286,383	62,778,960	57,986,314
Accrued liabilities of investee enterprise	13	-	222,289,880	-	335,383,123
<b>Total long-term liabilities</b>		<b>473,450,254</b>	<b>642,576,263</b>	<b>607,132,812</b>	<b>918,369,437</b>
<b>Total liabilities</b>		<b>8,122,804,572</b>	<b>5,775,631,568</b>	<b>6,386,693,815</b>	<b>5,241,139,872</b>
Minority Interests		318,516,125	-	237,366,458	-
Shareholders' Equity:					
Share capital	29	992,006,563	992,006,563	992,006,563	992,006,563
Capital reserve	30	1,516,862,082	1,906,669,964	1,516,787,706	1,840,635,588
Revenue reserve	31	114,580,901	114,580,901	114,580,901	114,580,901
Including: Statutory common welfare fund		114,580,901	114,580,901	114,580,901	114,580,901
Unappropriated profits	32	343,628,613	368,659,830	184,436,195	197,890,645
Exchange differences on translation of financial statements in foreign currencies		(3,559,766)	-	919,576	-
<b>Total shareholders' equity</b>		<b>2,963,518,393</b>	<b>3,381,917,258</b>	<b>2,808,730,941</b>	<b>3,145,113,697</b>
<b>Total liabilities and shareholders' equity</b>		<b>11,404,839,090</b>	<b>9,157,548,826</b>	<b>9,432,791,214</b>	<b>8,386,253,569</b>

The accompanying notes are part of the financial statements.

<b>STATEMENT OF INCOME AND PROFIT APPROPRIATION</b>
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For the six months ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

(Unit: RMB)

	Notes	January- June 2004 Group	January- June 2004 Company	January- June 2003 Group	January- June 2003 Company
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Items</b>					
1. Revenue from principal operations	33	4,931,016,244	3,520,432,541	3,315,066,447	2,328,509,987
Less: Cost of sales	33	3,902,886,072	3,011,955,737	2,507,767,367	1,924,172,394
Sales tax		119,267	67,520	246,603	136,151
2. Profit from principal operations		1,028,010,905	508,409,284	807,052,477	404,201,442
Add: Other operating profit (loss)		23,215,762	(17,651)	15,708,524	1,209,348
Less: Distribution costs		631,918,686	507,495,314	466,765,323	408,659,880
Administrative expenses		177,969,598	56,463,669	141,579,779	9,102,811
Financial Expenses	34	71,261,917	29,846,203	53,643,822	24,281,566
3. Operating profit (loss)		170,076,466	(85,413,553)	160,772,077	(36,633,467)
Add: Investment (loss) profit	35	(12,333,282)	259,617,148	(12,783,202)	168,476,327
Subsidy income		-	-	18,190	18,190
Non-operating income		6,762,591	4,814,525	4,624,096	2,506,806
Less: Non-operating expenses		9,093,750	8,248,935	799,968	577,821
4. Profit before taxation		155,412,025	170,769,185	151,831,193	133,790,035
Less: Income tax	36	4,344,199	-	5,934,088	-
Minority interests		(8,124,592)	-	1,291,000	-
5. Net profit for the period		159,192,418	170,769,185	144,606,105	133,790,035
Add: Accumulated losses at the beginning of the period		184,436,195	197,890,645	(1,211,930,161)	(1,194,186,108)
Utilisation of capital reserve to make up accumulated losses		-	-	965,024,306	965,024,306
Utilisation of statutory common reserve to make up accumulated losses		-	-	229,161,802	229,161,802
6. Profit available for appropriation		343,628,613	368,659,830	126,862,052	133,790,035
Less: Appropriations to statutory common reserve fund		-	-	-	-
Appropriations to statutory common welfare fund		-	-	-	-

The accompanying notes are part of the financial statements.

<b>STATEMENT OF INCOME AND PROFIT APPROPRIATION – Continued</b>
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For the six months ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

(Unit: RMB)

	January- June 2004 Group <u>(Unaudited)</u>	January- June 2004 Company <u>(Unaudited)</u>	January- June 2003 Group <u>(Unaudited)</u>	January- June 2003 Company <u>(Unaudited)</u>
<b>Items</b>				
7. Profit available for appropriations to shareholders	<b>343,628,613</b>	<b>368,659,830</b>	126,862,052	133,790,035
Less: Appropriations to discretionary reserve	-	-	-	-
Dividends payable on ordinary shares	-	-	-	-
8. Unappropriated profits	<b><u>343,628,613</u></b>	<b><u>368,659,830</u></b>	<u>126,862,052</u>	<u>133,790,035</u>

The accompanying notes are part of the financial statements.

<b>CASH FLOW STATEMENT</b>
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For the six months ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

	January- June 2004 Group	January- June 2004 Company	January- June 2003 Group	January- June 2003 Company
	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)
<b>Items</b>				
<b>I. Cash flows from operating activities:</b>				
Cash received from sale of goods and rendering of services	4,941,111,112	3,821,892,998	3,263,357,958	2,478,701,340
Cash received from other operating activities	10,996,660	5,640,991	28,888,308	11,099,675
<b>Sub-total of cash inflows</b>	<b>4,952,107,772</b>	<b>3,827,533,989</b>	<b>3,292,246,266</b>	<b>2,489,801,015</b>
Cash paid for purchases of goods and services	3,641,830,796	3,202,377,371	2,426,390,916	1,917,309,407
Cash paid to and on behalf of employees	206,626,033	79,735,878	213,901,174	85,637,720
Tax paid	94,226,792	65,475,936	39,767,214	28,408,063
Cash paid for other operating activities	483,265,279	369,578,949	278,053,182	77,363,279
<b>Sub-total of cash outflows</b>	<b>4,425,948,900</b>	<b>3,717,168,134</b>	<b>2,958,112,486</b>	<b>2,108,718,469</b>
<b>Net cash flows from operating activities</b>	<b>526,158,872</b>	<b>110,365,855</b>	<b>334,133,780</b>	<b>381,082,546</b>
<b>II. Cash flows from investing activities:</b>				
Cash received from investment	2,968,000	-	-	-
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	1,422,093	1,193,527	10,611,877	8,230,434
Other cash received from investing activities	13,996,921	12,216,984	-	-
<b>Sub-total of cash inflows</b>	<b>18,387,014</b>	<b>13,410,511</b>	<b>10,611,877</b>	<b>8,230,434</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	424,968,911	17,682,030	113,034,347	12,744,123
Cash paid for acquisition of investments	-	206,432,597	11,000,000	35,000,000
Cash paid for other investing activities	297,869,871	227,399,167	369,222,378	335,602,720
<b>Sub-total of cash outflows</b>	<b>722,838,782</b>	<b>451,513,794</b>	<b>493,256,725</b>	<b>383,346,843</b>
<b>Net cash flows from investing activities</b>	<b>(704,451,768)</b>	<b>(438,103,283)</b>	<b>(482,644,848)</b>	<b>(375,116,409)</b>

<b>CASH FLOW STATEMENT - Continued</b>
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For the six months ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

