1. GENERAL

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

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

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the International Accounting Standards Board issued a number of new or revised International Financial Reporting Standards ("IFRS"s) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new IFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new IFRSs but is not yet in a position to determine whether these IFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These IFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain property, plant and equipment, and in accordance with IFRSs.

In the current year, the Group has adopted, for the first time, the accounting treatment of IFRS 3 "Business combinations" to business combinations for which the agreement date is on or after 31 March 2004 and has also adopted, for the first time, International Accounting Standard ("IAS") 36 (Revised) "Impairment of assets" and IAS 38 (Revised) "Intangible assets" for goodwill and intangible assets acquired through business combinations for which the agreement date is on or after 31 March 2004.

For business combinations which the agreement date was before 31 March 2004, goodwill and negative goodwill arising on those acquisitions is accounted for in accordance with IAS 22 "Business combinations". Goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition and is stated at cost less accumulated amortisation and accumulated impairment losses. IFRS 3 required goodwill arising from acquisitions to be determined as the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities on the date of acquisition and is measured after initial recognition of cost less accumulated impairment losses. Under IFRS 3, goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Under IAS 22, negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on the analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately. Under IFRS 3, any deficiency of the costs of acquisition below the fair values of the identifiable net assets, liabilities and contingent liabilities on the date of acquisition (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The adoption of IFRS 3, IAS 36 (Revised) and IAS 38 (Revised) have had no material effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment has been made.

The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

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

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

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

Investments in subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates

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

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

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

Goodwill

Goodwill arising on consolidation with agreements dated on or after 31 March 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis over its estimated useful life (if applicable) and reviewed for impairment at least annually. Any impairment is recognised immediately in income and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

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

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

Revenue recognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

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

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

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

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

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

Leasehold land	Over the term of the lease
Buildings	20 to 50 years
Plant, machinery and equipment	5 to 10 years
Moulds	3 years
Motor vehicles	5 years

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Trademarks

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

Land use rights

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

Inventories

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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets (excluding goodwill acquired in business combinations with agreement date on or after 31 March 2004) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

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

Trade receivables

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

Investments

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

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

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

Bank borrowings

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

Trade payables

Trade payables are stated at their nominal value.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

Warranty obligation

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

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

Taxation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenditure

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

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

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

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

Pension costs

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

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

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

Borrowing costs

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

Government grants

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

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

Foreign currencies

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

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

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

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

4. TURNOVER

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

	2004 *RMB'000*	2003 *RMB'000*
Sales of refrigerators	**3,274,329**	3,016,247
Sales of air-conditioners	**4,501,234**	2,680,590
Sales of freezers	**335,890**	211,467
Sales of product components	**324,951**	259,806
	8,436,404	6,168,110

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Segment information about these businesses is presented below:

Year 2004

(i) Income statement

	Refrigerators	Air-conditioners	Freezers	Product components	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER						
External sales	3,274,329	4,501,234	335,890	324,951	–	8,436,404
Inter-segment sales	–	–	–	1,433,329	(1,433,329)	–
Total revenue	3,274,329	4,501,234	335,890	1,758,280	(1,433,329)	8,436,404

Inter– segment sales are charged at prevailing market rates.

	Refrigerators	Air-conditioners	Freezers	Product components	Elimination	Consolidated
RESULT						
Segment result	101,539	174,084	976	(61,290)	–	215,309
Unallocated corporate expenses						(20,751)
Profit from operations						194,558
Finance costs						(159,138)
Share of results of associates	(31,913)	(43,872)	(3,274)	(3,167)	–	(82,226)
Loss before taxation						(46,806)
Taxation						(8,308)
Loss after taxation						(55,114)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

(ii) Balance sheet

	Refrigerators RMB'000	Air-conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	4,388,357	5,821,624	439,703	871,944	11,521,628
Interests in associates	48,180	66,234	4,942	4,782	124,138
Unallocated corporate assets					186,251
Consolidated total assets					11,832,017
LIABILITIES					
Segment liabilities	2,023,776	2,709,111	162,888	438,651	5,334,426
Unallocated corporate liabilities					3,375,061
Consolidated total liabilities					8,709,487

(iii) Other information

	Refrigerators RMB'000	Air-conditioners RMB'000	Freezers RMB'000	Product components RMB'000	Consolidated RMB'000
Additions of property, plant and equipment	298,930	255,189	4,708	107,753	666,580
Additions of intangible assets	–	25,619	–	51,107	76,726
Depreciation	187,202	116,870	17,772	40,349	362,193
Amortisation of goodwill	5,045	7,279	961	4,990	18,275
Discount on acquisition of a subsidiary release to income	–	12,429	–	–	12,429
Release of negative goodwill to income	–	–	4,790	–	4,790
Amortisation of intangible assets	22,029	31,510	342	2,070	55,951
Loss on disposal of property, plant and equipment	1,321	605	–	1,024	2,950
Allowance for irrecoverable debts	4,360	383	29,718	7,516	41,977
Allowance for inventories	18,134	18,469	2,141	2,668	41,412

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

Year 2003

(i) Income statement

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

Inter-segment sales are charged at prevailing market rates.

