



KELON 科龙

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



清晰前景 掌握未來
SET FOR A
BRIGHTER FUTURE

Interim Report 中期報告

2005

The Board of Directors ("Board") of Guangdong Kelon Electrical Holdings Company Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2004 or the audited comparative figures as at 31 December 2004. The consolidated interim financial statements have not been audited but have been reviewed by the Audit Committee of the Company and the Auditors.

Opinion of the Audit Committee is as follows:

The Audit Committee has reviewed the 2005 interim results of the Company, with reference to the independent review report prepared by the Company's auditors in relation to the 2005 interim results, and has no objection to the points stated in the auditors' independent review report.



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Certified Public Accountants
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INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED

廣東科龍電器股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report of the Group, comprising the Company and its subsidiaries, set out on pages 7 to 35.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

REVIEW WORK PERFORMED

We conducted our review in accordance with Statements of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited as follows:

- Subsequent to our appointment as auditors of the Company and during the course of our review of the interim financial report, five of the Company's senior management, including the Company's former chairman, an executive director and vice president, and other senior management responsible for finance became formally investigated by the police department of the People's Republic of China ("the PRC police department investigation") and subject to procedures adopted by the PRC police department in connection with criminal offences, for alleged economic crime and could not be contacted. As a result, these key management were unavailable for our enquiry. Alternatively, we were unable to obtain all the necessary explanations and assurances concerning the interim financial report from the remaining directors and management. We were therefore unable to conduct all of the appropriate and sufficient enquiries and obtain reasonable explanations and representations for the purpose of our review.
- As previously announced by the Company, on 5 April 2005 the China Securities and Regulatory Commission ("CSRC") commenced formal investigation into the Company for alleged breaches of securities laws and regulations in the PRC ("the CSRC investigation") the result of which has not yet been announced as at the date of this report. The Company noted that the CSRC investigation raised certain matters that may impact on the Group's 2005 interim results and which may require adjustment of the interim financial report. Since we are not provided with details of the progress and substantial findings of the investigation, we are unable to ascertain whether a modification to the interim financial report is necessary.

- The CSRC investigation, the PRC police department's investigation into the former chairman and other senior members of management, the Group's recent litigations with banks and other creditors and a significant disruption of the Group's operations since May 2005 are matters of an unusual nature. We are therefore unable to apply the necessary analytical procedures or in the alternative, additional other procedures and draw appropriate conclusions therefrom for the purpose of our review.

In particular, the limitation in scope of our review resulted in our inability to conclude if material modification would have been necessary on, but not limited to, the following balances:

1. We were unable to obtain sufficient evidence and explanations for us to determine whether opening balances at 1 January 2005 of property, plant and equipment have been properly brought forward to the current period as we were unable to obtain certain underlying records supporting the amounts of property, plant and equipment as stated in the Company's consolidated financial statements as at 31 December 2004.
2. In their report to the shareholders on the financial statements for the year ended 31 December 2004, the Company's predecessor auditors have expressed the view that they were unable to satisfy themselves as to the validity of sales to two customers in the PRC for the year ended 31 December 2004 and their related accounts receivable as at that date as a result of which the predecessor auditors were unable to satisfy themselves as to whether sales for the year ended 31 December 2004 and trade receivables as at that date were free from material misstatement. The interim financial report for the six months ended 30 June 2005 includes a restatement of the 2004 financial statements to reflect the reversal of sales to and the related receivable balances from these two customers based on the subsequent return of goods from these two customers. The restatement has the effect of reducing turnover for the year ended 31 December 2004 by approximately RMB431 million and trade receivables at 31 December 2004 by the same amount and increasing loss for the year ended 31 December 2004 by approximately RMB112 million. The appropriateness of these restatements will have a material impact on the interim financial report for the six months ended 30 June 2005. Due to the limitation in our review as stated above, we were unable to conclude whether the restatements and their respective amounts are appropriate.

3. The Company considers that the CSRC investigation, the PRC police department investigation and the Company's internal investigation indicate that there could be omissions of recording and disclosure of material related party transactions during the six months ended 30 June 2005 and earlier periods arising from a circumvention of the Group's established policies and procedures by certain directors and senior management. This may result in amounts due from related parties, other receivables and other payables as at 30 June 2005 being materially misstated in their gross and recoverable amounts and classification. However, pending conclusion of the various investigations, whether or not there are misstatements, and if so their amounts, are not yet determinable.
4. The Group's incursion of losses for the year ended 31 December 2004 and the six months ended 30 June 2005, a significant disruption of its production in 2005, the CRSC investigation, the PRC police investigation into its former chairman and other senior management and the existence of significant litigations involving its bankers and other creditors are indicators that the Group's assets might have been impaired as at 30 June 2005. While the Company acknowledges that there could have been impairments in the carrying amounts of its assets namely property, plant and equipment, interest in associates, intangible assets and goodwill as stated in the balance sheet, the unusual and uncertain circumstances of the Company at 30 June 2005 and up to the date of this report prevent a proper evaluation of recoverable amounts at 30 June 2005. As a result, the interim financial report may require modification arising from a write-down of the carrying amounts of property, plant and equipment, interest in associates, intangible assets and goodwill stated on the balance sheet and the recognition of an impairment loss in the income statement should it be subsequently determined that impairment had occurred.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

The Group incurred losses of approximately RMB457 million and RMB167 million (restated) for the six months ended 30 June 2005 and year ended 31 December 2004, respectively. As at 30 June 2005, the Group's current liabilities exceeded its current assets by approximately RMB929 million. In addition, the Group has

outstanding short-term loans in the aggregate of approximately RMB2,437 million of which approximately RMB240 million were overdue as at 30 June 2005 and approximately RMB1,420 million will fall due in December 2005. As stated in the Company's announcement dated 26 August 2005, litigations have been brought against the Group by certain banks and other creditors claiming an aggregate amount of approximately RMB552 million. The Group is in the process of negotiating with certain banks and other creditors to restructure the amounts due to them.

Provided that the above restructuring with banks and other creditors can be successfully implemented and the Group can obtain sufficient operating funds, the directors are satisfied that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future. The interim financial report is prepared on a going concern basis, the validity of which depends upon future funding being available. The interim financial report does not include any adjustments that would result from the failure to obtain such funding.

INABILITY TO REACH A REVIEW CONCLUSION

Because of the significance of the possible effect of the limitations in evidence available to us, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30 June 2005.

BDO McCabe Lo Limited

Certified Public Accountants

Chow Tak Sing, Peter

Practising Certificate Number P04659

Hong Kong, 30 August 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

	<i>Notes</i>	For the six months ended 30 June	
		2005	2004
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	3	4,558,273	4,931,016
Cost of sales		(4,146,511)	(3,903,005)
Gross profit		411,762	1,028,011
Other operating income		14,632	45,926
Distribution costs		(604,923)	(631,919)
Administrative expenses		(187,403)	(192,162)
Other operating expenses		(2,328)	(9,094)
(Loss)/profit from operations		(368,260)	240,762
Finance costs		(79,474)	(73,540)
Share of results of associates		(236)	(12,338)
(Loss)/profit before tax	5	(447,970)	154,884
Taxation	6	(9,294)	(4,945)
(Loss)/profit for the period		(457,264)	149,939
(Loss)/profit attributable to:			
Equity holders of the parent		(434,554)	158,063
Minority interests		(22,710)	(8,124)
		(457,264)	149,939
Dividends	7	-	-
Basic (loss)/earnings per share	8	RMB(0.44)	RMB0.16

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

(Prepared under International Financial Reporting Standards)

	<u>Notes</u>	<u>30.6.2005</u>	<u>31.12.2004</u>
		RMB'000	<i>RMB'000</i>
		(Unaudited)	(Audited and restated)
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,375,069	2,411,627
Intangible assets		456,975	457,078
Goodwill		39,195	39,195
Negative goodwill		-	(76,636)
Interest in leasehold land held for own use under operating lease		606,388	618,581
Interests in associates		123,010	124,138
Amount due from a related company	14(II)	34,000	34,000
Other assets		7,249	7,249
		3,641,886	3,615,232
Current assets			
Inventories		2,811,091	3,259,819
Trade and other receivables	10	2,241,939	2,492,086
Taxation recoverable		738	102
Pledged bank deposits		1,178,289	1,302,587
Cash and cash equivalents		308,928	1,017,534
		6,540,985	8,072,128
TOTAL ASSETS		10,182,871	11,687,360

CONDENSED CONSOLIDATED BALANCE SHEET – Continued

At 30 June 2005

(Prepared under International Financial Reporting Standards)

	<u>Notes</u>	30.6.2005 RMB'000 (Unaudited)	31.12.2004 RMB'000 (Audited and restated)
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	992,007	992,007
Reserves		1,302,499	1,660,712
Equity attributable to equity holders of the parent		2,294,506	2,652,719
Minority interests		335,221	357,931
Total equity		2,629,727	3,010,650
Non-current liabilities			
Bank borrowings – amount due after one year		14,621	16,723
Pension liabilities		51,177	53,096
Other payables		17,069	16,867
		82,867	86,686
Current liabilities			
Trade and other payables	11	4,635,731	4,264,307
Trade deposits from customers		263,510	848,041
Warranty provision		121,680	119,338
Taxation payable		12,219	6,893
Bank borrowings – amount due within one year		2,437,137	3,351,445
		7,470,277	8,590,024
Total liabilities		7,553,144	8,676,710
TOTAL EQUITY AND LIABILITIES		10,182,871	11,687,360

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

	Share capital	Share premium	Statutory reserves	Capital reserve	Revaluation reserve	Translation reserve	Accumulated profits/ (losses)	Equity attributable to equity holders of the parent	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2005, as previously reported as equity (audited)	992,007	1,195,597	114,581	29,573	373,570	1,103	58,168	2,764,599	-	2,764,599
Balance as at 1 January 2005, as previously separately reported as minority interests (audited)	-	-	-	-	-	-	-	-	357,931	357,931
Effect of prior year adjustment arising from correction of accounting error (Note 17(a))	-	-	-	-	-	-	(111,880)	(111,880)	-	(111,880)
Balance as at 1 January 2005, as restated (unaudited)	992,007	1,195,597	114,581	29,573	373,570	1,103	(53,712)	2,652,719	357,931	3,010,650
Effect of adoption of IFRS 3	-	-	-	-	-	-	76,636	76,636	-	76,636
Exchange differences on translation	-	-	-	-	-	(295)	-	(295)	-	(295)
Loss for the period	-	-	-	-	-	-	(434,554)	(434,554)	(22,710)	(457,264)
Balance as at 30 June 2005 (unaudited)	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>29,573</u>	<u>373,570</u>	<u>808</u>	<u>(411,630)</u>	<u>2,294,506</u>	<u>335,221</u>	<u>2,629,727</u>
Balance as at 1 January 2004, as previously reported as equity (audited)	992,007	1,195,597	114,581	29,335	373,570	2,950	102,826	2,810,866	-	2,810,866
Balance as at 1 January 2004, as previously separately reported as minority interests (audited)	-	-	-	-	-	-	-	-	233,976	233,976
Balance as at 1 January 2004, as restated (unaudited)	992,007	1,195,597	114,581	29,335	373,570	2,950	102,826	2,810,866	233,976	3,044,842
Exchange differences on translation	-	-	-	-	-	(4,531)	-	(4,531)	-	(4,531)
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	89,274	89,274
Profit/(loss) for the period	-	-	-	-	-	-	158,063	158,063	(8,124)	149,939
Balance as at 30 June 2004 (unaudited)	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>29,335</u>	<u>373,570</u>	<u>(1,581)</u>	<u>260,889</u>	<u>2,964,398</u>	<u>315,126</u>	<u>3,279,524</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

	For the six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash from operating activities	216,681	419,338
Net cash used in investing activities	(8,574)	(496,469)
Net cash (used in)/from financing activities	(916,208)	728,920
Net (decrease)/increase in cash and cash equivalents	(708,101)	651,789
Cash and cash equivalents at beginning of the period	1,017,534	726,905
Effect of foreign exchange rate changes	(505)	(368)
Cash and cash equivalents at end of the period	<u>308,928</u>	<u>1,378,326</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

1. ORGANISATION, PRINCIPAL ACTIVITIES AND BASIS OF PREPARATION*Organisation*

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

Principal Activities

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

Basis of Preparation

The Group incurred losses of approximately RMB457 million and RMB167 million (restated) for the six months ended 30 June 2005 and year ended 31 December 2004 respectively. As at 30 June 2005, the Group's current liabilities exceeded its current assets by approximately RMB929 million. In addition, the Group has outstanding short-term loans in the aggregate of approximately RMB 2,437 million of which approximately RMB240 million were overdue as at 30 June 2005 and approximately RMB1,420 million will fall due in December 2005. As stated in the Company's announcement dated 26 August 2005, litigations have been brought against the Group by certain banks and other creditors claiming an aggregate amount of approximately RMB552 million. The Group is in the process of negotiating with certain banks and other creditors to restructure the amounts due to them. The directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the unaudited interim financial report on a going concern basis.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed interim financial report should be read in conjunction with the 2004 annual consolidated financial statements.

Except for those mentioned below, the accounting policies and method of computation used in the preparation of this unaudited condensed interim financial report is consistent with those disclosed in the audited financial statements for the year ended 31 December 2004 which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) under the historical cost convention, as modified by the revaluation of certain property, plant and equipment and financial assets at fair value.

In 2005, the Group adopted the following revised and newly released IFRSs which are generally effective for accounting periods beginning on or after 1 January 2005 that are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

The effects of the adoption of the above standards are summarised as follows:

IAS 1 has affected the presentation of minority interests, share of results of associates and other disclosures.

IASs 2, 8, 10, 16, 32, 33 and 39 had no material effect on the policies of the Group.

IAS 21 had no material effect on the policy of the Group. The functional currency of each of the entities of the Company and its subsidiaries has been re-evaluated based on the guidance to the revised standard.

IAS 24 has extended the identification of related parties and disclosure of related parties to include state-owned enterprises.

IAS 17 – Leases

On adoption of IAS 17, where leasehold properties are held for own use and where the land and buildings elements can be allocated reliably as at inception of the lease, the land element is treated as an operating lease and is disclosed separately. As such, land premiums or other costs for acquiring the leasehold land are stated at cost and amortised over the term of the lease. Where the land and buildings cannot be allocated reliably as at the inception of the lease, the land and building elements will continue to be treated as finance lease and carried at fair value.

IAS 38 – Intangible assets

In prior years, trademarks were amortised over their estimated useful lives of 10 years. With effect from 1 January, 2005 and in accordance with the provisions of IAS 38:

- trademarks are assessed to have indefinite useful lives, as there is no foreseeable limit to the period over which the trademark are expected to generate net cash inflows for the Group, and therefore are not amortised;
- trademarks are tested for impairment for each reporting date and where an indicator of impairment exists.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES - Continued**IFRS 3 - Business combinations**

Last year, the Group adopted the accounting treatment of IFRS 3 "Business combinations" to business combinations for which the agreement date was on or after 31 March 2004. For business combinations which the agreement date was before 31 March 2004, goodwill and negative goodwill arising on those acquisitions was accounted for in accordance with IAS 22 "Business combinations".

With effect from 1 January 2005 and in accordance with the provisions of IFRS 3:

- negative goodwill is derecognised as at 1 January 2005 with a corresponding adjustment to the opening balance of accumulated losses (restated);
- the Group ceased amortisation of goodwill;
- accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the costs of goodwill; and
- goodwill arising from all acquisitions is tested annually for impairment, as well as when there are indications of impairment.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

2. SIGNIFICANT ACCOUNTING POLICIES – Continued**Summary of the Effects of the Changes in Accounting Policies**

The effects of the changes in the accounting policies described above on the results for the current period and accumulated losses are as follows:

	For the six months ended 30 June 2005
	<i>RMB'000</i>
Decrease in amortisation of trademarks	26,093
Decrease in amortisation of goodwill	2,433
Decrease in negative goodwill released to income	(4,790)
	<hr/>
Decrease in loss for the period	23,736
Derecognition of negative goodwill with a corresponding adjustment to the opening accumulated losses (restated)	76,636
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Decrease in closing accumulated losses	100,372
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3. TURNOVER

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

	For the six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of refrigerators	1,469,138	1,919,998
Sales of air-conditioners	2,596,029	2,688,304
Sales of freezers	193,905	149,920
Sales of product components	299,201	172,794
	<hr/>	<hr/>
	4,558,273	4,931,016
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

4. SEGMENT INFORMATION

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

	For the six months ended 30 June 2005					Consolidated RMB'000
	Refrigerators	Air- conditioners	Freezers	Product components	Elimination	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
TURNOVER						
External sales	1,469,138	2,596,029	193,905	299,201	-	4,558,273
Inter-segment sales	-	-	-	62,405	(62,405)	-
Total revenue	<u>1,469,138</u>	<u>2,596,029</u>	<u>193,905</u>	<u>361,606</u>	<u>(62,405)</u>	<u>4,558,273</u>
Inter-segment sales are charged at prevailing market rates.						
RESULT						
Segment result	<u>(182,442)</u>	<u>(101,969)</u>	<u>(12,529)</u>	<u>(54,308)</u>	-	(351,248)
Unallocated corporate expenses						<u>(17,012)</u>
Loss from operations						(368,260)
Finance costs						(79,474)
Share of results of associates	(102)	(121)	(3)	(10)	-	<u>(236)</u>
Loss before tax						(447,970)
Taxation						<u>(9,294)</u>
Loss for the period						<u><u>(457,264)</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

4. SEGMENT INFORMATION – Continued

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

4. SEGMENT INFORMATION - Continued

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

	Turnover by geographical market	
	For the six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
The PRC		
Mainland China	2,344,916	2,818,527
Hong Kong	21,474	17,745
	2,366,390	2,836,272
Europe	670,329	795,563
America	1,098,915	662,477
Others	422,639	636,704
	4,558,273	4,931,016

The Group's operations are carried out in the PRC and almost all of the production facilities of the Group are located in the PRC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

5. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax in the condensed consolidated income statement was determined after charging/(crediting) the following items:

	For the six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Amortisation of intangible assets	103	28,107
Amortisation of goodwill of associates	-	6,867
Amortisation of goodwill of subsidiaries	-	1,784
Depreciation	160,700	192,100
Interest expense	53,330	73,540
Interest income	(13,496)	(13,997)
Release of negative goodwill to income	-	(2,395)
	<u> </u>	<u> </u>

6. TAXATION

	For the six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
The amount consists of:		
PRC enterprise income tax ("EIT")		
The Company and its subsidiaries	1,012	4,344
Associates	892	601
Overseas enterprise income tax		
Subsidiaries	7,390	-
	<u> </u>	<u> </u>
	<u>9,294</u>	<u>4,945</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

6. TAXATION – Continued

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

The Company was incorporated in Shunde, Guangdong Province and, pursuant to “Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises” (“Income Tax Law”), is normally subject to EIT at a rate of 24%, which is applicable to enterprises located in coastal open economic zone. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 27%. In June 2003, the Company is classified as a high new technology enterprise and is subject to an EIT of 15%. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 18%.

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

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

Kelon USA Inc., a wholly owned subsidiary incorporated in Delaware, USA, is subject to overseas income tax. The taxation is calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

7. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005. No interim dividend was declared for the same period last year.

8. BASIC (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share was based on the unaudited consolidated loss attributable to equity holders of the parent of RMB434,554,000 for the six months ended 30 June 2005 (six months ended 30 June 2004: profit attributable to equity holders of the parents of RMB158,063,000) divided by 992,006,563 shares (2004: 992,006,563 shares) outstanding during the period.

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

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent RMB133,139,000 (2004: RMB154,424,000) on the acquisition of property, plant and equipment.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

10. TRADE AND OTHER RECEIVABLES

	30.6.2005	31.12.2004
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables – third parties	1,205,035	705,415
Notes receivable – third parties	106,270	1,228,418
Other receivables – third parties	219,345	312,236
Prepayments (<i>Note</i>)	573,073	177,874
Amounts due from related companies	138,216	68,143
	<u>2,241,939</u>	<u>2,492,086</u>

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

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

Note: Included in the balance of prepayments as of 30 June 2005 were payments made in April 2005 to three entities for the purchase of raw materials in an aggregate amount of approximately RMB269 million. According to relevant purchase agreements, the goods should be delivered to the Group during the period from 1 May 2005 to 31 August 2005. Up to date of this report, only an insignificant portion of these goods were received by the Group. The Company considered that these transactions were not conducted in accordance with the Company's purchase policy and normal procedures in respect of purchase of goods. The Company is now investigating the matter but still cannot confirm the shareholding background of these entities. Announcement will be made once a conclusion of the investigation is reached.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

11. TRADE AND OTHER PAYABLES

	30.6.2005	31.12.2004
	RMB'000	RMB'000
Trade payables – third parties	2,387,797	1,986,801
Notes payables – third parties	1,596,781	1,619,686
Other payables – third parties (<i>Note</i>)	560,672	546,149
Amounts due to related companies	90,481	111,671
	<u>4,635,731</u>	<u>4,264,307</u>

At the reporting date, all of the Group's trade payables were aged less than one year.

Note: Included in other payables, there was an amount of RMB65 million due to Tianjin Taijing Yunye Company Limited as described in note 14(a)(x). The Company still does not know the shareholding background of Tianjin Taijing Yunye Company Limited, and therefore cannot determine its relationship with the Group.