	January- June, 2004 Group	January- June, 2004 Company	January- June, 2003 Group	January- June, 2003 Company
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Items</b>				
III. <b>Cash flows from financing activities:</b>				
Cash contribution from minority shareholder of a subsidiary	51,720,000	-	-	-
Cash received from borrowings	<u>2,071,426,557</u>	<u>1,093,766,000</u>	<u>1,174,700,000</u>	<u>325,000,000</u>
<b>Sub-total of cash inflows</b>	<u>2,123,146,557</u>	<u>1,093,766,000</u>	<u>1,174,700,000</u>	<u>325,000,000</u>
Cash paid for repayment of borrowings	1,252,506,174	780,000,000	850,818,968	324,300,000
Cash paid for distribution of dividends, profit or interest expenses	<u>40,926,826</u>	<u>32,425,440</u>	<u>59,082,971</u>	<u>27,307,131</u>
<b>Sub-total of cash outflows</b>	<u>1,293,433,000</u>	<u>812,425,440</u>	<u>909,901,939</u>	<u>351,607,131</u>
<b>Net cash flows from financing activities</b>	<u>829,713,557</u>	<u>281,340,560</u>	<u>264,798,061</u>	<u>(26,607,131)</u>
IV. <b>Effect of foreign exchange rate changes on cash</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
V. <b>Net increase (decrease) in cash and cash equivalents</b>	<u>651,420,661</u>	<u>(46,396,868)</u>	<u>116,286,993</u>	<u>(20,640,994)</u>

## CASH FLOW STATEMENT – Continued

For the six months ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### Supplemental Information

Notes	January- June, 2004 Group RMB (Unaudited)	January- June, 2004 Company RMB (Unaudited)	January- June, 2003 Group RMB (Unaudited)	January- June, 2003 Company RMB (Unaudited)
<b>Items</b>				
<b>1. Reconciliation of net profit to net cash flows from operating activities:</b>				
Net profit	159,192,418	170,769,185	144,606,105	133,790,035
Add: Minority interests	(8,124,592)	-	1,291,000	-
Provision for impairment loss of assets	(7,249,321)	(7,165,477)	(49,283,542)	(52,499,389)
Depreciation of fixed assets	160,402,453	46,942,128	109,782,501	31,861,157
Amortisation of intangible assets	42,159,244	33,185,186	5,745,841	3,754,605
Amortisation of long-term expenditures	64,447,916	13,354,538	51,128,245	11,918,239
Decrease in deferred expenditure (less: increase)	9,958,592	10,894,285	(4,884,128)	1,158,621
Increase in accruals	46,685,380	10,674,337	49,356,351	14,480,746
Loss from disposal of fixed assets, intangible assets and other long-term assets	1,603,980	780,599	43,823,154	595,756
Financial expenses	22,888,414	20,208,455	58,518,953	30,219,421
Investment loss (less: gains)	12,333,282	(259,617,148)	12,783,202	(168,476,327)
Increase in inventories	(346,480,398)	(39,295,330)	(324,868,992)	(53,937,628)
Increase in operating receivables	(458,407,395)	(202,464,494)	(1,036,162,821)	(478,800,825)
Increase in operating payables	826,748,899	312,099,591	1,272,297,911	907,018,135
	<b>526,158,872</b>	<b>110,365,855</b>	<b>334,133,780</b>	<b>381,082,546</b>
<b>2. Net increase in cash and cash equivalents:</b>				
Cash at the end of the period	37 1,378,325,337	284,915,386	802,925,133	335,587,025
Less: Cash at the beginning of the period	37 726,904,676	331,312,254	686,638,140	356,228,019
	<b>651,420,661</b>	<b>(46,396,868)</b>	<b>116,286,993</b>	<b>(20,640,994)</b>

The accompanying notes are part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

### 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.

As at 30 June 2004, the Company has issued an aggregate of 992,006,563 shares, of which, 337,915,755 shares are domestic legal person shares, 194,501,000 shares are ordinary shares dominated in RMB and 459,589,808 shares are overseas listed foreign shares, as detailed in note 29.

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

### 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 year

The Company adopts the calendar year as its accounting year, i.e. from 1 January to 31 December. The accounting period for these financial statements is the six months period from 1 January 2004 to 30 June 2004.



**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****Accounting principles and basis of valuation**

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

**Reporting currency**

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

**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 RMB 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 the end of the period. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the equity, or where the Company controls the operation of the investee enterprise via other methods.

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

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

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****Consolidation of financial statements– Continued***(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 RMB for consolidation according to the following methods:

Assets and liabilities are translated into RMB at the market exchange rate prevailing at the balance sheet date. Shareholders' equity, except for retained earnings, are translated into RMB 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 income statement. 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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****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, amortisation 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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

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

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****Long-term investments – Continued***(1) Accounting for long-term equity investments: – Continued*

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".

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****Long-term investments – Continued***(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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS – *Continued*

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

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

#### **Fixed assets and depreciation** – *Continued*

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

Category	Estimated residual value	Estimated useful life	Annual depreciation rate
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 assesses if there is any indication that fixed assets are suffered from an impairment loss and determines whether provision for impairment of fixed assets should be made accordingly. When the recoverable amount of any fixed assets is lower than its carrying amount an impairment loss on fixed assets will be made recognised for the difference.



**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****Construction in progress**

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

Cost comprises construction expenditure incurred during the construction period, capitalised 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.

**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 recognised 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 recognised at the book value of the disposed asset plus the cash compensation and the related tax expenses.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****Intangible assets – Continued**

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 amortised 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 amortised evenly by the following method. When the land being utilised 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 amortised 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 amortisation 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 amortisation 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 assets 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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued****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.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Leases other than finance leases are classified as operating leases.

*The Company as a lessee under the operating leases*

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

*The company as a lessor under the operating leases*

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

## NOTES TO THE FINANCIAL STATEMENTS – *Continued*

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

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

#### **Income tax**

Income tax is provided under tax payable method.

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

### **3. 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 the Department of Science and Technology of Guangdong Province. 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%.

The Company's subsidiaries, Guangdong Kelon Refrigerator 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 Hangzhou Kelon Electrical Co., Ltd. ("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 aggregate EIT rate is 27%. The Company's subsidiaries, Yangzhou Kelon Electrical Co., Ltd. ("Yangzhou Kelon"), Jiangxi Kelon Combine ("Jiangxi Combine") and Zhuhai Kelon Electrical Co., Ltd. ("Zhuhai Kelon"), 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, Guangdong Kelon Mould Co., Ltd. ("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%.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

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

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 the accounting period, Kelon Refrigerator, Kelon Air-Conditioner, Rongsheng Plastic are subject to an EIT of 27%, while Kelon Fittings is 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. Jiangxi Combine and Zhuhai Kelon are still at their preliminary stage and are not subject to any EIT.

Shunde Kelon Household Electrical Appliance Company Limited (“Kelon HEA”), Huaao Electrical Electronics Co., Ltd. (“Huaao 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”), Shangqiu Kelon Electrical Company Limited (“Shangqiu Kelon”) and Kai Feng Kelon Air-Conditioner Co., Ltd., (“Kai Feng 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.