	Refrigerators	Air-conditioners	Freezers	Product components	Elimination	Consolidated
RESULT						
Segment result	219,688	150,986	25,352	(8,705)	–	387,321
Unallocated corporate expenses						(12,515)
Profit from operations						374,806
Finance costs						(122,463)
Share of results of associates	(26,261)	(12,870)	(1,015)	(1,248)	–	(41,394)
Profit before taxation						210,949
Taxation						(13,632)
Profit after taxation						197,317

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

(ii) Balance sheet

	Refrigerators *RMB'000*	Air-conditioners *RMB'000*	Freezers *RMB'000*	Product components *RMB'000*	Consolidated *RMB'000*
ASSETS					
Segment assets	4,713,156	3,958,419	264,443	555,135	9,491,153
Interests in associates	107,662	95,681	7,548	9,274	220,165
Unallocated corporate assets					71,730
Consolidated total assets					9,783,048
LIABILITIES					
Segment liabilities	1,749,159	1,543,540	71,399	196,616	3,560,714
Unallocated corporate liabilities					3,177,492
Consolidated total liabilities					6,738,206

(iii) Other information

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

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

	2004	2003
Refrigerators	**6,896**	4,986
Air-conditioners	**3,509**	2,152
Freezers	**395**	763
Product components	**1,660**	1,414
	12,460	9,315

Geographical segments

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

	Turnover by geographical market	
	2004 *RMB'000*	**2003** *RMB'000*
The PRC		
Mainland China	**4,977,478**	3,922,870
Hong Kong	**118,762**	297,494
	5,096,240	4,220,364
Europe	**1,481,458**	1,011,031
America	**1,002,743**	200,845
Others	**855,963**	735,870
	8,436,404	6,168,110

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.

6. OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
An analysis of the Group's other operating income is as follows:		
Sales of scrap materials	**39,366**	39,678
Interest income	**38,832**	22,122
Others	**17,444**	30,102
	95,642	91,902

7. OTHER OPERATING EXPENSES

	2004 RMB'000	2003 RMB'000
An analysis of the Group's other operating expenses is as follows:		
Loss on disposal of property, plant and equipment	**2,950**	2,629
Others	**2,867**	3,082
	5,817	5,711

8. DEPRECIATION

	2004 RMB'000	2003 RMB'000
An analysis of the Group's depreciation is as follows:		
Amount charged as cost of sales	**226,762**	223,001
Amount included in distribution costs	**82,085**	98,552
Amount included in administrative expenses	**53,346**	52,288
	362,193	373,841

9. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on:		
– bank borrowings wholly repayable within five years	**89,851**	65,280
– discounted note receivables	**65,202**	56,907
Total borrowing costs	**155,053**	122,187
Others	**4,085**	276
	159,138	122,463

10. (LOSS) PROFIT BEFORE TAXATION

	2004 RMB'000	2003 RMB'000
(Loss) profit before taxation has been arrived at after charging:		
Allowance for inventories (note a)	**41,412**	–
Allowance for irrecoverable debts (note a)	**41,977**	5,481
Amortisation of goodwill of associates (note b)	**13,734**	13,736
Amortisation of goodwill of subsidiaries (note a)	**4,541**	3,570
Amortisation of intangible assets (note a)	**55,951**	14,093
Auditors' remuneration	**5,500**	4,200
Depreciation of property, plant and equipment (note 8)	**362,193**	373,841
Impairment loss recognised in respect of goodwill of an associate (note b)	**71,400**	–
Impairment loss recognised in respect of goodwill of subsidiaries (note a)	**–**	7,838
Loss on winding up of an associate (note a)	**–**	216
Research and development expenses	**6,147**	3,170
Staff costs, including directors' and supervisors' remuneration	**497,174**	412,227
and after crediting:		
Discount on acquisition of a subsidiary release to income (note a)	**12,429**	–
Gain on disposal of associates	**656**	–
Release of negative goodwill of subsidiaries to income (note a)	**4,790**	4,790
Reversal of allowance for inventories (note a)	**–**	32,807

Notes:

(a) The amount is included in administrative expenses.

