

1. GENERAL

Guangdong Kelon Electrical Holdings Company Limited (the “Company”) is a joint stock limited company incorporated in the People’s Republic of China (the “PRC”) on 16 December 1992. The Company’s 459,589,808 overseas public shares (hereinafter referred to as “H Shares”) were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996. In 1998, the Company obtained approval to issue 110,000,000 domestic shares (hereinafter referred to as “A Shares”), which were listed on the Shenzhen Stock Exchange on 13 July 1999.

On 29 October 2001 and 5 March 2002, the former single largest shareholder of the Company, Guangdong Kelon (Rongsheng) Group Company Limited (“GKG”, the 34.06% shareholder) entered into a share transfer agreement and a supplementary agreement with Greencool Enterprise Development Company Limited (it was renamed as “Guangdon Greencool Enterprises Development Company Limited in 2004, as is here in after referred as (“GG”)), in connection with the transfer of 204,775,755 legal person shares of the Company to Greencool Enterprise, representing 20.64% of the total share capital of the Company. The share transfer was completed on 18 April 2002, and accordingly, the shareholdings of Greencool Enterprise was increased to 20.64% while that of GKG was reduced to 13.42%.

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

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

On 14 October 2004, Guangdong Greencool, as transferee, had been transferred 57,436,439 legal person shares of the Company (representing 5.79% of the total share capital of the Company) held by Shunde Xin Hong Enterprise Company. Upon completion of share transfer, the number of shares in the Company held by Guangdong Greencool increased to 262,212,194 shares (representing 26.43% of the total share capital of the Company).

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

2. BASIS OF PREPARATION

As at 31 December 2004, the amount of the Company’s current liabilities exceed the amount of current assets by RMB422,085,905. The Company expected that there will have sufficient future cash flows to meet the daily operation requirement of the Company. Therefore, the financial statements have been prepared on a going concern basis.

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

Accounting System and Accounting Standards Adopted

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

Basis of Accounting and Principle of Measurement

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

Accounting year

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

Reporting currency

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

Foreign exchange translation

Transactions in foreign currencies (other than the reporting currency) are translated into Renminbi at the applicable rates of exchange (“market exchange rate”) prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the market exchange rate prevailing at the balance sheet date. Exchange gains and losses incurred on specific borrowing for the acquisition or construction of a fixed assets before the fixed assets are ready for use are capitalised as part of the cost of fixed assets: exchange gains and losses arising in the pre-operating period are recorded as long-term deferred expenses; other exchange gains or losses are dealt with as finance expenses.

Basis of consolidation

(1) Consolidation scope

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (except those whose total assets, operating revenue and net profit are of smaller amount) made up to 31 December each year. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the equity, or where the Company controls the operation of the investee enterprise via other methods.

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

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

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

Basis of consolidation *(continued)*

(2) Consolidation method

The accounting policies adopted by the subsidiaries are not completely consistent with the Company's policy. However, adjustments have been made to the financial statements of these subsidiaries according to the accounting policies of the Company in preparing the consolidated financial statements.

The operating results of subsidiaries during the year are included in the consolidated income statement and the consolidated cash flow statement from the effective date of acquisition as appropriate.

All significant intercompany transactions and balances are eliminated on consolidation.

Method for translation of foreign currency financial statements

The foreign currency financial statements of the Group's overseas subsidiaries are translated into Renminbi for consolidation according to the following methods:

Assets and liabilities are translated into Renminbi at the market exchange rate prevailing at the balance sheet date. Shareholders' equity, except for retained earnings, are translated into Renminbi at the market rates at transaction dates. All items in the statements of income and profit appropriation are translated at the applicable average exchange rates for the accounting period of the consolidated financial statements. Retained earnings at the beginning of the year represent the translated closing balance brought forward from the previous year; retained earnings at year end are arrived at after the translation of all other items in the statement of income. The difference between translated assets and translated liabilities plus equity is shown separately in the balance sheet as exchange differences arising from the translation of the foreign currency financial statements.

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

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.

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

Provision for bad debts

(1) *Criteria for recognition of bad 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 bad debts*

Provision for bad debts is accounted for using the allowance method and provided based on with the recoverability of accounts receivable as at year end.

Provision for bad debts of receivables due from domestic customers is calculated based on by using the aging analysis. The percentage of provision is as following:

Term	Provision Percentage (%)
Within 3 months	0
3 months to 6 months	10
6 months to 1 year	50
Over 1 year	100

Based on individual analyses of large-amount receivables, bad debt provision is made against trade receivable from overseas customers and then bad debts are calculated by using the aging analysis of accounts.

The provision for bad debts of other debtors is provided for individually based on the nature of current accounts and the past experiences of the Company, the actual financial position and cash flows condition of the debtor, and other information.

Inventories

Inventories are stated at actual cost, which includes costs of purchase and processing and those overheads that have been incurred in bringing the inventories to their present location and condition. Inventories include raw materials, work-in-progress and finished goods.

Standard cost is applied for the record of raw materials movement. At the end of each period, amortization for cost variances is made to the standard cost to arrive at the actual cost.

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

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

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.

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 netprofit 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.

3. 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".

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

At the end of each period, the Company determines whether an impairment should be recognized 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.

For long-term equity investment accounted for by using equity method, where difference between equity investment credit has been recognised previously and accounted for as capital reserve, impairment loss will first be used to offset capital reserve, and shortcoming will be accounted for as current profit and loss. Where difference between equity investment credit has been recognised during investment and amortized as investment decrease, impairment loss will first be used to offset the equity investment credit difference and shortcoming will be accounted for as current profit and loss. Where difference between equity investment debit has been recognised during investment and amortised by stages, impairment loss will be fully accounted for as current profit and loss and used to offset long-term equity investment difference and shortcoming will be credited as provision for impairment of long-term investment.

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.

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

Fixed assets and depreciation

Fixed assets are tangible assets held by the Company for production, provision of services, lease or operation, with useful life exceeding one year and with a relatively higher unit cost.

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

	Estimated residual values	Annual useful lives rates	Estimated depreciation
Buildings and structures	0-5%	20-50 years	2%-4.75%
Machinery and equipment	5%	10 years	9.50%
Furniture, fixtures and office equipment	5%	5 years	19.00%
Motor vehicles	5%	5 years	19.00%
Moulds	0%	3 years	33.33%

Provision for impairment of fixed assets

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

Construction in progress

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

Cost comprises construction expenditure incurred during the construction period, capitalized borrowing costs incurred on a specific borrowing for the construction of fixed assets before it has reached the working condition for its intended use and other relevant expenses. The construction in progress is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for construction in progress.

Provision for impairment on construction in progress is made when the following situation exist (1) construction project is suspended for a long period and is not expected to be resumed within three years; (2) construction project is technically and physically obsolete and its economic benefits to the Company is uncertain, (3) other evidences can prove the existence of the decline in value of construction project. An impairment loss is recognised for the shortfall of the recoverable amount of construction in progress below its carrying amount.

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

Intangible assets

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

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

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

Provision for impairment of intangible assets

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

Long-term deferred expenditures

Unless related to the acquisition or construction of fixed assets, all expenditure incurred during the pre-operating period is recognised as an expense in the month in which the enterprise commences operation.

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.

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

Borrowing costs

Borrowing costs represent costs incurred in connection with the Group's borrowing of funds, including interest charges, amortisation of discount and premium, auxiliary costs, and exchange differences. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. Other borrowing costs are recorded as financial expenses when incurred.

Revenue recognition

Sales revenue

Sales revenue is recognised when the Company has transferred the significant risk and rewards of ownership to the buyer; and the Company neither retains the managing rights nor control over the goods sold; and the economic benefits associated with the transactions will flow into the Company and relevant revenue and cost can be reliably measured.

Interest income

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

Subsidy income

Subsidy income is recognised when received.

Leases

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

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

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

Income tax

Income tax is provided under the tax payable method.

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

4. CHANGE IN THE ACCOUNTING POLICY

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

According to the MOF Caikuai [2004] No. 3, Notes receivable discounted with recourse which originally were or had liabilities to be disclosed are now regarded as credit loan obtained by means of notes receivable and bank loans are recognised on receipt of the amount. The change in accounting policy has been adjusted retrospectively.