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 3. TAXATION – Continued

#### 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

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

As at 30 June 2004, 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 period
			Directly	Indirectly			
Pearl River Electric Refrigerator Company Limited ("Pearl River")	Hong Kong	HK\$400,000	-	100%	Trading in raw materials and parts for refrigerators	Limited liability company	Yes
Kelon Electric Appliances Co., Ltd. ("Kelon Electric")	Hong Kong	HK\$10,000	-	100%	Property investment	Limited liability company	Yes
Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic")	PRC	US\$15,800,000	45%	25%	Manufacture of plastic parts	Sino-foreign joint venture enterprise	Yes
Kelon Development Company Limited ("Kelon Development")	Hong Kong	HK\$5,000,000	100%	-	Investment holdings	Limited liability company	Yes

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly			
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
Kelon International Inc. ("KII")	British Virgin Islands	US\$50,000	-	100%	Investment holding and sales of refrigerators and air-conditioners	Foreign company	Yes



<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly			
Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings")	PRC	US\$5,620,000	70%	30%	Manufacture and sale of components for refrigerators and air-conditioners	Sino-foreign joint venture Mentprise	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

## NOTES TO THE FINANCIAL STATEMENTS – *Continued*

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly			
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
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

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly			
Huaao Electrical Electronics Co., Ltd. ("Huaao Electronics")	PRC	RMB10,000,000	-	70%	Research and development, manufacture and sale of electronic products	Limited liability company	Yes
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
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

## NOTES TO THE FINANCIAL STATEMENTS – *Continued*

*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly			
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
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

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly			
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	Yes
Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon")	PRC	RMB202,000,000	60%	-	Production of energy saving and environmental friendly refrigerators and smart refrigerators, research and development of cooling appliances, and sale of products made by the Company	Sino-foreign joint enterprise	Yes
Kaifeng Kelon Air-Conditioner Co., Ltd. ("Kaifeng Kelon")	PRC	RMB60,000,000	-	70%	Research and development/ manufacture and sale of commercial smart and household air-conditioners	Limited liability company	Yes

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

The changes of scope of consolidation for the accounting period are as follows:

Kai Feng Kelon and Xi'an Kelon, which are subsidiaries newly incorporated during the accounting period, were included in the scope of consolidated financial statements. Zhuhai Kelon is included in the scope of consolidation at the first time in the period.

As at 30 June 2004, particulars of associates of the Company are as follows:

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business
			Directly	Indirectly		
Huayi Compressor Holdings Company Limited ("Huayi Compressor")	PRC	RMB 260,854,000	22.725%	-	Manufacture and sale of compressors	Joint stock limited company
Shanghai Yilian Electric Business Limited ("Shanghai Yilian")	PRC	RMB 24,000,000	46.67%	-	Electronic business	Limited liability company
Guangzhou Antaida Logistic Co., Ltd. ("Guangzhou Antaida")	PRC	RMB 10,000,000	20%	-	Logistic and storage	Limited liability company
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng")	PRC	RMB 1,000,000	-	28%	Sale and after-sale service of refrigerators	Limited liability company

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 5. BANK BALANCES AND CASH

	Group 30 June 2004			Group 31 December 2003		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash						
RMB	-	-	4,616,868	-	-	1,472,684
HKD	30,000	1.0620	31,860	30,000	1.0659	31,977
USD	8,331	8.2768	68,954	8,330	8.2770	68,950
Others	-	-	730	-	-	733
Bank Deposit						
RMB	-	-	977,179,183	-	-	591,373,941
USD	45,547,253	8.2768	376,985,503	14,957,296	8.2770	123,801,535
HKD	7,718,684	1.0620	8,197,242	4,831,904	1.0659	5,150,327
YEN	38,171,152	0.0757	2,889,556	39,731,673	0.0754	2,995,768
EURO	819,094	10.1002	8,273,013	194,158	9.9106	1,924,219
Others	-	-	82,428	-	-	84,542
Other Monetary Assets						
- Pledged Deposits						
RMB	-	-	1,660,289,587	-	-	1,378,127,084
USD	3,710,843	8.2768	30,713,905	1,813,041	8.2770	15,006,537
			<b><u>3,069,328,829</u></b>			<b><u>2,120,038,297</u></b>

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

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 6. NOTES RECEIVABLE

	Group 30 June 2004	Group 31 December 2003
	<u>RMB</u>	<u>RMB</u>
Bank acceptance notes	392,039,828	354,560,252
Commercial acceptance notes	277,219,294	380,317,337
	<u>669,259,122</u>	<u>734,877,589</u>

### 7. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	Group 30 June 2004			
	Amount	Ratio	Provision for bad debt	Net value
	<u>RMB</u>	(%)	<u>RMB</u>	<u>RMB</u>
Within one year	1,239,247,487	89	1,700,041	1,237,547,446
One to two years	71,549,681	5	71,549,681	-
Two to three years	48,976,144	4	48,976,144	-
Over three years	27,108,968	2	27,108,968	-
	<u>1,386,882,280</u>	<u>100</u>	<u>149,334,834</u>	<u>1,237,547,446</u>



## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 7. ACCOUNTS RECEIVABLE – Continued

Group				
31 December 2003				
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
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	-
	880,698,052	100	149,578,016	731,120,036

Company				
30 June 2004				
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
Within one year	<b>129,036,398</b>	<b>50</b>	-	<b>129,036,398</b>
One to two years	<b>65,588,817</b>	<b>26</b>	<b>65,588,817</b>	-
Two to three years	<b>35,692,312</b>	<b>14</b>	<b>35,692,312</b>	-
Over three years	<b>26,852,636</b>	<b>10</b>	<b>26,852,636</b>	-
	<b>257,170,163</b>	<b>100</b>	<b>128,133,765</b>	<b>129,036,398</b>

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**7. ACCOUNTS RECEIVABLE – Continued**

	Company 31 December 2003			
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
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	-
	<u>389,815,039</u>	<u>100</u>	<u>128,376,947</u>	<u>261,438,092</u>

Total amount of five largest debtors is RMB238,618,178, presenting approximately 17.21% of the balance as at the end of the period.

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

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 8. OTHER RECEIVABLES

The aging analysis of other receivables is as follows:

Group				
30 June 2004				
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
Within one year	274,406,831	90	-	274,406,831
One to two years	20,807,046	7	183,757	20,623,289
Two to three years	1,293,614	-	-	1,293,614
Over three years	8,923,277	3	2,606,868	6,316,409
	305,430,768	100	2,790,625	302,640,143

Group				
31 December 2003				
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<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

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 8. OTHER RECEIVABLES – Continued

	Company 30 June 2004			
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<i>RMB</i>
Within one year	872,112,739	44	-	872,112,739
One to two years	866,043,774	43	-	866,043,774
Two to three years	254,360,406	13	-	254,360,406
Over three years	6,316,409	-	-	6,316,409
	1,998,833,328	100	-	1,998,833,328

	Company 31 December 2003			
	Amount	Ratio	Provision for bad debt	Net value
	<i>RMB</i>	(%)	<i>RMB</i>	<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

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

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 9. PROVISION FOR BAD DEBT

	Group			At <b>30 June</b> <b>2004</b> <i>RMB</i>
	At	Provision for the period	Reversal of provision	
	1 January 2004			
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	
Provision for bad debt:				
Accounts receivable	149,578,016	-	(243,182)	<b>149,334,834</b>
Other receivables	2,790,625	-	-	<b>2,790,625</b>
Total	<u>152,368,641</u>	<u>-</u>	<u>(243,182)</u>	<b><u>152,125,459</u></b>

### 10. PREPAYMENTS

The aging analysis of prepayments is as follows:

	Group 30 June 2004		Group 31 December 2003	
	<i>RMB</i>	%	<i>RMB</i>	%
Within one year	<u><b>141,881,045</b></u>	<u><b>100</b></u>	<u>165,879,789</u>	<u>100</u>

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

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**11. SUBSIDY RECEIVABLES**

	Group 30 June 2004 <u>RMB</u>	Group 31 December 2003 <u>RMB</u>
Export tax receivables	<u>60,640,782</u>	<u>187,704,983</u>

**12. INVENTORIES AND PROVISION FOR INVENTORIES**

	Group 30 June 2004		
	Cost	Provision for inventories	Net value
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Raw materials	878,627,768	38,461,291	840,166,477
Work in progress	165,892,584	172,000	165,720,584
Finished goods	1,351,497,400	58,364,130	1,293,133,270
	<u>2,396,017,752</u>	<u>96,997,421</u>	<u>2,299,020,331</u>

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 12. INVENTORIES AND PROVISION FOR INVENTORIES – Continued

