KELON 科龍

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)

2002 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors ("Directors") 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 2002 (the "Period"), together with the unaudited comparative figures for the corresponding period in 2001 or the audited comparative figures as at 31 December 2001. The consolidated interim financial statements have not been audited.

CONDENSED CONSOLIDATED INCOME STATEMENT
(Prepared in accordance with IAS GAAP)
For the six months ended 30 June 2002

		For the six months ended 30 June	
		2002	2001
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**2,550,332**	2,791,077
Cost of sales		**(1,833,170)**	(2,151,842)
Gross profit		**717,162**	639,235
Other revenue		**31,702**	42,983
Distribution costs		**(446,944)**	(462,032)
Administrative expenses		**(130,472)**	(165,543)
Other operating expenses		**(12,783)**	(1,360)
Profit from operations		**158,665**	53,283
Finance costs		**(52,796)**	(48,436)
Share of results of associates		**2,421**	7,030
Profit before taxation	*4*	**108,290**	11,877
Taxation	*5*	**(2,855)**	(8)
Profit after taxation		**105,435**	11,869
Minority interests		**(537)**	3,829
Net profit for the period		**104,898**	15,698
Dividends	*6*	**–**	–
Basic earnings per share	*7*	**RMB0.11**	RMB0.02

CONDENSED CONSOLIDATED BALANCE SHEET
(Prepared in accordance with IAS GAAP)
At 30 June 2002

		30.6.2002	31.12.2001
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	*8*	**2,493,767**	2,602,894
Investments in associates		**287,848**	284,259
Amounts due from related companies		**85,603**	92,140
Other assets		**19,074**	23,002
Goodwill		**861**	911
		2,887,153	3,003,206

	Notes		
Current assets			
Inventories		**1,822,885**	1,225,839
Trade and other receivables	*9*	**1,527,738**	1,442,099
Taxation recoverable		**117,846**	157,627
Pledged bank deposits		**521,361**	126,995
Bank balances and cash		**534,754**	651,196
		4,524,584	3,603,756
Current liabilities			
Trade and other payables	*10*	**3,041,195**	1,702,616
Trade deposits from customers		**184,974**	434,494
Warranty provision		**142,617**	157,357
Taxation payable		**5,260**	–
Bank borrowings – amount due within one year		**1,092,790**	1,528,268
		4,466,836	3,822,735
Net current assets (liabilities)		**57,748**	(218,979)
		2,944,901	2,784,227
Capital and reserves			
Share capital	*11*	**992,007**	992,007
Reserves		**1,539,139**	1,427,680
		2,531,146	2,419,687
Minority interests		**219,103**	218,086
Non-current liabilities			
Bank borrowings – amount due after one year		**87,419**	29,962
Pension liabilities		**104,396**	109,094
Other payables – amount due after one year		**2,837**	7,398
		194,652	146,454
		2,944,901	2,784,227

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared in accordance with IAS GAAP)

For the six months ended 30 June 2002

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserves *RMB'000*	Revaluation reserve *RMB'000*	Cumulative translation reserve *RMB'000*	Accumulated profits (losses) *RMB'000*	Total *RMB'000*
Balance at 1 January 2001							
– As previously reported	992,007	2,160,621	343,743	373,570	(3,760)	282,349	4,148,530
– Prior period adjustment *(note 17)*	–	–	–	–	–	(158,116)	(158,116)
– As restated	992,007	2,160,621	343,743	373,570	(3,760)	124,233	3,990,414
Net loss for the year	–	–	–	–	–	(1,571,037)	(1,571,037)
Translation differences	–	–	–	–	310	–	310
Balance at 1 January 2002	992,007	2,160,621	343,743	373,570	(3,450)	(1,446,804)	2,419,687
Net profit for the period	–	–	–	–	–	104,898	104,898
Translation differences	–	–	–	–	6,561	–	6,561
Balance at 30 June 2002	992,007	2,160,621	343,743	373,570	3,111	(1,341,906)	2,531,146
Balance at 1 January 2001 (as restated)	992,007	2,160,621	343,743	373,570	(3,760)	124,233	3,990,414
Net profit for the period	–	–	–	–	–	15,698	15,698
Translation differences	–	–	–	–	1,556	–	1,556
Balance at 30 June 2001	992,007	2,160,621	343,743	373,570	(2,204)	139,931	4,007,668

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared in accordance with IAS GAAP)

For the six months ended 30 June 2002

	For the six months ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	**503,533**	1,018,812
Net cash outflow from investing activities	**(281,281)**	(218,467)
Net cash (outflow) inflow from financing activities	**(343,250)**	129,061
(Decrease) increase in cash and cash equivalents	**(120,998)**	929,406
Cash and cash equivalents at beginning of the period	**651,196**	838,710
Effect of foreign currency translation	**4,556**	1,556
Cash and cash equivalents at end of the period	**534,754**	1,769,672

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2002

1. GENERAL

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

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

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

2. ACCOUNTING POLICIES

The condensed financial have been prepared under the historical cost convention and in accordance with International Accounting Standards ("IAS"). The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2001.

3. SEGMENT INFORMATION

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

	For the six months ended 30.6.2002			For the six months ended 30.6.2001		
	Refrigerator	**Air-conditioner**	**Consolidated**	**Refrigerator**	**Air-conditioner**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	1,190,463	1,359,869	2,550,332	1,264,086	1,526,991	2,791,077
Profit from operations	72,582	86,083	158,665	17,318	35,965	53,283
Profit after taxation but before minority interests	44,539	60,896	105,435	8,612	3,257	11,869
Minority interests	(537)	–	(537)	5,132	(1,303)	3,829
Net profit for the period	44,002	60,896	104,898	13,744	1,954	15,698

The refrigerator's business does not have seasonality. The air-conditioner's business has seasonality, with the slow season from August to November of each year.

No segmental information by geographical location is presented because substantially all of the Group's activities are carried out in the PRC.