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

11. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2004 *RMB'000*	2003 *RMB'000*
Directors		
Fees		
– Executive	**–**	–
– Independent non-executive	**1,148**	1,440
	1,148	1,440
Other emoluments (executive directors)		
– Salaries and other benefits	**13,518**	12,000
	14,666	13,440
Supervisors		
Fees	**–**	–
Other emoluments		
– Salaries and other benefits	**1,310**	1,500
	1,310	1,500

Note: No director waived any emoluments in both years.

The emoluments of the directors fall within the following bands:

	Number of directors	
	2004	**2003**
Executive directors:		
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**2**	2
HK$5,500,001 to HK$6,000,000	**1**	1
Independent non-executive directors:		
Nil to HK$1,000,000	**3**	4
	9	10

The five highest paid individuals included four (2003: four) directors, details of whose emoluments are set out above.

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

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

	2004 RMB'000	2003 RMB'000
Salaries and other benefits	**13,008**	12,000

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

	Number of individuals	
	2004	2003
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**2**	2
HK$5,000,001 to HK$6,000,000	**1**	1
	5	5

12. TAXATION

	2004 RMB'000	2003 RMB'000
Taxation consists of:		
PRC enterprise income tax ("EIT")		
– The Company and its subsidiaries	**7,070**	11,676
– Associates	**2,025**	1,956
	9,095	13,632
Hong Kong Profits Tax		
– The Company's subsidiaries		
– Overprovision in prior year	**(787)**	–
	8,308	13,632

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

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

12. TAXATION *(continued)*

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

The Company's subsidiaries, Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon") and Jiangxi Kelon Industrial Development Co., Ltd. are subject 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.

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

	2004	**2003**
	%	**%**
Applicable tax rate (note)	**27**	27
Tax effect of share of results of associates	**(6)**	4
Tax effect of income not taxable in determining current year taxable profit	**44**	(7)
Tax effect of expenses not deductible in determining current year taxable profit	**(118)**	96
Tax effect of tax losses not recognised	**(146)**	8
Tax effect of utilisation of tax losses previously not recognised	**145**	(123)
Reduction of income tax in respect of preferential tax treatment	**22**	(3)
Others	**14**	4
Average effective tax rate	**(18)**	6

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

12. TAXATION *(continued)*

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

	2004 *RMB'000*	2003 *RMB'000*
Tax losses	**854,299**	1,050,870
Miscellaneous provisions	**490,408**	456,523
	1,344,707	1,507,393

No deferred tax asset has been recognised in relation to such deductible temporary differences due to the unpredictability of future profit streams. The tax losses can only be carried forward for a maximum period of five years. The tax losses as at 31 December 2003 and 2004, which amounted to RMB1,015,073,000 and RMB763,775,000 respectively, will expire in years 2008 and 2009, respectively. The remaining balances can be carried forward indefinitely.

13. BASIC (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the year is based on the net loss for the year of RMB44,658,000 (2003: net profit for the year of RMB191,170,000) and on 992,006,563 shares (2003: 992,006,563 shares) outstanding during the year.

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

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Plant, machinery and equipment RMB'000	Moulds RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST OR VALUATION						
At 1 January 2004	1,769,475	2,384,360	609,024	71,856	117,845	4,952,560
Currency realignment	(110)	(83)	–	(2)	–	(195)
Additions	33,489	59,738	95,157	7,685	277,262	473,331
Acquisition of subsidiaries	59,497	124,668	–	697	8,387	193,249
Disposals	(1,544)	(32,411)	(492,805)	(1,103)	–	(527,863)
Reclassification	1,631	51,864	–	510	(54,005)	–
At 31 December 2004	1,862,438	2,588,136	211,376	79,643	349,489	5,091,082
Comprising:						
At cost	–	–	211,376	–	349,489	560,865
At directors' valuation*	1,862,438	2,588,136	–	79,643	–	4,530,217
	1,862,438	2,588,136	211,376	79,643	349,489	5,091,082
DEPRECIATION AND IMPAIRMENT						
At 1 January 2004	485,111	1,516,837	490,079	53,299	–	2,545,326
Currency realignment	(9)	(56)	–	(1)	–	(66)
Provided for the year	82,035	191,577	84,924	3,657	–	362,193
Eliminated on disposals	(143)	(28,083)	(485,273)	(752)	–	(514,251)
At 31 December 2004	566,994	1,680,275	89,730	56,203	–	2,393,202
NET BOOK VALUES						
At 31 December 2004	1,295,444	907,861	121,646	23,440	349,489	2,697,880
At 31 December 2003	1,284,364	867,523	118,945	18,557	117,845	2,407,234

- The directors' valuation is made with reference to a valuation at 31 December 2002 on leasehold land and buildings, and plant, machinery and equipment which was performed by Greater China Appraisal Limited, independent professional valuers. For land and buildings, and plant, machinery and equipment for production use, the valuation was made on the basis of fair market value in continued use. The valuation of other property, plant and equipment was made on the basis of open market value. In the opinion of the directors, the carrying amount did not differ materially for that which would be determined using the fair values at the balance sheet date.