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

	Group		
	31 December 2003		
	Cost	Provision for inventories	Net value
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
	<u>2,049,537,353</u>	<u>103,919,716</u>	<u>1,945,617,637</u>

The provision for inventories is as follows:

	<b>Raw materials</b>	<b>Work in progress</b>	<b>Finished goods</b>	<b>Total</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At 1 January 2004	38,461,291	172,000	65,286,425	103,919,716
Provision for the period	-	-	-	-
Reversal for the period	-	-	(6,922,295)	(6,922,295)
<b>At 30 June 2004</b>	<u><b>38,461,291</b></u>	<u><b>172,000</b></u>	<u><b>58,364,130</b></u>	<u><b>96,997,421</b></u>

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 13. LONG-TERM EQUITY INVESTMENTS

	Group 30 June 2004 <u>RMB</u>	Group 31 December 2003 <u>RMB</u>
Investments in associates	128,286,171	134,358,604
Other long-term equity investments	7,249,050	7,249,050
Long-term equity investment difference	<u>103,557,116</u>	<u>109,814,270</u>
Total	<b>239,092,337</b>	251,421,924
Less: Provision for impairment loss	<u>79,038,525</u>	<u>79,038,525</u>
Net long-term equity investments	<u><b>160,053,812</b></u>	<u>172,383,399</u>
	Company 30 June 2004 <u>RMB</u>	Company 31 December 2003 <u>RMB</u>
Investments in subsidiaries	1,678,627,151	1,235,651,509
Investments in associates	124,246,900	130,319,332
Other long-term equity investments	7,249,050	7,249,050
Long-term equity investment difference	<u>137,648,982</u>	<u>144,516,300</u>
Total	<b>1,947,772,083</b>	1,517,736,191
Less: Provision for impairment loss	<u>59,381,641</u>	<u>59,381,641</u>
Net long-term equity investments	<u><b>1,888,390,442</b></u>	<u>1,458,354,550</u>



<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**13. 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 period	
	At the beginning of the period		Addition during the period	Change of equity during the period		Accumulated change
	RMB	RMB	Directly	RMB	RMB	RMB
Kelon Development	11,200,000	-	100%	60,308,652	140,686,008	151,886,008
Kelon Refrigerator	155,552,426	-	70%	52,271,211	219,984,568	375,536,994
Kelon Air-Conditioner	214,403,766	-	60%	113,555,525	(435,555,025)	(221,151,259)
Rongsheng Plastic	53,270,064	-	45%	(2,531,801)	72,572,675	125,842,739
Chengdu Kelon	90,000,000	-	45%	694,979	(4,000,870)	85,999,130
Yingkou Kelon	84,000,000	-	42%	(3,522,383)	(11,495,667)	72,504,333
Kelon Mould	49,860,000	-	40%	222,531	4,593,441	54,453,441
Kelon Fittings	32,634,554	-	70%	2,671,831	41,977,870	74,612,424
Beijing Hengsheng	24,000,000	-	80%	-	(5,990,961)	18,009,039
Jiake Electronic	42,000,000	-	70%	13,449,268	(7,606,525)	34,393,475
Sichuan Rongsheng	1,520,000	-	76%	-	89,228	1,609,228
Wangao Co	600,000	-	20%	7,326,865	6,048,657	6,648,657
Kelon HEA	2,500,000	-	25%	(1,929,015)	(3,638,622)	(1,138,622)
Kelon Freezer	104,280,000	-	44%	8,124,912	(84,321,564)	19,958,436
Jiangxi Kelon	147,763,896	-	60%	35,091,084	36,179,544	183,943,440
Jilin Kelon	180,000,000	-	90%	(6,709,473)	(27,252,495)	152,747,505
Hangzhou Kelon	24,000,000	-	40%	609,747	609,747	24,609,747
Yangzhou Kelon	24,666,950	-	30%	(1,251,374)	(1,251,374)	23,415,576
Zuhai Kelon	-	189,101,850	75%	-	-	189,101,850
Xi'an Kelon	-	89,095,013	60%	(5,739,883)	(5,739,883)	83,355,130
	<u>1,242,251,656</u>	<u>278,196,863</u>		<u>272,642,676</u>	<u>(64,111,248)</u>	<u>1,456,337,271</u>
Add: Accrued liability of investee enterprise (i)	<u>(215,003,766)</u>	<u>(1,900,000)</u>		<u>(111,626,510)</u>	<u>439,193,646</u>	<u>222,289,880</u>
	<u><u>1,027,247,890</u></u>	<u><u>276,296,863</u></u>		<u><u>161,016,166</u></u>	<u><u>375,082,398</u></u>	<u><u>1,678,627,151</u></u>

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 13. LONG-TERM EQUITY INVESTMENTS – Continued

- (1) Particulars of investments in subsidiaries of the Company are as follows:
- (i) Kelon Air-Conditioner, the Company's subsidiary, sustained excess losses since 2000, and recorded a turnaround since 2002. As at 30 June 2004, its net liabilities decreased to RMB221,151,259 from RMB495,849,790 as at 31 December 2001. 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.
- (2) Particulars of investments in associates of the Company and the Group are as follows:

Name of Investee	Cost		Percentage of registered capital of investee %	Change of equity in investee		Transferred out during the period RMB	Carrying amount at 30 June 2004 RMB
	At 1 January 2004 RMB	Addition during the period RMB		Change of equity during the period RMB	Accumulated change RMB		
Huayi Compressor	118,013,641	-	22.725	(5,542,115)	(4,586,278)	-	113,427,363
Shanghai Yilian	11,077,600	-	46.67	(747,705)	(2,863,655)	-	8,213,945
Guangzhou Antaila	2,000,000	-	20.00	217,389	605,592	-	2,605,592
Company total	131,091,241	-		(6,072,431)	(6,844,341)	-	124,246,900
C&Y	3,712,100	-	25.00	-	-	-	3,712,100
Chongqing Rongsheng	280,000	-	28.00	-	47,171	-	327,171
Group total	135,083,341	-		(6,072,431)	(6,797,170)	-	128,286,171

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 13. LONG-TERM EQUITY INVESTMENTS – Continued

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

Name of Investee	Cost	Balance at 1 January 2004	Addition during the period	Amortisation period	Amortisation charge for the period	Balance after accumulated amortisation at 30 June 2004
	RMB	RMB	RMB		RMB	RMB
Kelon Air-Conditioner (ii)	66,596,234	59,381,641	-	10 years	-	59,381,641
Huayi Compressor	137,346,359	85,134,659	-	10 years	6,867,318	78,267,341
Company total	203,942,593	144,516,300	-		6,867,318	137,648,982
C&Y	9,007,892	8,107,103	-	10 years	-	8,107,103
Yingkou Kelon	1,010,737	710,737	-	10 years	50,000	660,737
Kelon Freezer	(88,611,120)	(81,426,434)	-	18.5 years	(2,394,896)	(79,031,538)
Wangao Co	2,744,027	2,629,693	-	10 years	-	2,629,693
Kelon HEA	34,694,631	30,068,680	-	10 years	1,734,732	28,333,948
Huao Electronic	5,434,634	5,208,191	-	10 years	-	5,208,191
Group total	168,223,394	109,814,270	-		6,257,154	103,557,116

(ii) 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.