4. PROFIT BEFORE TAXATION

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

	For the six months ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Interest expenses	**53,795**	43,864
Depreciation	**216,115**	210,659
Interest income	**(11,249)**	(27,373)

5. TAXATION

	For the six months ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Taxation consists of:		
PRC enterprise income tax ("EIT")		
The Company and its subsidiaries	**2,799**	–
Associates	**56**	8
	2,855	8

The Company was incorporated in Shunde, Guangdong Province and, pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" ("Income Tax Law"), is normally subject to an 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%. As the Company is designated as a key enterprise in Guangdong Province, pursuant to the document Yue Fu Han [1997] No. 157 issued by Guangdong Provincial Government, the Company is entitled to a preferential EIT rate of 15% for 2001. Pursuant to Cai Shui [2000] No. 99 issued in October 2000, the above preferential tax treatment would remain effective until 31 December 2001. Therefore, the Company is subject to an EIT rate of 27% since 2002.

The Company's subsidiaries, Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Refrigerator"), Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner"), Shunde Rongqi Kelon Fittings Co., Ltd. ("Kelon Fittings"), Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic"), and Guangdong Kelen Mould Co., Ltd. ("Kelon Mould"), incorporated in coastal open economic zone, are subject to an EIT rate of 24%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 27%. Pursuant to Income Tax Law, they are entitled to preferential tax treatment with full exemption from EIT for two years starting from the first profitable year of operations, after offsetting all tax losses carried forward from the previous years (at most five years), followed by a 50% reduction in tax rate for the next three years. In 2002, Kelon Refrigerator, Kelon Air-Conditioner, Kelon Fittings and Rongsheng Plastic are subject to an EIT rate of 12% (they are all in the 50% EIT reduction period, during which, EIT rate is 12% with the local enterprise tax rate of 3% being exempted according to local tax preferential policy). Rongsheng Plastic and Kelon Mould are subject to an EIT rate of 27%.

The Company's subsidiary, Chengdu Kelon Refrigerator Co., Ltd. ("Chengdu Kelon") is subjected to an EIT rate of 30%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 33%. The Company's subsidiary, Yingkou Kelon Refrigerator Co., Ltd. ("Yingkou Kelon"), incorporated in coastal open economic zone, is subject to an EIT rate of 24%. Together with 3% of the local enterprise income tax, the actual EIT rate is 27%. 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 carried forward from the previous years (at most five years), followed by a 50% reduction in tax rate for the next three years. As at 30 June 2002, Chengdu Kelon is still in loss position and is not required to pay income tax. Yingkou Kelon is subject to an EIT rate of 12% in 2001 (it is in the 50% EIT reduction period, during which, EIT rate is 12% with the local enterprise tax rate of 3% being exempted according to local tax preferential policy).

Hong Kong Profits Tax for the Company's subsidiaries in Hong Kong has been provided at a rate of 16% on estimated assessable profit which was earned in or derived from Hong Kong.

As at 30 June 2002, deferred tax assets not recognised in the condensed financial statements were analysed into:

	30.6.2002	31.12.2001
	RMB'000	*RMB'000*
Tax losses	**366,023**	366,023
Miscellaneous provisions	**89,207**	126,887
Revaluation of property, plant and equipment	**(35,634)**	(34,166)
	419,596	458,744

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002. No interim dividend was declared for the same period last year.

7. BASIC EARNINGS PER SHARE

The calculation of basic earning per share was based on the unaudited consolidated net profit of approximately RMB104,898,000 for the six months ended 30 June 2002 (six months ended 30 June 2001: RMB15,698,000) divided by 992,006,563 ordinary shares (2001: 992,006,563 ordinary shares) in issue during the period.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spend approximately RMB127,449,000 (2001: RMB110,928,000) on the acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

	30.6.2002	31.12.2001
	RMB'000	*RMB'000*
Trade receivables – third parties	**346,284**	172,028
Notes receivables – third parties	**191,692**	181,189
Other receivables – third parties	**300,126**	198,438
Amounts due from related companies (including amount due from GKG, see note 13(a)(iii))	**689,636**	890,444
	1,527,738	1,442,099

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

Trade receivables were generated mainly from the sales of refrigerators and air-conditioners. The aged analyses of trade receivables at the reporting date are as follows:

	30.6.2002	31.12.2001
	RMB'000	*RMB'000*
Not exceeding one year	**319,204**	180,660
More than one year but not exceeding two years	**84,696**	95,182
More than two years	**78,194**	49,962
	482,094	325,804
Less: Allowance for doubtful debts	**(135,810)**	(153,776)
	346,284	172,028

10. TRADE AND OTHER PAYABLES

	30.6.2002	31.12.2001
	RMB'000	*RMB'000*
Trade payables – third parties	**1,426,774**	484,392
Notes payables – third parties	**920,542**	678,710
Other payables – third parties	**597,712**	526,607
Amounts due to related companies	**96,167**	12,907
	3,041,195	1,702,616

As at 30 June 2002, the Group's accounts payable were aged less than one year.

11. SHARE CAPITAL

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

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Group's cash and bank deposit, 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.

13. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out in the ordinary course of business between the Group and related parties for the six months ended 30 June 2002 and the respective balances with the related companies as of 30 June 2002:

I. Transactions with related companies

	For the six months ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Sale of goods/raw materials to		
– Chongqing Kelon Electrical Appliance Co. Ltd. ("Chongqing Kelon") *(note c (ix))*	**53,945**	57,772
– Wangao Import and Export Co. Ltd. ("Wangao Co") *(note c (v))*	**34,159**	–
– Chongqing Kelon Rongsheng Refrigerator Sales Co. Ltd. ("Chongqing Rongsheng") *(note c (x))*	**33,213**	56,307
– Shunde Huaao Electrical Co. Ltd. ("Huaao Electrical") *(note c (iv))*	**4,267**	22,026
– Sanyo Kelon Refrigerator Co. Ltd. ("Sanyo Kelon") *(note c (xi))*	**3,685**	11,524
– Sichuan Rongsheng Kelon Refrigerator Co. Ltd. ("Sichuan Rongsheng") *(note c (viii))*	**–**	47,481
– Guangdong Kelon (Rongsheng) Group Company Limited ("GKG") *(note a)*	**–**	9,777

