

1. DIFFERENCE BETWEEN IFRS AND PRC GAAP

These financial statements are prepared according to PRC GAAP, which are different from these financial statements prepared according to IFRS.

For the year ended 31 December 2004 and as at 31 December 2004, the net profit and net assets of the statutory financial statements were approximately RMB64,160,000 and RMB2,803,157,000 respectively. The net profit and net assets of the financial statement under IFRs financial statement can be reconciled to those under IFRS as follows:

| | Net profit for the year ended 31 December 2004 RMB'000 | Net assets at 31 December 2004 RMB'000 |
|---|---|--|
| Amounts stated in financial statements as per PRC GAAP | (64,160) | 2,803,157 |
| Adjustment according to IFRS: | | |
| – Adjustment on property, plant and equipment revaluation and related depreciation | (3,532) | 5,667 |
| – Adjustment on goodwill | 12,429 | – |
| – adjustment on difference in respect of related party transactions | 17,660 | – |
| – Adjustment on profits attributable to minority shareholders of subsidiaries | – | (26,684) |
| – Adjustment on preliminary expense of subsidiaries | (9,938) | (9,938) |
| – others | 2,883 | (7,603) |
| Amounts stated in financial statements as per IFRS | (44,658) | 2,764,599 |

2. FULLY DILUTED AND WEIGHTED AVERAGE RETURNS ON NET ASSETS AND EARNINGS PER SHARE

| Profit for the reporting period | 2004 | | | |
|--------------------------------------|---------------------------|---------------------|-----------------|---------------------|
| | Returns on net assets (%) | | per share (RMB) | |
| | Diluted | Weighted Average | Diluted | Weighted Average |
| Profit from principal operations | 65.07% | 65.69% | 1.84 | 1.84 |
| Operating profits | 0.36% | 0.37% | 0.01 | 0.01 |
| Net profit | -2.29% | -2.31% | -0.06 | -0.06 |
| Net profit after extraordinary items | -2.91% | -2.94% | -0.08 | -0.08 |

3. NET PROFIT AFTER EXTRAORDINARY ITEMS

| | 2004 RMB'000 |
|---|---------------------|
| Net profit | (64,160,206) |
| Less: Non-operation income | 4,281,343 |
| Subsidy income | 6,252,764 |
| Profit on disposal of investee enterprise | 894,917 |
| Charges on share of funds received from associates included in the current income statement | 1,985,940 |
| Reversal of assets impairment provided in previous year | 9,846,545 |
| Non-operation expenses | (5,940,955) |
| Net profit of the extraordinary items | (81,480,760) |