12. SHARE CAPITAL

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

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

14. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out between the Group and related parties for the six months ended 30 June 2005 and the respective balances with the related companies as of 30 June 2005:

I. Transactions with related companies

	For the six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of goods/raw materials to:		
- Chengdu Xinxing Electrical Appliance Holdings Company Limited ("Chengdu Xinxing") (note a(i))	16,121	14,086
- Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. ("Chongqing Rongsheng") (note a(ii))	36,885	32,739
- 合肥美菱股份有限公司 (Hefei Meiling Company Limited)	77	-
Purchase of goods/raw materials from:		
- Huayi Compressor Holdings Company Limited ("Huayi") (note a(iii)) and its subsidiaries	87,599	125,583
- Chengdu Xinxing (note a(i))	19,633	22,775
- Shanghai Yilian Electric Business Limited ("Shanghai Yilian") (note a(iv))	-	3,171
- Chengdu Engine (Group) Company Limited ("Chengdu Engine") (note a(i))	2,265	2,756
Loan guarantee provided by:		
- Greencool Enterprise Development Company Limited ("Greencool Enterprise") (note a(v))	381,236	300,000
Other transactions:		
- Interest charged to Chengdu Xinxing (note a(i))	993	993
- Logistic management fee paid to Guangzhou Antaida Logistic Co. Ltd. ("Guangzhou Antaida") (note a(vi))	838	3,846
	<u> </u>	<u> </u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

14. RELATED PARTY TRANSACTIONS – Continued

II. Balances due from/to related companies

	<u>30.6.2005</u>	<u>31.12.2004</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Balances due from related companies		
Amount due within one year:		
– Greencool Technology Development (Shenzhen) Company Limited (note a(x))	32,000	32,000
– Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd. (note a(x))	33,000	33,000
– Chengdu Xinxing (note a(i))	2,610	3,143
– Hainan Greencool Environmental Protection Engineering Co., Ltd. (note a(ix))	13,438	–
– Others (note a(viii))	57,168	–
Amount due after one year:		
– Chengdu Xinxing (note a(i))	34,000	34,000
	<u>172,216</u>	<u>102,143</u>
Balances due to related companies		
– Huayi and its subsidiaries (note a(iii))	83,204	100,100
– Chongqing Rongsheng (note a(ii))	373	4,422
– 杭州西冷集團有限公司 (Hangzhou Xileng Group Company Limited) (note a(vii))	3,774	4,000
– 西安高科(集團)公司 (Xian Gaoke (Group) Company) (note a(vii))	1,785	2,358
– Chengdu Engine (a(i))	1,345	–
– Others	–	791
	<u>90,481</u>	<u>111,671</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

14. RELATED PARTY TRANSACTIONS – Continued

Notes:

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

- (i) The Company made prepayments amounting to an aggregate of RMB34,000,000 indirectly through its subsidiary, Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon"), to Chengdu Xinxing, which is an associate of Chengdu Engine, the minority investor of Chengdu Kelon. As consideration of such prepayment, Chengdu Xinxing agreed to repay Chengdu Kelon by supplying an agreed number of refrigeration parts together with interest payments at an annual rate of approximately 9%. The prepayment was guaranteed by Chengdu Engine and Chengdu Kelon has the right to deduct from any dividends payable to Chengdu Engine the outstanding amount of any payments (in whatever form) due from Chengdu Xinxing directly or indirectly to the Company.
- (ii) Chongqing Rongsheng is an associate of the Group.
- (iii) Huayi is an associate of the Group.
- (iv) Shanghai Yilian is a former associate of the Group.
- (v) Greencool Enterprise is the single largest shareholder of the Company.
- (vi) Guangzhou Antaida is an associate of the Group. The Group and Guangzhou Antaida entered into a logistic service agreement, pursuant to which Guangzhou Antaida provides transportation service to the Group. A 4% service fee is charged on delivery and discharge of goods.
- (vii) 西安高科(集團)公司 (Xian Gaoke (Group) Company) and 杭州西冷集團有限公司 (Hangzhou Xileng Group Company Limited) are minority investors of subsidiaries of the Company.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

14. RELATED PARTY TRANSACTIONS – Continued

Notes: – Continued

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

(viii) Certain transaction involving the Company's wholly-owned subsidiary, Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon") were found not recorded in the financial statements of Jiangxi Kelon resulting in net uncollected receivables of approximately RMB57 million from the following companies as at 30 June 2005:

- (a) an amount of RMB21.4 million receivable from Zhuhai City Defa Air-Conditioner Appliance Company Limited;
- (b) an amount of RMB28.6 million receivable from Zhuhai City Lonjia Refrigerant Facilities;
- (c) an amount of RMB20 million receivable from Wuhan Changrong Electrical Appliance Company Limited;
- (d) an amount of RMB13 million payable to Jiangxi Greencool Industrial Development Company Limited.

These transactions are potentially subject to the announcement and reporting requirements under rule 14A.32 of the Listing Rules. The Company is carrying out investigation on these transactions. Announcement will be made once the investigation is completed.

- (ix) On 10 March 2005, Kelon Air-Conditioner entered into a purchase agreement relating to refrigerants with Hainan Greencool Environmental Protection Engineering Company Limited. The transaction had not been approved by the board of directors of the Company and involved an amount of approximately RMB13.5 million. The purchase price was paid on 29 April 2005 but not in accordance with the Company's normal payment approval procedures. The relevant refrigerants have been received but not yet used. The Company had tried to return the goods but with no success.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

14. RELATED PARTY TRANSACTIONS – *Continued*

Notes: – *Continued*

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

According to public information, Hainan Greencool Environmental Protection Engineering Company Limited is reported as a wholly-owned subsidiary of Greencool Technology Holding Limited, a company controlled by Mr. Gu Chu Jun. Hainan Greencool Environmental Protection Engineering Company Limited is therefore a connected person of the Company. In accordance with rule 14A.32 of the Listing Rules, the transaction is subject to announcement and reporting requirements but no such announcement was made at that time.

- (x) A series of transactions were conducted through a bank account of one of the Company's wholly-owned subsidiaries, Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner") during the period between March 2003 and February 2004. Such transactions involved the unauthorised use of a company chop of Kelon Air-Conditioner and the relevant chop authorising financial transactions. The following balances were not reflected in the financial statements of Kelon Air-Conditioner in 2003 and 2004:

- (a) an amount of RMB32 million receivable from Greencool Technology Development (Shenzhen) Company Limited, a related company in which Mr. Gu Chu Jun is a director;
- (b) an amount of RMB33 million receivable from Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd., a related company in which Mr. Gu Chu Jun is a director; and
- (c) an amount of RMB65 million payable to Tianjin Taijin Yunye Company Limited.

The Company does not know the shareholding background of Tianjin Taijin Yunye Company Limited, and therefore cannot determine its relationship with the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

14. RELATED PARTY TRANSACTIONS – Continued

Notes: – Continued

(b) Pricing of the related party transactions

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

(c) Terms of the related party balances

Save as the balances due from Chengdu Xingxing, Greencool Technology Development (Shenzhen) Company Limited, Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd., Hainan Greencool Environmental Protection Engineering Co., Ltd. and others as set out in note (a)(viii) to (a)(x), all related party balances are unsecured, non-interest bearing and repayable on demand.

15. CAPITAL COMMITMENTS

	<u>30.6.2005</u>	<u>31.12.2004</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure for acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements	<u>86,014</u>	<u>109,884</u>

16. CONTINGENT LIABILITIES

As at 30 June 2005, the Group had contingent liabilities of approximately RMB43 million in respect of guarantees in favour of third parties given by a subsidiary of an associate.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

17. PRIOR YEAR ADJUSTMENTS

- (a) The Company's predecessor auditors have expressed the view that they were unable to satisfy themselves as to the validity of sales to two customers in the PRC for the year ended 31 December 2004 and their related accounts receivable as at that date as a result of which the predecessor auditors were unable to satisfy themselves as to whether sales for the year ended 31 December 2004 and trade receivables as at that date were free from material misstatement. Against this background, the board of directors and management of the Company conducted an in-depth investigation which was substantially completed as at 30 June 2005. Up to 30 June 2005, the Company received an aggregate amount of approximately RMB78 million from the two customers with the majority balances remained outstanding as due. As such, the Company demanded a return of stock from the two customers and most of which were then resold to other customers in the first half of 2005. The directors considered that in view of the predecessor auditors' qualified opinion concerning the validity of the sales couple with the substantial sales returns subsequent to 31 December 2004, it is more appropriate to account for the substantial sales return as a correction of accounting error. The restatement has the effect of reducing sales for the year ended 31 December 2004 by approximately RMB431 million and trade receivables at 31 December 2004 by the same amount and opening accumulated profits by approximately RMB112 million.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS - Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

17. PRIOR YEAR ADJUSTMENTS - Continued

- (b) The Company has been formally investigated by the China Securities and Regulatory Commission since 5 April 2005. On 1 August 2005, the Company was informed that five of the Company's senior management, including the Company's former chairman, an executive director and vice president, and other senior management responsible for finance became formally investigated by the police department of the People's Republic of China ("PRC police department") and subject to procedures adopted by the PRC police department in connection with criminal offences, for alleged economic crime. As a result of the foregoing, the board of directors and the management of the Company commenced an internal investigation for the purpose of identifying, as far as possible, the possible financial impact to the Group that might arise in respect of the allegation. The preliminary findings of the internal investigation reveal that omissions of recording and disclosure of material transactions with certain entities (some of them are related parties) might have occurred during the current period and earlier periods leading to a misstatement in other payable and amount due from related companies and non-disclosure of related party transactions and balances in prior years. The management considered that it was more appropriate to restate the following balances as at 31 December 2004 in order to better reflect the true financial positions of the Company at that date.

Restatement of balances:

	31.12.2004
	<u>RMB'000</u>
Amounts due from related companies (Note 14(a)(x))	<u>65,000</u>
Other payables (Note 11)	<u>65,000</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

18. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2005:

- (a) The Company was sued by Jiaxi Beila Compressor Company Limited (“Jiaxi Beila”) on 6 July 2005 for alleged breaches of a guarantee agreement dated 18 June 2005 (the “Guarantee Agreement”) entered into between the Company and Jiaxi Beila in respect of outstanding amounts due on goods purchased from Jiaxi Beila by the Company’s subsidiaries, allegedly to be approximately RMB17,100,000. The Intermediate People’s Court of the Jiaxing City of the Zhejiang Province (the “Court”) gave judgment sequestering the Company’s bank deposit in the amount of RMB17,100,000 or the Company’s other assets of similar value, representing amounts allegedly owed by the Company under the Guarantee Agreement. On 14 July 2005 the Company received a sequestration order sequestering the Company’s interests in 59,280,000 unlisted promoter national shares and any bonus shares in Huayi Compressor Holdings Company Limited. The Company is seeking legal advice as to the merits of the claim and the Company’s available options.

- (b) On 2 August 2005, the China Construction Bank Holdings Company Limited Nan Cheong Cheong Bei Branch (“China Construction Bank”) filed a claim against the Company and its indirect wholly-owned subsidiary, Jiangxi Kelon Province Development Company Limited (“Jiangxi Kelon”), with the Higher People’s Court of Jiangxi Province Company and Jiangxi Kelon to the China Construction Bank. The writ was sent to the Company on 5 August 2005. The Jiangxi Court gave judgement in favour of the China Construction Bank and granted an order sequestering the Company’s deposit of RMB140,000,000 or assets of similar value, representing amount claimed by the China Construction Bank against the Company and Jiangxi Kelon. In this relation, on 5 August 2005, the Company received from the Jiangxi Court an execution notice stating that the interest of Jiangxi Kelon in 80% of the shareholding in Shangqiu Kelon Electrical Company Limited (“Shangqiu Kelon”) is frozen from 5 August 2005 to 5 August 2006 during which period such shareholding cannot be pledged or transferred without the permission from the Jiangxi Court.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

19. DIFFERENCES BETWEEN INTERNATIONAL FINANCIAL REPORTING STANDARDS AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP

The condensed consolidated balance sheet of the Group prepared under International Financial Reporting Standards ("IFRS") and that prepared under PRC accounting standards and regulations have the following major differences:

	<u>30.6.2005</u>	<u>31.12.2004</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets as per condensed consolidated balance sheet prepared under IFRS	2,294,506	2,652,719
Adjustment on property, plant and equipment revaluation and related depreciation	7,639	(5,667)
Adjustments on contribution from minority shareholders	26,684	26,684
Adjustments on negative goodwill	(76,636)	–
Adjustment on amortisation of trademark	(26,093)	–
Adjustments on impairment of investment	(14,485)	–
Adjustments on pre-operating expenses	3,445	9,938
Others	(2,421)	7,603
	<u>2,212,639</u>	<u>2,691,277</u>
Net assets as per condensed consolidated balance sheet prepared under PRC accounting standards and regulations		

NOTES TO THE CONDENSED FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Prepared under International Financial Reporting Standards)

19. DIFFERENCES BETWEEN INTERNATIONAL FINANCIAL REPORTING STANDARDS AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP – *Continued*

The condensed consolidated income statement of the Group prepared under IFRS and that prepared under PRC accounting standards and regulations have the following major differences:

	For the six months ended 30 June	
	2005	2004
	RMB'000	RMB'000 (Restated)
(Loss)/profit for the period as per condensed consolidated income statements prepared under IFRS	(434,554)	158,063
Adjustment on property, plant and equipment revaluation and related depreciation	1,765	1,129
Adjustment on amortisation of trademark	(26,093)	-
Adjustment on impairment of investment	(14,485)	-
Adjustment on pre-operating expenses	(6,492)	-
Adjustment on notional rental	(7,085)	-
	(486,944)	159,192
(Loss)/profit for the period as per condensed consolidated income statement prepared under PRC accounting standards and regulations	(486,944)	159,192

There are differences in other items in the condensed consolidated financial statements due to differences in classification between IFRS and PRC accounting standards and regulations.

CERTAIN MATTERS RELATING TO THE FINANCIAL STATEMENTS

As stated in the Company's announcement of 1 August 2005, Mr. Gu Chu Jun and certain members of the management of the Company are being investigated by the PRC police department for alleged economic crimes. The China Securities Regulatory Commission ("CSRC") also carried out a formal investigation (the "CSRC Investigation") of the Company in April 2005 for alleged breaches of securities laws and regulations in the PRC. During the CSRC Investigation, the following matters were discovered:

1. A series of transactions were conducted through a bank account of one of the Company's wholly-owned subsidiaries, Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner") during the period between March, 2003 and February, 2004. Such transactions involved the unauthorised use of a company chop of Kelon Air-Conditioner and the relevant chop authorising financial transactions. The following balances were not reflected in the financial statements of Kelon Air-Conditioner in 2003 and 2004:
 - (a) an amount of RMB32 million receivable from Greencool Technology Development (Shenzhen) Company Limited, a related company in which Mr. Gu Chu Jun is a director;
 - (b) an amount of RMB33 million receivable from Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd., a related company in which Mr. Gu Chu Jun is a director; and
 - (c) an amount of RMB65 million payable to Tianjin Taijin Yunye Company Limited.

The Company is investigating the ownership of the above three companies. According to public information, Mr Gu Chu Jun directly and indirectly holds approximately 63.6% of Greencool Technology Holdings Limited, a company whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and hereafter referred to as "Greencool 8056". Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd. is reported as a wholly-owned subsidiary of Greencool 8056.

CERTAIN MATTERS RELATING TO THE FINANCIAL STATEMENTS – *Continued*

2. Certain transactions involving the Company's wholly-owned subsidiary, Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon") were found not recorded in the financial statements of Jiangxi Kelon resulting in net uncollected receivables of approximately RMB57 million from the following companies:
 - (a) an amount of RMB21.4 million receivable from Zhuhai City Defa Air-Conditioner Appliance Company Limited;
 - (b) an amount of RMB28.6 million receivable from Zhuhai City Lonjia Refrigerant Facilities;
 - (c) an amount of RMB20 million receivable from Wuhan Changrong Electrical Appliance Company Limited; and
 - (d) an amount of RMB13 million payable to Jiangxi Greencool Industrial Development Company Limited.

These transactions are potentially subject to the announcement and reporting requirements under rule 14A.32 of the Listing Rules (as defined below). The Company is carrying out investigation on these transactions. Announcement will be made once the investigation is completed.

3. On 10 March 2005, Kelon Air-Conditioner entered into a purchase agreement relating to refrigerants with Hainan Greencool Environmental Protection Engineering Company Limited. The transaction had not been approved by the board of directors of the Company and involved an amount of RMB13.5 million. The purchase price was paid on 29 April 2005 but not in accordance with the Company's normal payment approval procedures. The relevant refrigerants have been received but not yet used. The Company had tried to return the goods but with no success.

According to public information, Hainan Greencool Environmental Protection Engineering Company Limited is reported as a wholly-owned subsidiary of Greencool 8056. Hainan Greencool Environmental Protection Engineering Company Limited is therefore a connected person of the Company. In accordance with rule 14A.32 of the Listing Rules (as defined below), the transaction is subject to announcement and reporting requirements but no such announcement was made at that time.

CERTAIN MATTERS RELATING TO THE FINANCIAL STATEMENTS – *Continued*

4. During the period between 6 and 14 April 2005, Jianxi Kelon made advance payment in an amount of RMB81.68 million to a new supplier called Jinan Sanai Fufo Petrochemical Co., Ltd. (“Jinan Sanai”). The goods were to be delivered during the period between 1 May and 31 August 2005 with payment on delivery. As of the date hereof, Jianxi Kelon has received approximately RMB400,000 worth of goods, but no invoices has been received from the suppliers. The Company is arranging for company search to be done in order to ascertain information, including ownership, of Jinan Sanai.
5. On 23 June 2005, the Company’s finance department received a report from the Company’s wholly-owned subsidiary, Guangdong Kelon Fittings Co., Ltd. (“Kelon Fittings”) which reported that Kelon Fittings had during the period between 26 and 28 April 2005 made five advance payments in an aggregate amount of approximately RMB97.41 million, to a new supplier named Tianjin Changyun Industrial and Trading Development Company Limited (“Tianjin Changyun”). The relevant goods were delivered during the period between 1 May and 31 August 2005. Currently, approximately 235.44 tonnes of stocks which worth approximately RMB1.63 million have been delivered. However, no invoices have been received from the suppliers. The Company is arranging for company search to be done in order to ascertain information, including ownership, of Tianjin Changyun.
6. On 26 and 27 April 2005, the Company’s wholly-owned subsidiary, Shenzhen Kelon Purchase Company Limited made two advance payments in an aggregate amount of RMB89.6 million to a new supplier called Tianjin Lixin Commercial Trading Development Company Limited (“Tianjin Lixin”). The goods were to be delivered during the period between 1 May 2005 and 31 August 2005 with payment on delivery. As of the date hereof, approximately 58.8 tonnes of goods worth approximately RMB400,000 have been received, but no invoices have been received from the suppliers. The Company is arranging for company search to be done in order to ascertain information, including ownership, of Tianjin Lixin.

CERTAIN MATTERS RELATING TO THE FINANCIAL STATEMENTS – *Continued*

Transactions three to six above were not conducted in accordance with the Company's purchase policy and normal procedures in respect of purchase of goods. The number of goods received so far is also substantially less than the amount specified in the relevant purchase contract.

The Company is currently investigating the above matters. Announcement will be made once a conclusion of the investigation is reached. In light of the above matters and the CSRC Investigation, the board of directors and the relevant finance officer of the Company reserves their views on items in the Company's financial statements which are related to the above matters or which may arise out of the CSRC Investigation.

REVIEW CONCLUSION OF INDEPENDENT REVIEW REPORT

On the basis of review by BDO McCabe Lo Limited which does not constitute an audit, BDO McCabe Lo Limited has the opinion that because of the significance of the possible effect of the limitation in evidence available to them, they are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30 June 2005.

INTERIM DIVIDENDS

At a meeting of the Board held on 30 August 2005, the Board resolved not to declare any interim dividend for the six months ended 30 June 2005. No interim dividends were distributed for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

I. RESULTS REVIEW

Kelon recorded substantial losses in its unaudited financial results for the six months ended 30 June 2005. This was attributable to the Group's announcement in early May that it was being formally investigated by the China Securities Regulatory Commission ("CSRC") for alleged breaches of the country's securities laws and regulations. The investigation on the Group was the result of such persons including our former Chairman Mr. Gu Chu Gun being suspected of having committed economic crimes. The incident has adversely affected the confidence of financial institutions, suppliers and sales agents to us, which made difficulties on renewal and origination of banking facilities to resolve credit crunch. The tight cash flow hit the Group's co-operations with suppliers as well as sales agents, affecting the Group's normal production and business operation. As a result, Kelon missed the peak season for production and sales of refrigerators and air-conditioners this year, which caused an over 50% decrease in turnover in May and June when compared with the same two months last year.

During the reporting period, our turnover was approximately RMB4,558 million, representing a drop of approximately 7.56% when compared with the same period in 2004. Loss attributable to equity holders of the parent was approximately RMB435 million (Profit attributable to equity holders of the parent in first half of 2004: RMB158 million). Basic loss per share attributable to equity holders of the parent for the six months ended 30 June 2005 was approximately RMB0.44 (Basic earnings per share attributable to equity holders of the parent in first half of 2004: Approximately RMB0.16).

The Board of Directors does not recommend the payment of an interim dividend (first half of 2004: nil).

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

In the first quarter of 2005, the profit margin of our core products narrowed and pressure on business grew substantially due to the keen competition in the global domestic appliances market, the more difficult business environment resulting from stricter macro-economic control implemented by the PRC government, the persistently hefty costs of major raw materials and reduction in the export tax refund ratio. However, despite all adversities, we were able to achieve outstanding business performance during the quarter by adhering to our proven “Technologically Led and Profitability Driven” business direction. Our turnover reached RMB2.040 billion, representing an increase of 26.65% over the same period in 2004. Profit attributable to equity holders of the parent reached RMB60.49 million, representing an increase of 28.01% over the same period in 2004.

On 9 May 2005, the Group announced that the CSRC had formally commenced an investigation of the Company for alleged breaches of securities laws and regulations in the PRC, as a result of such persons including Mr. Gu Chu Jun being suspected of having committed economic crimes. The incident has adversely affected the confidence of financial institutions, suppliers and sales agents in us, which made it difficult for us to obtain banking facilities. As the white domestic appliance segment, where we are in, is one that requires enormous working capital, the tight cash flow immediately created negative response among our suppliers and sales agents, and in turn led to suspension of most of the Group’s refrigerators and air-conditioners production from May onwards. This coincided with the Group’s traditional peak season – between May and July – which usually account for a substantial share of the Group’s total annual turnover, hence seriously affected our production and business during the period. Our turnover in May and June sharply decreased by over 50% when compared with the same period last year. As a result, a loss was recorded for the reporting period.

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

Since production in the second quarter of 2005 had to be reduced substantially and sales were supplemented by older models of lower gross profit margin, the Group's overall gross profit margin during the reporting period dropped to 9.03% from 20.85% of the same period last year.

In terms of results by business segment, the sales revenues of air-conditioners and refrigerators for the first half of 2005 accounted for approximately 56.95% and 32.23% respectively of the Group's total turnover. The sales revenue of product components and freezers accounted for approximately 10.82% of the remaining turnover.

Export Sales

With our competitive advantage in price, quality and technology, our OEM products continued to capture large orders from renowned international domestic appliance corporations in the first quarter of 2005. Turnover from export sales surged 58.22% over the same period last year.

As we had difficulties in obtaining banking facilities in May and June, which resulted in pressure on working capital and hence production capacity, we had to turn down a considerable amount of orders and that inevitably affected the growth of our export sales. Thus, export sales could only be maintained at a level similar to that of the same period last year. Kelon's export business for the first half of 2005 recorded a slight increase of 4.77% over that of the corresponding period in 2004, representing 48.56% of its total turnover. Geographically, the US markets accounted for 49.65% of our export business, and the European market accounted for approximately 30.29%.

During the reporting period, revenue from the export sales of air-conditioner grew at a satisfactory rate of 30.28% over the same period last year, making up 67.38% of our total export sales. However, revenue from the export sales of refrigerators dropped 35.14%, representing 23.80% of our total export sales. The remaining 8.82% of our total export sales came from freezers and small home appliances.

MANAGEMENT DISCUSSION AND ANALYSIS – *Continued*

II. BUSINESS REVIEW – *Continued*

Air-conditioner Business

In the first quarter of 2005, Kelon expanded the production lines of energy saving air-conditioners in order to adapt itself to the implementation of new energy saving policies in the PRC. The move had further secured the Group's leading position in the energy efficient air-conditioner market. Revenue from the air-conditioner business increased by 34.57% as compared with the same period last year.

Stepping into May of 2005, the production scale of our air-conditioner business was greatly affected by our lack of sufficient working capital. Since May and June was the peak season for air-conditioner sales, tight working capital resulted in insufficient supply of raw material and suspension of production of some of the air-conditioner models. Revenue from the air-conditioner business during the reporting period dropped by approximately 3.43% from that in the same period of 2004.

Refrigerator business

Adopting its comprehensive multi-branding strategy, Kelon was able to capture extensive coverage in different market strata. Besides, the "Energy Saving Grand Prix" series of refrigerators has become one of the best sellers in the energy saving refrigerator market since its launch last year. And Kelon continued to introduce into the market new products with creative and advanced functions. Hence, our refrigerator business continued to grow in the first quarter of 2005, with its turnover 16.49% higher than in the same period last year.