Purchase of goods/raw materials from		
– Huaoo Electrical *(note c (iv))*	**144,120**	185,212
– Wangao Co *(note c (v))*	**46,969**	–
– Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool") *(note b (i))*	**27,000**	–
– Shunde Kelon Household Electrical Appliance Limited ("Kelon HEA") *(note c (vii))*	**16,538**	–
– GKG *(note a)*	**–**	101,029
– Sanyo Kelon *(note c (xi))*	**–**	1,369
– Others	**21**	–
Loan guarantee provided by		
– GKG	**340,000**	–
– Greencool Enterprise Development Company Limited ("Shunde Greencool")	**250,000**	–
Loan guarantee provided to		
C & Y *(note c (xii))*	**3,975**	–
Income received/(charged):		
Interest charged to Chengdu Xinxing Electrical Appliance Holdings Co. Ltd. ("Chengdu Xinxing") *(note c (xiii))*	**1,606**	–
Sale of property, plant and equipment to Huaao Electrical *(note c (iv))*	**1,223**	–
Logistic management fee paid to Guangzhou Antaida Logistic Co. Ltd. ("GZ Antaida") *(note c (xiv))*	**(1,017)**	–
Advertising fee paid to Communication and You Holdings Co. Ltd. ("C & Y") *(note c (xii))*	**(350)**	(19,080)
Advertising fee paid to Kelon Advertising Company ("Kelon Advertising") *(note c (iii))*	**–**	(19,299)
Finance charge charged to GKG *(note a)*	**–**	18,967

II. Balances due from/to related companies

	30.6.2002	31.12.2001
	RMB'000	*RMB'000*
Balance due from GKG *(note a)*	**689,636**	689,636
Balances due from related companies		
Amounts due within one year:		
– Shunde Greencool *(note c (i))*	**–**	198,000
– Others	**–**	2,808
	–	200,808
Amounts due after one year:		
– Chengdu Xinxing *(note c (xiii))*	**34,000**	34,000
– Kelon Employee Union *(note c (vi))*	**51,603**	58,140
	85,603	92,140
	85,603	292,948
Balances due to related companies		
– Huaao Electrical *(note c (iv))*	**95,783**	12,566
– Hainan Greencool *(note b (ii))*	**297**	–
– Others	**87**	341
	96,167	12,907

Notes:

(a) Transactions with GKG

The transactions with GKG are summarised as follows:

(i) Change of shareholdings

In accordance to the "Contract of shares transfer of Guangdong Kelon Electrical Holdings Co. Ltd." and "Supplementary Contract of shares transfer of Guantdong Kelon Electrical Holdings Co. Ltd." signed between GKG, former single largest shareholder of the Company, and Shunde Greencool dated 29 October 2001 and 5 March 2002 respectively, both parties had already completed the transaction on 18 April 2002. From the date of shares transfer, Shunde Greencool becomes the single largest shareholder of the Company.

In April 2002, GKG also transferred the remaining shareholdings of the Company to Shunde Economic Consultancy Company, Shunde Dong Heng Development Company Limited and Shunde Xin Hong Enterprise Company Limited.

No shareholdings were held by GKG after the completion of the transactions as mentioned above. Any business undertaken between GKG and the Group would no longer constitute any related party relationship. However, GKG was still disclosed as a related party as GKG still had significant influence over the Company in this reporting period.

(ii) *Licence agreement on the use of trademark*

Under a licence agreement ("Licence Agreement") dated 6 July 1996 made between GKG, the former single largest shareholder of the Company, and the Company, GKG granted to the Company an exclusive right to use the trademarks "Kelon" and "Ronshen" for no consideration (i) as registered in PRC and Hong Kong, and/or (ii) as may from time to time be registered and/or in respect of which applications for registration may be made with the trademarks registry of any other territory by GKG and/or (iii) all "Kelon" or "Ronshen" trademark registrations as may be assigned to GKG from time to time on freezers, refrigerators and other similar or related products and such other products as may be requested by the Company from time to time which are not objected by GKG, on a worldwide basis, for a term equivalents to the period of validity of the relevant registration. With the prior written consent of the Company, GKG may use and allow third party to use, such trademarks on production other than the types of products covered by the Licence Agreement. At present, the Group has used the trademarks of "Kelon" and "Ronshen" on the refrigerators' products and "Kelon" on the air-conditioners products under the above-mentioned Licence Agreement.

(iii) As at 30 June 2002, the balances due from GKG resulting from the above transactions amounted to approximately RMB862,045,000 (2001: RMB862,045,000). Based on the continuous negotiations with management of GKG, the Group's management has estimated that RMB172,409,000 of the outstanding balance may not be recoverable and therefore had made an allowance of that amount for the year ended 30 June 2002.

(b) Transactions with Hainan Greencool

The transactions with Hainan Greencool are be summarised as follows:

(i) On 9 April 2002, an agreement signed between the Company and Hainan Greencool regarding the purchase of Model R411 chlorofluorocarbon (CFC) from the latter amounting to RMB27,000,000. All the goods were received, checked and put into production.

(ii) For the six months period ended 30 June 2002, the Company received entering and CFC installation fees from 198 engineering units authorised by Greencool Technology Holdings Limited on behalf of Hainan Greencool in PRC at RMB35,000 per unit, totalling RMB6,930,000. As at 30 June 2002, RMB6,633,000 had been paid to Hainan Greencool and the balance payable of RMB297,000 was outstanding at the period end.

(c) Transactions with other related parties

Other related party transactions are summarised as follows:

(i) On 23 December 2001, GKG entered into a debt transfer agreement with the Company and Shunde Greencool. The debt transfer agreement was subsequently revised on 22 March 2002. In accordance with the agreements, the acquisition cost was RMB348,000,000. For the settlement arrangement, GKG transferred of its debt owing to the Company, amounting to RMB348,000,000, to Shunde Greencool. As at 31 December 2001, an amount of RMB150,000,000 had been settled by Shunde Greencool. Further payment of RMB198,000,000 was made by Shunde Greencool on 25 April 2002 and the total debt of RMB348,000,000 had been fully settled as at 30 June 2002.

(ii) In consideration of the Company's plan to consolidate its import/export business and to use the household mini electrical appliances business as a platform to market the Company's refrigerators and air-conditioners, the Group through its wholly owned subsidiary Shunde Jiake Electronic Company Limited ("Jiake Electronic") entered into an agreement with GKG on 26 November 2001 to acquire GKG's entire interest in Kelon Advertising, Kelon HEA, Huaao Electrical and Wangao Co respectively.