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**13. LONG-TERM EQUITY INVESTMENTS – Continued**

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

	At 1 January 2004	Provision for the period	Reversal for the period	<b>At 30 June 2004</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
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
Huaao Electronic	5,208,191	-	-	5,208,191
Group total	<u>79,038,525</u>	<u>-</u>	<u>-</u>	<u>79,038,525</u>

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

	Group				
	Buildings and structures	Machinery and equipment	Furniture, fixture and office equipment	Motor vehicles	Total
	RMB	RMB	RMB	RMB	RMB
<b>Cost</b>					
At 1 January 2004	1,443,169,804	1,869,601,192	311,512,938	70,571,685	3,694,855,619
Additions	77,829,022	189,574,226	12,441,963	3,243,484	283,088,695
Transfer from					
construction in progress	1,152,045	5,021,342	212,593	-	6,385,980
Disposals	(1,000,000)	(19,751,036)	(1,801,764)	(197,721)	(22,750,521)
Exchange difference	(430,697)	(210,482)	(20,026)	(6,038)	(667,243)
<b>At 30 June 2004</b>	<b>1,520,720,174</b>	<b>2,044,235,242</b>	<b>322,345,704</b>	<b>73,611,410</b>	<b>3,960,912,530</b>
<b>Accumulated depreciation</b>					
At 1 January 2004	393,346,357	1,160,591,338	206,526,487	42,251,152	1,802,715,334
Provision for the period	36,898,354	110,981,956	9,722,502	2,799,641	160,402,453
Eliminated on disposals	(98,959)	(17,814,806)	(1,632,578)	(178,105)	(19,724,448)
Exchange difference	(64,712)	(138,116)	(23,461)	(3,102)	(229,391)
<b>At 30 June 2004</b>	<b>430,081,040</b>	<b>1,253,620,372</b>	<b>214,592,950</b>	<b>44,869,586</b>	<b>1,943,163,948</b>
<b>Provision for impairment</b>					
At 1 January 2004	51,789,255	9,673,692	9,000	-	61,471,947
Provision for the period	-	-	-	-	-
Exchange difference	(83,844)	-	-	-	(83,844)
<b>At 30 June 2004</b>	<b>51,705,411</b>	<b>9,673,692</b>	<b>9,000</b>	<b>-</b>	<b>61,388,103</b>
<b>Net value</b>					
At 1 January 2004	998,034,192	699,336,162	104,977,451	28,320,533	1,830,668,338
<b>At 30 June 2004</b>	<b>1,038,933,723</b>	<b>780,941,178</b>	<b>107,743,754</b>	<b>28,741,824</b>	<b>1,956,360,479</b>
Including:					
Net value of fixed assets pledged at 30 June 2004	190,299,431	191,683,373	-	-	381,982,804

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 15. CONSTRUCTION IN PROGRESS

Project Name	Group							
	Budget	At		Transfer to fixed assets	At		Percentage of budget	Source of capital
		1 January			30 June			
		2004	Additions		2004	2004		
<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	%			
Project for Jiangxi Kelon production line	18,000,000	9,790,064	5,402,456	(1,890,900)	<b>13,301,620</b>	84	Self-funding	
Project for Yangzhou Kelon factories and production line	184,200,000	98,264,986	5,519,044	-	<b>103,784,030</b>	56	Self-funding	
Long Mould EW production equipment	5,000,000	-	4,162,703	(858,118)	<b>3,304,585</b>	83	Self-funding	
Construction of new warehouse	11,730,000	-	8,150,000	-	<b>8,150,000</b>	69	Self-funding	
Xi'an Kelon installation of production line for Compressors	9,306,000	-	8,526,904	-	<b>8,526,904</b>	92	Self-funding	
Project for Hangzhou Kelon factories	3,300,000	-	3,290,795	-	<b>3,290,795</b>	100	Self-funding	
Others		9,790,160	6,963,462	(3,636,962)	<b>13,116,660</b>		Self-funding	
<b>Total</b>		<b>117,845,210</b>	<b>42,015,364</b>	<b>(6,385,980)</b>	<b>153,474,594</b>			

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**16. INTANGIBLE ASSETS**

	Group				Total
	Trademarks	Land use rights	Software systems	Non-patent technology	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	
<b>Cost</b>					
At 1 January 2004	521,857,699	665,863,304	10,717,645	-	1,198,438,648
Additions	-	112,943,640	15,318,000	548,200	128,809,840
<b>At 30 June 2004</b>	<b>521,857,699</b>	<b>778,806,944</b>	<b>26,035,645</b>	<b>548,200</b>	<b>1,327,248,488</b>
<b>Accumulated amortisation</b>					
At 1 January 2004	13,046,442	100,564,924	6,024,356	-	119,635,722
Provision for the period	26,092,885	9,471,128	6,549,547	45,684	42,159,244
<b>At 30 June 2004</b>	<b>39,139,327</b>	<b>110,036,052</b>	<b>12,573,903</b>	<b>45,684</b>	<b>161,794,966</b>
<b>Provision for impairment</b>					
At 1 January 2004 and 30 June 2004	-	5,214,752	519,447	-	5,734,199
<b>Net value</b>					
At 1 January 2004	508,811,257	560,083,628	4,173,842	-	1,073,068,727
<b>At 30 June 2004</b>	<b>482,718,372</b>	<b>663,556,140</b>	<b>12,942,295</b>	<b>502,516</b>	<b>1,159,719,323</b>
Including:					
Net value of intangible assets pledged at 30 June 2004	-	409,449,157	-	-	409,449,157

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 16. INTANGIBLE ASSETS – Continued

#### *Licence agreement on use of trademarks*

Under a licence agreement for the use of trademarks (“Licence Agreement”) dated 6 July 1996 entered into between Guangdong Kelon (Rongsheng) Group Company Limited (“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.

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”. The carrying amounts of the debts were used as the cost of trademarks.

### 17. LONG-TERM DEFERRED EXPENDITURES

Nature	Group					
	At				At	
	1 January				30 June	Residual
	2004	Additions	Disposal	Amortisation	2004	years
	RMB	RMB	RMB	RMB	RMB	
Moulds and tools	118,944,445	42,942,777	(188,701)	(46,749,694)	<b>114,948,827</b>	1-3 years
Illuminated advertising display	42,484,701	3,859,889	-	(12,847,139)	<b>33,497,451</b>	1-5 years
Leasehold improvement	2,947,404	62,238	-	(994,696)	<b>2,014,946</b>	1-5 years
Others	6,579,130	2,721,164	-	(3,856,387)	<b>5,443,907</b>	1-3 years
Total	<u>170,955,680</u>	<u>49,586,068</u>	<u>(188,701)</u>	<u>(64,447,916)</u>	<u><b>155,905,131</b></u>	



<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**18. SHORT-TERM LOANS**

Nature of loans	Group 30 June 2004	Group 31 December 2003
	<u>RMB</u>	<u>RMB</u>
Credit loan		
– RMB (i)	23,208,380	58,900,000
Secured (ii)		
– RMB	366,000,000	90,000,000
Guaranteed (iii)		
– RMB	616,000,000	370,000,000
– US\$	332,636,554	–
Financing from commercial acceptance notes		
– RMB	477,781,789	340,000,000
	<u>1,815,626,723</u>	<u>858,900,000</u>

The above loans bear interest at 1.98% to 6.75% per annum.

- (i) The RMB credit loan is secured 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 RMB309,030,804 and land use rights in the amount of RMB51,713,098 (see note 14 and 16).
- (iii) Of which US dollars and RMB648,636,554 secured loan was guaranteed by the Company for its subsidiaries' loans, the balance of RMB300,000,000 was guaranteed by Greencool Enterprise (see note 39(5)(c)).

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 19. NOTES PAYABLE

	<b>Group</b>	<b>Group</b>
	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>RMB</b>	<b>RMB</b>
Bank acceptance notes	<b>2,054,586,903</b>	1,804,580,651
Commercial acceptance notes	<b>581,588,049</b>	134,054,354
	<b>2,636,174,952</b>	1,938,635,005

### 20. ACCOUNTS PAYABLE

At 30 June 2004, the balance did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital.