4. PROVISION FOR ASSETS IMPAIRMENT AT 31 DECEMBER 2004

| Items | At 1 January 2004 | | Additions for the year | | Provision for the year | | Reversal for the year | | Write back for the year | | At 31 December 2004 | |
|---|-------------------|-------------|------------------------|------------|------------------------|-------------|-----------------------|--------------|-------------------------|---------|---------------------|-------------|
| | Group | Company | Group | Company | Group | Company | Group | Company | Group | Company | Group | Company |
| 1. Total provision for bad debt | 152,368,641 | 128,376,947 | 51,029,752 | 6,819,733 | (9,012,802) | (8,857,908) | (2,606,869) | - | - | - | 191,778,722 | 126,338,772 |
| Including: | | | | | | | | | | | | |
| Accounts receivable | 149,578,016 | 128,376,947 | 42,879,570 | - | (9,012,802) | (8,857,908) | - | - | - | - | 183,444,784 | 119,519,039 |
| Other receivables | 2,790,625 | - | 8,150,182 | 6,819,733 | - | - | (2,606,869) | - | - | - | 8,333,938 | 6,819,733 |
| 2. Total provision for impairment on short term equity investments | - | - | - | - | - | - | - | - | - | - | - | - |
| Including: Stock investments | - | - | - | - | - | - | - | - | - | - | - | - |
| 3. Total provision for inventories | 103,919,716 | 87,002,228 | 46,908,403 | 43,983,159 | (833,743) | - | (16,226,016) | (16,226,016) | - | - | 133,768,360 | 114,759,371 |
| Including: Finished goods | 65,286,425 | 59,873,621 | 42,811,795 | 43,983,159 | (469,756) | - | (6,539,059) | (6,539,059) | - | - | 101,089,405 | 97,317,721 |
| Work in progress | 172,000 | - | 83,935 | - | (172,000) | - | - | - | - | - | 83,935 | - |
| Raw materials | 38,461,291 | 27,128,607 | 4,012,673 | - | (191,987) | - | (9,686,957) | (9,686,957) | - | - | 32,595,020 | 17,441,650 |
| 4. Total provision for impairment on fixed assets | 61,471,947 | - | 2,570,000 | - | - | - | - | - | (30,098) | - | 64,011,849 | - |
| Including: Buildings and structures | 51,789,255 | - | - | - | - | - | - | - | (30,098) | - | 51,759,157 | - |
| Machinery and equipment | 9,673,692 | - | 2,570,000 | - | - | - | - | - | - | - | 12,243,692 | - |
| Furniture, fixture and office equipment | 9,000 | - | - | - | - | - | - | - | - | - | 9,000 | - |
| 5. Total provision for Impairment on long-term investments | 79,038,525 | 59,381,641 | - | - | - | - | (11,819,000) | - | - | - | 67,219,525 | 59,381,641 |
| Including: Long-term equity investments | 79,038,525 | 59,381,641 | - | - | - | - | (11,819,000) | - | - | - | 67,219,525 | 59,381,641 |
| Long-term debt investments | - | - | - | - | - | - | - | - | - | - | - | - |

5. FOLLOWING ARE ANALYSES OF THE ACCOUNTING ITEMS OF WHICH CHANGES ARE UP TO 30% (INCLUDING 30%) AND WHICH REPRESENT OVER 5% (INCLUDING 5%) OF THE TOTAL ASSETS AT THE BALANCE SHEET DATE OR OVER 10% (INCLUDING 10%) TOTAL PROFIT DURING THE REPORTING PERIOD:

| | |
|---------------------------|--|
| Accounts receivable: | The increase in accounts receivable is attributable to a rise in sales operation. |
| Other receivables: | The increase in other receivables is mainly attributable to the expected provisional import tax not recognised by the tax authority at the end of the period. |
| Subsidy receivables: | The increase in subsidy receivables during the period is attributable to this year's receipt of the export tax refund which was not received last year. |
| Inventories: | The increase in inventories is attributable to the increase in the raw materials and products resulting from the growth of production scale. |
| Construction in progress: | The increase in construction in progress was mainly due to the increase in projects of the subsidiaries Yangzhou Kelon and Zhuhai Kelon. |
| Notes payable: | The increase in notes payable is attributable to an increase in purchase of materials and more frequent utilization of notes as a means of settlement in its operating activities. |
| Accounts payable: | The increase in accounts payable is attributable to an increase in purchase of materials. |
| Long-term loans: | The decrease in long-term loans is attributable to the repayment of loans by the Company in the current year. |
| Sales and cost of sales: | The increase in sales is mainly attributable to the launch of new advanced technological products and an increase in sales volume, thus leading to an increase in cost of sales. |
| Operating cost: | The increase in operating cost is mainly attributable to the increase in sales. |
| Administrative expenses: | The increase in administrative expenses is mainly attributable to increase in the provisions for price reduction of inventories and amortisation of trademark rights in the current year. |
| Financial expenses: | The increase in financial expenses is mainly attributable to the increase in use of acceptances notes to settle its debts from operations, and accordingly, an increase in the financial expenses. |
| Investment profit: | The decrease in investment profit is mainly attributable to the amortisation of long-term equity investment difference of Huayi Compressor during the year. |
| Subsidy income: | The increase in subsidy income is mainly attributable to the receipt of financial subsidy of research and development fund and export subsidy. |