On 6 August 2002, the transfer of shares of Kelon Advertising, Wangao Co and Huaao Electrical held by GKG to Jiake Electronic had been completed. As at reporting date, Jiake Electronic holds 70% interests in Huaao Electrical, 80% interests in Wangao Co and 80% interests in Kelon Advertising. The acquisition of Kelon HEA is still in progress.

After completion of shareholdings transfer during the reporting period, no shareholdings were held by GKG. So GKG and its subsidiaries would no longer constitute any related party relationship as at reporting date. However, these companies were still disclosed as related parties as they still had significant influence over the Company in this reporting period.

(iii) Kelon Advertising is a directly-controlled subsidiary of GKG. The Group engaged Kelon Advertising as one of its advertising agencies. For the six months period ended 30 June 2001, the Group paid advertising fee of approximately RMB19,299,000 to Kelon Advertising. For the six months period ended 30 June 2002, no such business occurred.

(iv) Huaao Electrical is a subsidiary of GKG. For the six months period ended 30 June 2002, the Group purchased certain materials amounting to approximately RMB144,120,000 (six months period ended 30 June 2001: approximately RMB185,212,000) from Huaao Electrical.

The Group also sold electronic spare parts to Huaao Electrical. For the six months period ended 30 June 2002, the amount of sales to Huaao Electrical by the Group amounted to approximately RMB4,267,000 (six months period ended 30 June 2001: approximately RMB22,026,000).

For the six months period ended 30 June 2002, the Company sold property, plant and equipment to Huaao Electrical amounting RMB1,223,000 (six months period ended 30 June 2001: nil).

As at 30 June 2002, the amount due to Huaao Electrical in connection with the above amounted to RMB95,783,000 (2001: approximately RMB12,566,000).

(v) Wangao Co is an associate of the Group, and also is a subsidiary of GKG which was established in June 2001. For the six months period ended 30 June 2002, Wangao Co imported materials of RMB9,880,000 (six months period ended 30 June 2001: nil) on behalf of Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic"), a subsidiary of the Company. For the same period, Pearl River Electric Refrigerator Company Limited ("Pearl River") and Kelon International Incorporation ("Kelon International"), subsidiaries of the Company, also purchased mini household electrical appliances amounted to approximately RMB37,091,000 (six months period ended 30 June 2001: nil) for export purposes. On the other hand, Wangao Co purchased refrigerators amounting to RMB34,159,000 from the Group for trading purpose during 2002 (six months period ended 30 June 2001: nil).

(vi) During 2001, the Company had provided funds of RMB116,000,000 to Kelon Employee Union, and employee association owned by the employees of the Group and controlled through their delegates. As at 30 June 2002, the amount due from Kelon Employee Union in this connection amounted to RMB51,603,000 (2001: RMB58,140,000).

(vii) Kelon HEA is a company which is 75% and 25% held by GKG and the Company respectively. For the six months period ended 30 June 2002, Kelon HEA purchased refrigerators and air-conditioners from the Group and sold them in the market and the sales amount of the Group to Kelon HEA amounted to approximately RMB16,538,000 (six months period ended 30 June 2001: nil)

(viii) As the Company further acquired the interests of Sichuan Rongsheng, it is not regarded as a related company. Sichuan Rongsheng was an associate of the Group so only disclosure of sale amount in last period was made.

(ix) Chongqing Kelon is an associate of the Group. For the six months ended 30 June 2002, the Group sold goods to Chongqing Kelon amounting to RMB53,945,000 (six months period ended 30 June 2001: RMB57,772,000).

(x) Chongqing Rongsheng is an associate of the Group. For the six months ended 30 June 2002, the Group sold goods to Chongqing Rongsheng amounting to approximately RMB33,213,000 (six months period ended 30 June 2001: approximately RMB56,307,000).

(xi) Sanyo Kelon is an associate of the Group. For the six months ended 30 June 2002, the Group sold goods to Sanyo Kelon amounting to approximately RMB3,685,000 (six months period ended 30 June 2001: approximately RMB11,524,000).

In accordance with the contract on the transfer of shares signed with the former shareholder of Sanyo Kelon, the Company already repaid the loan of RMB12,350,000 on 24 June 2002 on behalf of Sanyo Kelon.

(xii) C & Y is an associated company of the Group and it is principally engaged in the media advertising and marketing business.

As at 30 June 2002, the Group provided guarantee on the secured bank loan amounting to approximately RMB3,975,000 to C&Y. (six months period ended 30 June 2001: nil)

For the six months period ended 30 June 2002, the Group paid the advertising fee of approximately RMB350,000 to C & Y (six months period ended 30 June 2001: approximately RMB19,080,000).

As at 30 June 2002, due to the poor operating results in C & Y, the management had made full allowance of RMB11,819,000 for impairment in value of the Group's investment in C & Y.

(xiii) 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 (Group) Company Limited ("Chengdu Engine"), the minority investor of Chengdu Kelon. As consideration of such prepayment, Chengdu Xinxing had 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. As security for Chengdu Engine's performance of its obligations under the above guarantee Chengdu Engine has charged its entire interests in Chengdu Kelon in favour of the Company.

For the six months period ended 30 June 2002, the Group received interest payments of RMB1,606,000 (six months period ended 30 June 2001: nil) from Chengdu Xinxing.

(xiv) GZ Antaida is an associate of the Group. The Group and GZ Antaida entered into a logistic service agreement where Antaida is responsible for providing transportation service to the Group, a 4% service fee is charged on delivery and discharge of goods. For the six months period ended 30 June 2002, the Group paid logistic management fee amounting RMB1,017,000 (six months period ended 30 June 2001: nil) to GZ Antaida.

(d) Terms of the related party balances

Despite the balance due from Chengdu Xinxing, all other related party balances are unsecured, non-interest bearing and repayable on demand.

(e) Violation of Listing Rules

As disclosed in the Company's announcement dated 13 March 2002, the Group is not in compliance with the listing rules and regulations of The Stock Exchange of Hong Kong Limited and Shenzhen Stock

Exchange with regard to certain of its connected transactions. The relevant Stock Exchanges have indicated to the Company that they reserve the right to take any action, if appropriate, under the relevant Listing Rules and Regulations against the Company and/or the responsible Directors.