Major effects by the change of accounting policy mentioned above are as follows:

	Notes receivable <i>RMB</i>	Short-term loans (Note) <i>RMB</i>	Notes payable <i>RMB</i>
The Group:			
Amounts at 31 December 2003 before retrospective adjustments	734,877,589	858,900,000	1,938,635,005
Reversal of discounted bank acceptance notes of inter-companies and three parties	1,157,000,000	1,157,000,000	–
Offset of notes of inter-companies	(1,088,350,000)	–	(1,088,350,000)
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Amounts at 31 December 2003 after retrospective adjustments	803,527,589	2,015,900,000	850,285,005

	Cash received form sale of goods and rendering of services <i>RMB</i>	Cash paid for purchases of goods and services <i>RMB</i>	Cash received from borrowings <i>RMB</i>	Cash paid for repayment of borrowings <i>RMB</i>
The Group:				
Amounts at the end of the year 2003 before retrospective adjustments	7,541,307,010	5,196,396,395	1,418,900,000	1,350,165,357
Offset of notes of inter-companies	987,948,000	987,948,000	–	–
Cash received from discounting bank acceptance notes of companies comprising the Group and three parties	(1,150,098,000)	–	1,975,500,000	825,402,000
Cash received from discounting commercial notes	–	–	1,050,000,000	1,050,000,000
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Amounts at 31 December 2003 after retrospective adjustments	7,379,157,010	6,184,344,395	4,444,400,000	3,225,567,357

The change of accounting policy mentioned above does not have effect on the Company and the retained profit balances and net losses and profits at the beginning of the year.

4. CHANGE IN THE ACCOUNTING POLICY (continued)

(2) During the year, the Company made the following reclassifications in its financial statements for the year 2003.

- a. According to the status of actual repayment of bank borrowings in the current year, the Company made adjustments to its 2003 financial statements as follows:

	Group		Company	
	Before	After	Before	After
	restatement	restatement	restatement	restatement
	RMB	RMB	RMB	RMB
Short-term borrowings (note)	2,015,900,000	2,540,900,000	310,000,000	835,000,000
Long-term borrowings	544,353,852	19,353,852	525,000,000	–

- b. The Company classified moulds, as “fixed assets” in current year previously classified as “long-term deferred expenditures”. Adjustments were made to 2003 financial statements as follows:

	Group	
	Before	After
	restatement	restatement
	RMB	RMB
Cost of fixed assets	3,694,855,619	4,303,879,694
Accumulated depreciation	1,802,715,334	2,292,794,964
Long-term deferred expenditures	170,955,680	52,011,235

(Note) Before restatement, short-term borrowings at the beginning of the year was RMB 858,900,000, and due to the change in accounting policy and the restatement of classifications in the financial statements during the year, short-term borrowings after the restatement was RMB 2,540,900,000.

5. TAXATION

Value-added Tax

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

Enterprise Income Tax

The Company was established in Shunde, Guangdong Province and located in Shunde High New Technology Development Zone. The Company is classified as high new technology enterprise by 廣東省科學技術廳 for the sixth consecutive year in 2003. Pursuant to Shunde Provincial Tax Bureau, the Company is subject to enterprise income tax (“EIT”) at a rate of 15%. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 18% in 2004.

The Company’s Sino-foreign joint venture subsidiaries established in coastal open economic zones in Foshan, Yingkou, Hanzhou are subject to an effective EIT rate of 27%.

5. TAXATION (continued)**Enterprise Income Tax (continued)**

The Company's Sino-foreign joint venture subsidiaries established in special economic zones in Shenzhen and Zhuhai are subject to an effective EIT rate of 15%.

The Company's subsidiaries classified as high new technology enterprises are subject to an effective EIT rate of 15%.

The Company's Sino-foreign joint venture subsidiaries established in the economy and technology development zones in cities like Yangzhou, Nanchang, Wuhu, Kaifeng and Xi'an are subject to an effective EIT rate of 15-18%.

The effective EIT rate applicable for the sino-foreign subsidiaries established in Nanchang and Chengdu is 33%.

Pursuant to the Income Tax Law of the PRC for foreign investment Companies and foreign Companies (the "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.

深圳科龍, Kaifeng Kelon, Xi'an Kelon, Hangzhou Kelon, Kelon Freezer, Chengdu Kelon, Zhuhai Kelon, Yangzhou Kelon and Jiangxi Kelon Combine are not applicable for tax holidays. Jiangxi Kelon was deemed as a "trading-oriented" enterprise and thus was not able to enjoy the tax concession in which full exemption for the first two years of profit making and 50% tax reduction from the third to fifth year were applicable. Jiangxi Kelon is subject to an effective EIT rate of 33%.

The Company's other subsidiaries established in Mainland China are subject to an EIT rate of 33%.

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

Other tax

Sales tax at a rate of 5% on the assessable income

City construction tax at a rate of 1-7% on the assessable circular tax

6. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR

As at 31 December 2004, the Company has following subsidiaries and details are follows:

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Pearl River Electric Refrigerator Company Limited ("Pearl River")	Hong Kong	HK\$400,000	-	100%	Trading in raw materials and parts for refrigerators	Limited liability company	Yes
Kelon Electric Appliances Co., Ltd ("Kelon Electric")	Hong Kong	HK\$10,000	-	100%	Property investment	Limited liability company	Yes

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Shunde Rongsheng Plastic Products Co., Ltd. (“Rongsheng Plastic”)	Foshan	US\$15,800,000	45%	25%	Manufacture of plastic parts	Sino-foreign joint venture enterprise	Yes
Kelon Development Company Limited (“Kelon Development”)	Hong Kong	HK\$5,000,000	100%	–	Investment holdings	Limited liability company	Yes
Guangdong Kelon Mould Co., Ltd. (“Kelon Mould”)	Foshan	US\$15,000,000	40%	30%	Manufacture of moulds	Sino-foreign joint venture enterprise	Yes
Guangdong Kelon Refrigerator (“Kelon Refrigerator”)	Foshan	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”)	Foshan	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”)	Chengdu	RMB200,000,000	45%	25%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
Yingkou Kelon Refrigerator Co., Ltd. (“Yingkou Kelon”)	Yingkou	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 Incorporation (“KII”)	British Virgin Islands	US\$50,000	–	100%	Investment holding and sales of electrical home appliance	Foreign company	Yes
Guangdong Kelon Fittings Co., Ltd. (“Kelon Fittings”)	Foshan	US\$5,620,000	70%	30%	Manufacture and sale of components for refrigerators and air-conditioners	Sino-foreign joint venture enterprise	Yes

6. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR (continued)

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable		Principal Activities	Nature of business	Consolidated in the year
			to the Company Directly	Indirectly			
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited ("Sichuan Rongsheng")	Chengdu	RMB2,000,000	76%	–	Sale of refrigerators	Limited liability company	Yes
Beijing Hengsheng Xin Chuang Technology Company ("Beijing Hengsheng")	Beijing	RMB30,000,000	80%	–	Research and develop industrial and commercial IT system	Limited liability company	Yes
Shunde Kelon Jiake Electronic Company Limited ("Jiake Electronic")	Foshan	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")	Beijing	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")	Beijing	RMB5,000,000	–	78%	Any business activities not prohibited by laws and regulations	Limited liability company	Yes
Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Freezer")	Foshan	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")	Foshan	RMB10,000,000	25%	75%	Manufacture and sales of electrical household appliances	Limited liability company	Yes
Shunde Wangao Import & Export Co., Ltd. ("Wangao Co")	Foshan	RMB3,000,000	20%	80%	Import and export business	Limited liability company	Yes
佛山市順德區崎輝服務有限公司 ("Qifei")	Foshan	RMB1,000,000	–	100%	Corporate consultancy and management, catering services, household decoration designs	Limited liability company	Yes
Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon"),	Nanchang	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

6. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR (continued)

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Huaao Electrical Electronics Co., Ltd. ("Huaao Electronics")	Foshan	RMB10,000,000	-	70%	Research and development, manufacture and sale of electronic products	Limited liability company	Yes
Jilin Kelon Electric Co., Ltd. ("Jilin Kelon")	Jilin	RMB200,000,000	90%	10%	Development, manufacture and sale of refrigerators, air-conditioners, freezers and electrical home appliances	Limited liability company	Yes
Kelon (USA) Inc. ("Kelon USA")	USA	US\$100	-	100%	Business liaison	Foreign company	Yes
Hangzhou Kelon Electrical Company Limited ("Hangzhou Kelon")	Hangzhou	US\$24,100,000	40%	30%	Research and development of the technology for environmental friendly refrigerators, production of high efficiency, energy saving and environmental friendly refrigerators, information consultation, warehousing, and sale of the products made by the Company	Sino-foreign joint venture enterprise	Yes
Yangzhou Kelon Electrical Company Limited ("Yangzhou Kelon")	Yangzhou	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")	Shangdiu	RMB150,000,000	-	100%	Research, development, production and sale of household and commercial air-conditioners, refrigerators, freezers, small household electrical home appliances and parts and accessories, and provision of relevant information and technical consultancy services	Limited liability company	Yes

6. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR (continued)

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. ("Jiangxi Combine")	Nanchang	RMB20,000,000	–	55%	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household electrical home appliances	Limited liability company	Yes
Zhuhai Kelon Industrial Development Co., Ltd. ("Zhuhai Kelon")	Zhuhai	US\$29,980,000	75%	25%	Research and development, manufacture of refrigerators, air-conditioners, freezers and small household electrical home appliances	Sino-foreign joint venture enterprise	Yes
Xi'an Kelon Cooling Co., Ltd. ("Xi'an Kelon")	Xi'an	RMB202,000,000	60%	–	Development, research, design and production of chlorofluorocarbon free refrigerants (freezers) refrigeration compressor products; sales of products of the Company and provision of after-sale repairing services; research, development, production of new refrigeration compressor products in accordance with market demand; production	Sino-foreign joint venture enterprise	Yes
Kaifeng Kelon Air-Conditioner Co., Ltd. ("Kaifeng Kelon")	Kaifeng	RMB60,000,000	–	70%	Sales and research of air-conditioners products	Limited liability company	Yes
Wuhu Ecan Motors Company Limited ("Wuhu Ecan")	Wuhu	US\$7,210,000	40%	40%	Production and sales of motor starters and permanent magnetic electric current brush less motor micro alternating current electric machines and electrical equipment	Sino-foreign joint venture enterprise	Yes

6. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR (continued)

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the year
			Directly	Indirectly			
深圳市科龍採購有限公司 ("深圳科龍")	Shenzhen	RMB200,000,000	95%	5%	Nationwide commerce industry, materials supply section (excluding merchandises under exclusive operation, monopoly control and exclusive sale); import and export business; provision of warehousing, information consultation and technical services (excluding limited items)	Limited liability company	Yes
廣東科龍威力電器有限公司 (Guangdong Kelon Weili Electrical Appliances Company Limited) ("Kelon Weili")	Zhongshan	RMB200,000,000	55%	25%	Production of intelligent washing machines, intelligent air-conditioners and provision of after-sale repairing services and technical consultation. 70% products sold in domestic market	Sino-foreign joint venture enterprise	Yes
Kelon Europe Industrial Design Limited ("Kelon Europe")	Britain	-	-	100%	Business liaison	Foreign company	No

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

Kelon Japan was in the process of liquidation. Pursuant to regulatory documents including "Answer to the Question about Consolidation Scope" (Chikuai Erzi (96) No. 2) issued by the MOF, Kelon Europe was not consolidated as its assets are relatively small. The Company accounts for those unconsolidated subsidiaries by equity method.

Pursuant to regulatory documents including "Answer to the Question about Consolidation Scope" (CKZ (96) No. 2) issued by the Ministry of Finance, Kelon USA and Zhuhai Kelon was not consolidated in last year as its total assets, operating income and net profit are relatively small. The two companies mentioned above will be included into consolidation for the year.

Xi'an Kelon and Wuhu Ecan are subsidiaries purchased during the year. Kaifeng Kelon, 深圳科龍 and Kelon Weili are subsidiaries established during the year. The companies mentioned above have been included into consolidation for the year, and their operation results and cash flows subsequent to the purchase dates and incorporation dates have respectively been appropriately included in the consolidated financial statements. Financial position of Xi'an Kelon and Wuhu Ecan as at the purchase dates and their operation results from the purchase dates up to 31 December 2004 are set out in Note 46.

6. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR (continued)

Particulars of associates of the Company are as follows:

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business
			Directly	Indirectly		
Huayi Compressor Holdings Company Limited ("Huayi Compressor")	PRC	RMB260,854,000	22.725%	–	Manufacture and sale of compressors	Joint stock limited company
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng")	PRC	RMB10,000,000	–	28%	Sale and after-sale service of refrigerators	Limited liability company
Guangzhou Antaida Logistic Co., Ltd. ("Guangzhou Antaida")	PRC	RMB10,000,000	20%	–	Logistic and storage	Limited liability company

Set out below are the associates of the Company in prior year. Equity of these associates held by the Company that have been disposed of during the year:

Name of Entity	Place of Registration	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business
			Directly	Indirectly		
Communications and You Holdings Company Limited ("C&Y")	Hong Kong	HK\$100	–	25%	Advertising business	Limited liability company
上海易連電子商務有限公司 ("上海易連")	PRC	RMB24,000,000	46.67%	–	Electronic business	Limited liability company

7. BANK BALANCES AND CASH

	Group At 31 December 2004			Group At 1 January 2004		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash						
RMB	-	-	2,858,463	-	-	1,472,684
HKD	30,688	1.0645	32,667	30,000	1.0659	31,977
USD	8,331	8.2765	68,951	8,330	8.2770	68,950
Others	-	-	-	-	-	733
Bank Deposits						
RMB	-	-	786,030,623	-	-	591,373,941
USD	24,818,726	8.2765	205,412,189	14,957,296	8.2770	123,801,535
HKD	11,076,838	1.0645	11,791,294	4,831,904	1.0659	5,150,327
YEN	38,610,895	0.0805	3,108,177	39,731,673	0.0754	2,995,768
EURO	732,366	11.1493	8,165,368	194,158	9.9106	1,924,219
Others	-	-	65,770	-	-	84,542
Other Monetary Assets						
Pledged Deposits						
RMB	-	-	1,174,826,788	-	-	1,378,127,084
USD	15,436,506	8.2765	127,760,242	1,813,041	8.2770	15,006,537
			2,320,120,532			2,120,038,297

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

8. NOTES RECEIVABLE

	Group At 31 December 2004 RMB	Group At 1 January 2004 RMB (As restated)
Bank acceptance notes		
- unpledged	443,243,769	267,210,252
- pledged	161,900,000	156,000,000
Commercial acceptance notes		
- unpledged	187,759,249	380,317,337
	792,903,018	803,527,589

9. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	Group 31 December 2004			
	Amount <i>RMB</i>	Ratio (%)	Provision for bad debt <i>RMB</i>	Net value <i>RMB</i>
Within one year	1,165,068,424	86	16,494,091	1,148,574,333
One to two years	84,881,609	6	55,418,846	29,462,763
Two to three years	43,487,559	3	43,487,559	—
Over three years	68,044,288	5	68,044,288	—
	1,361,481,880	100	183,444,784	1,178,037,096

	Group 1 January 2004			
	Amount <i>RMB</i>	Ratio (%)	Provision for bad debt <i>RMB</i>	Net value <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 31 December 2004			
	Amount <i>RMB</i>	Ratio (%)	Provision for bad debt <i>RMB</i>	Net value <i>RMB</i>
Within one year	1,024,816,778	90	9,258,661	1,015,558,117
One to two years	16,672,711	1	16,672,711	—
Two to three years	31,106,898	3	31,106,898	—
Over three years	62,480,769	6	62,480,769	—
	1,135,077,156	100	119,519,039	1,015,558,117

9. ACCOUNTS RECEIVABLE (continued)

	Company			
	1 January 2004			
	Amount	Ratio	Provision for	Net value
	<i>RMB</i>	(%)	bad debt	<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	–
	389,815,039	100	128,376,947	261,438,092

The Group's five largest debtors are as follows:

Total amount of five largest debtors	Percentage in total accounts receivable
<i>RMB</i>	%
678,518,049	50

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

10. OTHER RECEIVABLES

The aging analysis of other receivables is as follows:

	Group			
	31 December 2004			
	Amount	Ratio	Provision for	Net value
	<i>RMB</i>	(%)	bad debt	<i>RMB</i>
			<i>RMB</i>	<i>RMB</i>
Within one year	186,559,529	88	40,595	186,518,934
One to two years	17,938,377	8	1,137,111	16,801,266
Two to three years	1,929,390	1	1,664,424	264,966
Over three years	5,850,446	3	5,491,808	358,638
	212,277,742	100	8,333,938	203,943,804

10. OTHER RECEIVABLES (continued)

	Group 1 January 2004			
	Amount RMB	Ratio (%)	Provision for bad debt RMB	Net value RMB
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

	Company 31 December 2004			
	Amount RMB	Ratio (%)	Provision for bad debt RMB	Net value RMB
Within one year	1,573,412,010	92	–	1,573,412,010
One to two years	104,845,864	6	–	104,845,864
Two to three years	15,523,382	1	1,327,925	14,195,457
Over three years	5,491,808	1	5,491,808	–
	1,699,273,064	100	6,819,733	1,692,453,331

	Company 1 January 2004			
	Amount RMB	Ratio (%)	Provision for bad debt RMB	Net value RMB
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

Particulars of the Group's five largest debtors are as follows:

The total amount of the Group's five largest debtors RMB	Percentage of total receivable %
136,582,415	64

For the other receivables as at the end of the year, the provisional import tax of RMB121,044,247 was not yet approved by tax bureau.