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

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

	Leasehold land and buildings	Plant, machinery and equipment	Moulds	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost	1,958,480	2,517,535	211,376	78,358	349,489	5,115,238
Depreciation	(630,692)	(1,628,272)	(89,730)	(45,154)	–	(2,393,848)
Net book value at 31 December 2004	1,327,788	889,263	121,646	33,204	349,489	2,721,390
Net book value at 31 December 2003	1,331,567	783,656	118,945	20,184	117,845	2,372,197

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

	2004	**2003**
	RMB'000	***RMB'000***
PRC, other than in Hong Kong	**1,191,433**	1,178,291
Hong Kong	**75,628**	77,111
Japan	**28,383**	28,962
	1,295,444	1,284,364

Land and buildings, plant, machinery and equipment and construction in progress with a net book value of approximately RMB412,514,000 (2003: RMB833,431,000), RMB227,283,000 (2003: RMB234,280,000) and RMB86,800,000 (2003: nil) respectively were pledged as security for the Group's bank borrowings.

15. INTERESTS IN SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2004 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Entities operate in the PRC:					
Shunde Rongsheng Plastic Products Co., Ltd.	PRC (i) 18 October 1991	US$15,800,000	45%	25%	Manufacture of plastic parts
Guangdong Kelon Mould Co., Ltd.	PRC (i) 20 July 1994	US$15,000,000	40%	30%	Manufacture of moulds
Guangdong Kelon Refrigerator Ltd.	PRC (i) 25 December 1995	US$26,800,000	70%	30%	Manufacture and sale of refrigerators
Guangdong Kelon Refrigerator Co., Ltd.	PRC (i) 25 December 1995	RMB237,000,000	44%	56%	Manufacture and sale of freezers
Guangdong Kelon Air-Conditioner Co., Ltd.	PRC (i) 19 March 1996	US$36,150,000	60%	–	Manufacture and sale of air-conditioners
Chengdu Kelon Refrigerator Co., Ltd.	PRC (i) 19 November 1996	RMB200,000,000	45%	25%	Manufacture and sale of refrigerators
Yingkou Kelon Refrigerator Co., Ltd.	PRC (i) 15 December 1996	RMB200,000,000	42%	36.79%	Manufacture and sale of refrigerators
Yanzhou Kelon Electrical Company Limited	PRC (i) 23 December 1996	US$29,800,000	30%	70%	Manufacture and sale of refrigerators
Shunde Kelon Household Electrical Appliance Company Limited	PRC (ii) 16 July 1999	RMB10,000,000	25%	75%	Manufacture and sale of electrical household appliances
Guangdong Kelon Fittings Co., Ltd.	PRC (i) 24 November 1999	US$5,620,000	70%	30%	Manufacture and sale of spare parts for air-conditioners and refrigerators

15. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
Entities operate in the PRC *(continued)*:					
Shunde Huaao Electronics Co., Ltd.	PRC (ii) 23 November 2000	RMB10,000,000	–	70%	Manufacture and sale of electronic products
Shunde Jiake Electronic Company Limited	PRC (ii) 12 October 2001	RMB60,000,000	70%	30%	IT and communication technology, and micro-electronics technology development
Shunde Wangao Import & Export Co., Ltd.	PRC (ii) 7 June 2001	RMB3,000,000	20%	80%	Import and export business
Xi'an Kelon Refrigeration Co., Ltd. ("Xi'an Kelon")	PRC (i) 20 March 2002	RMB202,000,000	60%	–	Manufacture and sale of refrigerators
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon")	PRC (i) 24 June 2003	US$29,800,000	60%	40%	Manufacture and sale of refrigerators, air-conditioners and other household appliances
Shangqiu Kelon Electrical Company Limited	PRC (i) 23 September 2003	RMB150,000,000	–	100%	Manufacture and sale of refrigerators
Zhuhai Kelon Industrial Development Co., Ltd.	PRC (i) 3 December 2003	US$29,980,000	75%	25%	Manufacture and sale of refrigerators
Entities operate in Hong Kong:					
Pearl River Electric Refrigerator Company Limited	Hong Kong 26 July 1985	HK$400,000	–	100%	Trading in materials and parts for refrigerators and import and export business