14. CAPITAL COMMITMENTS

At the reporting date, the Group had the following capital commitments:

	30.6.2002	31.12.2001
	RMB'000	*RMB'000*
Contracted but not provided for		
– Purchase of property, plant and equipment	**58,944**	31,740

15. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group activities expose it to a variety of financial risks, including credit risk and interest rate risk.

Financial risk management is carried out by the Finance department under policies approved by the Board of Directors.

Credit risk, or the risk of counterparties defaulting, are controlled by the application of credit terms of monitoring procedures.

The Group's income and operating cash flows are substantially independent of changes in market prices interest rates.

The Group has no significant concentration of other financial risks, including foreign exchange risk.

(b) Fair value estimation

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-trading securities and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

16. DIFFERENCES BETWEEN IAS AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP

The condensed consolidated balance sheet of the Group prepared under IAS and that prepared under PRC accounting standards and regulations have the following major differences:

	30.6.2002	31.12.2001
	RMB'000	*RMB'000*
Net assets as per condensed financial statements prepared under IAS	**2,531,146**	2,419,687
Adjustment on property, plant and equipment revaluation and related depreciation	**(9,338)**	(17,070)
Adjustment on amortisation of long-term investments	**50**	–
Net assets as per financial statements prepared under PRC accounting standards and regulations	**2,521,858**	2,402,617

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

	For the six months ended 30 June	
	2002	2001
	RMB'000	*RMB'000*
Net profit for the period as per condensed financial statements prepared under IAS	**104,898**	15,698
Adjustments on property, plant and equipment revaluation and related depreciation	**7,732**	7,824
Adjustments on amortisation of goodwill	**50**	(3,771)
Net profit for the period as per financial statements prepared under PRC accounting standards and regulations	**112,680**	19,751

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

17. PRIOR PERIOD ADJUSTMENT

As at 31 December 2001, cumulative losses applicable to the minority interest of one of the Group's subsidiary exceeded the minority interest in the equity of the subsidiary ("excess loss") by approximately RMB158,116,000. Such excess loss was charged to the minority interest in the Group's 31 December 2000 consolidated financial statements with the belief that the minority interest would agree to absorb the excess loss through additional funding. During 2002, management considers that it is not probable that the minority shareholder will provide additional financial contribution to absorb any excess loss. Accordingly, the excess loss of RMB158,116,000 is considered as a correction of accounting error and is charged to consolidated income statement for the year ended 31 December 2001.

18. SIGNIFICANT SUBSEQUENT EVENTS

(a) In consideration of the Company's plan to consolidate its import/export business and to use the household mini electrical appliances business as a platform to market the Company's refrigerators and air-conditioners, the Company through its wholly-owned subsidiary Jiake Electronic entered into an agreement with GKG on 26 November 2001 to acquire GKG's entire interest in Kelon Advertising, Kelon HEA, Huaao Electrical and Wangao Co respectively.

On 6 August 2002, the transfer of shares of Kelon Advertising, Wangao Co and Huaao Electrical held by GKG to Jiake Electronic had been completed. As at reporting date, Jiake Electronic holds 70% interests in Huaao Electrical, 80% interests in Wangao Co and 80% interests in Kelon Advertising. The acquisition of Kelon HEA is still in progress.

(b) In July 2002, the acquisition of Sanyo Kelon (being an associate of the Group before acquisition) was completed. Before acquisition, Sanyo Electric Co., Ltd., Sanyo Electric (China) Co., Ltd., Nisshoiwai (China) Co., Ltd. and the Company held 46%, 5%, 5% and 44% interests in Sanyo Kelon respectively. After acquisition, Sanyo Kelon is wholly owned by the Group.

DIVIDENDS

At a meeting of the Directors held on 26 August 2002, the Directors resolved not to declare any interim dividend for the six months ended 30 June 2002. No interim dividends were distributed for the corresponding period last year.

REVIEW OF OPERATIONS AND PROSPECTS

Business review

Operations of the Group

For the Period, the Group's net turnover amounted to RMB2,550,332,000, representing a decline of approximately 8.63% in comparison with the corresponding period in 2001. The weak performance for the first half year was due to the fact that the Group went through a transition between old and new management in the first and second months of this year which resulted in the effectiveness of the new operation strategy not being able to be reflected and the fact that the prices of certain models of the Group's air-conditioners went down during the Period.

For the Period, the Group's gross profit amounted to approximately RMB717,162,000, representing an increase of approximately 12.19% over the corresponding period in 2001. The gross profit margin for the Period jumped to 28.12% from 22.90% recorded in the corresponding period last year. Profit attributable to shareholders amounted to RMB104,898,000, representing an increase of 568.23% over the corresponding period in 2001. Basic earning per share was RMB0.11.

The Group's principal activities are the development, manufacture and sale of refrigerators and air-conditioners. The Group's refrigerators are sold under the "Kelon" and "Ronshen" brand names, whereas its air-conditioners are sold under the "Kelon" and "Huabao" brand names.

Internationalized management processes

During the Period, the Group implemented internationalized management processes to improve management's efficiency, reducing expenses resulting from management processes and enhancing cost effectiveness.

In relation to the establishment of the Enterprise Resource Planning (ERP) system, the Group expects Phase I of the project will complete at the end of 2002 and Phase II will commence in 2003.

Further, in May 2002, the Group entered into an alliance agreement with IBM, the world's largest computer corporation, to jointly enhance the competitiveness of the electrical household appliances business using information technology. The Group will fully adopt the "knowledge sharing platform" of Knowledge Management Solution provided by IBM as long-term support to the Group's hardwares, softwares, solutions and services, and thereby increasing the speed for internal and external information flow and improving management's efficiency in enhancing internationalisation of the Group.

Innovative product technology

The Group has strong research capabilities, and leads the market with its innovative product designs. During the Period, the Group launched various new products which were revolutionary to the industry. The Group also implemented an optimizing strategy to enhance the main functions and efficiency of its products through the use of advanced technology and to substantially strengthen the Group's position for profitability.

The refrigerators with "Independent Multi Cycling Refrigeration" ("IMCR") have 4 main fundamental characteristics, namely, adjustable temperature compartments, more accurate temperature control, quicker refrigeration and less power consumption, breaking the traditional concept of dividing a refrigerator into two different temperature compartments: freezing compartment and cooling compartment. The Group's invention of this new technology has enhanced the competitiveness of the refrigerators of "Kelon" and "Ronshen" brands in the domestic and overseas markets and has increased the technological added-value to its products. As such, the Group's foundation for profitability for this year becomes stronger. Currently, the Group has applied to register patents in respect of its IMCR technology with the PRC State Patent Office and in about 20 developed countries in Europe and America.