It was in May and June 2005 when tight working capital severely limited the production and sales of our refrigerators. Since the period coincided with the peak season for refrigerator sales, the turnover of the product segment for the first half of 2005 substantially decreased by approximately 23.48% as compared with the same period of 2004.

MANAGEMENT DISCUSSION AND ANALYSIS – Continued**II. BUSINESS REVIEW – Continued****Continuous Innovation for High Technology Products**

During the period under review, Kelon continued its devotion in developing its world leading high technology products. It placed special emphasis on the innovation of its core environmental protection and energy saving technologies.

Kelon continued to make efforts in the research and development of the Ronshen BCD-209S refrigerator series, which won the “United Nations Energy Saving Grand Prix” title in 2003, leading to the successful launch of the BCD-209S/ET series in January 2005. Riding on the success of this first gemmy series in the PRC with power consumption as low as 0.33 kwh per day, Kelon launched the Ronshen BCD-215YM refrigerator in April. It is the first refrigerator in the world that can be preset to function during periods of low electricity charge and, by applying patented cooling technology, can keep the freezer’s temperate low during power outage. This breakthrough in energy saving technology not only helps to reduce electricity fee while preserving the freshness of food, but also helps ease pressure on electricity supply in the country.

The Group also launched the BCD-707W/H (E) “Intelligent Double Door Frost Free refrigerator” series in January 2005. The series boasts such functions as automatic humidity control, automatic defrosting and photo-electric sensing, and cool air deflection. It is mainly for OEM and export sales.

A Stable Kelon Team

During the reporting period, despite of the challenging condition of the Group’s production and operation, there were no overdue wage payment or major changes in the middle to senior management, R&D team, experienced technical staff and sales team of the Group. In order to maintain staff morale and stable human resources, the Group arranged team building and professional trainings for staff affected by the production halt. We are well prepared for the resumption of normal production and sales in the coming period.

MANAGEMENT DISCUSSION AND ANALYSIS – *Continued***III. OUTLOOK**

Mr. Gu Chu Jun is being formally investigated by the PRC's Public Security Bureau and is subject to procedures adopted by the PRC's Public Security Bureau in connection with criminal offences, for alleged economic crime. Mr. Gu is therefore not in a position to properly fulfill his duties as chairman of the Company. The Board of Directors had resolved to remove Mr. Gu as chairman of the Company, and had appointed Mr. Liu Cong Meng, vice chairman, to carry out the duties of the Company's chairman. Furthermore, the board of directors had also resolved to appoint a professional body to assess the impact and loss caused to the Company by the illegal acts allegedly committed by Mr. Gu and other relevant persons.

With the coordination and support from relevant departments, the management of Kelon has been in active dialogues with financial institutions and creditors on matters relating to debt management with an aim to ease its capital pressure.

Looking ahead to the second half of the year, the Group will strive to settle the amounts due to suppliers and ensure stable supply to operators in different regions so as to sustain the stability of its sales network. Kelon expects production to gradually return to normal adopting its strategy of boosting capital flow by export orders. Kelon has begun to resume production gradually since 20 August 2005.

Leveraging on Kelon's leading position in the white domestic appliance industry, its state-of-the-art technologies and quality products, unmatched production capacities, long-standing and well recognized brand plus the concerted efforts of its superior management team and staff, the Group will strive to overcome existing challenges and is optimistic that its production and sales will resume normal in the coming months. It will endeavor to regain market share in the white domestic appliance industry and seek to benefit from the booming export market.

MANAGEMENT DISCUSSION AND ANALYSIS – *Continued***IV. SIGNIFICANT EVENTS**

On 24 June 2005, the Company received notification from three independent non-executive directors, Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu, of their intention to resign as independent non-executive directors of the Company, stating the reason was due to their work being restricted and therefore not being able to properly fulfill their duties as an independent non-executive director. In compliance with the laws of the PRC and the Company's articles of association, they agreed to stay with the Company until the holding of the board meeting on or before 23 August 2005, when new appointments to their vacancies would be made. On 12 August 2005, the Company received notifications from Mr. Li Kung Man and Mr. Xu Xiao Lu withdrawing their resignation as the reason for their resignation was removed, whereas Mr. Chan Pei Cheong, Andy postponed the effective date of his resignation to 23 November 2005.

On 11 May 2005, the Group received notification from Deloitte Touche Tohmatsu, the Company's existing auditor in Hong Kong, and Deloitte Touche Tohmatsu CPA Limited, the Company's existing auditor in the PRC, stating their intentions not to seek re-appointment as the Company's auditors at the Annual General Meeting on 28 June 2005.

At the Annual General Meeting held on 28 June 2005, the Company approved the resolution to appoint Shenzhen Dahua Tiancheng Certified Public Accountants and BDO McCabe Lo Limited as the Company's 2005 local and foreign auditors respectively.

At the Extraordinary General Meeting held on 28 June 2005, the Company approved the resolution to use its internal resources to repurchase not more than 10% of the issued H shares (namely 45.96 million H shares) of the Company.

SOURCES OF WORKING FUNDS AND CAPITAL

The Group's net cash inflow from operating activities for the six months ended 30 June 2005 amounted to RMB216,681,000.

As at 30 June 2005, the Group had bank balances and cash on hand totaling approximately RMB308,928,000 and bank loan balances of approximately RMB2,451,758,000.

The Company's total capital expenditure for the six months ended 30 June 2005 amounted to RMB133,139,000.

As at 30 June 2005, the net proceeds from the Group's initial public offering and subsequent placement of H shares and public offer of A shares have been applied as the Group's capital expenditure and working capital.

As at 30 June 2005, the gearing ratio of the Group was 93.23%.

TRUST DEPOSITS

As at 30 June 2005, the Company did not have any trust deposits with any financial institution in the PRC. All of the Company's deposits have been placed with commercial banks in the PRC and Hong Kong and the Company has not encountered any difficulty in withdrawing the deposits.

UNIFIED INCOME TAX AND LOCAL TAX BENEFIT

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

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2005, the Group had approximately 25,600 employees, comprising 1,400 technicians, 6,100 marketing staff (promotion staff included), 495 financial staff, 1,850 administrative staff, and 15,680 production staff (seasonal staff included). Among the Group's employees, there are 16 doctorate graduates, 414 master graduates and 2,870 university graduates, 697 employees with official titles of middle rank or above. Besides, the Group has 64 retired staff. For the half year ended 30 June 2005, the Group's staff payroll amounted to RMB191,113,171.7 (corresponding period in 2004: RMB219,218,016).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2005, the Group's properties, plant and equipment with a value of approximately RMB1,232,649,000 (31 December 2004: RMB726,597,000) were pledged as security for the Group's bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

CONTINGENT LIABILITIES

As at 30 June 2005, the Group had contingent liabilities in respect of guarantees given to third party amounted to RMB43.00 million.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code for securities transactions by directors. The Company confirmed, after due enquiries with all the directors, the directors of the Company had complied with the Model Code for Securities Transactions by Directors of Listed Issuers during the reporting period.

SHARE CAPITAL STRUCTURE

During the six months ended 30 June 2005, there has been no change in the share capital structure of the Company and the structure as at 30 June 2005 was as follows:

	Number of Shares	Percentage of total issued share capital
	<hr/>	<hr/>
Domestic shares	337,915,755	34.06%
H shares	459,589,808	46.33%
A shares	194,501,000	19.61%
	<hr/>	<hr/>
Total	<u>992,006,563</u>	<u>100%</u>

SHARE CAPITAL STRUCTURE – Continued

As at 30 June 2005, there were 68,945 shareholders in total, of which the top ten/substantial shareholders were as follows:

<u>Names of Shareholders</u>	<u>Increase/ decrease during the Period</u>	<u>Shareholdings at the end of the Period</u>	<u>Proportion (%)</u>	<u>Share class (listed or unlisted)</u>	<u>Nature of Shares</u>
Guangdong Greencool Enterprise Development Company Limited	0	262,212,194	26.43%	Unlisted	Domestic legal person shares
Shunde Economic Consultancy Company	0	68,666,667	6.92%	Unlisted	Domestic legal person shares
Bank of China (Hong Kong) Ltd	+30,504,000	49,196,000	4.96%	Listed	H shares
The Hongkong and Shanghai Banking Corporation Ltd.	-61,578,971	48,378,925	4.88%	Listed	H shares
Guotai Junan Securities (Hong Kong) Limited	-6,899,000	40,965,000	4.13%	Listed	H shares
HSBC Nominees (Hong Kong) Limited	0	40,106,904	4.04%	Listed	H shares
First Shanghai Securities Limited	-6,155,000	25,878,000	2.61%	Listed	H shares
Hang Seng Securities Limited	+13,009,000	20,235,000	2.04%	Listed	H shares
Shenyin Wanguo Securities (H.K.) Limited	-14,407,000	19,721,000	1.99%	Listed	H shares
Liu Chong Hing Bank Limited	0	16,000,000	1.61%	Listed	H shares

Descriptions:

- (1) Except those held by the legal person shareholders, all of the shares held by the above top ten shareholders has not been pledged or under freezing orders during the Period. The Company does not know whether any shares held by the other shareholders have been pledged or under freezing orders during the Period.

SHARE CAPITAL STRUCTURE – Continued

- (2) Among the top ten shareholders, none of the legal person shareholders is connected with any of the others or is a party acting in concert with any of the others as defined in Administrative Measures for Information Disclosure of the Shareholders of Listed Companies (上市公司股東持股變動信息管理辦法). Furthermore, the Company does not know whether any shareholders is connected with any of the others or is a party acting in concert with any of the others as defined in Administrative Measures for Information Disclosure of the Shareholders of Listed Companies.
- (3) The Company was informed by the China Securities Registration Clearing Company Limited, Shenzhen Branch on 3 August 2005 that the interest of the Company's single largest shareholder of Guangdong Greencool Enterprise Development Company Limited in 262,212,194 promoter domestic legal person shares in the Company representing approximately 26.43% of the total issued share capital of the Company, had been frozen by the Intermediate People's Court of the Shenzhen City with effect from 28 July 2005 to 27 July 2006.
- (4) The Company received a notice from Shunde Economic Consultancy Company, a holder of its domestic legal person share, on 8 August 2005, which informed the Company and the Board of the Company that as of July 2005, Shunde Economic Consultancy Company held a total of 68,666,667 legal person shares in the Company. Such legal person shares were held by Shunde Economic Consultancy Company on behalf of the Industrial and Commercial Bank of China, Guangdong Province Branch. Pursuant to the shareholding and finance reform proposal of the Industrial and Commercial Bank of China as approved by the State Council and supported by the head office of the People's Bank of China and various government departments including the Ministry of Finance, the Industrial and Commercial Bank of China, Guangdong Province Branch had, on 7 June 2005, transferred to China Finance Asset Management Company its interest in 68,666,667 legal person shares in the Company, representing 6.92% of the Company's total issued share capital. As at the date hereof, the Company has not received any written notification from China Securities Registration Clearing Company Limited, Shenzhen Branch regarding the completion of the equity transfer.

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

Name of Shareholders (full name)	Number of listed shares at the end of the period	Class (A, B, H share or others)
Bank of China (Hong Kong) Ltd The Hongkong and Shanghai Banking Corporation Ltd.	49,196,000	H shares
Guotai Junan Securities (Hong Kong) Limited	48,378,925	H shares
HSBC Nominees (Hong Kong) Limited	40,965,000	H shares
First Shanghai Securities Limited	40,106,904	H shares
Hang Seng Securities Limited	25,878,000	H shares
Shenyin Wanguo Securities (H.K.) Limited	20,235,000	H shares
Liu Chong Hing Bank Limited	19,721,000	H shares
Standard Chartered Bank (HK) Ltd	16,000,000	H shares
Dah Sing Bank Limited	15,133,000	H shares
	15,000,000	H shares

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

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the following shareholders have underlying interests and short positions in the issued share capital of the Company as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the Securities and Futures Ordinance:

<u>Name</u>	<u>Class of Shares</u>	<u>Number of issued ordinary shares held</u>	<u>Proportion to the relevant class of issued share capital of the Company</u>	<u>Proportion to the total issued share capital of the Company</u>
Greencool Enterprise Development Company Limited	Domestic legal person shares	262,212,194	77.60%	26.43%
Shunde Economic Consultancy Company	Domestic legal person shares	68,666,667	20.32%	6.92%
Bank of China (Hong Kong) Ltd	H shares	49,196,000	10.70%	4.96%
The Hongkong and Shanghai Banking Corporation Ltd.	H shares	48,378,925	10.53%	4.88%
Guotai Junan Securities (Hong Kong) Limited	H shares	40,965,000	8.91%	4.13%
HSBC Nominees (Hong Kong) Limited	H shares	40,106,904	8.73%	4.04%
First Shanghai Securities Limited	H shares	25,878,000	5.63%	2.61%

Save for the above, as at 30 June 2005, the Company has not been informed of any other underlying interests and short positions in the issued share capital of the Company as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the Securities and Futures Ordinance.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 30 June 2005, the interests or short positions (including interests or short positions which they are deemed or taken to have under the relevant provisions of the Securities and Futures Ordinance) of the directors, supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register required to be kept by the Company under Section 352 of the Securities and Futures Ordinance were as follow:

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

Notes:

- (i) Greencool Enterprise Development Company Limited owns 262,212,194 legal person shares in the Company, representing approximately 26.43% of the existing issued share capital of the Company. Mr. Gu Chu Jun directly owns 60% of the total investment in Greencool Enterprise Development Company Limited.
- (ii) Mr. Gu Chu Jun is the substantial shareholder of Greencool Technology Holdings Limited (a company listed on the Hong Kong Stock Exchange Growth Enterprise Market) and owns approximately 63.6% of its share interests. Two subsidiaries of Greencool Technology Holdings Limited held 3,830,000 H Shares of the Company, representing approximately 0.39% of the issued share capital of the Company.

Save as disclosed above, as of 30 June 2005, the Company has not been informed of any interests or short positions (including interests or short positions which they are deemed or taken to have under the relevant provisions of the Securities and Futures Ordinance) held by the directors, supervisors and chief executive of the Company which are required, pursuant to the provisions of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

PURCHASE, SALE AND REDEMPTION OF SHARES

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

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the interim results announcement and interim report for the period ended 30 June 2005.

CORPORATE GOVERNANCE

The Company continued to optimize its corporate governance structure, to establish a modern corporate system and to regulate the operation of the Company by complying strictly with the requirements of the Company Law, the Securities Law and the relevant laws and regulations stipulated by the CSRC. During the Period, the Company has amended its articles of association pursuant to the requirements issued by the CSRC. The Company has also improved the Rules Governing the General Meeting, the Rules Governing the Board of Directors, the Rules Governing the Supervisory Committee and the Information Disclosure System.

During the Period, save for those disclosed below, the Company has been in compliance with the Code of Corporate Governance Practices ("the Code") set out in Appendix 14 of the Listing Rules and relevant rules and regulations stipulated by CSRC and Shenzhen Stock Exchange regarding corporate governance.

CORPORATE GOVERNANCE – *Continued*

1. Since Mr. Gu Chu Jun is currently being investigated by the PRC police department in connection with alleged economic crime, and is subject to procedures in connection with criminal offences, he is therefore not capable of performing his duties as chairman properly. In order to maintain the normal production and operation of the Company and pursuant to the Company Law, the Articles of Association and the relevant regulatory documents of CSRC, the board of directors of the Company discussed and approved on 12 August 2005 the dismissal of Mr. Gu Chu Jun as chairman of the Company, and approved Mr. Liu Cong Meng, the vice chairman and chief executive officer of the Company, to assume the duties of chairman of the Company. As a result of the above, the Company is not fully in compliance with “There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.” as stipulated under Code A.2.1 of the Code.
2. The Company was not able to comply with Code A.2.3 which states that: “The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.” as a result of the alleged economic crime committed by Mr. Gu Chu Jun, former chairman of the Company, and other relevant persons. Now that Mr. Gu Chu Jun and other relevant persons are being investigated by the PRC police department and subject to criminal procedures, the Company will put in place procedures to ensure compliance with Code A.2.3.
3. The Company has not established a remuneration committee pursuant to the requirements of Code B.1.1. The Company will establish a remuneration committee as soon as possible in order to comply with the requirement under Code B.1.1.
4. It is possible that the Company might not have been in compliance with Code C.2 “The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders’ investment and the issuer’s assets.” due to the alleged economic crimes committed by Mr. Gu Chu Jun, former chairman of the Company, and other relevant persons. Now that Mr. Gu Chu Jun and other relevant persons are being investigated by the PRC police department and subject to criminal procedures the Company will review its internal control system and set up related system to avoid such incidents from happening again.

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

The original 2005 interim financial report signed by the vice chairman is available for inspection at the following address:

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

By order of the Board
Liu Cong Meng
Vice Chairman

Foshan City, Guangdong, the PRC, 30 August 2005

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

(1) PRINCIPAL FINANCIAL OPERATIONS DURING THE PERIOD

1. Principal Financial Statistics and Indicators

	As at the end of current Period	As at the last year end	Change of the amounts at the end of the current Period as compared with the beginning of the year
	<i>RMB</i>	<i>RMB</i>	(%)
Current assets	6,445,808,503.59	7,570,169,973.63	(14.85%)
Current liabilities	7,390,894,197.83	8,104,135,970.90	(8.80%)
Total assets	9,998,327,234.27	11,216,735,587.63	(10.86%)
Shareholders' equity (excluding minority interests)	2,212,638,574.62	2,691,276,668.73	(17.78%)
Net assets per share	2.2305	2.7130	(17.78%)
Adjusted net assets per share	2.1870	2.6710	(18.12%)

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

(1) PRINCIPAL FINANCIAL OPERATIONS DURING THE PERIOD – Continued

1. Principal Financial Statistics and Indicators – Continued

	Period (Jan-June)	Corresponding period last year	Change of the amounts of the current Period as compared with corresponding period last year
	<i>RMB</i>	<i>RMB</i>	(%)
Net profit	(486,943,597.90)	159,192,418.00	(405.88%)
Net profit deducted by extraordinary items	(487,522,616.70)	155,840,621.00	(412.83%)
Earnings per share	(0.4909)	0.1605	(405.86%)
Return on net assets	(22.01%)	5.92%	(471.79%)
Net cash flow from operating activities	(193,217,926.78)	526,158,872.00	(136.72%)
<u>Loss and profit of extraordinary items</u>			<u>Amount</u>
			<i>RMB</i>
Non-operating income			1,762,439.28
Subsidy income			151,351.62
Charge on the use of fund by associates dealt with in the current profit and loss account			992,970.00
Non operating expenses			(2,327,742.10)
Total			<u>579,018.80</u>

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

(1) PRINCIPAL FINANCIAL OPERATIONS DURING THE PERIOD – Continued

2. Appendix to profit and loss account

Profit derived in the period	Return rate of net assets		Return per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
	(%)	(%)	RMB	RMB
Profit derived from				
principal operations	18.68%	16.85%	0.4166	0.4166
Operating profit	(21.93%)	(19.79%)	(0.4891)	(0.4891)
Net profit	(22.01%)	(19.86%)	(0.4909)	(0.4909)
Net profit less of				
extraordinary items	(22.03%)	(19.88%)	(0.4915)	(0.4915)

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

- The Company convened its first 2005 extraordinary general meeting at the conference room of the Company's head office on 15 January 2005 to consider and approve the Resolution to Elect Members of the Board and the Resolution to Elect Members of Supervisory Committee, to consider and approve the appointment of Mr. Gu Chu Jun, Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Yan You Song, Mr. Zhang Hong and Mr Fang Zhi Guo as the executive directors of the fifth Board of Directors and Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu as the independent non-executive directors of the fifth Board of Directors; and consider and approve the appointment of Mr. Bai Yun Feng, Mr. Zeng Jun Hong as shareholder representative supervisors of the fifth Supervisory Committee and Ms. He Si as a supervisor of staff representative of the fifth Supervisory Committee.

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

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

The Company convened a Board of Directors' Meeting at the conference room of the Company's head office on 15 January 2005 to elect Mr. Gu Chu Jun as the Chairman of the fifth Board of Directors, to elect Mr. Liu Cong Meng and Mr. Li Zhen Hua as Vice Chairmen of the fifth Board of Directors; to appoint Mr. Liu Cong Meng as President of the Company, to appoint Mr. Yan You Song and Mr. Lin Lan as Vice Presidents of the Company; to appoint Mr. Li Chi Sing as the Chief Financial Officer of the Company; to appoint Mr. Liu Cong Meng concurrently as secretary of the Board of the Company and at the same time to appoint Mr. Li Chi Sing as secretary of the Company responsible for Hong Kong affairs.

The Company convened a Supervisory Committee Meeting at the conference room of the Company's head office on 15 January 2005, at which Mr. Zeng Jun Hong was elected as chairman of the fifth Supervisory Committee of the Company.

2. On 24 June 2005, the Company received notices of resignation from its three independent non-executive Directors, Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu.

In accordance with the relevant requirement of the CSRC, the Company is required to hold a general meeting within two months (i.e. before 23 August), to re-elect independent non-executive Directors. During the period, the existing independent non-executive Directors are still required to perform their duties.

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

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

– Continued

3. On 12 August 2005, the Company held a board meeting at the conference room in its headquarter. In order to maintain the normal production and operation of the Company, the board discussed and approved the dismissal of Mr. Gu Chu Jun as chairman of the Company, and approved Mr. Liu Cong Meng, the vice chairman and president of the Company, to take charge of the regular operations of the Board, since Mr. Gu Chu Jun had been formally investigated by the PRC police department in connection with alleged economic crime, and is subject to procedures in connection with criminal offences, and is therefore not capable of performing his duties as chairman properly.
4. On 12 August 2005, the Company received declarations of withdrawal of resignation from its independent non-executive Directors, Mr. Li Kung Man and Mr. Xu Xiao Lu, and declaration from independent non-executive Director, Mr. Chan Pei Cheong, Andy amending his date of resignation. Mr. Li Kung Man and Mr. Xu Xiao Lu agreed to withdraw their intention of resignation submitted to the Company on 24 June 2005 and the supplemental information of resignation submitted to the Company on 28 June 2005, and to continue performing their duties as independent non-executive Directors, and Mr. Chan Pei Cheong agreed to amend his intention of resignation submitted to the Company on 24 June 2005 and the effective date of the supplemental information of resignation submitted to the Company on 28 June 2005. The effective date of resignation was amended from 23 August 2005 to 23 November 2005. After 23 November 2005, Mr. Chan Pei Cheong will no longer be obliged to perform his duties as independent non-executive Director of the Company.

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

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

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

Items	30 June 2005	31 December 2004	Increase/ Decrease
	<i>RMB</i>	<i>RMB</i>	(%)
Bank balances and cash	1,487,216,214.98	2,320,120,532.00	(35.90%)
Notes receivable	106,270,000.38	792,903,018.00	(86.60%)
Accounts receivable	1,204,802,439.93	705,415,427.55	70.79%
Prepayments	573,078,810.84	197,803,725.00	189.72%
Subsidy receivables	62,737,287.14	20,796,124.00	201.68%
Inventories	2,811,090,964.57	3,259,818,997.08	(13.77%)
Total assets	9,998,327,234.27	11,216,735,587.63	(10.86%)
Short-term borrowings	2,434,588,431.75	2,911,715,168.00	(16.39%)
Notes payable	1,634,945,728.79	1,719,560,637.00	(4.92%)
Accounts payable	2,430,709,412.15	1,939,251,222.01	25.34%
Advance from customers	271,759,485.27	852,637,382.00	(68.13%)
Interest of shareholders	2,212,638,574.62	2,691,276,668.73	(17.78%)

Item	Jan-June, 2005	Jan-June, 2004	Increase/ Decrease
	<i>RMB</i>	<i>RMB</i>	(%)
Revenue from principal operations	413,237,338.34	1,028,010,905.00	(59.80%)
Net profit	(486,943,597.90)	159,192,418.00	(405.88%)

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

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

Remarks:

1. The decrease in bank balances and cash was attributable to the decrease in pledged deposits.
2. The decrease in notes receivable was mainly due to the transfer, discount or the maturity for payment.
3. The increase in prepayment was due to part of purchases were made by prepayment.
4. The increase in subsidy receivables was mainly due to the increase in export tax receivables.
5. The decrease in revenue from principal operations was mainly due to the decrease in sales income and increase in cost.
6. The decrease in net profit was mainly due to the decrease in sales income and increase in fixed expenses.