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

11. PROVISION FOR BAD DEBT

	Group At the beginning of the year <i>RMB</i>	Transferred on purchase of a subsidiary <i>RMB</i>	Provision for the year <i>RMB</i>	Write back for the year <i>RMB</i>	Reversal for the year <i>RMB</i>	Group At the end of the year <i>RMB</i>
Provision for bad debt:						
Accounts receivable	149,578,016	39,538	42,840,032	-	(9,012,802)	183,444,784
Other receivable	2,790,625	-	8,150,182	(2,606,869)	-	8,333,938
Total	152,368,641	39,538	50,990,214	(2,606,869)	(9,012,802)	191,778,722

12. PREPAYMENTS

The aging analysis of prepayments is as follows:

	Group At 31 December 2004		Group At 1 January 2004	
	<i>RMB</i>	%	<i>RMB</i>	%
Within one year	195,592,540	99	165,879,789	100
One to two year	2,211,185	1	-	-
Total	197,803,725	100	165,879,789	100

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

13. SUBSIDY RECEIVABLES

	Group At 31 December 2004 <i>RMB</i>	Group At 1 January 2004 <i>RMB</i>
Export tax refund receivables	20,796,124	187,704,983

14. INVENTORIES AND PROVISION FOR IMPAIRMENT LOSS

	Group 31 December 2004		
	Amounts	Provision for impairment loss of inventories	Carrying amount
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Raw materials	1,152,561,573	32,595,020	1,119,966,553
Work in progress	207,835,417	83,935	207,751,482
Finished goods	1,770,226,708	101,089,405	1,669,137,303
	3,130,623,698	133,768,360	2,996,855,338

	Group At 1 January 2004		
	Amounts	Provision for impairment loss of inventories	Carrying amount
	<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
	2,049,537,353	103,919,716	1,945,617,637

The provision for inventories is as follows:

	Raw materials <i>RMB</i>	Work in progress <i>RMB</i>	Finished goods <i>RMB</i>	Total <i>RMB</i>
At the beginning of the year	38,461,291	172,000	65,286,425	103,919,716
On acquisition of a subsidiary	1,373,586	83,935	3,204,887	4,662,408
Provision for the year	2,639,087	–	39,606,908	42,245,995
Reversal for the year	(191,987)	(172,000)	(469,756)	(833,743)
Write-off for the year	(9,686,957)	–	(6,539,059)	(16,226,016)
At the end of the year	32,595,020	83,935	101,089,405	133,768,360

15. LONG-TERM EQUITY INVESTMENTS

	Group At 31 December 2004 RMB	Group At 1 January 2004 RMB
Investments in associates	124,138,359	134,358,604
Other equity investments	7,249,050	7,249,050
Long-term equity investment difference	29,777,773	109,814,270
Total	161,165,182	251,421,924
Less: Provision for long-term equity investment impairment loss	67,219,525	79,038,525
Net long-term equity investments	93,945,657	172,383,399

	Company At 31 December 2004 RMB	Company At 1 January 2004 RMB
Investments in subsidiaries	1,673,958,566	1,235,651,509
Investments in associates	123,793,992	130,319,332
Other long-term equity investments	7,249,050	7,249,050
Long-term equity investment difference	59,381,641	144,516,300
Total	1,864,383,249	1,517,736,191
Less: Provision for long-term equity investment impairment loss	59,381,641	59,381,641
Net long-term equity investments	1,805,001,608	1,458,354,550

15. LONG-TERM EQUITY INVESTMENTS (continued)

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

Name of Investee	Cost		Percentage of registered capital of investee	Change of equity in investee		Carrying amount at the end of the year RMB
	At the beginning of the year	Addition during the year		Change of equity during the year	Accumulated change	
	RMB	RMB		RMB	RMB	
Kelon Development	11,200,000	–	100%	(8,000,379)	68,807,469	80,007,469
Kelon Refrigerator	155,552,426	–	70%	62,488,417	230,209,753	385,762,179
Kelon Air-Conditioner	214,403,766	–	60%	166,573,712	(382,536,837)	(168,133,071)
Rongsheng Plastic	53,270,064	–	45%	137,288	75,241,765	128,511,829
Chengdu Kelon	90,000,000	–	45%	(2,348,340)	(7,044,189)	82,955,811
Yingkou Kelon	84,000,000	–	42%	290,410	(7,782,873)	76,217,127
Kelon Mould	49,860,000	–	40%	3,882,869	7,993,456	57,853,456
Kelon Fittings	32,634,554	–	70%	6,140,408	45,446,447	78,081,001
Beijing Hengsheng	24,000,000	–	80%	(2,662,680)	(8,653,641)	15,346,359
Jiake Electronic	42,000,000	–	70%	(16,859,315)	(39,224,472)	2,775,528
Sichuan Rongsheng	1,520,000	–	76%	(773,875)	(684,647)	835,353
Wangao Co	600,000	–	20%	(1,929,819)	(3,206,159)	(2,606,159)
Kelon HEA	2,500,000	–	25%	(3,459,277)	(5,168,884)	(2,668,884)
Kelon Freezer	104,280,000	–	44%	2,412,754	(90,033,722)	14,246,278
Jiangxi Kelon	147,763,896	–	60%	19,179,834	20,268,294	168,032,190
Jilin Kelon	180,000,000	–	90%	(8,249,604)	(28,792,627)	151,207,373
Hangzhou Kelon	24,000,000	–	40%	(2,428,792)	(2,428,792)	21,571,208
Yangzhou Kelon	24,666,950	–	30%	(3,184,052)	(3,184,052)	21,482,898
Zhuhai Kelon	–	189,101,850	75%	–	–	189,101,850
Xi'an Kelon	–	107,729,620	60%	(14,816,645)	(14,816,645)	92,912,975
Wuhu Ecan	–	12,428,893	40%	(371,211)	(371,211)	12,057,682
深圳科龍	–	95,000,000	95%	–	–	95,000,000
	1,242,251,656	404,260,363		196,021,703	(145,961,567)	1,500,550,452
Add: Accrued liability of investee enterprise (note 1)	(215,003,766)	(2,500,000)		(159,475,009)	390,911,880	173,408,114
	1,027,247,890	401,760,363		36,546,694	244,950,313	1,673,958,566

(Note 1) As at 31 December 2004, Kelon Air-Conditioner, Kelon HEA and Wangao Co, the Company's subsidiaries, sustained excess losses. The Company has undertaken to continue to extend financial support to Kelon Air-Conditioner, Kelon HEA and Wangao Co so that Kelon Air-Conditioner, Kelon HEA 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.

15. LONG-TERM EQUITY INVESTMENTS (continued)

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

Name of Investee	Cost of Investment RMB	Transfer out RMB	Percentage of registered capital of investee %	Change of equity in investee		Carrying amount transferred to investment in subsidiaries RMB	Carrying amount at the end of the year RMB
				Change of equity during the year RMB	Accumulated change RMB		
Huayi Compressor	118,013,641	-	22.725	1,994,196	2,950,034	-	120,963,675
Shanghai Yilian	11,077,600	(11,077,600)	46.67	(1,314,405)	(3,430,355)	3,430,355	-
Guangzhou Antaila	2,000,000	-	20.00	442,114	830,317	-	2,830,317
Company total	131,091,241	(11,077,600)		1,121,905	349,996	3,430,355	123,793,992
C&Y	3,712,100	(3,712,100)	25.00	-	-	-	-
Chongqing Rongsheng	280,000	-	19.60	17,195	64,367	-	344,367
Group total	135,083,341	(14,789,700)		1,139,100	414,363	3,430,355	124,138,359

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

Name of Investee	Cost RMB	At the beginning of the year RMB	Addition during the year	Amortisation charge for the year RMB	Amounts after accumulated amortisation RMB	Amortisation period RMB
Kelon Air-Conditioner	66,596,234	59,381,641	-	-	59,381,641	10 years
Huayi Compressor	137,346,359	85,134,659	-	85,134,659	-	10 years
Company total	203,942,593	144,516,300	-	85,134,659	59,381,641	
C&Y	9,007,892	8,107,103	(8,107,103)	-	-	10 years
Yingkou Kelon	1,010,737	710,737	-	100,000	610,737	10 years
Kelon Freezer	(88,611,120)	(81,426,434)	-	(4,789,791)	(76,636,643)	18.5 years
Wangao Co	2,744,027	2,629,693	-	-	2,629,693	10 years
Kelon HEA	34,694,631	30,068,680	-	3,469,463	26,599,217	10 years
Huaao Electronic	5,434,634	5,208,191	-	-	5,208,191	10 years
Xian Kelon (note 2)	12,956,689	-	12,956,689	971,752	11,984,937	10 years
Group total	181,180,083	109,814,270	4,849,586	84,886,083	29,777,773	

Due to excess losses of Kelon Air-Conditioner and Wangao Co, the Company's long-term investments in Kelon Air-Conditioner and Wangao Co was reduced to a negative value (shown as "accrued liabilities of investee enterprise"). Accordingly, the Company ceased to amortise the difference of its equity investment in Kelon Air-Conditioner and Wangao Co in 2001 and 2003 respectively, and made a full provision of impairment for long-term equity investment in respect of the remaining unamortised amount.