### 21. ADVANCE FROM CUSTOMERS

At 30 June 2004, the balance did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital.

### 22. TAXES PAYABLES

	<b>Group</b>	<b>Group</b>
	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>RMB</b>	<b>RMB</b>
Income tax	<b>2,667,949</b>	4,722,147
Value-added tax	<b>26,233,030</b>	(37,784,327)
Others	<b>1,524,604</b>	240,721
	<b>30,425,583</b>	(32,821,459)

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 23. OTHER PAYABLES

At 30 June 2004, the balance did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital.

### 24. ACCRUALS

	Group 30 June 2004 <u>RMB</u>	Group 31 December 2003 <u>RMB</u>	<u>Reasons for not settled</u>
Installation costs	59,299,467	59,866,538	Installation costs to be incurred for products sold
Sub-contracting fee	-	3,490,000	Incurred but invoices not yet received
Sales discounts	55,942,275	55,980,928	For sales for the year not yet paid
Promotion fees	47,725,783	34,838,488	Incurred but invoices not yet received
Transportation costs	80,315,249	40,532,276	Incurred but invoices not yet received
Storage fees	7,610,139	10,408,778	Incurred but invoices not yet received
Utility expenses	4,626,235	3,807,974	Incurred but invoices not yet received
Audit expenses	2,136,710	4,477,620	Incurred but invoices not yet received
Others	10,265,109	7,832,985	Incurred but invoices not yet received
	<u>267,920,967</u>	<u>221,235,587</u>	

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**25. PROVISION**

It 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.

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

	Group 30 June 2004	Group 31 December 2003
	<u>RMB</u>	<u>RMB</u>
Long-term loan due within one year (note 27)	<u><b>405,632,904</b></u>	<u>405,517,722</u>

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**27. LONG-TERM LOANS**

	Group 30 June 2004		Group 31 December 2003	
	<i>HKD</i>	<i>RMB</i> equivalent	<i>HKD</i>	<i>RMB</i> equivalent
Long-term loan				
- Mortgage bank loan (i)	<b>20,777,059</b>	<b>22,065,236</b>	23,333,871	24,871,574
	-	<b>710,000,000</b>	-	680,000,000
- Guaranteed bank loan (ii)	-	-	-	165,000,000
- Credit loan	-	<b>80,000,000</b>	-	80,000,000
		<b>812,065,236</b>		949,871,574
Less: Amount due within one year	-	<b>405,632,904</b>	-	405,517,722
Amount due after one year		<b>406,432,332</b>		544,353,852

(i) RMB mortgage loan is secured by buildings and structures with a net book value of RMB72,952,000, land use rights with a net book value of RMB357,736,059 and inventories of RMB260,000,000 (see notes 14 and 12).

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

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**28. LONG-TERM PAYABLE**

	<b>Group</b>	Group
	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>RMB</b>	RMB
Pension liabilities	<b>55,453,776</b>	54,142,638
Special long-term payables	<b>11,564,146</b>	8,636,322
	<b>67,017,922</b>	62,778,960
Less: Amount due within one year	-	-
Amount due after one year	<b>67,017,922</b>	62,778,960

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

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

**29. SHARE CAPITAL**

	<b>31 December 2003 and 30 June 2004</b>
	<i>(share)</i>
A. Unlisted shares	
1. Promoter shares	
– domestic legal person shares	337,915,755
2. Employees' shares	–
	<hr/>
Total unlisted shares	337,915,755
	<hr/>
B. Listed shares	
1. Domestic listed ordinary shares denominated in RMB	194,501,000
2. Overseas listed foreign shares	459,589,808
	<hr/>
Total listed shares	654,090,808
	<hr/>
C. Total number of shares	992,006,563
	<hr/> <hr/>

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

**NOTES TO THE FINANCIAL STATEMENTS – Continued**

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**30. CAPITAL RESERVE**

	<b>Share premium</b>	<b>Provision for donation of non-cash assets</b>	<b>Provision for equity investments</b>	<b>Group Total</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At 1 January 2004	1,468,501,786	17,696,745	30,589,175	1,516,787,706
Additions (note (1))	-	-	74,376	74,376
<b>At 30 June 2004</b>	<b><u>1,468,501,786</u></b>	<b><u>17,696,745</u></b>	<b><u>30,663,551</u></b>	<b><u>1,516,862,082</u></b>

Note:

- (1) Additions of the period represents the increase in capital reserve in respect of subsidiaries and associates.

**31. REVENUE RESERVE**

	<b>Statutory common reserve</b>	<b>Discretionary reserve</b>	<b>Statutory common welfare fund</b>	<b>Group Total</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At 1 January 2004 and				
<b>At 30 June 2004</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>114,580,901</u></b>	<b><u>114,580,901</u></b>

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



## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 32. UNAPPROPRIATED PROFITS

	<b>Group</b>	<b>Company</b>
	<i>RMB</i>	<i>RMB</i>
At 1 January 2004	<b>184,436,195</b>	197,890,645
Add: Net profit of the period	<b>159,192,418</b>	170,769,185
<b>At 30 June 2004</b>	<b><u>343,628,613</u></b>	<b><u>368,659,830</u></b>

### 33. REVENUE AND COST FROM PRINCIPAL OPERATIONS

	<b>Group</b>		<b>Group</b>	
	<b>From January to June 2004</b>		<b>From January to June 2003</b>	
	<b>Revenue</b>	<b>Cost</b>	<b>Revenue</b>	<b>Cost</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Sales of refrigerators	<b>1,919,997,521</b>	<b>1,468,621,312</b>	1,445,220,685	1,022,811,354
Sales of air-conditioners	<b>2,688,303,308</b>	<b>2,168,823,167</b>	1,641,370,163	1,295,150,984
Sales of freezers	<b>149,920,103</b>	<b>112,822,390</b>	139,311,374	114,381,586
Others	<b>172,795,312</b>	<b>152,619,203</b>	89,164,225	75,423,443
	<b><u>4,931,016,244</u></b>	<b><u>3,902,886,072</u></b>	<b><u>3,315,066,447</u></b>	<b><u>2,507,767,367</u></b>
	<b>Company</b>		<b>Company</b>	
	<b>From January to June 2004</b>		<b>From January to June 2003</b>	
	<b>Revenue</b>	<b>Cost</b>	<b>Revenue</b>	<b>Cost</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Sales of refrigerators	<b>1,312,846,125</b>	<b>1,141,289,270</b>	1,154,750,364	920,476,406
Sales of air-conditioners	<b>2,092,656,004</b>	<b>1,780,232,674</b>	1,121,881,083	959,342,379
Sales of freezers	<b>38,343,984</b>	<b>30,907,975</b>	51,878,540	44,353,609
Others	<b>76,586,428</b>	<b>59,525,818</b>	-	-
	<b><u>3,520,432,541</u></b>	<b><u>3,011,955,737</u></b>	<b><u>2,328,509,987</u></b>	<b><u>1,924,172,394</u></b>

<b>Total sales of the five largest customers</b>	<b>Percentage in total sales</b>
<i>RMB</i>	<b>%</b>
460,462,879	9.34

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**34. FINANCIAL EXPENSES**

	<u>Group</u> <u>From January to</u> <u>June 2004</u>	<u>Group</u> <u>From January to</u> <u>June 2003</u>
	<i>RMB</i>	<i>RMB</i>
Interest expenses	73,539,613	58,518,953
Less: interest income	13,996,921	8,537,498
Exchange loss	4,307,848	364,614
Others	7,411,377	3,297,753
	<u>71,261,917</u>	<u>53,643,822</u>