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

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

Revenue from principal operations by geographical analysis

<u>Operating indicators</u>	<u>Revenue from principal operations</u> <i>RMB</i>	<u>Change in revenue from principal operations as compared with the same period last year</u> (%)
Domestic market	2,344,915,742.79	(16.80%)
Overseas market	2,213,357,000.00	4.77%
Total	<u><u>4,558,272,742.79</u></u>	<u><u>(7.56%)</u></u>

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

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

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

Products	Revenue from principal operations	Cost of principal operations	Gross profit margin	Change in revenue from principal operations as compared with the same period last year	Change in cost of principal operations as compared with the same period last year	Change in gross profit margin as compared with the same period last year
	RMB	RMB	(%)	(%)	(%)	(%)
Refrigerators	1,469,137,687.00	1,342,664,919.09	8.61%	(23.48%)	(8.58%)	(63.38%)
Air-conditioners	2,596,028,653.09	2,350,444,341.50	9.46%	(3.43%)	8.37%	(51.04%)
Freezers	193,905,445.00	180,545,360.00	6.89%	29.34%	60.03%	(72.16%)
Others	299,200,957.70	271,090,652.00	9.40%	73.15%	77.63%	(19.54%)

Attributable to:

Related party transactions RMB36,880,000

Pricing policy of related party transactions Reference to open market prices

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

(5) INVESTMENTS OF THE COMPANY DURING THE PERIOD

1. During the Period, there was no application of raised funds nor was there an application of raised funds in the previous period that continued through to the Period.
2. Progress on and revenue from significant investments made by the Company without raising funds.
 - (1) As at the end of the Period, the installation work of one of the two production lines of the second phase expansion project of Shangqiu Kelon Electrical Co. Ltd. (商丘科龍電器有限公司) has completed and the other one is still under progress.
 - (2) As at the end of the Period, the equipment installation and testing of Zhuhai Kelon Industrial Development Co. Ltd. (珠海科龍實業發展有限公司) has initially completed but not yet commenced production.
 - (3) As at the end of the Period, Yangzhou Kelon Electrical Company Limited (揚州科龍電器有限公司) has proceeded to the production stage with basic construction work substantially completed, It has conducted trial production in a small scale.
 - (4) As at the end of the Period, Guangdong Kelon Weili Electrical Appliances Company Ltd. (廣東科龍威力電器有限公司) has commenced research and development of the washing machine project, which is now under trial stage.

(6) INVESTORS ARE ADVISED TO PAY SPECIAL ATTENTION TO THE ASSOCIATED RISKS AS THE COMPANY HAS PROJECTED THAT THE OPERATING RESULTS FOR THE PERIOD FROM 1 JANUARY 2005 TO 30 SEPTEMBER 2005 WILL BE SUBSTANTIALLY DIFFERENT FROM THE SAME PERIOD OF 2004.

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

**(7) DESCRIPTION ON THE STATUS AND DEVELOPMENT OF ISSUES REGARDING
QUALIFIED OPINIONS AS STATED IN THE AUDITORS' REPORT OF THE 2004 ANNUAL
REPORT BY THE MANAGEMENT OF THE COMPANY**

Regarding the qualified opinions issued by the former auditors on two matters as stated in the 2004 financial statements, the Company has conducted investigations as follows:

1. Follow-up on an aggregate sales amount of RMB576 million in 2004

The former auditors mentioned in the audit opinions of the 2004 audit report that the Company had sold goods of RMB576,000,000 to two domestic clients but failed to receive direct confirmation from the said customer, and the trade receivables were not recovered as at 31 December 2004. The board and management of the Company have seriously followed up and handled the matters as follows: After investigation, it was found that the sales revenue of RMB576,000,000 referred to in the audit opinion of the former auditor was reached based on the actual amount of the sales invoice of RMB203,000,000 the Company made to two clients in 2004, plus the revenue of RMB427,000,000 for goods sold to two clients at the end of 2004 the invoice of which was made later, less the amount of RMB54,000,000 for goods returned to the Company by two clients which was recognised in 2004. In fact, of the RMB203,000,000 which was the actual amount of sales invoice the Company made to the two clients in 2004, RMB121,000,000 was the amount of the invoice the Company later made for the goods sold in 2003 the invoice of which was not made at that time, and such amount of RMB121,000,000 was recognized as sales revenue in 2003. Therefore, only RMB82,000,000 should be included in the Company's revenue for 2004. In fact, to the two clients, the Company sold a value of RMB427,000,000 of goods in one case and RMB82,000,000 of goods in

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

**(7) DESCRIPTION ON THE STATUS AND DEVELOPMENT OF ISSUES REGARDING
QUALIFIED OPINIONS AS STATED IN THE AUDITORS' REPORT OF THE 2004 ANNUAL
REPORT BY THE MANAGEMENT OF THE COMPANY – *Continued***

**1. Follow-up on an aggregate sales amount of RMB576 million in 2004 –
*Continued***

another, making a total invoice value of RMB509,000,000. Sales revenue of RMB78,000,000 has been received, but payment for the balance of RMB431,000,000 were not received when due so the related goods were returned to the Company under the request of the Company. Most of such goods that were returned have been sold to other clients during the first half of 2005. As for the returned goods of RMB431,000,000 in value, since its share of the sale to the customer in 2004 was abnormal and the former auditor expressed doubts about the authenticity of the related sale, the management of the Company considered that it was improper for the RMB431,000,000 sale to be recognized as income. Therefore, the Company made retrospective adjustments which reduced the undistributed profits of RMB112,000,000 of the Company at the beginning of 2005.

2. Follow-up on whether the Company need to provide for sales returns

In the 2004 auditors' report, the former auditors stated that the Company had recognised more than RMB200 million sales returns, therefore they were unable to satisfy themselves that no allowance for sales returns at 31 December 2004 was required to be made. In response to this, the Board of Directors and management of the Company had conducted an investigation. As at 30 June 2005, save for the abovementioned sales returns of RMB431 million from the two customers, the Company received sales returns of approximately RMB98 million from customers for 2004 or before during the first half of 2005, therefore, the Company will determine if it is necessary to provide allowance for sales returns separately based on the aggregate sales returns for the year 2005.

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

(8) OTHER SIGNIFICANT EVENTS

1. During the period, the Company did not have any profit appropriation scheme, any reserve fund transferring to increase the share capital scheme or any issue of new shares scheme formulated during the previous period and adopted during the period. The Company did not make any profit appropriation for the interim period of 2005 and did not make any reserve fund transferring to increase the share capital.
2. The Company involved in some litigation and arbitration during the period, please refer to the notes 8 to financial statements for more details.
3. During the Period, the Company's subsidiaries purchased raw materials of approximately RMB87.60 million from an associated company, Huayi Compressor Holdings Company Limited and its subsidiaries and purchase raw materials of approximately RMB19.63 million from another associated company Chengdu Xinxing Electrical Appliance Holdings Company Limited at market prices. The amount represented less than 2.9% of total purchase.
4. Particulars of balances between the Company and related parties:

Unit: RMB ten thousand

Name of related party	Relationship with the listed company	Loans from listed company to related party		Loans from related party to listed company	
		Amount	Balance	Amount	Balance
Chengdu Xinxing	Subsidiary of the minority shareholder of Chengdu Kelon	-	3,400	-	-
Total		-	3,400	-	-

The listed company did not provide any loans to the controlling shareholder and its subsidiaries during the six months ended 30 June 2005.

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

(8) OTHER SIGNIFICANT EVENTS – Continued

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

Particulars of external guarantees (excluding those guarantees provided to subsidiaries)

Unit: RMB ten thousand

<u>Secured Objects</u>	<u>Date (Day of Agreement)</u>	<u>Secured Amount</u>	<u>Type of Guarantee</u>	<u>Guarantee Period</u>	<u>Performance completed or not</u>	<u>Whether the guarantee is given to a related party (Y or N)</u>
Minfeng Special Paper Co., Ltd.	2004-11-1	1,000.00	Joint and several liabilities	2004-11-26 – 2005-11-25	N	N
Minfeng Special Paper Co., Ltd.	2004-12-1	1,500.00	Joint and several liabilities	2004-12-20 – 2005-12-19	N	N
Minfeng Special Paper Co., Ltd.	2004-9-1	800.00	Joint and several liabilities	2004-9-21 – 2006-6-30	N	N
Minfeng Special Paper Co., Ltd.	2005-3-22	1,500.00	Joint and several liabilities	2005-3-22 – 2006-3-20	N	N

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

(8) OTHER SIGNIFICANT EVENTS – *Continued*

6. – *Continued*

<u>Secured Objects</u>	<u>Date (Date of Agreement)</u>	<u>Secured Amount</u>	<u>Type of Guarantee</u>	<u>Guarantee Period</u>	<u>Performance completed or not</u>	<u>Whether the guarantee is given to a related party (Y or N)</u>
Minfeng Special Paper Co., Ltd.	2005-5-16	1,500.00	Joint and several liabilities	2005-5-16 – 2006-4-10	N	N
Minfeng Special Paper Co., Ltd.	2005-5-20	1,400.00	Joint and several liabilities	2005-5-20 – 2006-5-18	N	N
Minfeng Special Paper Co., Ltd.	2005-6-1	1,500.00	Joint and several liabilities	2005-6-1 – 2006-5-30	N	N
Minfeng Special Paper Co., Ltd.	2004-7-27	60.00 (60,000 Euros)	Letter of credit	2004-7-27 – 2005-9-25	N	N
Minfeng Special Paper Co., Ltd.	2005-5-30	219.95 (USD265,000)	Letter of credit	2005-3-22 – 2006-3-20	N	N
Zhong Bao Ke Kong Investment Company Limited	2005-4-1	2,500.00	Joint and several liabilities	2005-4-13 – 2006-4-12	N	N

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

(8) OTHER SIGNIFICANT EVENTS – *Continued*

6. – *Continued*

<u>Secured Objects</u>	<u>Date (Date of Agreement)</u>	<u>Secured Amount</u>	<u>Type of Guarantee</u>	<u>Guarantee Period</u>	<u>Performance completed or not</u>	<u>Whether the guarantee is given to a related party (Y or N)</u>
Zhejiang Jiaxing Silk Company Limited	2005-6-1	650.00	Joint and several liabilities	2005-6-13 – 2006-6-12	N	N
Zhejiang Jiaxing Silk Company Limited	2004-11-1	1130.00	Joint and several liabilities	2005-11-10 – 2005-11-3	N	N
Zhejiang Jiaxing Silk Company Limited	2004-12-1	600.00	Joint and several liabilities	2004-12-16 – 2005-12-15	N	N
Zhejiang Jiaxing Silk Company Limited	2005-1-5	620.00	Joint and several liabilities	2005-1-5 – 2006-1-3	N	N
Total amount of guarantees incurred during the period						4,254.30
Total balance of guarantees during the period						3,404.19
Total amount of guarantees given to subsidiaries during the period						116,589.24
Total balance of guarantees given to subsidiaries during the end of the period						82,365.13

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

(8) OTHER SIGNIFICANT EVENTS – *Continued*

6. – *Continued*

Total guarantees	85,769.32
Proportion of total guarantees to net assets of the Company	38.76%
Amount of guarantees given to the controlling shareholders and other related parties which the Company has less than 50% shareholdings	-
Amount of guarantees given directly or indirectly to secured objects with a liability ratio of over 70%	-
Amount of aggregate guarantees exceeding 50% of net assets	-
Amount of total non performance guarantees	-

Note: The guarantees in favor of Minfeng Special Paper Co., Ltd., Zhong Bao Ke Kong Investment Company Limited and Zhejiang Jiaxing Silk Company Limited were given by Jiayi Beila Compressor Company, a subsidiary of Huayi Compressor Holding Company Limited which in turn is an associated company with 22.725% equity interests held by the Company.

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

(8) OTHER SIGNIFICANT EVENTS – *Continued*

7. No material cash assets management was assigned by the Company during the Period or occurred prior to the period and continued to be subsisting at the date of this report.
8. During the Period, neither the Company nor shareholders who held more than 5% of the shares of the Company had given any undertakings which might materially affect the operating results and financial position of the Company nor did any of such occurred prior to the period and continued to be subsisting at the date of this report.
9. The Company was informed on 11 May 2005 that owing to the qualified opinions arising from the limitation of audit scope as stated in the Auditors' Report 2004 of the Company by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Ltd (together "Deloitte"), Deloitte was not satisfactory with the undertakings given by the Company regarding its account management, and had decided to resign as auditors of the Company. At the annual general meeting of the Company held on 28 June 2005, the Company discussed and approved the resolution concerning the Appointment of Shenzhen Dahua Tiancheng Certified Public Accountants and BDO McCabe Lo Limited respectively as the Company's local and foreign auditors for 2005 financial year and authorised the board of directors to determine their remuneration. For details please refer to the announcement on Resolutions Passed at 2004 Annual General Meeting as published in China Securities Journal, Securities Times, Hong Kong Commercial Daily and China Daily on 29 June 2005.

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

(8) OTHER SIGNIFICANT EVENTS - *Continued*

10. Since 5 April 2005, the Company has been formally investigated by CSRC. Up to the date of this report the Company has not received any written results of the relevant investigation. After confirmation with relevant department on 1 August 2005, the Company was informed that five persons, namely Mr. Gu Chu Jun (the Company's chairman), Mr. Yan You Song (the Company's director and vice president), Mr. Jiang Bao Jun (the Company's finance supervisor), An Kuoyu (the Company's vice chief supervisor of the finance and resource department) and Liu Ke (the Company's vice manager of the finance and resource department) have been formally investigated by the PRC police department and are subject to procedures relating to criminal offences. A board meeting was held by the Company on 12 August 2005 in which it was resolved that a professional body be appointed to assess the impact and loss suffered by the Company as a result of Mr. Gu Chu Jun and others alleged economic crime which has led the Company to allegedly breach certain securities law of the PRC. The Company's president will formulate a resolution proposal taking into account the results of such investigation and assessment.

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

(8) OTHER SIGNIFICANT EVENTS – *Continued*

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

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

Note: Up to present, the Company has appointed professional agencies to investigate the effects of the alleged economic crimes of Mr. Gu Chu Jun and other relevant persons to the Company including the alleged misappropriation of funds. However, no conclusion has been reached. The above-mentioned misappropriation of funds is the only information which the Company is now available. Further announcement will be made once a conclusion of investigation is reached.

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

(8) OTHER SIGNIFICANT EVENTS – *Continued*

12. Specific description and independent opinions by independent directors on the Company's accumulated and current external guarantees and improper guarantees

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

- (1) As at 30 June 2005, the Company has accumulated external guarantees of RMB1,165.8924 million which were all provided to its controlling subsidiaries. The Company has not provided any security to its shareholders, subsidiaries of shareholders, affiliates of shareholders, other connected parties holding less than 50% shares of the Company, any non-legal entities and individuals;
- (2) As at 30 June 2005, the Company had contingent liabilities of the accumulated and current external security amounted to RMB42.543 million. The guarantees in favour of Minfeng Special Paper Co., Ltd., Zhong Bao Ke Kong Investment Company Limited and Zhejiang Jiaying Silk Company Limited were given by Jiayi Beila Compressor Company, a subsidiary of Huayi Compressor Holding Company Limited which in turn is an associated company with 22.725% equity interests held by the Company.
- (3) To the best of our knowledge and according to records kept by the Company, the Company/the Group has no other guarantees save as disclosed above.

The above opinions are provided by independent non-executive directors: Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man, Mr. Xu Xiao Lu.

BALANCE SHEET

At 30 June 2005

(Prepared in accordance with PRC GAAP and regulations)

Currency Unit: RMB

	Notes	30 June 2005		31 December 2004	
		Group	Company	Group	Company
Assets					
Current assets:					
Bank balances and cash	1	1,487,216,214.98	829,397,402.61	2,320,120,532.00	1,177,175,655.00
Short-term investments		-	-	-	-
Notes receivable	2	106,270,000.38	81,261,195.07	792,903,018.00	506,457,634.00
Dividend receivable		-	-	-	-
Interest receivable		-	-	-	-
Accounts receivable	3	1,204,802,439.93	174,725,531.44	705,415,427.55	542,936,448.55
Other receivables	4	181,822,762.76	1,677,599,384.32	268,943,804.00	1,692,453,331.00
Prepayments	5	573,078,810.84	21,339,403.21	197,803,725.00	26,244,296.00
Subsidy receivables	6	62,737,287.14	-	20,796,124.00	-
Inventories	7	2,811,090,964.57	816,357,737.01	3,259,818,997.08	1,358,855,198.08
Deferred expenditures		18,790,022.99	16,624,092.57	4,368,346.00	2,869,526.00
Long-term debt investment due within one year		-	-	-	-
Other current assets		-	-	-	-
Total current assets		6,445,808,503.59	3,617,304,746.23	7,570,169,973.63	5,306,992,088.63
Long-term investments:					
Long-term equity investments	8	78,333,126.22	1,746,256,558.62	93,945,657.00	1,805,001,608.00
Long-term debt investments		-	-	-	-
Total long-term investments		78,333,126.22	1,746,256,558.62	93,945,657.00	1,805,001,608.00
Fixed assets:					
Fixed assets, at cost	9	4,350,032,896.14	1,448,318,448.04	4,289,997,578.00	1,448,426,106.00
Less: Accumulated depreciation	9	2,313,103,874.68	698,975,271.04	2,165,216,534.00	667,853,330.00
Fixed assets, net		2,036,929,021.46	749,343,177.00	2,124,781,044.00	780,572,776.00
Less: Provisions for impairment of fixed assets	9	64,014,413.38	-	64,011,849.00	-
Fixed assets, net		1,972,914,608.08	749,343,177.00	2,060,769,195.00	780,572,776.00
Construction materials		-	-	-	-
Construction in progress	10	407,914,868.54	47,229,586.33	349,490,180.00	33,061,019.00
Disposal of fixed assets		-	-	-	-
Total fixed assets		2,380,829,476.62	796,572,763.33	2,410,259,375.00	813,633,795.00
Intangible assets and other assets:					
Intangible assets	11	1,035,004,021.97	855,186,807.21	1,071,066,931.00	887,902,262.00
Long-term deferred expenditures	12	24,352,105.87	18,790,261.34	37,293,651.00	25,424,841.00
Long-term receivables due within one year		34,000,000.00	-	34,000,000.00	-
Total intangible assets and other assets		1,093,356,127.84	873,977,068.55	1,142,360,582.00	913,327,103.00
Deferred taxes:					
Deferred taxes debit		-	-	-	-
Grand total of assets		9,998,327,234.27	7,034,111,136.73	11,216,735,587.63	8,838,954,594.63

BALANCE SHEET – Continued

At 30 June 2005

(Prepared in accordance with PRC GAAP and regulations)

Currency Unit: RMB

	Notes	30 June 2005		31 December 2004	
		Group	Company	Group	Company
Liabilities and shareholders' interests					
Current liabilities:					
Short-term borrowings	13	2,434,588,431.75	987,127,226.05	2,911,715,168.00	1,172,365,000.00
Notes payable	14	1,634,945,728.79	1,389,275,897.12	1,719,560,637.00	1,987,375,448.00
Accounts payable	15	2,430,709,412.15	1,017,225,674.81	1,939,251,222.01	955,442,361.01
Advance from customers	16	271,759,485.27	223,396,538.49	852,637,382.00	765,356,039.00
Accrued payroll		32,946,399.15	12,941,571.82	25,677,559.00	7,052,331.00
Staff welfare payables		3,300,371.61	-	620,445.00	-
Dividend payable		-	-	-	-
Taxes payable	17	(32,860,412.27)	(20,003,964.88)	(17,959,863.48)	(44,294,605.48)
Payable to others		2,891,232.39	1,161,738.08	4,355,736.00	970,585.00
Other payables	18	209,906,990.60	305,941,680.36	347,707,583.00	367,546,767.00
Accruals	19	281,027,521.76	249,895,552.37	197,017,170.37	172,229,478.37
Provision	20	121,679,036.62	121,679,036.62	119,337,512.00	119,337,512.00
Deferred income		-	-	-	-
Long-term borrowings due within one year	21	-	-	4,215,420.00	-
Other current liabilities		-	-	-	-
Total current liabilities		7,390,894,197.82	4,288,640,950.84	8,104,135,970.90	5,503,380,915.90
Long-term liabilities:					
Long-term borrowings	22	14,621,077.00	-	16,723,295.00	-
Bonds payable		-	-	-	-
Long-term payables	23	68,245,791.51	62,976,834.93	69,962,105.00	64,991,061.00
Payables for specific projects		-	-	-	-
Accrued liabilities of investee enterprise		-	139,580,301.18	-	173,408,114.00
Total long-term liabilities		82,866,868.51	202,557,136.11	86,685,400.00	238,399,175.00
Deferred taxes:					
Deferred taxes credit		-	-	-	-
Total liabilities		7,473,761,066.33	4,491,198,086.95	8,190,821,370.90	5,741,780,090.90
Minority interests:					
Minority interests		311,927,593.32	-	334,637,548.00	-
Shareholders' interests:					
Share capital	24	992,006,563.00	992,006,563.00	992,006,563.00	992,006,563.00
Capital reserve	25	1,583,769,289.25	2,004,286,790.88	1,576,684,229.00	1,997,201,731.00
Surplus reserve	26	114,580,901.00	114,580,901.00	114,580,901.00	114,580,901.00
Including: Common welfare fund		114,580,901.00	114,580,901.00	114,580,901.00	114,580,901.00
Unappropriated profits	27	(478,547,701.17)	(567,961,205.10)	8,395,896.73	(6,614,691.27)
Exchange differences		829,522.54	-	(390,921.00)	-
Unrecognized investment loss		-	-	-	-
Declared cash dividend		-	-	-	-
Total shareholders' interest		2,212,638,574.62	2,542,913,049.78	2,691,276,668.73	3,097,174,503.73
Grand total of liabilities and shareholders' interest		9,998,327,234.27	7,034,111,136.73	11,216,735,587.63	8,838,954,594.63

STATEMENT OF INCOME AND PROFIT APPROPRIATION

For the six months ended 30 June 2005

(Prepared in accordance with PRC GAAP and regulations)