"Shuang Xiao Wang" Cooling and Heating Air-Conditioner was also launched in the market in March 2002. It is a product which uses the efficient, energy-saving and environment-friendly "Greencool Refrigerants" and embodies patented technologies. With its refrigerating efficiency and heating efficiency as high as 3.8 and 4.2 respectively, being more efficient than the State's energy-saving standards by 40% and 50% respectively, this product has ranked first among similar products in the world and established market recognition of Kelon Air-conditioners as high efficiency and energy-saving air-conditioners.

During the Period, through the marketing and promotion programme of "Longteng II", the Group sold the IMCR refrigerators and Shuang Xiao Wang Cooling and Heating Air-conditioners to more than 300 cities throughout the PRC. Through such high value-added and high-tech products, together with its comprehensive sales network and quality service to meet the increasing needs of the customers, the Group has successfully established its brand name as a sign of high technology.

At the 91st PRC (Guangzhou) Export Trade Fair held in April 2002, the number of contracts entered into by the Group with foreign investors during the Fair ranked third among the Guangdong enterprises. Moreover, when the IMCR refrigerator was initially launched, it won unprecedented success at the First National Exhibition on Electrical Household Appliances in Berlin.

Stringent Cost Control

Stringent cost control is the Group's foremost task at present. The Group is stringently controlling its operation process from purchase to sale so as to implement its "Profitability Driven" management philosophy. In the first half of 2002, the Group has succeeded in reducing management expenses, achieving the optimized management process and controlling sales and production costs. As a result, the Group's cost was substantially reduced as compared with that of the previous year. Moreover, the Group will make adjustments to its investment strategy to overall reduce the investment in projects which remain non-profitable in the short term, and appropriately rationalize the Group's structure and streamline managerial personnel.

The Group has established the solid and comprehensive sales network domestically and abroad, and has commenced the operations of all marketing branches in 28 provinces. The effect of these achievements was successfully reflected in the first half of 2002 operating results. The efficiency was improved and sales costs were greatly reduced. Furthermore, the cooperation with distributors became even much closer. As such, the Group recorded an increase in its earnings.

In addition, the "Project of Perfection" was initiated in June this year. In implementing the project, the Group has been emphasizing more on the internal and external added values of its products to provide excellent products with complete services and satisfactory prices for the customers. Also, the production department will further improve the products and reduce the costs for higher operating effectiveness of the Group.

Moreover, the "Project of Perfection" commenced in June this year. Through the implementation of this project, the Group will further pursue added value to its products, the provision of quality products and services to consumers and competitive prices. The production department will further improve product quality and reduce costs with a view to improving the enterprise's operating results.

During the Period, the Group established strategic alliance with China Southern Airlines Company Limited, whereby the staff of the Group and its affiliated suppliers will travel with Southern Airlines, and all the airfreight operations of the Group will be commissioned with Southern Airlines. It is expected that the Group will save more than 30% of its airline expenses every year.

Market internationalization

In order to stay closer to overseas market and customers, the Group set up a new company in the USA in 2002 to establish a firm foundation for overseas sales network.

To speed up its development in international market, during the Period the Group established the department of international cooperation (led by well-experienced international experts) to pursue strategic cooperation with large international enterprises and to manufacture relevant electrical household appliances for them.

The Group formed a strategic alliance with Kolin Company, a renowned company in Taiwan, in March 2002. Kolin Company will appoint the Group to manufacture 20,000 refrigerators for it and to export 20,000 units of air-conditioners to be assembled in Taiwan. Once the opportunity arises, the Group will directly sell its products to Taiwan.

The above cooperation has clearly shown that the Group aims to seek close multilateral cooperation in the midst of keen competition within the electrical household appliance market to expand its sales channels and realize its management philosophy of "Technologically Led and Profitability Driven" and the "Strategy for Cost-Optimization". Moreover, the Group can also share in its partners' resource advantages, market advantages and competitive advantage in their respective industries and to realize a win-win strategy.

Project of Perfection

During the Period, the Group increased its pace on the implementation of the "Project of Perfection". Emphasis was put on the development of hi-tech and high value-added products so as to increase the Group's competitiveness and profitability. The Group considered that through the implementation of the "Project of Perfection", the Group could have better quality control and more attractive design to its products. On the other hand, through the implementation of the "Project of Perfection", the Group could keep the wastage in every level of production to a minimum. In corporate management, more attention will be put to the sophistication and optimization of procedures in corporate management.

The Company believes that by implementing the "Project of Perfection", the Group's products can reach the world's highest standard.

DEVELOPMENT PLAN IN FUTURE

The Group will establish itself in the refrigerating industry and strictly follow the corporate policy of "Technology Led and Profitability Driven". The Group highly appreciates the importance of technology innovation in the development of the Group's competitiveness and, accordingly, makes additional investments in technology research, to ensure the Group's products have a leading edge in technology and quality. For this purpose, Mr. Gu Chu Jun, the chairman of the Board, initiates the "Project of Perfection", which, as the influence of the Project goes broader and deeper, will benefit the Group's products eventually and push its product quality, its technology innovation and corporate management to the world's highest level. Meanwhile, the Group will accelerate the implementation of its internationalization strategy, which includes, inter alia, speeding up expansion into overseas markets by using various methods of international cooperation, increasing foreign cooperation and putting more investment into international trading, in hope that the Group will become the leader in the refrigerating industry.

TRUST DEPOSITS

As of 30 June 2002, the Company did not have any trust deposits or fixed deposits with any financial institutions in the PRC, which are allowed to be withdrawn only upon maturity. 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 collection difficulties with withdrawals.

UNIFIED INCOME TAX AND LOCAL TAX REFUND PRIVILEGE

As the "33% Levy and then 18% Refund" income tax privilege enjoyed by the Company expired on 31 December 2001, starting from 2002, the Company is subject to income tax rate of 27%.