**35. INVESTMENT (LOSS) PROFIT**

	<u>Group</u> <u>From January to</u> <u>June 2004</u>	<u>Group</u> <u>From January to</u> <u>June 2003</u>
	<i>RMB</i>	<i>RMB</i>
Profit (loss) on disposal of investee companies	-	(216,831)
(Loss) profit on share of results of investments in associates	(6,076,128)	(5,900,283)
Amortisation of long-term equity investment difference	(6,257,154)	(6,666,088)
Reversal of provision for impairment of long-term investments	-	-
	<u>(12,333,282)</u>	<u>(12,783,202)</u>

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**35. INVESTMENT PROFIT (LOSS) – Continued**

Company	From January to June 2004	From January to June 2003
	<u>RMB</u>	<u>RMB</u>
Profit (loss) on share of results of investments in subsidiaries	<b>272,560,594</b>	181,257,891
Profit (loss) on share of results of investments in associates	<b>(6,076,128)</b>	(5,914,246)
Amortisation of long-term equity investment difference	<b>(6,867,318)</b>	(6,867,318)
Provision for impairment of long-term investments	-	-
	<b><u>259,617,148</u></b>	<b><u>168,476,327</u></b>

**36. INCOME TAX**

	Group From January to June 2004	Group From January to June 2003
	<u>RMB</u>	<u>RMB</u>
Income tax of the Company (note)	-	-
Income tax of the subsidiaries	<b><u>4,344,199</u></b>	<u>5,934,088</u>
	<b><u>4,344,199</u></b>	<b><u>5,934,088</u></b>

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

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**37. CASH AND CASH EQUIVALENTS**

	Group 30 June 2004 <u>RMB</u>	Group 31 December 2003 <u>RMB</u>
Bank balances and cash (note 5)	<b>3,069,328,829</b>	2,120,038,297
Less: Pledged deposits	<b>1,691,003,492</b>	1,393,133,621
	<b><u>1,378,325,337</u></b>	<u>726,904,676</u>
	Company 30 June 2004 <u>RMB</u>	Company 31 December 2003 <u>RMB</u>
Bank balances and cash	<b>1,776,880,243</b>	1,595,877,944
Less: Pledged deposits	<b>1,491,964,857</b>	1,264,565,690
	<b><u>284,915,386</u></b>	<u>331,312,254</u>

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**38. SEGMENT INFORMATION**

Items	Refrigerators	conditioners	Air- Freezers	Others	Elimination	Total
	RMB	RMB	RMB	RMB	RMB	RMB
1. Revenue from						
principal operations:						
External sales	1,919,997,521	2,688,303,308	149,920,103	172,795,312	-	4,931,016,244
Inter-segment						
sales	-	-	-	743,721,573	(743,721,573)	-
Total revenue from						
principal operations	<u>1,919,997,521</u>	<u>2,688,303,308</u>	<u>149,920,103</u>	<u>916,516,885</u>	<u>(743,721,573)</u>	<u>4,931,016,244</u>
2. Cost of sales:						
External cost of sales	1,468,621,312	2,168,823,167	112,822,390	152,619,203	-	3,902,886,072
Inter-segment cost						
of sales	-	-	-	708,467,448	(708,467,448)	-
Total cost of sales	<u>1,468,621,312</u>	<u>2,168,823,167</u>	<u>112,822,390</u>	<u>861,086,651</u>	<u>(708,467,448)</u>	<u>3,902,886,072</u>
3. Total expenses	<u>350,512,405</u>	<u>461,273,312</u>	<u>18,103,837</u>	<u>28,164,152</u>	<u>-</u>	<u>858,053,706</u>
4. Total operating profit	<u>100,863,804</u>	<u>58,206,829</u>	<u>18,993,876</u>	<u>27,266,082</u>	<u>(35,254,125)</u>	<u>170,076,466</u>
5. Total assets	<u>5,581,203,975</u>	<u>4,370,133,701</u>	<u>446,848,538</u>	<u>1,006,652,876</u>	<u>-</u>	<u>11,404,839,090</u>
6. Total liabilities	<u>3,893,841,555</u>	<u>3,616,129,696</u>	<u>180,168,750</u>	<u>432,664,571</u>	<u>-</u>	<u>8,122,804,572</u>

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

### 39. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

- (1) Except for the subsidiaries as disclosed in note 4, related parties with controlling interests include:

Name of related party	Place of incorporation	Principal activities	Relationship	Nature of business	Legal representative
Greencool Enterprise	Shunde, Guangdong	Research, manufacture and sale of refrigeration equipment, fittings and chlorofluorocarbon ("CFC")	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

- (2) Movement in registered capital of related parties with controlling interests

Name of related party	At 1 January 2004	Additions	Deduction	At 30 June 2004
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Greencool Enterprise	1,200,000,000	-	-	1,200,000,000

There is no change in the registered capital of related parties with controlling interests during the period. Details are set out in note 4.

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

#### (3) Movements in the Company's share capital or equity held by related parties with controlling interest

##### (i) Substantial shareholder

Name of related party	At 1 January 2004		Additions		Deduction		At 30 June 2004	
	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 in the subsidiaries, are set out in note 4.

#### (4) Relationship of related parties with no controlling interests

Name of related party	Relationship with the Company
Huayi Compressor	Associate of the Company
Shanghai Yilian	Associate of the Company
Chongqing Rongsheng	Associate of the Company
Guangzhou Antaida	Associate 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

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

#### (4) Relationship of related parties with no controlling interests – Continued

<u>Name of related party</u>	<u>Relationship with the Company</u>
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

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

##### (a) Sales and purchases

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

	<b>Group</b>	Group
	<b>January to</b>	January to
	<b>June 2004</b>	June 2003
	<b>RMB</b>	<b>RMB</b>
Sales to		
- Chongqing Rongsheng	<b>32,738,619</b>	49,328,572
- Chengdu Xinxing	<b>14,086,198</b>	-
	<b>46,824,817</b>	49,328,572
Purchases from		
- Chengdu Xinxing	<b>22,775,012</b>	20,689,107
- Chengdu Engine	<b>2,755,777</b>	-
- Shanghai Yilian	<b>3,171,207</b>	-
- Huayi Compressor (Note)	<b>125,582,772</b>	-
	<b>154,284,768</b>	20,689,107

Note: Including Huayi Compressor and its subsidiaries.



<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

**(5) The Group and the above related parties entered into the following major related party transactions during the period: – Continued**

**(b) Use of trademark**

On 3 April 2003, the Company entered into a trademark licensing agreement (“Licensing Agreement”) with Greencool (China), under which Greencool (China) permits the Company and its subsidiaries to use the trademark “Combine” free of charge. In 2003, the Company and its subsidiaries have used the trademark “Combine” on some of its refrigerators and air-conditioners in accordance with the Licensing Agreement.