Currency Unit: RMB

Items	Notes	January-June 2005		January - June 2004	
		Group	Company	Group	Company
1. Revenue from principal operations	28	4,558,272,742.79	2,172,606,939.43	4,931,016,244.00	3,520,432,541.00
Less: Cost of principal operations	28	4,144,745,272.59	2,079,291,793.38	3,902,886,072.00	3,011,955,737.00
Tax and surcharge of principal operations		290,131.86	111,344.38	119,267.00	67,520.00
2. Profit from principal operations		413,237,338.34	93,203,801.67	1,028,010,905.00	508,409,284.00
Add: Other operating (loss)/profit		(3,817,441.88)	(151,142.60)	23,215,762.00	(17,651.00)
Less: Operating expenses		604,632,947.83	510,703,450.71	631,918,686.00	507,495,314.00
Administrative expenses		219,836,978.07	80,143,084.80	177,969,598.00	56,463,669.00
Financial expenses	29	70,176,866.53	30,731,327.99	71,261,917.00	29,846,203.00
3. Operating (loss)/profit		(485,226,895.97)	(528,525,204.43)	170,076,466.00	(85,413,553.00)
Add: Investment (loss)/income	30	(15,611,330.78)	(32,001,096.83)	(12,333,282.00)	259,617,148.00
Subsidiary income		151,351.62	-	-	-
Non-operating income		1,762,439.28	845,459.06	6,762,591.00	4,814,525.00
Less: Non-operating expenses		2,327,742.10	1,665,671.63	9,093,750.00	8,248,935.00
4. (Loss)/Profit before taxation		(501,252,177.95)	(561,346,513.83)	155,412,025.00	170,769,185.00
Less: Income tax	31	8,401,579.56	-	4,344,199.00	-
Minority interests		(22,710,159.61)	-	(8,124,592.00)	-
Loss of subsidiaries to be made up		-	-	-	-
5. Net (loss)/profit		(486,943,597.90)	(561,346,513.83)	159,192,418.00	170,769,185.00
Add: Unappropriated profit at the beginning of the period		8,395,896.73	(6,614,691.27)	184,436,195.00	197,890,645.00
Other transferred profit		-	-	-	-
6. Profit available for appropriation		(478,547,701.17)	(567,961,205.10)	343,628,613.00	368,659,830.00
Less: Utilisation of statutory common reserve		-	-	-	-
Utilisation of statutory welfare fund		-	-	-	-
Utilisation of welfare fund and incentive fund		-	-	-	-
7. Profit available for appropriation to shareholders		(478,547,701.17)	(567,961,205.10)	343,628,613.00	368,659,830.00
Less: Dividend payable to preference shares		-	-	-	-
Utilisation of discretionary reserve		-	-	-	-
Dividend payable to ordinary shares		-	-	-	-
Transfer dividend for ordinary share to share capital		-	-	-	-
8. (Accumulated losses)/Unappropriated profit		(478,547,701.17)	(567,961,205.10)	343,628,613.00	368,659,830.00

STATEMENT OF CASH FLOWS

For the six months ended 30 June 2005

(Prepared in accordance with PRC GAAP and regulations)

Currency Unit: RMB

Items	January - June 2005	
	Group	Company
1. Cash flows from operating activities		
Cash received from sales of goods and services rendered	4,140,807,748.50	2,776,529,613.52
Tax rebate received	89,776,022.19	-
Cash received from other operating activities	3,059,812.90	661,639.71
Sub-total of cash inflows	4,233,643,583.59	2,777,191,253.23
Cash paid for purchase of goods and services	3,599,337,913.35	2,394,932,820.98
Cash paid to and on behalf of staff	204,080,238.00	61,246,973.75
Taxes paid	63,638,235.26	38,323,357.78
Cash paid for other operating activities	559,805,123.77	403,202,453.07
Sub-total of cash outflows	4,426,861,510.38	2,897,705,605.58
Net cash flows from operating activities	(193,217,926.79)	(120,514,352.35)
2 Cash flows from investing activities		
Cash received from disposal of investments	-	-
Including: Cash received from disposal of subsidiaries	-	-
Cash received from acquired investment gains	-	-
Net cash received on disposal of fixed assets, intangible assets and other long-term assets	-	-
Cash received on other investment related activities	137,794,089.64	161,863,636.54
Sub-total of cash inflows	137,794,089.64	161,863,636.54
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	117,147,040.00	14,168,567.05
Cash paid for investments	-	-
Including: Cash paid for acquisition of subsidiaries	-	-
Cash paid for other investment related activities	-	-
Sub-total of cash outflows	117,147,040.00	14,168,567.05
Net cash inflows from investing activities	20,647,049.64	147,695,069.49

STATEMENT OF CASH FLOWS – Continued

For the six months ended 30 June 2005

(Prepared in accordance with PRC GAAP and regulations)

Currency Unit: RMB

Items	January – June 2005	
	Group	Company
3. Cash flows from financing activities		
Cash received from acquired investment	-	-
Including: Cash received from acquiring investment of minority interests by subsidiaries	-	-
Cash received from borrowings	2,138,303,106.83	406,497,000.00
Cash received from other fund raising related activities	-	-
Sub-total of cash inflows	2,138,303,106.83	406,497,000.00
Cash paid for debt repayment	2,600,818,767.00	591,734,773.95
Cash paid for appropriation of dividend or payment of interests	73,519,256.06	36,521,623.59
Including: Dividend paid to minority shareholders by subsidiaries	-	-
Cash paid for reduction of registered share capital	-	-
Cash paid to minority shareholders by subsidiaries upon reduction of share capital	-	-
Cash paid for other fund raising related activities	-	-
Sub-total of cash outflows	2,674,338,023.06	628,256,397.54
Net cash flows from financing activities	(536,034,916.23)	(221,759,397.54)
4. Effect of foreign exchange rate changes on cash	-	-
5. Net increase in cash and cash equivalents	(708,605,793.38)	(194,578,680.40)

STATEMENT OF CASH FLOWS – *Continued*

For the six months ended 30 June 2005

(Prepared in accordance with PRC GAAP and regulations)

Currency Unit: RMB

Items	January – June 2005	
	Group	Company
1. Investment and financing activities not related to cash income and expenses		
Debt converted to capital	-	-
Convertible bonds due within one year	-	-
Finance lease of fixed assets	-	-
2. Restate net profit as cash flows for operating activities		
Net profit	(486,943,597.90)	(561,346,513.83)
Add: Gain and loss of minority shareholders	(22,710,159.61)	-
Provisions for assets impairment	(34,934,365.52)	(16,811,374.64)
Fixed assets depreciation	154,779,295.96	27,941,765.02
Amortisation of intangible assets	37,058,633.47	33,110,254.68
Amortisation of long-term deferred expenditures	16,122,905.77	6,634,579.44
Increase in deferred expenditure	(14,421,676.99)	(13,754,566.57)
Increase in accruals	84,010,351.39	77,666,074.00
Losses on disposal of fixed assets, intangible assets and other long-term assets	482,125.00	255,146.25
Loss on retirement of fixed assets	-	-
Financial expenses	70,176,866.53	30,731,327.99
Investment loss	15,611,330.78	32,001,096.83
Deferred tax credit	-	-
Decrease in inventories	484,803,489.51	580,423,524.07
(Increase)/Decrease in operating receivables	(217,936,660.95)	789,802,599.53
Decrease in operating payables	(279,316,464.22)	(1,107,168,265.11)
Others	-	-
Net cash flows from operating activities	(193,217,926.78)	(120,514,352.34)
3. Increase in cash and cash equivalents		
Cash balance at the end of the period	308,927,708.62	36,555,252.61
Less: Cash balance at the beginning of the period	1,017,533,502.00	231,133,933.00
Add: Balance of cash equivalents at the end of the period	-	-
Less: Balance of cash equivalents at the end of the period	-	-
Net decrease in cash and cash equivalents	(708,605,793.38)	(194,578,680.39)

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

I 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 "Guangdong 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.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

I GENERAL – Continued

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.

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**1. Accounting regulations and standards:**

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

2. Accounting year:

The Company adopts the calendar year as its accounting year, i.e. from 1 January to 31 December. The accounting period for these financial statements is the six months period from 1 January 2005 to 30 June 2005.

3. Basis of accounting and principle of measurement

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

4. Reporting currency:

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

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued**5. Foreign exchange translation:**

Transactions in foreign currencies (other than the reporting currency) are translated into Renminbi at the applicable rates of exchange ("market exchange rate") prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the market exchange rate prevailing at the balance sheet date. Gains and losses arising on exchange are included in financial expenses, except from those arising from the special foreign borrowings for the acquisition and construction of a qualifying assets which were included in the cost of assets before it has reached the working condition for its intended use, and those arising in the pre-operating period, were recorded as the long term deferred expenditures for amortisation.

6. Basis of consolidation:*(1) Consolidation scope*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the period ended 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 an amount not material in accordance with the regulatory document "Answer to the Question about Consolidation Scope" (CKZ (96) No. 2) issued by the Ministry of Finance, their results are not included in consolidation. The Company accounts for the unconsolidated subsidiaries by using equity methods.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued**6. Basis of consolidation: – Continued***(2) Consolidation method*

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

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.

7. Method for translation of foreign currency financial statements:

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

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

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued**7. Method for translation of foreign currency financial statements: – Continued**

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.

8. 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 insignificant risk on changes in value.

9. Provision for doubtful debts:*(1) Criteria for recognition of doubtful debts*

- a. The irrecoverable amount for a debtor who becomes bankrupt after pursuing the statutory recovery procedures;
- b. The irrecoverable amount for a debtor who dies and has no offsetting estate and obligatory undertakers;
- c. 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.

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

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

9. Provision for doubtful debts:- *Continued*

(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 against the account receivables for domestic customers is accounted for with reference to the aging analysis and the provision percentage sets out below:

<u>Age</u>	<u>Provision percentage</u>
Within 3 months	–
Over 3 months and within 6 months	10%
Over 6 months and within one year	50%
Over one 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.

10. Inventories:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued**11. 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.

12. 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.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued**12. Long-term investments: – Continued***(1) Accounting for long-term equity investments: – Continued*

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

When a long-term equity investment is accounted for using the equity method, the difference between the initial investments cost of the Company and the Company's share of equity of the investee enterprise is shown as "long-term equity investment difference". The excess of the initial investments cost over the share of equity of the investee enterprise should be debited to the "long-term equity investment difference" and amortised evenly over a specified investment period. Where the investment period is specified in the contract, it should be amortised over that investment period. If the investment period is not specified in the contract, the excess of the investment cost over the share of equity of the investee enterprise should generally be amortised over a period not more than 10 years. While the shortfall of the initial investments cost over the share of equity of the investee enterprise, which has been occurred prior to the issuance of document Caikuai [2003] No. 10, should be credited to the "long-term equity investment difference" and amortised evenly over a specified period. Where the investment period is specified in the contract, it should be amortised over the investment period. If the investment period is not specified in the contract, the excess of the investment cost over the share of equity of the investee enterprise should generally be amortised over a period not less than 10 years. While the shortfall of the initial investments cost over the share of equity of the investee enterprise, is occurred after the issue of document Caikuai [2003] No. 10, should be credited to "capital reserve – provision for equity investment".

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued**12. Long-term investments: – Continued***(2) Provision for impairment of long-term investment:*

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

Long-term equity investment accounted for by using the 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 period profit and loss. The differences of creditors of equity investment were recognised when investing and were deferred as an investment deduction. The impairment loss was first written off the differences of creditors of equity investment and the inadequacy was then included in the current profits and losses. The differences of debtors of equity investment were recognised when investing and were deferred by instalments. Impairment loss was entirely accounted for the current profits and losses and at the same time eliminated the difference of equity investment. The inadequacy was credited to the impairment provision of long-term investment.

13. 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.

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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(Prepared in accordance with PRC GAAP and regulations)

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

14. 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:

<u>Category</u>	<u>Estimated rate of residual value</u>	<u>Estimated useful life</u>	<u>Annual depreciation rate</u>
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%
Motor vehicles	5%	5 years	19%
Moulds	0%	3 years	33.33%

15. Provision for impairment of fixed assets:

At the end of each period, the Company assesses if there is any indication that fixed assets are suffered from an impairment loss and determines whether provision for impairment of fixed assets should be made accordingly. When the recoverable amount of any fixed assets is lower than its carrying amount an impairment loss on fixed assets will be made recognised for the difference.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued**16. Construction in progress:**

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

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

17. Intangible assets:

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

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

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(Prepared in accordance with PRC GAAP and regulations)

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

17. Intangible assets: – *Continued*

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

18. Provision for impairment of intangible assets:

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

19. 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.

20. 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.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued**21. 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.

22. Basis of Revenue recognition:

Sales revenue:

Sales revenue is recognised when the Company and the subsidiaries have transferred the significant risk and rewards of ownership to the buyer; and the Company neither retains the continuous managing rights usually related to the ownership 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.

Services income:

Services income is recognised when the amount of revenue can be measured reliably; the stage of completion can be measured reliably; the economic benefits associated with the transaction will flow to the enterprise and the costs incurred in respect of the transaction can be measured reliably.

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.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

II SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – Continued**23. Subsidy income:**

Subsidy income is recognised when received.

24. Leases:

Finance 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.

25. Income tax:

Income tax is provided under tax payable method.

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

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

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(Prepared in accordance with PRC GAAP and regulations)

III RECTIFICATION OF SIGNIFICANT ACCOUNTING ERRORS

- (1) It is investigated that the Company wrongly posted the goods sold into the income in 2004 and resulted an over recognition of sales revenue amounting RMB430,552,861.98. When preparing the comparable financial statements for the prior year and current period, the Company made rectification on the above figure as a significant accounting error. Such error affected the accumulated profits of the Company in the beginning of the current period being decreased by RMB111,880,092.27, the receivables being deducted by RMB472,621,668.45, the inventories being increased by RMB262,963,659.08, the taxes payable being decreased by RMB68,671,524.48 and the accruals being reduced by RMB29,106,392.63.
- (2) It is investigated that the Company did not record receivable and payables of RMB65,000,000.00 respectively. When preparing the comparable financial statements for the prior year and current period, the Company made rectification on the above figure as a significant accounting error. Such error influenced the other receivables of the Company in the beginning of the current period being increased by RMB65,000,000.00 and other payables being increased by RMB65,000,000.00.

IV TAXATION

1. 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.

2. Enterprise Income Tax

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

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

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

IV TAXATION – *Continued*

2. 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 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.

3. 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.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

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(Prepared in accordance with PRC GAAP and regulations)

V PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR

As at 30 June 2005, particulars of the subsidiaries of the Company are as follows:

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Total	Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly				
Pearl River Electric Refrigerator Company Limited	Hong Kong	HK\$400,000	-	100%	100%	Trading in raw materials and parts for refrigerators	Limited liability company	Yes
Kelon Electric Appliances Co., Ltd.	Hong Kong	HK\$10,000	-	100%	100%	Property investment	Limited liability company	Yes
Shunde Rongsheng Plastic Products Co., Ltd.	Foshan	US\$15,800,000	45%	25%	70%	Manufacture of plastic parts	Sino-foreign joint venture enterprise	Yes
Kelon Development Company Limited	Hong Kong	HK\$5,000,000	100%	-	100%	Investment holdings	Limited liability company	Yes
Guangdong Kelon Mould Co., Ltd.	Foshan	US\$15,000,000	40%	30%	70%	Manufacture of moulds	Sino-foreign joint venture enterprise	Yes
Guangdong Kelon Refrigerator Ltd.	Foshan	US\$26,800,000	70%	30%	100%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
Guangdong Kelon Air-Conditioner Co., Ltd.	Foshan	US\$36,150,000	60%	-	60%	Manufacture and sales of air-conditioners	Sino-foreign joint venture enterprise	Yes
Kelon (Japan) Limited	Japan	JPY1,100,000,000	-	100%	100%	Technical research and trading in electrical household appliances	Foreign company	No

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the period	
			Directly	Indirectly				
Chengdu Kelon Refrigerator Co., Ltd.	Chengdu	RMB200,000,000	45%	25%	70%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
Yingkou Kelon Refrigerator Co., Ltd.	Yingkou	RMB200,000,000	42%	36.79%	78.79%	Manufacture and sale of refrigerators	Sino-foreign joint venture enterprise	Yes
Wetherell Development Limited	British Virgin Islands	US\$1	-	100%	100%	Advertising agency	Foreign company	Yes
Kelon International Incorporation	British Virgin Islands	US\$50,000	-	100%	100%	Investment holding and sales of refrigerators and air-conditioners	Foreign company	Yes
Guangdong Kelon Fittings Co., Ltd.	Foshan	US\$5,620,000	70%	30%	100%	Manufacture and sale of components for refrigerators and air-conditioners	Sino-foreign joint venture enterprise	Yes
Shunde Kelon Jiake Electronic Company Limited	Foshan	RMB60,000,000	70%	30%	100%	IT and communication technology, and micro-electronics technology development	Limited liability company	Yes
Guangdong Kelon Refrigerator Co., Ltd.	Foshan	RMB237,000,000	44%	56%	100%	Manufacture and sale of freezers	Sino-foreign joint venture enterprise	Yes

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Total	Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly				
Shunde Kelon Household Electrical Appliance Company Limited	Foshan	RMB10,000,000	25%	75%	100%	Manufacture and sales of electrical household appliances	Limited liability company	Yes
Shunde Wangao Import & Export Co., Ltd.	Foshan	RMB3,000,000	20%	80%	100%	Import and export business	Limited liability company	Yes
順德市崎輝服務有限公司	Foshan	RMB1,000,000	-	100%	100%	Corporate management consultancy, catering services, household decoration designs	Limited liability company	Yes
Jiangxi Kelon Industrial Development Co., Ltd.	Nanchang	US\$29,800,000	60%	40%	100%	Manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small electrical appliances	Sino-foreign joint venture enterprise	Yes
Huao Electrical Electronics Co., Ltd.	Foshan	RMB10,000,000	-	70%	70%	Research and development, manufacture and sale of electronic products	Limited liability company	Yes

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

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(Prepared in accordance with PRC GAAP and regulations)

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the period	
			Directly	Indirectly				
Jilin Kelon Electric Co., Ltd.	Jilin	RMB200,000,000	90%	10%	100%	Development, manufacture and sale of refrigerator, airconditioner, freezer and household electrical appliances	Limited liability company	Yes
Kelon (USA) Inc.	USA	US\$100	-	100%	100%	Business liaison	Foreign company	Yes
Hangzhou Kelon Electrical Company Limited	Hangzhou	US\$24,100,000	40%	30%	70%	Research and development of the technology for environmental friendly refrigerators, production of high efficiency, energy saving and environmental friendly refrigerators, information consultation, warehousing, and sale of the products made by the Company	Sino-foreign joint venture enterprise	Yes

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Total	Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly				
Yangzhou Kelon Electrical Company Limited	Yangzhou	US\$29,800,000	30%	70%	100%	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
Zuhai Kelon Industrial Development Co., Ltd	Zuhai	US\$29,980,000	75%	25%	100%	Research and development of electric refrigerator, air-conditioner, freezer, small household electrical appliances and related accessories	Sino-foreign joint venture enterprise	Yes
Shangqiu Kelon Electrical Company Limited	Shangqiu	RMB150,000,000	-	100%	100%	Research, development, production and sale of household and commercial air-conditioners, refrigerators, freezers, small household electrical appliances and parts and accessories, and provision of relevant information and technical consultancy services	Limited liability company	Yes

NOTES TO THE FINANCIAL STATEMENTS – Continued

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V PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR – Continued

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Principal Activities	Nature of business	Consolidated in the period	
			Directly	Indirectly				
Jiangxi Kelon Combine Electrical Appliances Co., Ltd.	Nanchang	RMB20,000,000	-	55%	55%	Research and development, manufacture and sale of household and commercial air-conditioners, refrigerators, freezers and small household electrical appliances	Sino-foreign joint venture enterprise	Yes
Xi'an Kelon Cooling Co., Ltd.	Xi'an	RMB202,000,000	60%	-	60%	Development, manufacture, design, production of chlorofluorocarbon-free refrigerator (freezer) cooling compressor products; sale of products and conducting after-sale services, research and manufacture, development and production of new cooling compressor products subject to the market demands	Sino-foreign joint enterprise	Yes
Kaifeng Kelon Air-Conditioner Co., Ltd.	Kaifeng	RMB60,000,000	-	70%	70%	Production, sale, research and development of air-conditioner products	Limited liability company	Yes

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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(Prepared in accordance with PRC GAAP and regulations)

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

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Total	Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly				
Wuhu Ecan Motors Company Limited	Wuhu	US\$7,210,000	40%	40%	80%	Production and sale of motor starter and permanent-magnet current brushless motor, micro alternating current machine and electrical equipment	Sino-foreign joint venture enterprise	Yes
						Domestic commerce, Supply and sale of supplies (excluding specific marketing, specific control and specific sale products)		
Shenzhen Kelon Purchase Company Limited	Shenzhen	200,000,000	95%	5%	100%	Import and export, provision of warehouse and storage, information consultation and technology services (excluding those items limited)	Limited liability company	Yes
Guangdong Kelon Weili Electrical Appliances Company Limited	Zhongshan	200,000,000	55%	25%	80%	Production of intelligent washing machine, air-conditioner and after-sale services and technology consultation for other products, 70% products for domestic sale	Sino-foreign joint venture enterprise	Yes

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

V PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD – *Continued*

Name of Entity	Place of incorporation	Registered Capital	Percentage of equity interest attributable to the Company		Total	Principal Activities	Nature of business	Consolidated in the period
			Directly	Indirectly				
Kelon Europe Industrial Design Limited	United Kingdom	-	-	100%	100%	Business liaison	Foreign company	No
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited	Chengdu	2,000,000	76%	-	76%	Sale of refrigerator	Limited liability company	No
Beijing Hengsheng Xin Chuang Technology Company	Beijing	30,000,000	80%	-	80%	Research, development of industrial and commercial intelligent system	Limited liability company	No
Beijing Kelon Tiandi IT Network Limited	Beijing	5,000,000	-	78%	78%	Operation items are under free-option, excluding those prohibited by laws and regulations	Limited liability company	No
Beijing Kelon Shikong Information Technology Company Limited	Beijing	5,000,000	-	78%	78%	Operation items are under free-option, excluding those prohibited by laws and regulations	Limited liability company	No

- Sichuan Rongsheng Kelon Refrigerator Sales Company Limited, Beijing Hengsheng Xin Chuang Technology Company, Beijing Kelon Tiandi IT Network Limited, Beijing Kelon Shikong Information Technology Company Limited and Kelon (Japan) Limited are in the course of liquidation. Due to the figures are immaterial, the total assets, operation revenue and net profits of Kelon Europe were not combined according to the relevant requirements under the documents from Ministry of Finance, Cai Hui Zi (96) No.2 Reply for Request Regarding the scope of combination of the Combined Accounting Statement.