15. INTERESTS IN SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
Entities operate in Hong Kong *(continued)*:					
Kelon Electric Appliances Co., Ltd.	Hong Kong 29 August 1991	HK$10,000	–	100%	Property investment
Kelon Development Company Limited	Hong Kong 17 August 1993	HK$5,000,000	100%	–	Investment holding
Kelon International Inc.	British Virgin Islands 13 January 1999	US$50,000	–	100%	Investment holding and sale of refrigerators and air-conditioners

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

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

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

16. INTERESTS IN ASSOCIATES

	2004 *RMB'000*	2003 *RMB'000*
Share of net assets	**124,138**	130,647
Goodwill (note)	**–**	85,134
	124,138	215,781
Amounts due from associates	**–**	4,384
	124,138	220,165

16. INTERESTS IN ASSOCIATES *(continued)*

Note:

	RMB'000
COST	
At 1 January 2004 and 31 December 2004	137,346
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	52,212
Provided for the year	13,734
Impairment loss	71,400
At 31 December 2004	137,346
CARRYING AMOUNT	
At 31 December 2004	–
At 31 December 2003	85,134

Goodwill is amortised over its estimated useful life of ten years.

During the year, the Group reviewed the carrying amounts of goodwill and identified that the estimated discounted net future cash flows (the "recoverable amounts") from an associate are less than the carrying amounts. Accordingly, the carrying amounts of goodwill of this associate is reduced to its respective recoverable amount which are estimated using market borrowing rates.

At 31 December 2003, the amounts due from associates were unsecured, non-interest bearing and had no fixed repayment terms.

Details of the Group's principal associates as at 31 December 2004 are as follows:

Name of associate	Place and date of incorporation/ establishment	Issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Huayi Compressor Holdings Company Limited ("Huayi")	PRC (i) 13 June 1996	RMB260,854,000	22.73%	–	Manufacture and sale of compressors
Guangzhou Antaida Logistic Co., Ltd. ("Guangzhou Antaida")	PRC (ii) 11 July 2001	RMB10,000,000	20%	–	Provision of logistic and storage services

(i) Established as joint stock limited company.

(ii) Established as limited liability company.

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

17. INTANGIBLE ASSETS

	Land use rights *RMB'000*	Trademarks *RMB'000*	Non-patent technologies *RMB'000*	Total *RMB'000*
COST				
At 1 January 2004	260,866	521,858	–	782,724
Acquisition of subsidiaries	14,237	–	537	14,774
Additions	61,932	–	20	61,952
At 31 December 2004	337,035	521,858	557	859,450
AMORTISATION				
At 1 January 2004	1,046	13,047	–	14,093
Charge for the year	3,661	52,186	104	55,951
At 31 December 2004	4,707	65,233	104	70,044
CARRYING AMOUNT				
At 31 December 2004	332,328	456,625	453	789,406
At 31 December 2003	259,820	508,811	–	768,631

Land use rights in the PRC are amortised over their estimated relevant lease term ranging from 50 to 69 years. Trademarks are amortised over their estimated useful lives of 10 years. Non-patent technologies are amortised over their estimated useful lives of 4 years.

18. OTHER ASSETS

	2004 *RMB'000*	2003 *RMB'000*
Unquoted long-term equity investments, at cost	**7,249**	7,249
Others	**–**	14,330
	7,249	21,579

19. GOODWILL

	RMB'000
COST	
At 1 January 2004	110,480
Arising on acquisition of a subsidiary (note 30)	15,499
Released upon deemed disposal of a subsidiary (note 30)	(2,542)
At 31 December 2004	123,437
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	79,701
Provided for the year	4,541
At 31 December 2004	84,242
CARRYING AMOUNT	
At 31 December 2004	39,195
At 31 December 2003	30,779

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

20. NEGATIVE GOODWILL

	RMB'000
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	88,611
RELEASE TO INCOME	
At 1 January 2004	7,185
Release in the year	4,790
At 31 December 2004	11,975
CARRYING AMOUNT	
At 31 December 2004	76,636
At 31 December 2003	81,426

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

21. INVENTORIES

	2004 *RMB'000*	2003 *RMB'000*
Raw materials	**1,119,967**	688,838
Work in progress	**207,751**	102,732
Finished goods	**1,669,137**	1,154,048
	2,996,855	1,945,618

The balance of inventories at 31 December 2004 includes raw materials of approximately RMB65,190,000 (2003: RMB76,920,000) and finished goods of approximately RMB292,810,000 (2003: RMB218,160,000) which are carried at net realisable value.

Also included above are finished goods of nil (2003: approximately RMB260,000,000) which have been pledged as security for the Group's bank borrowings.