15. LONG-TERM EQUITY INVESTMENTS (continued)

Due to excess losses of Huaoa Electronic, the Company ceased to amortise the difference of its equity investment in Huaoa Electronic in 2003 and made a full provision of impairment for long-term equity investment in respect of the remaining unamortised amount.

Due to excess losses of Kelon HEA, the Company's long-term investments in Kelon HEA was reduced to a negative value (shown as "accrued liabilities of investee enterprise"). According to the strategic planning of the Company, small home appliance sector will become the third pillar of its economy after refrigerator and air-conditioner. It is expected that the present value of future cash flow will exceed the value of the remaining unamortised equity investment difference. Therefore, no full provision of impairment for long-term equity investment was made in respect of the remaining unamortised amount.

(Note 2): During the year, the Company purchased equity interests in Xi'an Kelon from the company's former shareholders (details are set out in note 46) and the Company and the former shareholder subsequently contributed additional capital to Xi'an Kelon with, among others, patented technology carrying nil value. At the date of the capital increase, the carrying value of this intangible asset on the accounts of Xi'an Kelon was RMB42,636,309, which was calculated based on the carrying net asset of Xi'an Kelon. The long-term equity investment in Xi'an Kelon by the Company generated a credit difference of equity investment of RMB29,679,620, and the consolidated excess amount after elimination upon consolidation was RMB12,956,689 and was amortised over ten years from the date of the capital increase.

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

	At the beginning of the year RMB	Provision for the year RMB	Reversal for the year RMB	At the end of the year RMB
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
Huaoa Electronic	5,208,191	–	–	5,208,191
Group total	79,038,525	–	11,819,000	67,219,525

16. FIXED ASSETS, ACCUMULATED DEPRECIATION AND PROVISION FOR IMPAIRMENT

	Group					Total RMB
	Buildings and structures RMB	Machinery and equipment RMB	Electronic equipment, instruments and furniture RMB	Motor vehicles RMB	Moulds (note 1) RMB (as restated)	
Cost						
At 1 January 2004	1,443,169,804	1,869,601,192	311,512,938	70,571,685	609,024,075	4,303,879,694
Acquisition of a subsidiary	70,722,557	154,563,933	5,840,503	1,436,962	–	232,563,955
Additions	47,610,023	54,979,283	22,220,509	7,685,218	95,157,332	227,652,365
Transfer from construction in progress	1,630,840	24,087,444	27,776,520	510,000	–	54,004,804
Disposals	(1,543,812)	(22,479,238)	(9,931,739)	(1,103,727)	(492,805,201)	(527,863,717)
Exchange difference	(154,609)	(75,558)	(7,189)	(2,167)	–	(239,523)
At 31 December 2004	1,561,434,803	2,080,677,056	357,411,542	79,097,971	211,376,206	4,289,997,578
Accumulated depreciation						
At 1 January 2004	393,346,357	1,160,591,338	206,526,487	42,251,152	490,079,630	2,292,794,964
Acquisition of a subsidiary	7,951,118	30,247,946	2,918,084	740,227	–	41,857,375
Provision for the year	67,106,184	162,932,681	26,276,380	3,655,852	84,924,459	344,895,556
Eliminated on disposals	(142,607)	(20,844,394)	(7,238,817)	(751,914)	(485,273,060)	(514,250,792)
Exchange difference	(23,230)	(49,580)	(6,645)	(1,114)	–	(80,569)
At 31 December 2004	468,237,822	1,332,877,991	228,475,489	45,894,203	89,731,029	2,165,216,534
Provision for impairment						
At 1 January 2004	51,789,255	9,673,692	9,000	–	–	61,471,947
Provision for the year	–	–	–	–	–	–
Acquisition of a subsidiary	–	2,570,000	–	–	–	2,570,000
Exchange difference	(30,098)	–	–	–	–	(30,098)
At 31 December 2004	51,759,157	12,243,692	9,000	–	–	64,011,849
Net value						
At 1 January 2004	998,034,192	699,336,162	104,977,451	28,320,533	118,944,445	1,949,612,783
At 31 December 2004	1,041,437,824	735,555,373	128,927,053	33,203,768	121,645,177	2,060,769,195
Including:						
Net value of fixed assets pledged at 31 December 2004 (note 2)	153,191,361	227,283,175	–	–	–	380,474,536
Net value of fixed assets from operating lease at 31 December 2004	54,906,790	–	–	–	–	54,906,790

16. FIXED ASSETS, ACCUMULATED DEPRECIATION AND PROVISION FOR IMPAIRMENT (continued)

(Note 1) The Company has classified moulds as “long-term deferred expenditures” in previous years financial statements and stated it as “fixed assets” in current year financial statements. The financial statements of last year were also restated.

(Note 2) The secured fixed assets are pledged for commercial acceptance notes, letters of credit and bank borrowings.

17. CONSTRUCTION IN PROGRESS

Project Name	Budget RMB	Group					At 31 December 2004 RMB	Percentage to budget %	Source of capital
		At 1 January 2004 RMB	Gains on purchase of a subsidiary RMB	Additions during the year RMB	Transfer to fixed assets during the year RMB				
Storage facility and new plant	12,100,000	108,449	-	11,493,945	11,602,394	-		Self-raised	
Installation of production line for Zhuhai Kelon	-	-	-	21,389,129	100,000	21,289,129		Self-raised	
Re-construction of factories of Yangzhou Kelon (Note 1)	249,622,948	98,264,986	-	126,384,041	529,840	224,119,187	91	Self-raised	
Project for Jiangxi Kelon production line	33,355,382	9,790,064	-	23,565,318	14,231,177	19,124,205	58	Self-raised	
Production line of new workshop	3,355,500	-	-	2,646,435	-	2,646,435	79	Self-raised	
Others		9,681,711	8,387,430	91,783,476	27,541,393	82,311,224		Self-raised	
Total		117,845,210	8,387,430	277,262,344	54,004,804	349,490,180		Self-raised	

There are no capitalised borrowings expenses to additions during the year and to balances at the end of the period for construction in progress.

(Note 1) The land use rights of RMB 86,800,000 are pledged for commercial acceptance notes, letters of credit and bank borrowings.

18. INTANGIBLE ASSETS

	Trademarks <i>RMB</i>	Non-patent technology <i>RMB</i>	Land use rights <i>RMB</i>	Software systems <i>RMB</i>	Total <i>RMB</i>
Cost					
At 1 January 2004	521,857,699	–	665,863,304	10,717,645	1,198,438,648
On acquisition of a subsidiary	–	536,779	12,024,740	14,798,900	27,360,419
Additions during the year	–	20,000	47,813,010	5,061,657	52,894,667
At 31 December 2004	521,857,699	556,779	725,701,054	30,578,202	1,278,693,734
Accumulated amortisation					
At 1 January 2004	13,046,442	–	100,564,924	6,024,356	119,635,722
On acquisition of a subsidiary	–	–	1,062,185	5,362,876	6,425,061
Provision during the year	52,185,770	103,621	17,342,948	3,825,990	73,458,329
At 31 December 2004	65,232,212	103,621	118,970,057	15,213,222	199,519,112
Provision for impairment					
At 1 January 2004	–	–	5,214,752	519,447	5,734,199
On acquisition of a subsidiary	–	–	–	2,373,492	2,373,492
At 31 December 2004	–	–	5,214,752	2,892,939	8,107,691
Net value					
At 1 January 2004	508,811,257	–	560,083,628	4,173,842	1,073,068,727
At 31 December 2004	456,625,487	453,158	601,516,245	12,472,041	1,071,066,931
Including:					
Net value of intangible assets pledged					
at 1 January 2004	–	–	176,153,079	–	176,153,079
Net value of intangible assets pledged					
at 31 December 2004	–	–	259,322,935	–	259,322,935

Trademarks and part of the land use rights (RMB254,737,741 at cost) represented the amounts due from the former substantial shareholders, GKG, and the employee union and certificates processing payments and tax charges in 2003. The trademarks are to be amortized from over a period of ten years from October 2003, and the remaining term of the land use rights ranges from 10 to 68 years.