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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V PARTICULARS OF SUBSIDIARIES AND ASSOCIATES AND SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD – *Continued*

Particulars of associates of the Company are set forth below:

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

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES)

1. Bank Balances and Cash

Items	At the end of the period			At the beginning of the period			
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent	
Cash	RMB	1,388,422.94	1.00	1,388,422.94	2,858,463	1.00	2,858,463.00
	HKD	30,000.00	1.06485	31,945.17	30,688	1.0645	32,667.00
	USD	-	-	-	8,331	8.2765	68,951.00
	Others	-	-	687.62	-	-	-
Sub-total			1,421,055.73			2,960,081.00	
Bank Deposit	RMB	183,461,566.62	1.00	183,461,566.62	786,030,623	1.00	786,030,623.00
	HKD	7,563,375.37	1.06485	8,053,860.26	11,076,838	1.0645	11,791,294.00
	USD	13,924,725.34	8.2765	115,247,989.28	24,818,726	8.2765	205,412,189.00
	JPY	896,177.13	0.07791	69,821.16	38,610,895	0.0805	3,108,177.00
	EUR	40,737.67	10.59060	431,436.40	732,366	11.1493	8,165,368.00
	Others	-	-	241,979.17	-	-	65,770.00
Sub-total			307,506,652.89			1,014,573,421.00	
Other Monetary Assets	RMB	1,159,648,331.07	1.00	1,159,648,331.07	1,174,826,788	1.00	1,174,826,788.00
	USD	2,252,180.91	8.2765	18,640,175.29	15,436,506	8.2765	127,760,242.00
Sub-total			1,178,288,506.36			1,302,587,030.00	
Total			1,487,216,214.98			2,320,120,532.00	

* Other monetary assets represent margin deposits, and pledged deposits for the purposes of the issuance of bank acceptance notes, commercial acceptance notes, letter of credit and bank borrowings.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**2. Notes Receivable**

<u>Type</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Bank acceptance notes		
- pledged	-	161,900,000.00
- non-pledged	61,903,620.29	443,243,769.00
Commercial acceptance notes		
- pledged	-	-
- non-pledged	44,366,380.09	187,759,249.00
Total	<u>106,270,000.38</u>	<u>792,903,018.00</u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

3. Accounts Receivable

The Combined figures of accounts receivable are as follows:

Age	At the end of the period			At the beginning of the period		
	Amount	Ratio	Provision for bad debt	Amount	Ratio	Provision for bad debt
Within one year	1,213,674,840.15	87.71%	8,872,400.22	692,446,755.55	77.90%	16,494,091.00
One to two years	20,702,185.52	1.50%	20,702,185.52	84,881,609.00	9.55%	55,418,846.00
Two to three years	62,602,053.03	4.52%	62,602,053.03	43,487,559.00	4.89%	43,487,559.00
Over three years	86,687,799.19	6.27%	86,687,799.19	68,044,288.00	7.66%	68,044,288.00
Total	<u>1,383,666,877.89</u>	<u>100%</u>	<u>178,864,437.96</u>	<u>888,860,211.55</u>	<u>100%</u>	<u>183,444,784.00</u>

* Total amount of five largest debtors is RMB563,715,026.74, representing 40.74% of the total balance.

** At the end of the period, no shareholders' fund holding shares of 5% (inclusive) or more.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**3. Accounts Receivable – Continued**

The combined figures of accounts receivable are as follows:

Age	At the end of the period			At the beginning of the period		
	Amount	Ratio	Provision for bad debt	Amount	Ratio	Provision for bad debt
Within one year	193,238,020.61	62.59%	20,512,488.68	552,195,109.55	83.35%	9,258,661.00
One to two years	55,172,880.60	17.87%	55,172,880.60	16,672,711.00	2.52%	16,672,711.00
Two to three years	16,644,396.35	5.39%	16,644,396.35	31,106,898.00	4.70%	31,106,898.00
Over three years	43,659,600.24	14.15%	41,659,600.73	62,480,769.00	9.43%	62,480,769.00
Total	308,714,897.80	100%	133,989,366.36	662,455,487.55	100%	119,519,039.00

* At the end of the period, no shareholders' fund holding shares of 5% (inclusive) or more.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**4. Other Receivables**

The aging analysis of other receivables is as follows:

Age	At the end of the period			At the beginning of the period		
	Amount	Ratio	Provision for bad debt	Amount	Ratio	Provision for bad debt
Within one year	91,009,595.27	47.48%	1,565,927.53	186,559,529.00	67.28%	40,595.00
One to two years	27,335,658.71	14.26%	-	82,938,377.00	29.91%	1,137,111.00
Two to three years	65,556,943.31	34.20%	1,137,111.00	1,929,390.00	0.70%	1,664,424.00
Over three years	7,779,836.00	4.06%	7,156,232.00	5,850,446.00	2.11%	5,491,808.00
Total	191,682,033.29	100.00%	9,859,270.53	277,277,742.00	100%	8,333,938.00

* At the end of the period, no shareholders' fund holding shares of 5% (inclusive) or more.

** Total amount of five largest debtors is RMB169,438,214.10, representing 88.40% of the total balance.

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – *Continued*

4. Other Receivables – *Continued*

Particulars of other receivables are set out below:

Age	At the end of the period			At the beginning of the period		
	Amount	Ratio	Provision for bad debt	Amount	Ratio	Provision for bad debt
Within one year	1,647,608,101.92	97.81%	-	1,573,412,010.00	92.59%	-
One to two years	5,879,722.07	0.35%	-	104,845,864.00	6.17%	-
Two to three years	9,916,102.93	0.59%	-	15,523,382.00	0.91%	1,327,925.00
Over three years	21,015,190.00	1.25%	6,819,732.60	5,491,808.00	0.33%	5,491,808.00
Total	<u>1,684,419,116.92</u>	<u>100%</u>	<u>6,819,732.60</u>	<u>1,699,273,064.00</u>	<u>100%</u>	<u>6,819,733.00</u>

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

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**5. Prepayments**

The aging analysis of prepayments is as follows:

Age	At the end of the period		At the beginning of the period	
	Amount	Ratio	Amount	Ratio
Within one year	568,444,606.65	99.19%	195,592,540.00	98.88%
one to two years	4,634,204.19	0.81%	2,211,185.00	1.12%
Total	<u>573,078,810.84</u>	<u>100%</u>	<u>197,803,725.00</u>	<u>100%</u>

* During the period between 26 and 28 April 2005, a subsidiary of the Company totally prepaid \$97,410,000 by five instalments to a new supplier, 天津祥潤工貿發展有限公司. The delivery time was from 1 May to 31 August 2005. The amount was satisfied by cash paid in advance upon signing of contract and so far a sum valued at \$1,630,000 for 235.44 tons were delivered and no invoice had been received. The Company has not yet identified the shareholders background of 天津祥潤. The legal representative registered in the business license of enterprise legal person is Yue Ying.

* During the period between 26 and 27 April 2005, a subsidiary of the Company, Shenzhen Kelon Purchase Company Limited totally prepaid \$89,600,000 by two instalments to a new supplier, 天津立信商貿發展有限公司. The delivery time was from 1 May to 31 August 2005. The amount was satisfied by cash paid in advance upon signing of contract. The payment was made upon delivery. Up to the date of report, a sum valued at \$396,700 for 58.8 tons were delivered and no invoice had been received. The Company is undergoing an investigation and has not yet identified the shareholders background of 天津立信商貿發展有限公司.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

5. Prepayments – Continued

** During the period between 6 and 14 April 2005, a subsidiary of the Company, Jiangxi Kelon Industrial Development Co., Ltd. (“Jiangxi Kelon”) totally prepaid \$81,680,000 to a new supplier, 濟南三愛富氟化工有限責任公司. The delivery time was from 1 May to 31 August 2005. The amount was satisfied subject to a delivery at Jinan and goods taken by the purchaser with payment. Up to the date of report, a sum valued at \$400,000 were taken by Jiangxi Kelon and no invoice had been received. The Company is undergoing an investigation and has not yet identified the shareholders background of 濟南三愛富氟化工有限責任公司.

The Company is in the opinion that the above transactions are not compliant with its normal terms of procurement and the course of transaction is non-compliant with its normal procedures. So far, all goods received are in a great different with those specified in the contracts. The Company continues its investigation on these events.

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

The Company is currently investigating the above matters. Announcement will be made once a conclusion of the investigation is reached. In light of the above matters and given that the Company has not been provided with any findings of the investigation by the CSRC, the board of directors and the relevant finance officer of the Company reserves their views on items in the Company’s financial statements which are related to the above matters or which may arise out of the CSRC Investigation.

6. Subsidy Receivables

<u>Item</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Export tax receivables	62,737,287.14	20,796,124.00

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**7. Inventories and Provision for Inventories**

Category	At the end of the period		At the beginning of the period	
	Cost	Provision for inventories	Cost	Provision for inventories
Raw materials	1,474,225,295.55	31,540,428.72	1,152,561,573.00	32,595,020.00
Work in progress	174,030,998.96	-	207,835,417.00	83,935.00
Sub-contracted materials	26,849,077.50	-	-	-
Goods-in-transit	40,958,785.67	-	-	-
Consumable tools	21,715,776.77	-	-	-
Packaging materials	31,431.03	-	-	-
Finished goods	1,170,972,502.13	66,152,474.32	2,033,190,367.08	101,089,405.00
Total	<u>2,908,783,867.61</u>	<u>97,692,903.04</u>	<u>3,393,587,357.08</u>	<u>133,768,360.00</u>

Particulars of provision for inventories:

Item	Amount at the beginning of the period	Increase during the current period	Decrease during the current period	Amount at the end of the period
Raw materials	32,595,020.00	-	1,054,591.28	31,540,428.72
Work in progress	83,935.00	-	83,935.00	-
Storage goods	101,089,405.00	-	34,936,930.68	66,152,474.32
Total	<u>133,768,360.00</u>	<u>-</u>	<u>36,075,456.96</u>	<u>97,692,903.04</u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

8. LONG-TERM EQUITY INVESTMENTS

(1) Details of long-term investments are as follows

Items	At the end of the period			At the beginning of the period		
	Cost	Provision for impairment	Book value	Cost	Provision for impairment	Book value
Investments in associates	123,010,479.46	83,401,236.94	39,609,242.52	124,138,359.00	67,219,525.00	56,918,834.00
Long-term equity investment difference	31,474,833.70	-	31,474,833.70	29,777,773.00	-	29,777,773.00
Other long-term equity investment	7,249,050.00	-	7,249,050.00	7,249,050.00	-	7,249,050.00
Long-term debt investment	-	-	-	-	-	-
Total	161,734,363.16	83,401,236.94	78,333,126.22	161,165,182.00	67,219,525.00	93,945,657.00

a. Investments in associates

Name of investee	Percentage of registered capital of investee	Original	At the	Change in	Accumulated	At the end of
		cost	beginning of the period	equity during the period	changes in equity	the period
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	28%	280,000.00	344,367.00	-	64,367.00	344,367.00
Guangzhou Antaida Logistic Co., Ltd.	20%	2,000,000.00	2,830,317.00	425,993.81	1,256,310.81	3,256,310.81
Huayi Compressor Holdings Company Limited	22.725%	118,013,641.00	120,963,675.00	(1,553,873.35)	1,396,160.65	119,409,801.65
Total		120,293,641.00	124,138,359.00	(1,127,879.54)	2,716,838.46	123,010,479.46

NOTES TO THE FINANCIAL STATEMENTS – Continued

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(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**8. LONG-TERM EQUITY INVESTMENTS – Continued**

b. Changes in provision for impairment

<u>Name of investee</u>	<u>At the beginning of the period</u>	<u>Increase during the period</u>	<u>Reversal during the period</u>	<u>At the end of the period</u>
Guangdong Kelon Air-Conditioner Co., Ltd.	59,381,641.00	-	-	59,381,641.00
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited	-	835,352.94	-	835,352.94
Beijing Hengsheng Xin Chuang Technology Company	-	15,346,359.00	-	15,346,359.00
Shunde Wangao Import & Export Co., Ltd.	2,629,693.00	-	-	2,629,693.00
Huaao Electrical Electronics Co., Ltd.	5,208,191.00	-	-	5,208,191.00
Total	<u>67,219,525.00</u>	<u>16,181,711.94</u>	<u>-</u>	<u>83,401,236.94</u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

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(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

8. LONG-TERM EQUITY INVESTMENTS – Continued

c. Long-term equity investment difference

Name of investee	Amortisation period	Original investment Cost	At the beginning of the period	Amortisation charge for the period	Accumulated amortisation	Balance after accumulated amortisation
Guangdong Kelon Air-Conditioner Co., Ltd.	10 years	66,596,234.00	59,381,641.00	-	7,214,593.00	59,381,641.00
Yingkou Kelon Refrigerator Co., Ltd.	10 years	1,010,737.00	610,737.00	50,000.00	450,000.00	560,737.00
Guangdong Kelon Refrigerator Co., Ltd.	18.5 years	(86,111,120.00)	(76,636,643.00)	(2,394,895.15)	(11,869,372.15)	(74,241,747.85)
Shunde Wangao Import & Export Co., Ltd.	10 years	2,744,027.00	2,629,693.00	-	114,334.00	2,629,693.00
Shunde Kelon Household Electrical Appliance Company Limited	10 years	34,694,631.00	26,599,217.00	-	8,095,414.00	26,599,217.00
Huaao Electrical Electronics Co., Ltd.	10 years	5,434,634.00	5,208,191.00	-	226,443.00	5,208,191.00
Xi'an Kelon Cooling Co., Ltd.	10 years	12,956,689.00	11,984,937.00	647,834.45	1,619,586.45	11,337,102.55
Total		<u>37,325,832.00</u>	<u>29,777,773.00</u>	<u>(1,697,060.70)</u>	<u>5,850,998.30</u>	<u>31,474,833.70</u>

As Guangdong Kelon Air-Conditioner Co., Ltd., Shunde Wangao Import & Export Co., Ltd. and Huaao Electrical Electronics Co., Ltd. suffered excessive loss and the carrying value of long-term equity investments of the Company in these subsidiaries was reduced to zero, the Company ceased to amortise the equity investment difference of these three subsidiaries and made full amount provision for impairment of long-term investment.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**8. LONG-TERM EQUITY INVESTMENTS – Continued**

(2) Details of long-term equity investments are as follows:

Items	At the end of the period			At the beginning of the period		
	Cost	Provision for impairment	Book value	Cost	Provision for impairment	Book value
Long-term equity investment						
Consist of:						
Investments in subsidiaries	1,632,523,108.10	75,563,352.94	1,556,959,755.16	1,673,958,566.00	59,381,641.00	1,614,576,925.00
Investments in associates	122,666,112.46	-	122,666,112.46	123,793,992.00	-	123,793,992.00
Long-term equity investment difference	59,381,641.00	-	59,381,641.00	59,381,641.00	-	59,381,641.00
Other long-term equity investments	7,249,050.00	-	7,249,050.00	7,249,050.00	-	7,249,050.00
Total	1,821,819,911.56	75,563,352.94	1,746,256,558.62	1,864,383,249.00	59,381,641.00	1,805,001,608.00

NOTES TO THE FINANCIAL STATEMENTS – Continued

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(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

8. LONG-TERM EQUITY INVESTMENTS – Continued

a. Investments in associates

Name of Investee	Percentage of registered capital in investee	Original	At the	Change of	Accumulated	At the end of
		Cost	beginning of the period	equity during the period	Change	the period
Huayi Compressor Holdings Company Limited	22.725%	118,013,641	120,963,675.00	(1,553,873.35)	1,396,160.65	119,409,801.65
Guangzhou Antaida Logistic Co., Ltd.	20%	2,000,000	2,830,317.00	425,993.81	1,256,310.81	3,256,310.81
Total		120,013,641	123,793,992.00	(1,127,879.54)	2,652,471.46	122,666,112.46

b. Investments in subsidiaries

Name of Investee	Percentage of registered capital in investee	Original	At the	Change of	Accumulated	At the end of
		investment Cost	beginning of the period	equity during the period	Change	the period
Guangdong Kelon Refrigerator Co., Ltd.	70%	155,552,426	385,762,179.00	(43,331,152.54)	186,878,600.46	342,431,026.46
Guangdong Kelon Air-Conditioner Co., Ltd.	60%	214,403,766	(168,133,071.00)	37,757,425.01	(344,779,411.99)	(130,375,645.99)
Guangdong Kelon Fittings Co., Ltd.	70%	32,634,554	78,081,001.00	12,249,811.39	57,696,258.39	90,330,812.39
Guangdong Kelon Mould Co., Ltd.	40%	49,860,000	57,853,456.00	178,562.57	8,172,018.57	58,032,018.57
Shunde Rongsheng Plastic Products Co., Ltd.	45%	53,270,064	128,511,829.00	1,042,476.90	76,284,241.90	129,554,305.90
Chengdu Kelon Refrigerator Co., Ltd.	45%	90,000,000	82,955,811.00	(18,114,569.38)	(25,158,758.38)	64,841,241.62
Yingkou Kelon Refrigerator Co., Ltd.	42%	84,000,000	76,217,127	(19,149,687.57)	(26,932,560.57)	57,067,439.43

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – *Continued*

8. LONG-TERM EQUITY INVESTMENTS – *Continued*

b. Investments in subsidiaries – *Continued*

Name of Investee	Percentage of registered capital in investee	Original investment Cost	At the beginning of the period	Change of equity during the period	Accumulated Change	At the end of the period
Beijing Hengsheng Xin Chuang Technology Company	80%	24,000,000	15,346,359.00	-	(8,653,641.00)	15,346,359.00
Kelon Development Co., Ltd.	100%	11,200,000	80,007,469.00	37,692,283.36	106,499,752.36	117,699,752.36
Shunde Kelon Jiake Electronic Co., Ltd.	70%	42,000,000	2,775,528.00	(1,489,149.55)	(40,713,621.55)	1,286,378.45
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited	76%	1,520,000	835,353.00	-	(684,647.00)	835,353.00
Guangdong Kelon Refrigerator Co., Ltd.	44%	104,280,000	14,246,278.00	(5,300,421.20)	(95,334,143.20)	8,945,856.80
Shunde Wangao Import & Export Co., Ltd.	20%	600,000	(2,606,159.00)	(3,759,879.77)	(6,966,038.77)	(6,366,038.77)
Shunde Kelon Household Electrical Appliance Co., Ltd.	25%	2,500,000	(2,668,884.00)	3,610,831.97	(1,558,052.03)	941,947.97
Jiangxi Kelon Industrial Development Co., Ltd.	60%	147,763,896	168,032,190.00	32,569,449.59	52,837,743.59	200,601,639.59
Jilin Kelon Electric Co., Ltd.	90%	180,000,000	151,207,373.00	(12,788,123.65)	(41,580,750.65)	138,419,249.35
Hangzhou Kelon Electrical Co., Ltd.	40%	24,000,000	21,571,208.00	(2,507,555.09)	(4,936,347.09)	19,063,652.91
Yangzhou Kelon Electrical Co., Ltd.	30%	24,666,950	21,482,898.00	(12,244,186.69)	(15,428,238.69)	9,238,711.31
Zhuhai Kelon Industrial Development Co., Ltd.	75%	189,101,850	189,101,850.00	-	-	189,101,850.00

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – *Continued*

8. LONG-TERM EQUITY INVESTMENTS – *Continued*

b. Investments in subsidiaries – *Continued*

Name of Investee	Percentage of registered capital in investee	Original investment Cost	At the beginning of the period	Change in equity during the period	Accumulated Change	At the end of the period
Xi'an Kelon Cooling Co., Ltd.	60%	107,729,620	92,912,975.00	(12,869,786.74)	(27,686,431.74)	80,043,188.26
Shenzhen Kelon Purchase Company Limited	95%	95,000,000	95,000,000.00	5,096,444.00	5,096,444.00	100,096,444.00
Wuhu Ecan Motors Co., Ltd.	40%	12,428,893	12,057,682.00	(3,411,801.27)	(3,783,012.26)	8,645,880.74
Guangdong Kelon Weili Electrical Appliances Co., Ltd.	55%	-	-	(2,838,616.42)	(2,838,616.42)	(2,838,616.42)
Total		1,646,512,019	1,500,550,452.00	(7,607,645.08)	(153,569,212.07)	1,492,942,806.92
Add: Accrued liability of investee enterprise (†)		-	173,408,114.00	(33,827,812.82)	-	139,580,301.18
		<u>1,646,512,019</u>	<u>1,673,958,566.00</u>	<u>(41,435,457.90)</u>	<u>(153,569,212.07)</u>	<u>1,632,523,108.10</u>

Note: The Group's subsidiaries, namely, Guangdong Kelon Air-Conditioner Co., Ltd., Shunde Wangao Import & Export Co., Ltd., Guangdong Kelon Weili Electrical Appliances Co., Ltd., Shunde Kelon Household Electrical Appliance Company Limited and Huaao Electrical Electronics Co., Ltd. (the subsidiary of Shunde Kelon Jiake Electronic Co., Ltd.) suffered excessive losses, all in a position of debts over net asset value. The Company committed to extend financial support to above five subsidiaries, so as to enable these subsidiaries to carry out their future business plan and to pay off their liabilities. The Company continued 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.

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**8. LONG-TERM EQUITY INVESTMENTS – Continued**

c. Provision for impairment of long-term equity investment

Name of Investee	At the beginning of the period	Increase during the year	Decrease during the period	At the end of the period
Guangdong Kelon Air-Conditioner Co., Ltd.	59,381,641.00	-	-	59,381,641.00
Sichuan Rongsheng Kelon Refrigerator Sales Company Limited	-	835,352.94	-	835,352.94
Beijing Hengsheng Xin Chuang Technology Company	-	15,346,359.00	-	15,346,359.00
Total	59,381,641.00	16,181,711.94	-	75,563,352.94

d. Long-term equity investment difference

Name of investee	Term of amortisation	Cost	At the beginning of the period	Amortisation charge for the period	Accumulated amortisation	Balance after accumulated amortisation
Guangdong Kelon Air-Conditioner Co., Ltd.	10 years	66,596,234.00	59,381,641.00	-	7,214,593.00	59,381,641.00

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – *Continued*

9. FIXED ASSETS, ACCUMULATED DEPRECIATION AND PROVISION FOR IMPAIRMENT LOSS

Fixed assets, at cost	At the beginning of the period	Increase during the period	Decrease during the period	Less: reclassification	At the end of the period
Buildings and structures	1,561,434,803.00	168,862.34	354,717.50	(31,340,888.43)	1,592,589,836.27
Machinery and equipment	2,080,677,056.00	30,073,007.18	3,425,865.87	4,519,321.64	2,102,804,875.67
Electronic equipment, fixtures and furniture	357,411,542.00	3,045,926.19	1,162,225.66	24,749,566.19	334,545,676.34
Motor vehicles	79,097,971.00	211,161.66	801,989.04	2,120,287.90	76,386,855.72
Moulds	211,376,206.00	32,418,312.56	137,153.72	(48,287.30)	243,705,652.14
Total	4,289,997,578.00	65,917,269.93	5,881,951.79	-	4,350,032,896.14

Accumulated depreciation	At the beginning of the period	Increase during the period	Decrease during the period	Less: reclassification	At the end of the period
Buildings and structures	468,237,822.00	31,409,266.29	113,890.51	(17,979,008.61)	517,512,206.39
Machinery and equipment	1,332,877,991.00	67,934,553.81	2,790,660.18	67,632,725.57	1,330,389,159.06
Electronic equipment, fixtures and furniture	228,475,489.00	5,565,687.13	1,108,766.62	(45,517,392.61)	278,449,802.12
Motor vehicles	45,894,203.00	3,114,282.19	599,343.19	(5,956,538.82)	54,365,680.82
Moulds	89,731,029.00	44,476,211.76	-	1,820,214.47	132,387,026.29
Total	2,165,216,534.00	152,500,001.18	4,612,660.50	-	2,313,103,874.68

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

9. FIXED ASSETS, ACCUMULATED DEPRECIATION AND PROVISION FOR IMPAIRMENT LOSS
– Continued

<u>Provision for impairment loss</u>	<u>At the beginning of the period</u>	<u>Increase for the period</u>	<u>Reversal for the period</u>	<u>At the end of the period</u>
Buildings and structures	51,759,157.00	30,443.38	27,879.00	51,761,721.38
Machinery and equipment	12,243,692.00	-	-	12,243,692.00
Electronic equipment, fixtures and furniture	9,000.00	-	-	9,000.00
Total	<u>64,011,849.00</u>	<u>30,443.38</u>	<u>27,879.00</u>	<u>64,014,413.38</u>
Net value	<u>2,060,769,195.00</u>			<u>1,972,914,608.08</u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

10. CONSTRUCTION IN PROGRESS

Project Name	Budget	At the beginning of the period	Increase for the period	Transfer to fixed assets during the period	Other reduction during the period	At the end of the period	Source of capital
Project for reconstruction of Yangzhou Kelon factories	249,622,948.00	244,468,673.61	10,771,110.56	-	-	255,239,784.17	Self-funding
Project for Jiangxi Kelon production line	33,355,382.00	19,124,205.05	28,085,190.56	3,245,898.55	-	43,963,497.06	Self-funding
Project for Zhuhai refrigerator production line		21,289,129.00	6,773,984.91	-	-	28,063,113.91	Self-funding
Project for capacity expansion of Huabao		209,842.42	5,002,500.08	-	-	5,212,342.50	Self-funding
Project for refrigerator and air-conditioner production lines of Kelon Electric Appliance		30,530,000.00	-	-	-	30,530,000.00	Self-funding
Others		33,868,329.92	22,940,471.98	11,721,463.68	181,207.32	44,906,130.90	Self-funding
Total		<u>349,490,180.00</u>	<u>73,573,258.09</u>	<u>14,967,362.23</u>	<u>181,207.32</u>	<u>407,914,868.54</u>	

* Regarding the project for reconstruction of Yangzhou Kelon factories, the land use right in the amount of RMB86,800,000.00 was secured for a bank loan.