EMPLOYEE HOUSING SCHEME

The Company has an incentive scheme with the objective of retaining our staff, especially middle management. Under the scheme, the Company can at its discretion sell residential flats to employees selected by the Company at book value. The employees pay a purchase price by monthly installments for ten years. Such monthly installments carried no interest element before 1997 but were subsequently revised so that effective from 1997 they all carried interest charges. The monthly installments are deducted automatically from the employees' monthly salaries. Title of properties will remain with the Company until the installments are fully paid by the employees. If an employee leaves the Company or is dismissed by the Company during the repayment period, the installment payments already made by the employee will be treated as rental payment and no refund of installment payments will be necessary.

As of 30 June 2002, a total of 571 employees (2001: 571) participated in this scheme. During the Period, no employee has fully paid up the installments and accordingly the titles of the properties remained with the Company.

THE IMPACT OF THE PRC'S ACCESSION TO THE WTO ON THE GROUP

Since PRC's formal accession to the WTO, the PRC household appliances enterprises have been facing intensified competition in the market. Overseas household appliances enterprises are striving to cope with the PRC consumer demand by enhancing the quality of aftersales services, the coverage of sales networks and brandname awareness. Mergers among enterprises tend to be the strategy to compete and price cutting has become the major weapon for competition among enterprises. The Company however believes that as the economy of China continues to flourish, the income of the people and their purchasing power will continue to increase. Therefore, the Company believes that there is substantial room for growth in the domestic household appliances market.

In the face of intense market competition, the Company will step up its pace in the innovation of technology. The Company will fully captalize on various existing resources to make corresponding adjustments to its existing product structure, business strategy and market structure. The Company will also continue to follow the "Technologically Led and Profitability Driven" business strategy, with realisation of profit as its primary business objective on the basis of "enhancing the technology elements of its products" and "strengthening scientific-based management". All these serve to speed up the globalization process of the Company and maintain its leading position in the next round of competition.

SOURCES OF WORKING FUNDS AND CAPITAL

Net cash inflow from operating activities for the first half of 2002 amounted to RMB503,533,000.

As at 30 June 2002, the Company had bank balances and cash on hand (excluding pledged bank deposits) totaling approximately RMB534,754,000 and bank loan balance of approximately RMB1,180,209,000.

Total capital expenditure for the first half of 2002 amounted to RMB503,029,000.

As at 30 June 2002, the net proceeds from the Company'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.

SHARE CAPITAL STRUCTURE

As at 30 June 2002, the share capital structure of the Company was as follows:

	Issued Share Capital	Percentage of Total Number of Shares
Domestic shares	422,416,755	42.58%
H shares	459,589,808	46.33%
A shares	110,000,000	11.09%
Total	992,006,563	100.00%

As compared with the beginning of the Period, there was no change in the share capital of the Company for the six months ended 30 June 2002, except that as at 2 June 2002, three years has lapsed since the issue of the Company's A shares to the public and accordingly, application can be made for the listing of the domestic employee shares of the Company. The domestic employee shares of the Company were listed on the Shenzhen Stock Exchange on 18 July 2002 (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 15 July 2002). After listing of the domestic employee shares, the share capital structure of Company is as follows:

	Issued Share Capital	Percentage of Total Number of Shares
Domestic shares	337,915,755	34.06%
H shares	459,589,808	46.33%
A shares	194,501,000	19.61%
Total	992,006,563	100.00%

TOP TEN/SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the top ten shareholders of the Company (including shareholders who registered an interest of more than 10% of the issued share capital of the Company) were as follows:

Name of Shareholders	Class	Shares Held	Percentage of Holding
Greencool Enterprise Development Company Limited	Domestic Shares	204,775,755	20.64%
Shunde Economic Consultancy Company	Domestic Shares	68,666,667	6.92%
The Hongkong and Shanghai Banking Corporation Ltd.	H Shares	66,824,727	6.74%
Shunde Xin Hong Enterprise Company Limited	Domestic Shares	57,436,439	5.79%
Bank of China (Hong Kong) Limited	H Shares	41,164,000	4.15%
Citibank N.A.	H Shares	21,774,052	2.20%
Guotai Junan Securities (Hong Kong) Limited	H Shares	20,580,000	2.07%
Hang Seng Bank Ltd.	H Shares	20,146,000	2.03%
Tai Fook Securities Company Limited	H Shares	17,001,000	1.71%
Standard Chartered Bank	H Shares	15,925,800	1.61%

DESCRIPTIONS OF SHAREHOLDING CONNECTIONS AMONG THE TOP 10 SHAREHOLDERS:

1. None of the top ten shareholders has any connection with any of the others.

2. During the Period, no shares held by any shareholder, who holds 5% or more legal person shares, were subject to any charges, freezing orders or other arrangements.

3. During the Period, in accordance with the provisions set out in the sale and purchase agreement ("Transfer Agreement") entered between GKG (the former single largest shareholder of the Company) and Shunde Greencool for the transfer of shares in the Company and a supplemental agreement to the Transfer Agreement (the "Supplemental Agreement") on 29 October 2001 and 5 March 2002 respectively (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 31 October 2001 and 14 March 2002), parties to the Transfer Agreement had completed the share transfer procedures. From the date the share transfer procedures were completed, Shunde Greencool became the single largest shareholder of the Company.

Shunde Greencool, a limited liability company incorporated under the laws of the PRC, with registered address at 8/F., Rongshan Building, 88 Rongqi Main Road Central, Ronggui District, Shunde, is the single largest shareholder of the Company. Shunde Greencool mainly engages in the research, manufacturing and distribution of refrigerating equipment and accessories, fluoride-free refrigerants; research and development of refrigerating technology; development, manufacturing and sale of computer, broadband networking equipment. The registered capital of Shunde Greencool is RMB1,200,000,000. The shareholding structure of Shunde Greencool: the existing issued share capital is held by Mr. Gu Chu Jun and Mr. Gu Shan Hong respectively in the proportion of 90% and 10%. During the Period, Shunde Greencool recorded a net profit of RMB23,816,000. As at the end of Period, the net asset value of Shunde Greencool was RMB1,373,421,000.

On 15 April 2002, GKG entered into an agreement with Shunde Economic Consultancy Company (順德市經濟諮詢公司) to transfer to Shunde Economic Consultancy Company a total of 68,666,667 legal person shares in the Company (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 19 April 2002).