22. TRADE AND OTHER RECEIVABLES

	2004 *RMB'000*	2003 *RMB'000*
Trade receivables – third parties	**1,178,037**	726,736
Note receivables – third parties (note)	**1,228,418**	1,004,294
Other receivables – third parties	**490,109**	566,227
Amounts due from related companies (note 31 II)	**3,143**	19,000
	2,899,707	2,316,257

Note: Included in note receivables – third parties was an amount of RMB560,393,000 (2003: RMB356,766,000) notes discounted to banks with recourse.

22. TRADE AND OTHER RECEIVABLES *(continued)*

The aged analysis of trade receivables is as follows:

	Gross amount *RMB'000*	Allowance for doubtful debts *RMB'000*	Net amount *RMB'000*
As at 31 December 2004			
Within one year	1,165,068	(16,494)	1,148,574
One to two years	84,882	(55,419)	29,463
Two to three years	43,488	(43,488)	–
Over three years	68,044	(68,044)	–
	1,361,482	(183,445)	1,178,037
As at 31 December 2003			
Within one year	753,252	(26,516)	726,736
One to two years	60,769	(60,769)	–
Two to three years	45,861	(45,861)	–
Over three years	16,432	(16,432)	–
	876,314	(149,578)	726,736

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

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

23. OTHER FINANCIAL ASSETS

Bank balances and cash

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

Credit risks

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

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

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

24. TRADE AND OTHER PAYABLES

	2004 *RMB'000*	2003 *RMB'000*
Trade payables – third parties	**1,921,901**	1,370,152
Note payables – third parties	**1,619,686**	807,742
Other payables – third parties	**643,826**	444,615
Amounts due to related companies (note 31 II)	**111,671**	75,516
	4,297,084	2,698,025

The aged analysis of trade payables is as follows:

	2004 *RMB'000*	2003 *RMB'000*
Within one year	**1,590,559**	1,370,152
One to two years	**331,342**	–
	1,921,901	1,370,152

25. WARRANTY PROVISION

	RMB'000
At 1 January 2004	89,557
Additional provision in the year	94,420
Utilisation of provision	(64,639)
At 31 December 2004	119,338

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

26. OTHER FINANCIAL LIABILITIES

Trade and other payables

The balance principally comprises amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 180 to 365 days.

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

Trade deposits from customers

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

Pension liabilities

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

27. BANK BORROWINGS

	2004 RMB'000	2003 RMB'000
Medium-term and long-term bank loans	**20,939**	424,872
Short-term bank loans	**3,347,229**	2,741,666
	3,368,168	3,166,538
Less: Amount due within one year included under current liabilities	**(3,351,445)**	(3,147,184)
Amount due after one year	**16,723**	19,354
Analysed as:		
Secured	**2,219,949**	2,152,638
Unsecured	**1,148,219**	1,013,900
	3,368,168	3,166,538
The bank borrowings are repayable as follows:		
Within one year	**3,351,445**	3,147,184
Between one to two years	**4,215**	5,793
Between two to five years	**12,508**	13,561
	3,368,168	3,166,538

The Group is now in the process of negotiating with bankers to refinance the short-term bank loans which are due in 2005. Based on discussion with the Group's bankers to date, the directors expect that these borrowings will be renewed in due course.

The bank borrowings carry interest at rates ranging from 1.99% to 5.58% (2003: 4.23% to 6.44%) per annum. Bank borrowings of approximately RMB2,219,949,000 (2003: RMB2,152,638,000) were secured by pledge of property, plant and equipment (see note 14), inventories (see note 21) and notes discounted to banks (see note 22). Bank borrowings of RMB180,000,000 (2003: RMB295,000,000) were guaranteed by Greencool Enterprise Development Company Limited ("Greencool Enterprise"), a major shareholder of the Company.

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

28. SHARE CAPITAL

	2004 & 2003 RMB'000
Shares of RMB1 each	
337,915,755 Domestic shares	337,916
459,589,808 H shares	459,590
194,501,000 A shares	194,501
	992,007

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

29. OTHER PAYABLES

The amount mainly represents government grants received for the Group's research and development activities. Government grants recognised as income for the year amounted to RMB3,553,000 (2003: RMB1,254,000).

30. ACQUISITION OF SUBSIDIARIES

In March 2004, the Group acquired a 70.62% equity interests of Xi'an Kelon from a third party for cash consideration of RMB70,620,000. Xi'an Kelon contributed approximately RMB59 million to the revenue and a loss of RMB25 million to the net loss of the Group for the period from the date of acquisition to 31 December 2004.

The acquisition of Xi'an Kelon has been accounted for by the purchase method of accounting.