**(c) Others**

	<b>Group January to June 2004</b>	Group January to June 2003
	<b>RMB</b>	RMB
Loan guarantee provided to related parties		
- C&Y	-	3,975,000
Loan guarantee provided by related parties		
- Greencool Enterprise	<b>300,000,000</b>	385,000,000
Other income (expenses) received from (paid to) related parties		
- Logistics management fee paid to Guangzhou Antaida (see note (ii))	<b>(3,845,769)</b>	(2,687,232)
- Interest income from Chengdu Xinxing (see note (i))	<b>992,970</b>	992,970
	<b>(2,852,799)</b>	(1,694,262)

## NOTES TO THE FINANCIAL STATEMENTS – Continued

For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

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

(5) The Group and the above related parties entered into the following major related party transactions during the period: – Continued

#### (d) Particulars of liability balance

Items	Name of related parties	Group 30 June 2004 RMB	Group 31 December 2003 RMB
Accounts receivable	Chongqing Rongsheng Shanghai Yilian	- -	2,890,959 1,542,818
		-	4,433,777
Other receivables	Fadasi	-	19,000,000
Long-term receivables due after one year	Chengdu Xinxing (i)	<b>34,000,000</b>	34,000,000
Accounts payable	Chengdu Xinxing Huayi Compressor (note) Hainan Greencool	583,367 63,949,465 -	116,091 31,395,113 26,000
		<b>64,532,832</b>	31,537,204
Bills payable	Chengdu Xinxing Huayi Compressor (note)	2,300,000 30,269,100	- 42,542,637
		<b>32,569,100</b>	42,542,637
Other payables	Chengdu Engine Meiling	533,940 53,341	533,940 902,485
		<b>587,281</b>	1,436,425
Receipt in advance	Chongqing Rongsheng	<b>10,683,642</b>	-

<b>NOTES TO THE FINANCIAL STATEMENTS – Continued</b>
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*For the period ended 30 June 2004*

(Prepared in accordance with PRC GAAP and regulations)

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

**(5) The Group and the above related parties entered into the following major related party transactions during the period: – Continued**

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

*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.

*(i) 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 a subsidiary 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 for the outstanding amount (in whatever form) due from Chengdu Xinxing directly or indirectly to the Company. Chengdu Kelon received an interest of RMB992,970 from Chengdu Xinxing in the first half of 2004.

*(ii) 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.

<b>NOTES TO THE FINANCIAL STATEMENTS - Continued</b>
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For the period ended 30 June 2004

(Prepared in accordance with PRC GAAP and regulations)

**40. CAPITAL COMMITMENT**

	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<u>RMB'000</u>	<u>RMB'000</u>
Contracted for but not provided in the financial statements		
- Commitment on acquisition and construction of assets	<b><u>141,450</u></b>	<u>105,210</u>

<b>SUPPLEMENTAL INFORMATION</b>
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*For the period ended 30 June 2004*

**1. DIFFERENCE BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) AND PRC GAAP**

These financial statements are prepared in accordance with PRC GAAP, which are different from these financial statements prepared in accordance with IFRS.

As at 30 June 2004, the net profit and net assets as per statutory financial statements were RMB159,192,000 and RMB2,963,518,000, respectively. The financial statements prepared under IFRS and PRC GAAP would have the following major differences to the net profits for the period and net assets at end of the period:

	<b>Net profit for the period from January to June 2004</b>	<b>Net assets at 30 June 2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts reported in financial statements prepared in accordance with PRC GAAP	<b>159,192</b>	<b>2,963,518</b>
Adjustment in accordance with IFRS:		
– Adjustment on property, plant and equipment revaluation and intangible assets revaluation and related depreciation	<b>(1,129)</b>	<b>1,006</b>
– Others	<b>-</b>	<b>(126)</b>
	<hr/>	<hr/>
Amounts reported in financial statements prepared in accordance with IFRS	<b>158,063</b>	<b>2,964,398</b>
	<hr/> <hr/>	<hr/> <hr/>

**SUPPLEMENTAL INFORMATION – Continued**
*For the period ended 30 June 2004*
**2. FULLY DILUTED AND WEIGHTED AVERAGE RETURNS ON NET ASSETS AND EARNINGS PER SHARE**

Profit for the reporting period	From January to June 2004				From January to June 2003			
	Returns on net assets (%)		Earnings per share (RMB)		Returns on net assets (%)		Earnings per share (RMB)	
	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average
Profit from principal operations	34.69%	35.59%	1.04	1.04	29.38%	31.11%	0.81	0.81
Operating profits	5.74%	5.89%	0.17	0.17	5.85%	6.20%	0.16	0.16
Net profit	5.37%	5.51%	0.16	0.16	5.26%	5.57%	0.15	0.15
Net profit after extraordinary items	5.26%	5.40%	0.16	0.16	5.33%	5.65%	0.15	0.15

<b>SUPPLEMENTAL INFORMATION – Continued</b>
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For the period ended 30 June 2004

**3. PROVISION FOR ASSETS IMPAIRMENT AT 30 JUNE 2004**

Unit: RMB

Items	Group			At 30 June 2004
	At 1 January 2004	Increase for the Period	Write-back for the Period	
<b>1. Total provision for bad debt</b>	<b>152,368,641</b>	-	<b>243,182</b>	<b>152,125,459</b>
Including: Accounts receivable	149,578,016	-	243,182	149,334,834
Other receivables	2,790,625	-	-	2,790,625
<b>2. Total provision for impairment of inventories</b>	<b>103,919,716</b>	-	<b>6,922,295</b>	<b>96,997,421</b>
Including: Finished goods	65,286,425	-	6,922,295	58,364,130
Work in progress	172,000	-	-	172,000
Raw materials	38,461,291	-	-	38,461,291
<b>3. Total provision for impairment of fixed assets</b>	<b>61,471,947</b>	-	<b>83,844</b>	<b>61,388,103</b>
Including: Buildings and structures	51,789,255	-	83,844	51,705,411
Machinery and equipment	9,673,692	-	-	9,673,692
Furniture, fixture and office equipment	9,000	-	-	9,000
<b>4. Total provision for impairment of intangible assets</b>	<b>5,734,199</b>	-	-	<b>5,734,199</b>
Including: Land use rights	5,214,752	-	-	5,214,752
software system	519,447	-	-	519,447
<b>5. Total provision for impairment of long-term investments</b>	<b>79,038,525</b>	-	-	<b>79,038,525</b>
Including: Long-term equity investments	79,038,525	-	-	79,038,525
Long-term debt investments	-	-	-	-

**SUPPLEMENTAL INFORMATION - Continued**

*For the period ended 30 June 2004*

**4. THE EXPLANATIONS TO THE ITEMS IN THE FINANCIAL STATEMENTS WHOSE FLUCTUATION RANGE IS MORE THAN 30% (INCLUDING 30%) AND REPRESENTING FOR MORE THAN 5% (INCLUDING 5%) OF THE TOTAL ASSETS AS OF BALANCE SHEET DATE OR REPRESENTING FOR MORE THAN 10% (INCLUDING 10%) OF THE TOTAL PROFIT FOR THE REPORTING PERIODS ARE AS FOLLOWS:**

Items in Balance Sheet:

- (1) The increase in bank balances and cash was attributable to the increase in pledged deposits and sales.
- (2) The increase in accounts receivable was attributable to the increase in sales.
- (3) The increase in inventories was attributable to the increase in reserve of materials and finished goods in sales peak season.
- (4) The increase in short-term loans was attributable to the increase in guaranteed borrowings.
- (5) The increase in notes payable and accounts payable was attributable to the deferred payment during the peak season and the use of notes payable for the settlement of goods purchased.
- (6) The decrease in advance from customers was due to the increase in products picked up by customers in sales peak season which offset the advance from customers previously received.
- (7) The increase in taxes payables was attributable to the increase in sales.

Items in Statement of Income and Profit Appropriation:

- (1) The increase in sales was attributable to the increase in sales quantity.
- (2) The increase in cost of sales was attributable to the increase in sales quantity.
- (3) The increase in other operating profit was attributable to the increase of sales of materials.
- (4) The increase in finance expenses was attributable to the increase in the interests in respect of borrowings and discounted notes receivable.



**SUPPLEMENTAL INFORMATION - Continued**

*For the period ended 30 June 2004*

**5. DOCUMENTS AVAILABLE FOR INSPECTION**

Including the following documents:

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

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



廣東科龍電器股份有限公司

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