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

11. INTANGIBLE ASSETS

Category	Cost	At the beginning of the period	Increase for the period	Transferred out for the period	Amortisation for the period	At the end of the period
Trademarks	521,857,699	456,625,487.00	-	-	26,092,885.58	430,532,601.42
Non-patent technology	556,779	453,158.00	-	-	210,795.89	242,362.11
Land use rights	725,701,054	606,730,997.00	199,531.70	-	8,899,236.84	598,031,291.86
Software systems	30,578,202	15,364,980.00	1,931,608.00	1,135,415.26	1,855,715.16	14,305,457.58
Total	1,278,693,734	1,079,174,622.00	2,131,139.70	1,135,415.26	37,058,633.47	1,043,111,712.97

* 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 9.5 years to 67.5 years.

Provision for impairment of intangible assets was set out as below:

Project Name	At the beginning of the period	Increase for the year	Decrease in the year		Total	At the end of the period
			Amount reversed for asset value increase	Amount transferred out for other reason		
Land use rights	5,214,752.00	-	-	-	-	5,214,752.00
Software systems	2,892,939.00	-	-	-	-	2,892,939.00
Total	8,107,691.00	-	-	-	-	8,107,691.00

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

12. LONG-TERM DEFERRED EXPENDITURES

<u>Category</u>	<u>At the beginning of the period</u>	<u>Increase for the period</u>	<u>Amortisation charge for the period</u>	<u>At the end of the period</u>	<u>Remaining term for amortisation</u>
Leasehold improvements	1,101,610.00	165,639.75	456,873.46	810,376.29	1-5 years
Illuminated advertising display	25,255,994.00	-	6,516,444.00	18,739,550.00	1-5 years
Others	10,936,047.00	3,015,720.89	9,149,588.31	4,802,179.58	1-3 years
Total	<u>37,293,651.00</u>	<u>3,181,360.64</u>	<u>16,122,905.77</u>	<u>24,352,105.87</u>	

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**13. SHORT-TERM BORROWINGS**

Nature of loan	Currency	At the end of the period		At the beginning of the period	
		Original amount	RMB	Original amount	RMB
Guaranteed loan					
	RMB	745,322,412.05	745,322,412.05	592,000,000.00	592,000,000.00
	USD	34,566,602.36	286,090,484.43	10,000,000.00	82,765,000.00
Secured loan					
	RMB	509,000,000.00	509,000,000.00	590,000,000.00	590,000,000.00
	HKD	3,960,000.00	4,217,004.00		
Pledged loan					
	RMB	80,000,000.00	80,000,000.00		
	USD			25,026,501.00	207,131,832.00
Credit loan					
	RMB	74,387,000.00	74,387,000.00	170,700,000.00	170,700,000.00
	USD	8,280,239.84	68,675,745.44	12,761,846.00	105,623,417.00
Commercial notes					
financing	RMB	633,239,400.00	633,239,400.00	1,163,494,919.00	1,163,494,919.00
Inward bills	USD	4,066,499.83	33,656,385.83		
Total			<u>2,434,588,431.75</u>		<u>2,911,715,168.00</u>

14. NOTES PAYABLES

Category	At the end of the period	At the beginning of the period
Bank acceptance notes	680,263,379.38	1,046,475,243.00
Commercial acceptance notes	954,682,349.41	673,085,394.00
Total	<u>1,634,945,728.79</u>	<u>1,719,560,637.00</u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**15. TRADE PAYABLES**

The amount of RMB2,430,709,412.15 at the end of the period does not include any significant amount due to shareholders holding 5% (including 5%) or more of the shares of the Company.

16. ADVANCE FROM CUSTOMERS

The amount of RMB271,759,485.27 at the end of the period does not include any significant amount due to shareholders holding 5% (including 5%) or more of the shares of the Company.

17. TAXES PAYABLES

<u>Tax</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Value-added tax	(46,428,403.66)	(33,625,299.48)
Business tax	3,803,131.22	3,786,295.00
City construction tax	8,184.37	-
Income tax	11,480,389.84	6,791,135.00
Real estate tax	23,257.40	4,439,259.00
Individual income tax	(1,746,971.44)	-
Others	-	648,747.00
Total	<u>(32,860,412.27)</u>	<u>(17,959,863.48)</u>

18. OTHER PAYABLES

At the end of the period, the balance RMB209,906,990.60 did not comprise any significant amount due to shareholders who held more than 5% of the Company's share capital, but comprised the outstanding amount of RMB65,000,000.00 due to Tianjin Taijin Yunye Company Limited in 2003.

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

19. ACCRUALS

<u>Items</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>	<u>Reasons for not settled</u>
Installation costs	50,675,516.94	34,253,441.37	Installation costs to be paid for the products sold
Sales discounts	95,085,504.41	59,775,725.00	Incurred but yet to be paid
Promotion fees	47,649,215.69	43,368,605.00	Incurred but yet to be paid
Transportation costs	42,003,195.51	28,027,289.00	Incurred but yet to be paid
Storage fees	17,488,034.61	6,969,761.00	Incurred but yet to be paid
Utility expenses	1,970,484.89	4,334,714.00	Incurred but yet to be paid
Audit fee	2,855,140.00	6,149,350.00	Incurred but yet to be paid
Operation expenses	4,965,255.94	-	Incurred but yet to be paid
Interest costs	6,599,131.94	-	Incurred but yet to be paid
Others	11,736,041.83	14,138,285.00	Incurred but yet to be paid
Total	<u>281,027,521.76</u>	<u>197,017,170.37</u>	

- * The accruals at the end of the period increased RMB84,010,351.39 by 42.64% compared to that at the beginning of the period, mainly due to the relevant expenses failed to be paid off on time as a result of financial shortage of the Company.

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**20. PROVISION**

Provision at the end of the period is RMB121,679,036.62, representing the provision for warranty. The Company offers 3 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.

21. LONG-TERM BORROWINGS DUE WITHIN ONE YEAR

Type	Currency	At the end of the period		At the beginning of the period	
		Original currency	RMB	Original currency	RMB
Credit loan	HKD	-	-	3,960,000.00	4,215,420.00

22. LONG-TERM BORROWINGS

Type	Currency	At the end of the period		At the beginning of the period	
		Original currency	RMB	Original currency	RMB
Mortgage loan	HKD	13,730,000.00	14,621,077.00	15,710,000.00	16,723,295.00

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

23. LONG-TERM PAYABLES

<u>Items</u>	<u>At the end of the period</u>	<u>At the beginning of the period</u>
Pension liabilities	51,177,162.87	53,095,547.00
Special long-term payables	13,928,378.52	16,866,558.00
Others	3,140,250.12	-
Total	<u>68,245,791.51</u>	<u>69,962,105.00</u>

* Pension liabilities represent the contributions paid by the employees and the Company, which are payable to the employees after their retirement or resignation.

** Special long-term payables mainly represent the state debenture projects capital for technical advancement and industry upgrade and other government exclusive financial grant.

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

24. SHARE CAPITAL

Items	Increase (decrease) during the period				At the end of the period
	At the beginning of the period	Number of bonus share	Increase	Decrease	
A. Unlisted shares					
1. Promoter shares - domestic legal person shares	337,915,755.00	-	-	-	337,915,755.00
Total unlisted shares	337,915,755.00	-	-	-	337,915,755.00
B. Listed shares					
1. Domestic listed ordinary shares denominated in RMB	194,501,000.00	-	-	-	194,501,000.00
2. Overseas listed foreign shares	459,589,808.00	-	-	-	459,589,808.00
Total listed shares	<u>654,090,808.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>654,090,808.00</u>
C. Total number of shares	<u>992,006,563.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>992,006,563.00</u>

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

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**25. CAPITAL RESERVE**

<u>Items</u>	<u>At the beginning of the period</u>	<u>Increase during the period</u>	<u>Decrease during the period</u>	<u>At the end of the period</u>
Share premium	1,468,501,786.00	-	-	1,468,501,786.00
Provision for donation of non-cash assets	17,696,745.00	-	-	17,696,745.00
Price difference between related party transactions	17,712,651.00	7,085,060.25	-	24,797,711.25
Provision for equity investments	68,659,679.00	-	-	68,659,679.00
Others	4,113,368.00	-	-	4,113,368.00
Total	<u>1,576,684,229.00</u>	<u>7,085,060.25</u>	<u>-</u>	<u>1,583,769,289.25</u>

* Increase of the price difference between related party transactions this year results from that Jiangxi Kelon used the fixed assets without any payment. Please see Note 7 "RELATED PARTY TRANSACTIONS" (3).

26. SURPLUS RESERVE

<u>Items</u>	<u>At the beginning of the period</u>	<u>Increase during the period</u>	<u>Decrease during the period</u>	<u>At the end of the period</u>
Statutory common reserve	114,580,901.00	-	-	114,580,901.00
Consist of: Discretionary reserve				
Statutory common welfare fund	114,580,901.00	-	-	114,580,901.00

* Statutory common welfare fund can be utilised for staff welfare.

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**27. UNAPPROPRIATED PROFITS**

<u>At the beginning of the period</u>	<u>Increase during the period</u>	<u>Decrease during the period</u>	<u>At the end of the period</u>
8,395,896.73	(486,943,597.90)	-	(478,547,701.17)

28. REVENUE AND COST FROM PRINCIPAL OPERATIONS

Details of combined revenue and cost from principal operations are as follows:

<u>Classification</u>	<u>From January to June 2005</u>		<u>From January to June 2004</u>	
	<u>Revenue</u>	<u>Cost</u>	<u>Revenue</u>	<u>Cost</u>
Sales of refrigerators	1,469,137,687.00	1,342,664,919.09	1,919,997,521.00	1,468,621,312.00
Sales of air-conditioners	2,596,028,653.09	2,350,444,341.50	2,688,303,308.00	2,168,823,167.00
Sales of freezers	193,905,445.00	180,545,360.00	149,920,103.00	112,822,390.00
Others	<u>299,200,957.70</u>	<u>271,090,652.00</u>	<u>172,795,312.00</u>	<u>152,619,203.00</u>
Total	<u>4,558,272,742.79</u>	<u>4,144,745,272.59</u>	<u>4,931,016,244.00</u>	<u>3,902,886,072.00</u>

* The aggregate sales attributable to the Company's five largest customers was RMB698,987,508.05, representing 15.33% of the total sales.

NOTES TO THE FINANCIAL STATEMENTS – Continued

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VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**28. REVENUE AND COST FROM PRINCIPAL OPERATIONS – Continued**

Details of the Company's revenue and cost from principal operations are as follows:

Classification	From January to June 2005		From January to June 2004	
	Revenue	Cost	Revenue	Cost
Sales of refrigerators	890,950,451.84	780,546,870.50	1,312,846,125.00	1,141,289,270.00
Sales of air-conditioners	1,182,160,502.12	1,202,681,706.28	2,092,656,004.00	1,780,232,674.00
Sales of freezers	39,389,321.68	36,169,972.75	38,343,984.00	30,907,975.00
Others	60,106,663.79	59,893,243.85	76,586,428.00	59,525,818.00
Total	<u>2,172,606,939.43</u>	<u>2,079,291,793.38</u>	<u>3,520,432,541.00</u>	<u>3,011,955,737.00</u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

29. FINANCIAL EXPENSES

Classification	From January to June 2005	From January to June 2004
Interest expenses	53,330,215.86	73,539,613.00
Less: Interest income	13,495,566.24	13,996,921.00
Exchange loss	(723,844.56)	4,307,848.00
Cash discounts and discounting interest	26,143,792.46	–
Others	4,922,269.01	7,411,377.00
Total	<u>70,176,866.53</u>	<u>71,261,917.00</u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

30. INVESTMENT PROFIT

Details of combined investment profit are as follows:

<u>Classification</u>	<u>From January to June 2005</u>	<u>From January to June 2004</u>
Profit on share of results of investments in associates	(1,127,879.54)	(6,076,128.00)
Amortisation of long-term equity investment difference	1,697,060.70	(6,257,154.00)
Dividends received from investee	-	-
Profit on dealing with equity	-	-
Provision for impairment of long-term equity investments	(16,181,711.94)	-
Other investment profits	<u>1,200.00</u>	<u>-</u>
Total	<u><u>(15,611,330.78)</u></u>	<u><u>(12,333,282.00)</u></u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued**30. INVESTMENT PROFIT – Continued**

Details of the Company's investment profit are as follows:

<u>Classification</u>	<u>From January to June 2005</u>	<u>From January to June 2004</u>
Profit on share of results of investments in subsidiaries	(14,692,705.35)	272,560,594.00
Profit on share of results of investments in associates	(1,127,879.54)	(6,076,128.00)
Amortisation of long-term equity investment difference	-	(6,867,318.00)
Provision for impairment of long-term equity investments	(16,181,711.94)	-
Other investment profits	1,200.00	-
Total	<u>(32,001,096.83)</u>	<u>259,617,148.00</u>

31. INCOME TAX

<u>Classification</u>	<u>From January to June 2005</u>	<u>From January to June 2004</u>
Income tax of the Company	-	-
Income tax of the subsidiaries	8,401,579.56	4,344,199.00
Total	<u>8,401,579.56</u>	<u>4,344,199.00</u>

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

VI NOTES TO MAJOR ITEMS OF ACCOUNTING STATEMENT (UNLESS OTHERWISE SPECIFIED, THE FOLLOWINGS ARE COMBINED FIGURES) – Continued

32. CASH AND CASH EQUIVALENTS

Group

Nature	30 June 2005	31 December 2004
Bank balances and cash	1,487,216,214.98	2,320,120,532.00
Less: Pledged deposits	1,178,288,506.36	1,302,587,030.00
	308,927,708.62	1,017,533,502.00

Company

Nature	30 June 2005	31 December 2004
Bank balances and cash	829,397,402.61	1,177,175,655.00
Less: Pledged deposits	792,842,150.00	946,041,722.00
	36,555,252.61	231,133,933.00

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

7. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

1. Related party relationships

(1) Related parties with no controlling interests include:

Name of related parties	Relationship
Huayi Compressor Holdings Company Limited	Associate of the Company
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	Associate of the Company
Guangzhou Antaida Logistic Co., Ltd.	Associate of the Company
Kelon Employee Union	Entity organised and owned by employees of the Company
Hainan Greencool Environmental Protection Engineering Co., Ltd.	Related party of Greencool Enterprise
Greencool Refrigerant (China) Co., Ltd	Related party of Greencool Enterprise
He Fei Meiling Holdings Limited	Related party of Greencool Enterprise
揚州亞星客車股份有限公司	Related party of Greencool Enterprise
江西格林柯爾電器有限公司	Related party of Greencool Enterprise
江西發達思家電有限公司	Minority shareholder of Jiangxi Combine
Chengdu Engine (Group) Company Limited	Minority shareholder of Chengdu Kelon
Chengdu Xinxing Electrical Appliance Holdings Company Limited	Subsidiary of the minority shareholder of Chengdu Kelon
Xi'an Gaoke Group Company	Minority shareholder of Xi'an Kelon
Hangzhou Xileng Group Company Limited	Minority shareholder of Hangzhou Kelon
Greencool Technology Development (Shenzhen) Company Limited	Related party of Greencool Enterprise
Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.	Related party of Greencool Enterprise

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

7. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued**1. Related party relationships – Continued****(2) Related parties with controlling interests include:**

Name of related parties	Nature	Legal Person	Registered Capital	Business Scope	Shares or interests held	Relationship
Greencool Enterprise	Limited liability company	Gu Chujun	1,200,000,000	*	26.43%	A subsidiary owned by the controlling shareholder and the Chairman of the Company

* Research, manufacture and sale of refrigeration equipment, fittings and chlorofluorocarbon ("CFC")

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

Name of related party	At the beginning of the period	Additions	Deduction	At the end of the period
Greencool Enterprise	262,212,194	-	-	262,212,194

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

7. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued**2. RELATED PARTY TRANSACTIONS****(1) Purchases from the related parties**

Items	Name of related parties	January to	January to
		June 2005	June 2004
		Amount	Amount
Purchases from:	Chengdu Xinxing Electrical Appliance Holdings Company Limited	19,633,177.00	22,775,012.00
	Chengdu Engine (Group) Company Limited	2,264,944.00	2,755,777.00
	上海易達電子商務有限公司	-	3,171,207.00
	Huayi Compressor Holdings Company Limited*	87,599,145.00	125,582,772.00

(2) Sales to the related parties

Items	Name of related parties	2004	2003
		Amount	Amount
Sales to:	Chengdu Xinxing Electrical Appliance Holdings Company Limited	16,121,436.00	14,086,198.00
	Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	36,884,909.00	32,738,619.00
	He Fei Meiling Holdings Limited	76,923.00	-

*Note: Including Huayi Compressor and its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

7. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued**2. RELATED PARTY TRANSACTIONS – Continued****(3) 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, Jiangxi Kelon 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 amortization amount assuming a 50-year use period for the land and a 20-year use period for the plants, Jiangxi Kelon decided that the total fees for using these assets amounted to RMB17,712,651 and these amounts were included in the items of profit and loss and capital reserve during the year. An amount of RMB7,085,060.25 was stated in respect of the fee during the period from January to June 2005.

(4) Use of trademark

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

(5) Others

Items	January to June 2005	January to June 2004
Loan guarantee provided by related parties		
– Greencool Enterprise	381,236,000.00	300,000,000.00
Other income (expenses) received from (paid to) related parties		
– Interest income from Chengdu Xinxing	992,970.00	992,970.00
– Logistics management fee paid to Guangzhou Antaida	838,544.69	3,845,769.00

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

7. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued

3. Liability balance with related parties

Items	Name of related parties	At the end of the period	At the beginning of the period
Accounts payable	He Fei Meiling Holdings Limited	90,000.00	-
Prepayments	He Fei Meiling Holdings Limited	6,000.00	6,001.00
	Huayi Compressor Holdings Company Limited*	-	13,653,285.00
	Chengdu Xinxing Electrical Appliance Holdings Company Limited	5,960,474.00	6,270,775.00
Other receivables	Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	-	223,485.00
	Chengdu Engine (Group) Company Limited	26,780.00	26,780.00
	Chengdu Xinxing Electrical Appliance Holdings Company Limited	-	173,322.00
	Guangzhou Antaida Logistic Co., Ltd.	122,409.00	-
	Hainan Greencool Environmental Protection Engineering Co., Ltd.* ¹	13,437,900.00	-
	Greencool Technology Development (Shenzhen) Company Limited* ²	32,000,000.00	32,000,000.00
	Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.* ²	33,000,000.00	33,000,000.00
	Jiangxi Greencool Enterprise Development Company Limited* ³	(13,000,000.00)	-
Long-term receivables due after one year	Chengdu Xinxing Electrical Appliance Holdings Company Limited	34,000,000.00	34,000,000.00
Accounts payable	He Fei Meiling Holdings Limited	50,125.00	5,125.00
	Huayi Compressor Holdings Company Limited* ⁴	48,822,694.00	15,058,309.00
	Chengdu Xinxing Electrical Appliance Holdings Company Limited	3,262,124.00	2,241,292.00
Notes payable	Huayi Compressor Holdings Company Limited* ⁴	34,381,000.00	98,694,544.00
	Chengdu Xinxing Electrical Appliance Holdings Company Limited	3,350,000.00	1,060,000.00
	Chengdu Engine (Group) Company Limited	433,940.00	120,000.00
Advance from customers	Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	322,404.00	4,595,911.00
Other payables	Chengdu Engine (Group) Company Limited	938,172.22	433,940.00
	揚州亞星客車股份有限公司	-	220,000.00
	Xi'an Gaoke Group Company	1,785,476.00	2,358,044.00
	Hangzhou Xileng Group Company Limited	3,774,000.00	4,000,000.00
	Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	50,000.00	50,000.00

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

7. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS – Continued

3. Liability balance with related party – Continued

*1: On 10 March 2005, without approval from the Board, Guangdong Kelon Air-conditioner Co. Ltd., a subsidiary of the Company, entered into a refrigerant purchase contract with Hainan Greencool Environmental Protection Engineering Co., Ltd. with a contract sum of RMB13,500,000. The amount was paid on 29 April without following normal procedures. All goods have been received and kept in warehouse but not used at all. The Company tried but failed to return the products.

*2: Guangdong Kelon Air-Conditioner Co., Ltd., a subsidiary of the Company, opened an off-balance-sheet bank account and made a series of transactions during the period from March 2003 to February 2004. The operation of the account involved the application of corporate seal and seal exclusive for finance use produced without approval from the Company. The impact of the account was that the following items failed to be reflected in the financial statements of 2003 and 2004:

Due from Greencool Technology Development (Shenzhen) Company Limited: RMB32,000,00;

Due from Greencool Technology Environmental Protection Engineering (Shenzhen) Co., Ltd.: RMB33,000,000;

Due to Tianjin Taijin Yunye Company Limited: RMB65,000,000.

The Company still cannot confirm the shareholding background of Tianjin Taijin Yunye Company Limited, and therefore cannot determine its relationship with the Company.

*3: Jiangxi Kelon Industrial Development Company Limited, the subsidiary of the Company, conducted some off-balance-sheet transactions and possible undisclosed connected transactions, which resulted in an amount of RMB57,000,314.10 not recovered by Jiangxi Kelon Industrial Development Company Limited as at 30 June 2005.

Other receivables	Zhuhai City Defa Air-Conditioner Appliance Company Limited	RMB21,400,000
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Other receivables	Zhuhai City Lonjia Refrigerant Facilities Co., Ltd.	RMB28,600,000
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Other receivables	Wuhan Changrong Electrical Appliance Company Limited	RMB20,000,000
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Other receivables	Jiangxi Greencool Enterprise Development Company Limited	(RMB13,000,000)
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The Company is currently investigating into the case.

The Company is currently investigating the above matters. Announcement will be made once a conclusion of the investigation is reached. In light of the above matters and given that the Company has not been provided with any findings of the investigation by the CSRC, the board of directors and the relevant finance officer of the Company reserves their views on items in the Company's financial statements which are related to the above matters or which may arise out of the CSRC Investigation.