	Book value *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	182,062	(5,251)	176,811
Intangible assets	11,500	–	11,500
Inventories	17,432	(2,348)	15,084
Trade and other receivables	13,442	(2,152)	11,290
Bank balances and cash	24,993	–	24,993
Trade and other payables	(22,993)	(2,632)	(25,625)
Bank borrowings	(136,000)	–	(136,000)
Minority interests	(26,570)	3,638	(22,932)
	63,866	(8,745)	55,121
Goodwill (note a)			15,499
Total consideration			70,620
Satisfied by:			
Cash			70,620
Net cash outflow arising on acquisition:			
Cash consideration			(70,620)
Bank balances and cash acquired			24,993
			(45,627)

After the above acquisition, the Group's interest in Xi'an Kelon was diluted from 70.62% to 60% as a result of the allotment of new shares by Xi'an Kelon to its shareholders. There were no gain or loss arising on deemed partial disposal of Xi'an Kelon. The goodwill released upon the deemed partial disposal of Xi'an Kelon amounted to RMB2,542,000.

30. ACQUISITION OF SUBSIDIARIES *(continued)*

In March 2004, the Group acquired a 40% equity interest of Wuhu Ecan Motors Company Limited ("Wuhu Ecan") from a third party for cash consideration of USD1,200,000. In June 2004, Guangdong Kelon (Rongsheng) Group Company Limited transferred another 40% equity interest of Wuhu Ecan to the Group at nil consideration. The above transfers of equity interests were only approved by relevant PRC government authorities in August 2004. Wuhu Ecan contributed approximately RMB16.3 million to the revenue and a loss of RMB928,000 to the net loss of the Group for the period from the date of acquisition to 31 December 2004.

The acquisition of Wuhu Ecan has been accounted for by the purchase method of accounting.

	Book value *RMB'000*	Fair value adjustments *RMB'000*	Fair value *RMB'000*
Net assets acquired:			
Property, plant and equipment	19,008	(2,570)	16,438
Intangible assets	3,274	–	3,274
Inventories	13,509	–	13,509
Trade and other receivables	40,294	–	40,294
Bank balances and cash	26	–	26
Trade and other payables	(45,590)	–	(45,590)
Minority interests	(6,104)	514	(5,590)
	24,417	(2,056)	22,361
Discount on acquisition (note b)			(12,429)
Total consideration			9,932
Satisfied by:			
Cash			9,932
Net cash outflow arising on acquisition:			
Cash consideration			(9,932)
Bank balances and cash acquired			26
			9,906

Notes:

(a) The goodwill is attributable to the synergies expected to arise after the Group's acquisition of Xi'an Kelon.

(b) The amount is released to income and included in administrative expenses.

30. ACQUISITION OF SUBSIDIARIES *(continued)*

It is not practicable to disclose the proforma revenue and profit or loss of the combined entity for the year as though the acquisition for the subsidiaries during the period had been completed on 1 January 2004 as the revenue and profit and loss of the subsidiaries for the period from 1 January 2004 to the date of acquisition was not obtainable.

31. 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 year and the balances with related parties at the balance sheet date:

I. Transactions with related companies

	2004 *RMB'000*	**2003** *RMB'000*
Sales of goods/raw materials to		
– Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing") (note a (i))	**26,153**	18,421
– Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng") (note a (ii))	**57,627**	69,784
Purchases of goods/raw materials from		
– Huayi (note a (iii)) and its subsidiaries	**155,262**	144,496
– Chengdu Xinxing (note a (i))	**6,142**	42,663
– Shanghai Yilian Electric Business Limited ("Shanghai Yilian") (note a (iv))	**3,182**	7,174
– Chengdu Engine (Group) Company Limited ("Chengdu Engine") (note a (i))	**5,271**	5,044
Loan guarantee provided by Greencool Enterprise (note a (v))		
– maximum amount during the year	**295,000**	540,000
– amount as at 31 December	**180,000**	295,000
Other transactions:		
– Handling fee charged to Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool") (note a (ix))	**–**	1,575
– Interest charged to Chengdu Xinxing (note a (i))	**1,986**	1,986
– Logistic management fee paid to Guangzhou Antaida (note a (vi))	**7,972**	5,640
– Rental to 杭州西泠集團有限公司 (note a (viii))	**4,000**	–
– Others	**48**	–

31. RELATED PARTY TRANSACTIONS *(continued)*

II. Balances due from/to related companies

	2004 *RMB'000*	2003 *RMB'000*
Balances due from related parties		
Balance due within one year:		
– Chengdu Xinxing (note a (i))	**3,143**	–
– 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))	**34,000**	34,000
	37,143	53,000
Balances due to related companies		
– Huayi and its subsidiaries (note a (iii))	**100,100**	73,938
– Chongqing Rongsheng (note a (ii))	**4,422**	–
– 杭州西泠集團有限公司 (note a (viii))	**4,000**	–
– 西安高科(集團)公司 (note a (viii))	**2,358**	–
– Chengdu Xinxing (note a (i))	**–**	116
– Hainan Greencool (note a (ix))	**–**	26
– Others	**791**	1,436
	111,671	75,516

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 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%.