19. LONG-TERM DEFERRED EXPENDITURES

	Group					
	At				At	Residual years
	1 January	Additions	Amortization	31 December		
	2004	RMB	RMB	2004		
RMB	RMB	RMB	RMB			
	(restated)					
Illustrated advertising	42,484,701	884,579	18,113,286	25,255,994	1-5 years	
Leasehold improvements	2,947,404	33,260	1,879,054	1,101,610	1-5 years	
Others	6,579,130	12,369,908	8,012,991	10,936,047	1-3 years	
	52,011,235	13,287,747	28,005,331	37,293,651		

20. SHORT-TERM LOANS

Nature of loans	Group			
	At 31 December 2004		At 1 January 2004	
	Original Currency	RMB	Original Currency	RMB
	(as restated)			
Credit loan				
– RMB	–	170,700,000	–	80,000,000
– USD	12,761,846	105,623,417	–	–
Pledged loan				
– RMB	–	–	–	58,900,000
– USD (note 1)	25,026,501	207,131,832	–	–
Secured (note 2)				
– RMB	–	590,000,000	–	370,000,000
Guaranteed (note 3)				
– RMB	–	592,000,000	–	535,000,000
– USD	10,000,000	82,765,000	–	–
Financing from external commercial notes (note 4)				
– RMB	–	161,900,000	–	156,000,000
Financing from external commercial notes (note 5)				
– RMB	–	1,001,594,919	–	1,341,000,000
		2,911,715,168		2,540,900,000

The loans above bear interests at 1.99% to 5.58% per annum.

(Note 1) The US Dollar credit loan was pledged by accounts receivable for bank loans.

(Note 2) The RMB secured loan was pledged by the buildings and structures, and machinery and equipment with a net book value of RMB306,283,886; the land use right for construction in progress with a net book value of RMB86,800,000 and the land use right for intangible assets with a net book value of RMB259,322,935 (see notes 16, 17 and 18).

20. SHORT-TERM LOANS *(continued)*

(Note 3) Of the amount, RMB180,000,000 was guaranteed by Guangdong Greencool, RMB10,000,000 was pledged by buildings and structures of the Company in consolidation, RMB484,765,000 was guaranteed by the credit of a subsidiary in consolidation.

(Note 4) The external financing by commercial bills is a discounted financing provided by bank by the Company and its subsidiaries, secured by the three-party credit bank acceptance notes issued by the companies not included in the consolidation.

(Note 5) The internal financing by commercial bills is a discounted financing provided by bank by the Company and its subsidiaries, secured by the bank or commercial acceptance notes issued by the companies included in the consolidation.

21. NOTES PAYABLE

	Group 31 December 2004 RMB	Group 1 January 2004 RMB (as restated)
Bank acceptance notes	1,046,475,243	666,230,651
Commercial acceptance notes	673,085,394	184,054,354
	1,719,560,637	850,285,005

At 31 December 2004, the balance does not include any significant amount due to shareholders holding 5% (including 5%) or more of the shares of the Company.

At 31 December 2004, as for bank acceptance bills and commercial acceptance bills the issuer and recipient of which is the Company or any of its subsidiaries, and which have been endorsed to third parties have an outstanding amount of RMB818,143,497 and RMB 290,953,339.

22. ACCOUNTS PAYABLE

At 31 December 2004, the balance does not include any significant amount due to shareholders holding 5% (including 5%) or more of the shares of the Company.

23. ADVANCE FROM CUSTOMERS

At 31 December 2004, the balance does not include any significant amount due to shareholders holding 5% (including 5%) or more of the shares of the Company.

24. TAXES PAYABLES

	Group 31 December 2004 RMB	Group 1 January 2004 RMB
Income tax	6,791,135	4,722,147
Value-added tax	35,046,225	(37,784,327)
Business tax	3,786,295	–
Real estate tax	4,439,259	–
Others	648,747	240,721
	50,711,661	(32,821,459)

25. OTHER PAYABLES

At 31 December 2004, the Company had no amount payable to shareholders holding 5% or more shares in the Company.

At 31 December 2004, the Company had received deposits from its suppliers, transport or other service providers at an amount of RMB198,787,675.

26. ACCRUALS

	Group 31 December 2004 RMB	Group 1 January 2004 RMB	Reasons for not settled
Installation costs	63,359,834	59,866,538	Installation costs to be paid for products already sold out
Sales discounts	59,775,725	55,980,928	Incurred but yet to be paid
Promotion fee	43,368,605	34,838,488	Incurred but yet to be paid
Transportation costs	28,027,289	40,532,276	Incurred but yet to be paid
Storage fee	6,969,761	10,408,778	Incurred but yet to be paid
Utility expenses	4,334,714	3,807,974	Incurred but yet to be paid
Auditors' remuneration	6,149,350	4,477,620	Incurred but yet to be paid
Others	14,138,285	11,322,985	Incurred but yet to be paid
	226,123,563	221,235,587	

27. PROVISION

Provision represents the provision for warranty. The Company offers three 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.

28. LONG-TERM LOANS

	Group 31 December 2004		Group 1 January 2004		Rate per annum
	HKD	RMB equivalent	HKD	RMB equivalent (restated)	
Long-term loan					
– Mortgage bank loan	19,670,000	20,938,715	23,333,871	24,871,574	1.9%-4.875%
			–	400,000,000	4.23%
		20,938,715		424,871,574	
Less: Amount due within one year		4,215,420		405,517,722	
Amount due after one year		16,723,295		19,353,852	

Secured foreign currency borrowings at an amount of RMB74,190,650 are secured by buildings and constructions in Hong Kong (see note 16).

29. LONG-TERM PAYABLE

Items	Group 31 December 2004 RMB	Group 1 January 2004 RMB
Pension liabilities (note 1)	53,095,547	54,142,638
Special long-term payables (note 2)	16,866,558	8,636,322
	69,962,105	62,778,960
Less: Amount due within one year	–	–
Amount due after one year	69,962,105	62,778,960

(Note 1) Pension liabilities represents the contributions paid by the employees and the Company, which are payable to the employees after their retirement.

(Note 2) Special long-term payables mainly represents the state debenture projects capital for technical advancement and industry upgrade and other government exclusive financial grant.

30. SHARE CAPITAL

	1 January 2004 (shares)	Changes in the year (shares)	31 December 2004 (shares)
A. Unlisted shares			
1. Promoter shares			
– domestic legal person shares	337,915,755	–	337,915,755
Total unlisted shares	337,915,755	–	337,915,755
B. Listed shares			
1. Domestic listed ordinary shares denominated in RMB	194,501,000	–	194,501,000
2. Overseas listed foreign shares	459,589,808	–	459,589,808
Total listed shares	654,090,808	–	654,090,808
C. Total number of shares	992,006,563	–	992,006,563

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

31. CAPITAL RESERVE

	Share premium RMB	Provision for donation of assets RMB	Price difference of related party transactions RMB	Provision for equity investments RMB	Other RMB	Group Total RMB
At 1 January 2004	1,468,501,786	17,696,745	–	30,589,175	–	1,516,787,706
Additions	–	–	17,712,651	38,070,504	4,113,368	59,896,523
At 31 December 2004	1,468,501,786	17,696,745	17,712,651	68,659,679	4,113,368	1,576,684,229

The increase in provision for equity investment during the year represents the shortfall of the initial investments cost from the company and the subsidiaries to Kaifeng Kelon and Wuhu Ecan over the share of equity interests of the investee enterprises. The increase in Surplus arising from related party transactions during the year due to the use of land of the related party by Jiangxi Kelon at nil consideration. Further details are set out in note 48.(5).b. Other additions during the year included cash appropriation received of RMB2,859,369 and unpayable debts of RMB1,253,999.

32. SURPLUS RESERVE

	Statutory common reserve <i>RMB</i>	Discretionary reserve <i>RMB</i>	Statutory common welfare fund <i>RMB</i>	Group Total <i>RMB</i>
At 1 January 2004	–	–	114,580,901	114,580,901
Additions	–	–	–	–
At 31 December 2004	–	–	114,580,901	114,580,901

Statutory common welfare fund can be utilised for staff welfare.

33. UNAPPROPRIATED PROFITS

	Group At 31 December 2004 <i>RMB</i>	Group At 1 January 2003 <i>RMB</i>
At the beginning of the year	184,436,195	(1,211,930,161)
Add: Utilisation of statutory common reserve and capital reserve to make up losses	–	1,194,186,108
Add: Net profit of the year	(64,160,206)	202,180,248
At the end of the year	120,275,989	184,436,195

On 28 April 2005, the Board of the Company proposed not to distribute any dividend for the year ended 2004. No appropriation of the balance of statutory common reserve will be made to increase the Company's share capital. The proposals are subject to approval in the annual general meeting.