*4: Including Huayi Compressor Holdings Company Limited and its subsidiary

NOTES TO THE FINANCIAL STATEMENTS – Continued

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8. LITIGATION

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
1	claims against Zhou Zhe in relation to his suspected involvement in embezzlement by means of position	Zhou Zhe (周哲)	1,200,000	During the period from 2000 to May 2002, Zhou Zhe, former general manager of Xinjiang branch, sold refrigerators and air-conditioners of the Company through improper means, embezzling a total amount of RMB1,200,000. Investigation is underway by Ronggui Police Branch Bureau.	Pending
2	Claims against 廣州又一城 by the Company in relation to a supply contract	廣州市又一城商業經營有限公司	4,500,000	又一城 project was completed on 20 September 2002 and was accepted after inspection on 25 September. However, 又一城公司 refused to pay the remaining 80% of the contract fees despite the Company's demand for payment of proceeds and interest thereon. The company's demand was rejected by the first court decision. The Company has launched an appeal against the decision.	Pending
3	Claims against 新楚源 by the Company in relation to its default in payment of purchase price	深圳新楚源公司	6,000,000	The first court ruled that 新楚源 should pay RMB5,216,030.30 plus interest thereon and should be responsible for the payment of all costs of the legal proceedings and protection cost of RMB 61,762. 新楚源 has launched an appeal against this and has applied for implementation. The two parties reached a compromise agreement on 10 May 2005, under which the 1,233 air-conditioners sequestered by the Court were depreciated to an amount of RMB 1,880,000 which the Company has received such amount.	Pending
4	Claims against 岳陽雅園 by the Company and Kelon Air-Conditioner in relation to the payment of purchase price	岳陽雅園電器有限公司	1,150,000	岳陽雅園空調設備有限公司 defaulted a total purchase price of RMB940,000 and an interest of approximately RMB200,000 to the Company's subsidiary Kelon Air-Conditioner. The Company has launched a suit against 岳陽雅園空調設備有限公司 in relation to the matter.	Pending

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

8. LITIGATION – Continued

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
5	Clamis against 冷櫃公司 by 容柱致美包裝實業有限公司 in relation to a sale and purchase contract	佛山市順德區容柱致美包裝實業有限公司	1,150,000	The plaintiff alleged that as of 20 June 2005, an aggregate amount of RMB1,151,958.29 due from the Company's subsidiary 科龍冷櫃公司, consisting of a purchase price of RMB986,653.26, a deposit balance of RMB150,000 and contract breaching fees of RMB15,305 which was overdue. The plaintiff demanded that the Company should pay such amount plus all proceeding costs for the case and applied to withhold the Company's deposit of RMB1,000,000.	Pending
6	Claims against the Company's Shanghai subsidiary by 華聯公司 in relation to a sale and purchase contract	華聯集團吉買盛購物中心有限公司	2,740,000	The plaintiff alleged that it made prepayment amount of RMB10,555,253.09 in April 2002, the balance of RMB7,813,525.10 was settled by goods, however, the remained balance was outstanding. The plaintiff demanded for payment of such balance and all proceeding costs for the case. Court hearings have been held for four times and the judgment is yet to be handed down.	Pending
7	Claims against Kelon Beijing Branch by 北京青騰 in relation to other contracts (8 cases)	北京青騰聯廣告有限公司	1,350,000	The plaintiff alleged that it entered into 4 Promotional Advertisement Contracts with the Company for the implementation of the promotion activity named "Making purchase and returning cash" during 2000 to 2001. The amounts of the contracts were RMB370,993, RMB307,597.50, RMB16,137 and RMB28,104 respectively, the due date for which fell before 20 September 2001, while the Company defaulted the payments.	Pending
8	Claims against the Company by 大連三洋壓縮機有限公司 in relation to a sale and purchase contract	大連三洋壓縮機有限公司	8,930,000	On 10 June 2005, the Ganjingzi District court of Dalian, issued a judgement letter on property reserve and sequestered properties of Kelon Air-Conditioner in total value of RMB8,930,000. Subsequently, Kelon Air-Conditioner came to an agreement with 大連三洋壓縮機有限公司 to settle the purchase price by goods and is now under implementation.	Pending

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

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8. LITIGATION – *Continued*

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
9	Claims against Kelon Air-conditioner by 常州常恒凱都公司在 relation to an order contract	常州常恒凱都電器配件有限公司	2,700,000	Intermediate People's Court of Changzhou withheld the bank deposit of Kelon Air-conditioner to the amount of RMB2,700,000. A compromise agreement with the plaintiff was reached and completed on 17 June 2005. Statement of complaint of the plaintiff and other documents have been received on 22 June 2005.	Pending
10	Claims against Kelon Air-Conditioner by 廣東威靈電機製造有限公司 in relation to a sale and purchase contract	廣東威靈電機製造有限公司	26,410,000	The plaintiff alleged that on 23 May 2005, Kelon Air-Conditioner acknowledged that it defaulted payment of RMB27,422,275.56 in purchase price, and after offsetting against RMB1,010,031.50 in value of steel delivered to the plaintiff on 21 May, the defaulted balance is RMB26,412,244. The Plaintiff demanded payment of the balance and interest thereon and all costs of the legal proceedings by Kelon Air-Conditioner.	Pending
11	Claims against our Kelon Air-conditioner by 佛山東麗塑膠有限公司 in relation to a sale and purchase contract	佛山東麗塑膠有限公司	10,060,000	The plaintiff alleged that the sum of the purchase price that the Company defaulted amounted to 20% of the total. Thus the plaintiff demanded the payment of purchase price of RMB7,543,262.40, interest thereon of RMB17,205, double return to deposit balance of RMB200,000, loss compensation of RMB2,300,000 and bear all costs of the legal proceedings.	Pending
12	Claims in relation to taxation incurred in Fujian	福州市國稅局	3,290,000	The Company brought forward an administrative reconsideration within the legal period and advanced another administrative litigation after the outcome of the administrative reconsideration. The Company is currently waiting for the decision of first instance court.	Pending
13	Claims against 冷櫃公司 of the Company by 常州常恒凱都公司在 relation to order contract	常州常恒凱都電器配件有限公司	1,600,000	Intermediate People's Court of Changzhou withheld the bank deposit of 冷櫃公司 to the amount of RMB1,600,000. Statement of complaint of the plaintiff and other documents have been received on 22 June 2005.	Pending

NOTES TO THE FINANCIAL STATEMENTS – Continued

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(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

8. LITIGATION – Continued

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
14	Claims against Kelon Air-conditioner by 郎延貿易公司 in relation to a sale and purchase contract	佛山市順德區郎延貿易有限公司	2,160,000	The plaintiff alleged that after cross checks conducted by both parties in June 2005, the Company acknowledged that it had defaulted in payment of a purchase price of RMB2,060,540.49 and refund of performance bond of RMB100,000. The plaintiff demanded payment of purchase price plus interest thereon, refund of the performance bond and all costs of the legal proceedings to be borne by the Company.	Pending
15	Claims against Kelon Air-conditioner by 容桂致美包裝實業 in relation to a sale and purchase contract	佛山市順德區容桂致美包裝實業有限公司	1,450,000	The plaintiff alleged that up to 20 June 2005, Kelon Air-conditioner of the Company had defaulted in payment of a purchase price of RMB1,205,893.95 and performance bond of RMB 52,752.27 and sampling fee of RMB 196,992.1 prior to 3 June, totalling RMB 1,455,638.32. The plaintiff demanded payment of the purchase price and all costs of the legal proceedings to be borne by the Company, and applied for a court order to sequester equipment of the Company in the value of RMB 1,000,000.	Pending
16	Claims against the Refrigerator Company by 中山宏基 in relation to a sale and purchase contract	中山宏基家電實業有限公司	2,550,000	The plaintiff alleged that up till now, the Refrigerator Company of the Company had defaulted in payment of purchase price totalling RMB2,453,013.62. The plaintiff demanded release of the contract, payment of purchase price, refund of performance bond of RMB100,000 and all costs of the legal proceedings to be borne by the Company. The court has seized the polyurethane foam production lines of the Refrigerator Company in the value of RMB2,760,000.	Pending
17	Claims against Kelon Air-conditioner by 中山宏基 in relation to a sale and purchase contract	中山宏基家電實業有限公司	3,980,000	The plaintiff alleged that up till now, Kelon Air-conditioner of the Company had defaulted in payment of purchase price of RMB3,790,910.32. The plaintiff demanded release of the contract, payment of the purchase price, refund of the performance bond of RMB194,924.81 and all costs of the legal proceedings to be borne by the Company, and applied for a court order to sequester equipment of the Company in the value of RMB3,985,835.13.	Pending

NOTES TO THE FINANCIAL STATEMENTS – Continued

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8. LITIGATION – Continued

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
18	Claims against the Company by Jiayi Beila in relation to guarantee contract	Jiayi Beila Compressor Company Limited	16,920,000	The plaintiff alleged that the Company had provided collateral guarantees for its nine subsidiaries relating to the purchase of refrigerator compressors. As at 30 June, the nine subsidiaries defaulted a total amount due of more than RMB16,920,000. The Plaintiff demanded payment of the balance and interest thereon and all costs of the legal proceedings by the Company. The 59,280,000 million shares of state shares in Huayi Compressor Holdings Company Limited (華意壓縮機股份有限公司) held by the Company were sequestered.	Pending
19	Claims against the Home Appliances Company by 北澤信威電器 in relation to a sale and purchase contract	佛山市順德區北澤鎮信威電器有限公司	2,690,000	The plaintiff alleged that from 12 November 2004 to 15 May 2005, the Home Appliances Company of the Company had defaulted in payment of purchase price of RMB2,690,000. The plaintiff demanded payment of the purchase price plus interest thereon and all costs of the legal proceedings to be borne by the Company, and applied for a court order to sequester equipment of the Home Appliances Company.	Pending
20	Arbitration between Shenzhen Development Bank Foshan Branch on the one part and the Company, Guangdong Kelon Freezer Co., Ltd., Kelon Air-Conditioner and Guangdong Kelon Fittings Co., Ltd. on the other in relation to bank advance upon acceptance of bills	Shenzhen Development Bank Foshan Branch	28,890,000	Shenzhen Development Bank Foshan Branch applied to Foshan Arbitration Committee (佛山仲裁委員會) for arbitration and assets protection, Foshan Arbitration Committee relegate the assets protection application to Foshan Intermediate Court. The court granted a ruling on the civil case and the assets of Kelon Air-Conditioner in the value of RMB28,889,147.5 were sequestered on 14 July 2005. Litigation documents have not been received.	Pending

NOTES TO THE FINANCIAL STATEMENTS – Continued

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(Prepared in accordance with PRC GAAP and regulations)

8. LITIGATION – Continued

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
21	Claims against Kelon Air-Conditioner by 洛陽銅加工集團有限公司 in relation to contracting	洛陽銅加工集團有限公司	9,430,000	The plaintiff alleged that Kelon Air-Conditioner defaulted prices for copper pipes and RMB8,486,692.08 in processing fees and commenced proceedings against the Company for repayment of the amount due and interest thereon amounting to RMB622,017.40, and for recovery of RMB100,000 of deposits and all cost of the legal proceedings. It has applied a court order to sequestrate certain facilities of Kelon Air-Conditioner in the value of RMB9,434,949.	Pending
22	Claims against Kelon Air-Conditioner by 東莞信濃馬達有限公司 in relation to a sale and purchase contract	東莞信濃馬達有限公司	10,460,000	As a result of the claim by 東莞信濃馬達有限公司, both parties involved confirmed after cross checks on 31 May 2005 that Kelon Air-Conditioner defaulted a total purchase price of RMB10,463,359.99. Deposit amounted to RMB499,770.80 and RMB500,000 was repaid and the balance remained unsettled. 東莞信濃馬達有限公司 initiated proceedings against Kelon Air-Conditioner for payment of the unpaid purchase price plus interest thereon and all costs of the legal proceedings and protection cost.	Pending
23	Claims against the Refrigerator Company by 富山電器 in relation to a sale and purchase contract	佛山富山電器電子有限公司	1,700,000	The plaintiff alleged that as at 30 June 2005, the Company had defaulted in payment of purchase price totalling RMB1,705,679.90 (including performance bond of RMB20,000). The plaintiff demanded payment of the purchase price plus interest thereon and all costs of the legal proceedings to be borne by the Company, and applied for a court order to sequestrate the Company's assets in the value of RMB1,700,000.	Pending
24	Claims against Kelon Air-conditioner by 北滘恒美電熱器有限公司 in relation to a sale and purchase contract	佛山市順德區北滘鎮恒美電熱器有限公司	3,300,000	The plaintiff alleged that as at the date of initiating legal action, the Company had defaulted in payment of a purchase price of RMB3,200,751. The plaintiff demanded payment of the purchase price plus interest thereon, refund of bidding deposits of RMB 100,000 and all costs of the legal proceedings to be borne by the Company.	Pending

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

8. LITIGATION – Continued

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
25	Claims against Kelon Air-Conditioner by 南海飛鵬 in relation to a sale and purchase contract	佛山市南海非鵬塑膠金屬有限公司	7,020,000	The plaintiff alleged that both parties involved confirmed after cross checks on 31 May 2005 that Kelon Air-Conditioner defaulted a total purchase price of RMB7,907,250.98 and the amount due for payment as at the date of initiating legal action was RMB7,017,722.20. The plaintiff demanded payment of the purchase price plus interest thereon and all costs of the legal proceedings by Kelon Air-Conditioner.	Pending
26	Claims against Kelon Air-conditioner by 佛山華鷺 in relation to a sale and purchase contract	佛山華鷺自動控制器有限公司	1,130,000	The plaintiff alleged that up to 30 April 2005 both parties had conducted cross check and confirmed that the Company defaulted in payment of purchase price of RMB587,341.89. The plaintiff demanded payment of the purchase price plus interest thereon, refund of deposits of RMB500,000 plus interest thereon, and all costs of the legal proceedings to be borne by the Company, and applied for property preservation.	Pending
27	Claims against the Company by Jiayi Beila in relation to guarantee contract	Jiayi Beila Compressor Company Limited	33,130,000	The plaintiff alleged that the Company had provided collateral guarantees for its nine subsidiaries relating to the purchase of refrigerator compressors. The Plaintiff demanded payment by the Company, as a collateral guarantees provider, of the balance that became due on 30 July and 30 August and the proceeds of 144 compressors in aggregate of RMB33,126,941 and bear all costs of the legal proceedings.	Pending

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

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8. LITIGATION – *Continued*

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
28	Claims against Kelon Air-Conditioner by 美芝公司 in relation to a sale and purchase contract	廣東美芝製冷設備有限公司	20,690,000	美芝公司 alleged that on 14 June 2005, Kelon Air-Conditioner acknowledged it defaulted a total of RMB22,527,122.85 in purchase price. Subsequently an amount of RMB2.10 million was paid on 15 June and the balance remained unpaid. The plaintiff initiate proceedings against Kelon Air-Conditioner for the payment of RMB20,427,122.85 in purchase price and RMB266,573.95 in interest and bear all costs of the legal proceedings. A court order was applied to sequester Kelon Air-Conditioner's air-conditioners to the value of RMB20,693,696.	Pending
29	Claims against Kelon Air-Conditioner by 容桂寶盈公司 in relation to a sale and purchase contract	佛山市順德區容桂寶盈五金塑料廠	5,930,000	The plaintiff alleged that Kelon Air-Conditioner had defaulted payment of total purchase price of RMB5,926,745.55. Invoiced amount at RMB3,039,509.25 and yet to be invoiced at RMB2,887,236.30. It demanded payment of purchase price plus interest thereon and all costs of the legal proceedings by Kelon Air-Conditioner .	Pending
30	Claims against the Refrigerator Company by 松下機電 in relation to a sale and purchase contract	松下電器機電(中國)有限公司	4,460,000	松下機電 alleged that it had supplied a total of 164,000 units of DC51C72RCU6 compressors to the Refrigerator Company in six shipments commencing from 5 April 2004. The total purchase price of RMB 4,460,799.97 remained unpaid by the Refrigerator Company. The plaintiff demanded payment of the purchase price plus interest thereon, and all costs of the legal proceedings to be borne by the Refrigerator Company.	Pending

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

8. LITIGATION – *Continued*

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
31	Claims against Yangzhou Kelon Electrical Co., Ltd. ("Yangzhou Kelon"), and the Company by 招商銀行南京分行 in relation to loan agreement	招商銀行股份有限公司南京分行	21,000,000	The plaintiff declared that on 22 March 2005, Yangzhou Kelon signed a loan agreement in the amount of RMB20 million for a one year term loan which was guaranteed by the Company. The plaintiff had granted the loan and subsequently demanded repayment of the loan and interests thereon and RMB253,100 in recovery costs as well as all costs of the proceedings originated from the insolvent situation of Yangzhou Kelon and the Company. In the meantime, the plaintiff applied a court order to withhold bank deposit of RMB21,000,000 or sequester equivalent value of its assets.	Pending
32	Claims against Kelon Air-Conditioner by 順德順寶包裝 on dispute in relation to purchase and sale contract	佛山市順德區順寶包裝印刷實業有限公司	8,000,000	The plaintiff declared that as of 31 July, an aggregate amount of RMB800,536.88, consisting of carton costs of RMB7,815,361.36, typeset fees RMB126,400 and deposit balance RMB58,775.32, was overdue. The plaintiff demanded payment of purchase price and interest thereon and all costs of the legal proceedings. Meanwhile, the plaintiff applied a court order to sequester all copper tubes, compressors and aluminum foils kept in the relevant warehouse (海邊倉).	Pending
33	Claims against Yangzhou Kelon And the Company by Bank of China Yangzhou Branch in relation to a loan agreement	Bank of China Yangzhou Branch	1,000,000	In relation to the loan agreement, the plaintiff applied a pre-proceeding protection order from the court to withhold the Yangzhou Kelon's bank deposit to the amount of RMB1,000,000 or sequester equivalent value of assets of either Yangzhou Kelon or the Company.	Pending
34	Claims against Yangzhou Kelon and the Company by Bank of China Yangzhou Branch in relation to a loan agreement	Bank of China Yangzhou Branch	12,000,000	In relation to the loan agreement, the plaintiff applied a pre-proceeding protection order from the court to withhold the Yangzhou Kelon's bank deposit to the amount of RMB12,000,000 or sequester equivalent value of assets of either Yangzhou Kelon or the Company.	Pending

NOTES TO THE FINANCIAL STATEMENTS – Continued

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

8. LITIGATION – Continued

Number	Name of case	Counterparty	Amount in dispute (RMB)	Description of case	Status of proceeding
35	Claims against the Company by Industrial Bank Guangzhou Branch on a loan agreement	Industrial Bank Guangzhou Branch	9,000,000	Claims against the Company, Kelon Air-Conditioner and 佛山市誠豐模具塑膠有限公司 ("Fushan Chengfeng") by Industrial Bank Guangzhou Branch on a loan agreement	Pending
36	Claims against the Company, Kelon Air-Conditioner and Fushan Chengfeng by Industrial Bank Guangzhou Branch on a loan agreement	Industrial Bank Guangzhou Branch	3,000,000	In relation to the loan agreement, the plaintiff applied a pre-proceeding protection order from the court to withhold the bank deposit to the amount of RMB3,000,000 of either the Company, Kelon Air-Conditioner or Fushan Chengfeng or sequester equivalent value of assets. No litigation document was received from the court.	Pending
37	Claims against the Company, Kelon Air-Conditioner and Fushan Chengfeng by Industrial Bank Guangzhou Branch on a loan agreement	Industrial Bank Guangzhou Branch	9,000,000	In relation to the loan agreement, the plaintiff applied a pre-proceeding protection order from the court to withhold the bank deposit to the amount of RMB9 million of either the Company, Kelon Air-Conditioner or Fushan Chengfeng or sequester equivalent value of assets. No litigation document was received from the court. Court case number: (2005) 穗中法民二初字第265號.	Pending
38	Claims against Jiangxi Kelon and the Company by 招商銀行 on a loan agreement	招商銀行南昌分行 行疊山路支行	31,000,000	The plaintiff applied a pre-proceeding protection order from the court to withhold or sequester RMB31 million. The court ordered to sequester 30,105 air-conditioners from Jiangxi Kelon. On 22 August, the Company received documents from the court. The plaintiff alleged that it discounted certain bank acceptance bills issued by Jiangxi Kelon to the amount of RMB43,013,270.97, while Jiangxi Kelon only submitted a deposit of 30% of the total value and the outstanding balance of RMB30,109,289.68 remained unsettled. Although part of the acceptance bill has yet to become due, the plaintiff demanded immediate settlement by Jiangxi Kelon pursuant to the agreement and demanded the Company to take over the collateral liabilities.	Pending

NOTES TO THE FINANCIAL STATEMENTS – *Continued*

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

8. LITIGATION – *Continued*

Above litigations are followed up by the Company. Most of these litigations are related to the Company's accounts payable which have been included in the "accounts payable" in the balance sheet. According to the development of the related litigation, the Company will consider making charges on contingent liabilities in due course.

9. NON-ADJUSTING SUBSEQUENT EVENTS

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

10. OTHER SIGNIFICANT EVENTS

No other significant events

11. RETURN ON NET ASSETS AND EARNINGS PER SHARE

Profit for the period	Return on net assets		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit derived from				
principal operations	18.68%	16.85%	0.4166	0.4166
Operating profits	(21.93%)	(19.79%)	(0.4891)	(0.4891)
Net profit	(22.01%)	(19.86%)	(0.4908)	(0.4908)
Net profit less of				
extraordinary items	(22.03%)	(19.88%)	(0.4915)	(0.4915)

BREAKDOWN OF PROVISION FOR IMPAIRMENT OF FIXED ASSETS

For the six months ended 30 June 2005

(Unless otherwise specified, the currency is expressed in RMB)

(Prepared in accordance with PRC GAAP and regulations)

Currency: RMB

Items	At the beginning of the period	Increase for the period	Amount reversed for the period	At the end of the period
1. Total provision for bad debts	191,778,722.00	1,525,332.53	4,580,346.04	188,723,708.49
Consist of: Accounts receivable	183,444,784.00	-	4,580,346.04	178,864,437.96
Other receivables	8,333,938.00	1,525,332.53	-	9,859,270.53
2. Provision for inventories	133,768,360.00	-	36,075,456.96	97,692,903.04
Consist of: Raw materials	32,595,020.00	-	1,054,591.28	31,540,428.72
Work-in-progress	83,935.00	-	83,935.00	-
Finished goods	101,089,405.00	-	34,936,930.68	66,152,474.32
3. Provision for impairment of long-term equity investment	67,219,525.00	16,181,711.94	-	83,401,236.94
Consist of: Long-term equity investments	67,219,525.00	16,181,711.94	-	83,401,236.94
Long-term debt investments	-	-	-	-
4. Provision for impairment of fixed assets	64,011,849.00	30,443.38	27,879.00	64,014,413.38
Consist of: Machinery and equipment	12,243,692.00	-	-	12,243,692.00
Electronic equipment, fixtures and furniture	9,000.00	-	-	9,000.00
Buildings and structures	51,759,157.00	30,443.38	27,879.00	51,761,721.38
5. Provision for impairment of intangible assets	8,107,691.00	-	-	8,107,691.00
Consist of: Land use rights	5,214,752.00	-	-	5,214,752.00
Software	2,892,939.00	-	-	2,892,939.00



廣東科龍電器股份有限公司

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