(ii) Chongqing Rongsheng is an associate of the Group.

(iii) Huayi is an associate of the Group.

(iv) Shanghai Yilian was an associate of the Group and which was liquidated during the year.

(v) Greencool Enterprise is the single largest shareholder of the Company.

31. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: *(continued)*

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

(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.

(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 both years was RMB19 million. The amount was settled during the year.

(viii) 西安高科(集團)公司 and 杭州西泠集團有限公司 are minority owners of subsidiaries 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. The amount was settled during the year. 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.

(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 and/or in respect of which applications for registration may be made with the trademarks registry of any other territory by Greencool China; and/or (c) all "Combine" trademark registrations as may be assigned to Greencool China from time to time on freezers, refrigerators and other similar or related products and such other products as may be requested by the Company from time to time which are not objected by Greencool China, on a worldwide basis, for a term equivalent to the period of validity of the relevant registration. With the prior written consent of the Company, Greencool China may use and allow third party to use, such trademarks on production other than the types of products covered by the Licence Agreement. At present, the Group has been using the trademark of "Combine" on the refrigerators products and air-conditioners products under the Licence Agreement. Mr. Gu Chu Jun, the Chairman of the Company, has an equity interest in Greencool China.

(xi) During the year, Jiangxi Greencool granted to Jiangxi Kelon, a subsidiary of the Company, an exclusive right to use a piece of land and manufacturing facilities free of charge. Mr. Gu Chu Jun, the Chairman of the Company, has an equity interest in Jiangxi Greencool.

31. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: *(continued)*

(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.

(c) Terms of the related party balances

Save as the balance of RMB34,000,000 due from Chengdu Xinxing, all related party balances are unsecured, non-interest bearing and repayable on demand.

32. CAPITAL COMMITMENTS

	2004 *RMB'000*	2003 *RMB'000*
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the financial statements	**109,884**	105,210

33. RETIREMENT BENEFITS SCHEMES

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

The total cost charged to the income statement of approximately RMB19,518,000 (2003: RMB15,566,000) represents contribution payable to the schemes by the Group at rates specified in the rules of the schemes.

34. RESERVES

(a) Statutory reserves

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

34. RESERVES *(continued)*

(b) Distributable reserves of the Company

In accordance with the Articles of Association of the Company, the accumulated profits of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the amount determined in accordance with PRC accounting standards and regulations ("PRC GAAP") and (ii) the amount determined in accordance with IFRS.

As at 31 December 2004, the Company's reserves available for distribution to its shareholders amounted to approximately RMB105,265,000 (2003: RMB197,891,000).

35. DIFFERENCES BETWEEN IFRS AND PRC GAAP AS APPLICABLE TO THE GROUP

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

	2004 *RMB'000*	2003 *RMB'000*
Net assets as per financial statements prepared under IFRS	**2,764,599**	2,810,866
Adjustment on property, plant and equipment revaluation and related depreciation	**(5,667)**	(2,135)
Adjustment on contribution from minority shareholders	**26,684**	–
Adjustment on pre-operating expenses	**9,938**	–
Others	**7,603**	–
Net assets as per financial statements prepared under PRC GAAP	**2,803,157**	2,808,731

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

	2004 *RMB'000*	2003 *RMB'000*
Net (loss) profit for the year as per financial statements prepared under IFRS	**(44,658)**	191,170
Adjustment on property, plant and equipment revaluation and related depreciation	**3,532**	11,010
Release of discount on acquisition of subsidiaries	**(12,429)**	–
Notional rental expenses	**(17,660)**	–
Adjustment on pre-operating expenses	**9,938**	–
Others	**(2,883)**	–
Net (loss) profit for the year as per financial statements prepared under PRC GAAP	**(64,160)**	202,180

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

36. BALANCE SHEET OF THE COMPANY

	2004 *RMB'000*	2003 *RMB'000*
Non-current assets	**3,790,371**	3,385,709
Current assets	**4,026,871**	3,822,190
Current liabilities	**(4,424,163)**	(4,079,430)
Net current liabilities	**(397,292)**	(257,240)
	3,393,079	3,128,469
Capital and reserves		
Share capital	**992,007**	992,007
Reserves	**2,336,080**	2,078,476
	3,328,087	3,070,483
Non-current liabilities	**64,992**	57,986
	3,393,079	3,128,469