34. REVENUE AND COST FROM PRINCIPAL OPERATIONS

	Group Year ended 31 December 2004		Group Year ended 31 December 2003	
	Revenue <i>RMB</i>	Cost <i>RMB</i>	Revenue <i>RMB</i>	Cost <i>RMB</i>
Sales of refrigerators	3,274,328,660	2,462,876,307	3,016,246,698	2,136,399,147
Sales of air-conditioners	4,501,233,663	3,584,784,271	2,680,590,406	2,036,509,978
Sales of freezers	335,890,223	278,587,783	211,466,513	162,028,726
Others	324,950,889	286,028,112	259,806,346	148,264,859
	8,436,403,435	6,612,276,473	6,168,109,963	4,483,202,710
	Company Year ended 31 December 2004		Company Year ended 31 December 2003	
	Revenue <i>RMB</i>	Cost <i>RMB</i>	Revenue <i>RMB</i>	Cost <i>RMB</i>
Sales of refrigerators	2,552,780,027	2,100,374,312	2,580,243,005	1,963,294,790
Sales of air-conditioners	3,752,946,859	3,105,131,594	2,645,180,411	2,265,336,031
Sales of freezers	39,297,921	31,098,551	61,117,640	55,675,926
Others	109,342,789	83,621,495	51,931,286	37,305,050
	6,454,367,596	5,320,225,952	5,338,472,342	4,321,611,797

Total sales of the five largest customers

RMB
1,016,005,821

Percentage in total sales

%
12

35. OTHER OPERATING PROFIT

Items	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Disposal of scrap materials	39,366,259	37,559,689
Disposal of raw materials	263,610	4,182,830
Lease	(55,009)	2,830,559
Others	3,411,213	3,826,864
	42,986,073	48,399,942

36. FINANCIAL EXPENSES

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Interest expenses	155,053,113	122,187,067
Less: interest income	38,831,794	22,122,290
Exchange (gain) loss	3,770,596	(9,607,442)
Others	7,465,917	9,939,923
	127,457,832	100,397,258

37. INVESTMENT PROFIT

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Profit (loss) on disposal of investee companies	894,917	(216,831)
Profit (loss) on share of results of investments in associates	882,869	(29,613,675)
Amortisation of long-term equity investment difference	(84,886,083)	(12,514,308)
Provision for impairment of long-term equity investments	–	(7,837,884)
	(83,108,297)	(50,182,698)

	Company Year ended 31 December 2004 RMB	Company Year ended 31 December 2003 RMB
Profit (loss) on share of results of investments in subsidiaries	147,606,249	175,897,172
Profit (loss) on share of results of investments in associates	865,676	(29,632,819)
Amortisation of long-term equity investment difference	(85,134,659)	(13,734,636)
Gain (loss) on disposal of long term equity investment	(2,824,329)	–
	60,512,937	132,529,717

38. SUBSIDY INCOME

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Subsidy for research and development	4,000,000	–
Export discounted interest	2,252,764	18,190
	6,252,764	18,190

39. NON-OPERATING INCOME

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Gain on disposal of fixed assets	123,836	1,796,809
Penalty income	1,903,583	5,749,171
Insurance compensation income	307,234	1,144,156
Others	1,946,690	1,712,651
	4,281,343	10,402,787

40. NON-OPERATING EXPENSES

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Loss on disposal of fixed assets	3,074,283	2,624,168
Others	2,866,672	2,870,131
	5,940,955	5,494,299

41. INCOME TAX

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Income tax payable by the Company (note)	—	—
Income tax payable by subsidiaries	6,282,249	11,676,111
	6,282,249	11,676,111

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

42. OTHER CASH RECEIVED RELATING TO INVESTING ACTIVITIES

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Interest income	38,831,794	22,122,290
	<u>38,831,794</u>	<u>22,122,290</u>

43. CASH RECEIVED (OR PAID) FOR OTHER FINANCING ACTIVITIES

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Government grant	2,859,369	—
Decrease (or increase) in pledged deposits	90,546,591	(663,686,299)
	<u>93,405,960</u>	<u>(663,686,299)</u>

44. CASH AND CASH EQUIVALENTS

	Group 2004 RMB	Group 2003 RMB
Bank balances and cash (note 7)	2,320,120,532	2,120,038,297
Less: Pledged deposits (note 7)	1,302,587,030	1,393,133,621
	<u>1,017,533,502</u>	<u>726,904,676</u>

	Company 2004 RMB	Company 2003 RMB
Bank balances and cash	1,177,175,655	1,595,877,944
Less: Pledged deposits	946,041,722	1,264,565,690
	<u>231,133,933</u>	<u>331,312,254</u>

45. INVESTMENT AND FINANCING ACTIVITIES THAT DO NOT INVOLVE CASH RECEIPTS AND PAYMENTS

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Acquisition of intangible asset with accounts receivable (note 1)	–	736,595,440
Offset of loans with notes receivable (note 2)	193,990,000	98,500,000
	193,990,000	835,095,440
	Company Year ended 31 December 2004 RMB	Company Year ended 31 December 2003 RMB
External investment with non-cash assets	43,150,000	180,000,000
	43,150,000	180,000,000

(Note 1) For the year ended 31 December 2002, the Company's balance due from GKG and the Employee Union were RMB857,401,566 (before deducting the allowance for bad debt of RMB172,409,033) and RMB51,602,907 respectively. In order to enable GKG to settle above outstanding debts, the Company entered into a number of conditional agreements with GKG and/or other relevant parties on 21 November 2002. Pursuant to the agreements, GKG transferred the exclusive right to use the trademarks of “科龍”, “容聲” and “容升” and the land use rights to the Company in 2003 to offset the amount of RMB736,595,440 due from GKG and the Employee Union to the Company. The transaction did not involve cash receipts and payments.

(Note 2) Offset of loans with notes receivable represents bank acceptance bills of third parties that have been discounted by banks and expired during the year. The transaction did not involve cash receipts and payments.

46. ACQUISITION OF SUBSIDIARIES

The Company determines the date of acquisition based on the effective date the acquired enterprise transfers its net assets and operating control to the acquiring company.

Set out below is the financial position of the acquired subsidiary as at the date of acquisition:

Acquired subsidiaries Date of acquisition	Xi'an Kelon March 2004 RMB	Wuhu Ecan August 2004 RMB
Current assets	44,305,354	53,828,120
Long-term investment	—	—
Fixed assets	176,811,318	19,712,692
Other assets	18,561,866	—
Total assets	239,678,538	73,540,812
Current liabilities	101,625,480	45,589,646
Long-term liabilities	60,000,000	—
Total liabilities	161,625,480	45,589,646
Minority interests	22,931,988	5,590,233
Net assets attributable to the Company	55,121,070	22,360,933
Consideration for the acquisition:		
Cash	70,620,000	9,932,040
Equity investment difference	15,498,930	—
Capital reserve-provision for equity investment	—	12,428,893
Net cash outflow arising from the acquisition of subsidiaries:		
Cash consideration	70,620,000	9,932,040
Bank balances and cash of the acquired subsidiaries	(24,993,251)	(26,241)
	45,626,749	9,905,799

Set out below is the operating results of the acquired subsidiaries during the period from the date of acquisition to 31 December 2004.

Acquired subsidiaries Date of acquisition to year ended 31 December 2004	Xi'an Kelon March to December 2004 RMB	Wuhu Ecan August to December 2004 RMB
Revenue from principal operations	59,357,788	16,261,226
Cost of principal operations	78,781,407	16,690,471
Total profits	(24,909,531)	(928,028)
Income tax	—	—
Net profits	(24,909,531)	(928,028)

47. SEGMENT INFORMATION

Items	Refrigerators RMB	Air- conditioners RMB	Freezers RMB	Others RMB	Elimination RMB	Total RMB
1. Revenue from principal operations:						
External sales	3,274,328,660	4,501,233,663	335,890,223	324,950,889	-	8,436,403,435
Inter-segment sales	-	-	-	1,433,329,000	(1,433,329,000)	-
Total revenue from principal operations	3,274,328,660	4,501,233,663	335,890,223	1,758,279,889	(1,433,329,000)	8,436,403,435
2. Cost of sales:						
External cost of sales	2,462,876,307	3,584,784,271	278,587,783	286,028,112	-	6,612,276,473
Inter-segment cost of sales	-	-	-	1,433,329,000	(1,433,329,000)	-
Total cost of sales	2,462,876,307	3,584,784,271	278,587,783	1,719,357,112	(1,433,329,000)	6,612,276,473
3. Total expenses	796,742,921	844,122,065	62,982,346	110,098,145	-	1,813,945,477
4. Total operating profits	14,709,432	72,327,327	(5,679,906)	(71,175,368)	-	10,181,485
5. Total assets	4,329,499,521	5,749,143,161	434,082,802	848,668,113	-	11,361,393,597
6. Total liabilities	3,143,091,730	4,243,396,852	276,376,976	560,733,730	-	8,223,599,288

48. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

(1) Except for the subsidiaries as disclosed in note 6, major related parties include:

Name of related party	Place of incorporation	Principal activities	Relationship	Nature of business	Legal representative
Greencool Enterprise	Shunde, Guangdong	Research, manufacture and sale of refrigeration equipment, fittings and chlorofluorocarbon ("CFC")	Company owned by the major shareholder and the chairman of the Company	Limited liability company	Gu Chu Jun

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

(i) Major Shareholder

Name of related party	At 1 January 2004		Additions RMB	Deduction RMB	At 31 December 2004	
	RMB				RMB	RMB
Greencool Enterprise	1,200,000,000		–	–	1,200,000,000	

(ii) Details of no changes in the registered capital of the other related parties in which the Company has controlling interests are set out in note 6.

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

(i) Major shareholder

Name of related party	At 1 January 2004		Additions		Deduction		At 31 December 2004	
	RMB	%	RMB	%	RMB	%	RMB	%
Greencool Enterprise	204,775,755	20.64	57,436,439	5.79	–	–	262,212,194	26.43

(ii) Subsidiaries

Details of the movement and changes of the share capital or equity of the subsidiaries are set out in note 6.

48. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

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

Name of related party	Relationship with the Company
Huayi Compressor	Associate of the Company
Shanghai Yilian	Associate of the Company before 19 March 2004
Chongqing Rongsheng	Associate of the Company
Guangzhou Antaida	Associate of the Company
Kelon Employee Union	Entity organised and owned by employees of the Company
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")	Related party of Greencool Enterprise
Greencool Refrigerant (China) Co., Ltd ("Greencool (China)")	Related party of Greencool Enterprise
He Fei Meiling Holdings Limited ("Meiling Holdings")	Related party of Greencool Enterprise
揚州亞星客車股份有限公司 ("揚州亞星")	Related party of Greencool Enterprise
江西格林科爾電器有限公司 ("江西格林科爾")	Related party of Greencool Enterprise
江西發達思家電有限公司 ("Fadasi")	Minority shareholder of Jiangxi Combine
Chengdu Engine (Group) Company Limited ("Chengdu Engine")	Minority shareholder of Chengdu Kelon
Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing")	Subsidiary of the minority shareholder of Chengdu Kelon
西安高科(集團)公司 ("西安高科")	Minority shareholder of Xi'an Kelon
杭州西冷集團有限公司 ("杭州西冷")	Minority shareholder of Hangzhou Kelon

48. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS (continued)

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

(a) Sales and purchases

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

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Sales		
– Chengdu Xinxing	26,152,527	18,421,493
– Chongqing Rongsheng	57,626,641	69,783,858
	83,779,168	88,205,351
Purchases		
– Chengdu Xinxing	6,142,006	42,663,295
– Huayi Compressor (note)	155,262,137	144,495,833
– Chengdu Engine	5,271,167	5,043,682
– Shanghai Yilian	3,182,255	7,174,279
– Meiling Holdings	47,599	–
	169,905,164	199,377,089

Note: Including Huayi Compressor and its subsidiaries.

Transactions detailed in (a) above were entered into terms in accordance with the contracted agreement governing the transaction.

(b) Use of land and buildings

Starting from October 2003, Jiangxi Kelon, the subsidiary of the Company, began to use the land and buildings and structures of 江西格林柯爾 which are located at the 江西科龍格林柯爾工業園. As at the date of this report, 江西科龍 has not entered into any asset use agreement with 江西格林柯爾. During 2004, based on the reference price for these assets as assessed on 31 October 2004, and also on the depreciation and amortisation amount assuming a 50-year use period for the land and a 20-year use period for the plants, 江西科龍 decided that the total fees for using these assets amounted to RMB 17,712,651 and these amounts were included in the items of profit and loss and capital reserve during the year.

48. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)*

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

(c) *Use of trademark*

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

(d) *Others transactions*

	Group Year ended 31 December 2004 RMB	Group Year ended 31 December 2003 RMB
Guarantee for loans provided by related parties		
– Greencool Enterprise	180,000,000	295,000,000
	180,000,000	295,000,000
Other income (expenses) received from (paid to) related parties		
– Interest income from Chengdu Xinxing (i)	1,985,940	1,985,940
– Handling income from Hainan Greencool	–	1,575,000
– Logistics management fee to Guangzhou Antaida (ii)	(7,972,038)	(5,639,691)
– Equipments lease fee to Hangzhou Xileng (iii)	(4,000,000)	–
	(9,986,098)	(2,078,751)

48. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS (continued)

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

(e) Particulars of liability balance

Items	Name of related party	Group At 31 December 2004 RMB	Group At 1 January 2004 RMB
Accounts receivable	Chongqing Rongsheng	–	2,890,959
	Shanghai Yilian	–	1,542,818
		–	4,433,777
Other receivables	Fadasi	–	19,000,000
	Chongqing Rongsheng	223,485	–
	Chengdu Engine	26,780	–
	Chengdu Xinxing	173,322	–
		423,587	19,000,000
Prepayments	Meiling Holdings	6,001	–
	Huayi Compressor (note)	13,653,285	–
	Chengdu Xinxing	6,270,775	–
		19,930,061	–
Over one year Long-term receivables	Chengdu Xinxing (i)	34,000,000	34,000,000
		34,000,000	34,000,000
Bills payable	Huayi Compressor	98,694,544	42,542,637
	Chengdu Xinxing	1,060,000	–
	Chengdu Engine	120,000	–
		99,874,544	42,542,637
Accounts payable	Hainan Greencool	–	26,000
	Chengdu Xinxing	2,241,292	116,091
	Meiling Holdings	50,125	–
	Huayi Compressor (note)	15,058,309	31,395,113
		17,349,726	31,537,204
Advance from customers	Chongqing Rongsheng	4,595,911	–
Others payable	Chengdu Engine	433,940	533,940
	Yangzhou Yaxing	220,000	–
	Li'an Hi-tech	2,358,044	–
	Hangzhouxileng (iii)	4,000,000	–
	Chongqing Rongsheng	50,000	–
	Meiling Holdings	–	902,485
		7,061,984	1,436,425

Note: Including Huayi Compressor and its subsidiaries.

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

48. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(continued)***(5) The Company and the above related parties entered into the following major related party transactions during the year** *(continued)*:**(e) Particulars of liability balance** *(continued)***(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 an associate of Chengdu Engine (Group) Company Limited ("Chengdu Engine"), the minority investor of Chengdu Kelon. As consideration for such prepayment, Chengdu Xinxing agreed to repay Chengdu Kelon by supplying an agreed number of refrigeration parts together with interest payments at an annual rate of approximately 5.841%. The prepayment was guaranteed by Chengdu Engine and Chengdu Kelon has the right to deduct from any dividends payable to Chengdu Engine the outstanding amount of any payments (in whatever form) due from Chengdu Xinxing directly or indirectly to the Company. Chengdu Kelon received an interest of RMB1,985,940 from Chengdu Xinxing in 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.

(iii) Lease Fee to Hangzhou Xileng

In this year, Hangzhou Kelon paid an equipment lease fee of RMB4,000,000 to Hangzhou Xileng for the year 2004 in accordance with the equipment lease agreement entered into between Hangzhou Kelon and Hangzhou Xileng at the end of the year 2004.

49. CONTINGENT LIABILITIES

No material contingent liabilities in the Company which requires disclosure noted.

50. MATERIAL PROCEEDINGS

No material proceedings which are disclosable noted in the Company.

51. CAPITAL COMMITMENT

	At 31 December 2004 <i>RMB'000</i>	At 1 January 2004 <i>RMB'000</i>
Contracted for but not provided in the financial statements		
– Commitment on acquisition and construction of assets	109,884	105,210
– Commitment on external investment	159,987	–
	269,871	105,210

52. NON-ADJUSTING SUBSEQUENT EVENTS

There was no non-adjusting subsequent events in the Company which requires disclosure.

53. COMPARATIVE FIGURES

The comparative figures for the year 2003 have been regrouped to conform to those presented in the financial statements at 31 December 2004.

*** End of Financial Statement ***