On 26 April 2002, GKG received a court judgment which ruled that its shareholdings of 7,036,894 legal person shares in the Company were required to be transfered to Shunde Dong Heng Development Company Limited (順德東恒發展有限公司) (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 16 May 2002).

On 30 April 2002, GKG and Shunde Xin Hong Enterprise Company Limited (順德信宏實業有限公司) entered into an agreement to transfer 57,436,439 legal person shares to Shunde Xin Hong Industries Limited (for details, please refer to announcements published in "中國證券報", "證券時報", "Hong Kong Economic Journal" and "HK iMail" on 16 May 2002).

Following the four abovementioned share transfers, GKG, the former single largest shareholder of the Company, no longer holds any shares of the Company. Henceforth, any business dealing between the Company and GKG will no longer constitute a connected transaction.

INTERESTS OF DIRECTORS AND SUPERVISORS

As at 30 June 2002, the interests (as defined in the Securities (Disclosure of Interests) Ordnance ("SDI Ordinance")) of the directors, supervisors and chief executives of the Company in the domestic shares. A shares and H shares of RMB1.00 each, as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follow:

Director/Supervisor	Position	Type of Interest	Number of Shares
Gu Chu Jun *(i)*	Director	Corporate	204,775,755 Legal Person Shares
Gu Chu Jun *(ii)*	Director	Corporate	3,830,000 H Shares
He Si	Supervisor	Personal/Family	50,000 domestic shares for employee

(i) Shunde Greencool owns 204,775,755 legal person shares in the Company, representing approximately 20.64% of the existing issued share capital of the Company. Mr. Gu Chu Jun owns 90% of the total investment in Shunde Greencool.

(ii) Mr. Gu Chu Jun is the substantial shareholder of Greencool Technology Holdings Limited (a company listed on the Hong Kong Stock Exchange Growth Enterprise Market) and owns approximately 62.5% of its share interests. Two subsidiaries of Greencool Technology Holdings Limited held 3,830,000 H shares of the Company, representing approximately 0.39% of the issued share capital of the Company.

Save as disclosed above, the company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as of 30 June 2002.

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.

SIGNIFICANT EVENTS

On 3 March 2002, the Company announced to the media that the refrigerator industry embraced the "Post-refrigerator era" – Kelon has introduced the world's first refrigerator embedded with "Independent Multi Cycling Refrigeration" technology; further strengthening its leadership in the refrigeration industry.

On 17 March 2002, the Company announced to the media "Dual high effectiveness – a good Air-conditioner" followed by the launch of the "Shuang Xiao Wang" Air-conditioner to secure greater market share in 2002.

On 18 June 2002, the shareholders of the Company at a general meeting resolved and approved to change the auditors of the Company and the Directors were authorized to determine their remuneration. According to this, the Company will engage 德勤華永會計師事務所 and Deloitte Touche Tohmatsu as the auditors of the Company for domestic and overseas auditing for the year ending 31 December 2002.

Neither the Company nor any of its subsidiaries was involved in any material litigation or significant arbitration during the Period.

STATEMENT OF AFFAIRS RELATED TO THE 2001 AUDITOR'S REPORT

The opinion issued by Arthur Andersen. Hua Qiang ("Andersen") in respect of the 2001 financial report (Auditors' Report) of the Company has been explained in the 2001 Annual Report, and is further explained as follow:

1. Andersen was not able to form an opinion on the Company's ability to continue as a going concern due to the second consecutive year of loss recorded by the Company, which amounted to a net current debt of RMB180,000,000 at the end of 2001. As stated in the 2001 Annual Report, the Board of Director has put forward a series of measures in early 2002, which include:

   (a) develop and manufacture products with high added value;

   (b) strengthen management to reduce cost; and

   (c) modify structure of the Company to enhance efficiency.

   The above measures have been implemented in stages in 2002 and the result is satisfactory. Recently, the Company is able to turn loss into profit and if the situation continues to improve, there should be no doubt on the ability of the Company to continue as a going concern. In addition, the amount of RMB198,000,000 payable by Shunde Greencool to the Company which incurred as a result of the transfer of share interests and transfer of debt arrangements was fully paid to the Company on 25 April 2002. As a result, the cash flow of the Company has improved.

2. As most of the directors and senior management responsible for the Company's operation in 2001 had resigned, Andersen was not able to obtain representations and assurances from the previous management to confirm that all material transactions in 2001 were accurately recorded and fully disclosed. Although the present management endeavoured to ensure that all material transactions were recorded and fully disclosed and was willing to make such representations and assurances, Andersen was unable to form an opinion because the present management was not responsible for the operations in 2001 and hence could not accept such representations and assurances. However, up to the date hereof, no material transactions that are unrecorded or undisclosed have been found by the Company.

3. In 2001, the company seal of one of the Company's subsidiaries was mistakenly used, and as a result the Company had to repay a debt of RMB210,000,000 for and on behalf of GKG. Based on this incident, Andersen indicated that they could not ascertain the contingent or real liabilities caused by this incident. The present management has increased its control and management over the use of the company seal of all companies and has also implemented in earlier stages various policies including:

   a) the present management has conducted a financial audit of all existing guarantees made by the Group;

   b) the present management has demanded the officers in the financial management department to review all guarantees and loans made with external parties to ensure that the records are complete; and

   c) the present management has checked with the relevant banks and financial institutions. Up to the date hereof, no abovementioned liabilities have been discovered.

4. In accordance with International Accounting Standards ("IAS"), the Company is required to make regular valuation on its fixed assets. However, the independent valuer retained by the Company

was unable to prepare a valuation report on time, and accordingly Andersen was not able to express its opinion on the ground that accounting principles were not complied with. The valuation report on those fixed assets was completed in May 2002, and the difference between the assessed values and the carrying values is less than 10%.

In addition, management has used an estimate as a basis to forecast the discounted cash flow of these assets. Although the discounted cash flow is positive, that is, no provision has to be made, having considered the results of operation in the past 2 years and the fact that the market condition is changing rapidly, Andersen was unable to determine whether the discounted cash flow forecast is appropriate.

At present, most of the assumptions used in the discounted cash flow analysis when the audit was performed can be realised. The net operating cash flow of the Company for the six months ended 30 June 2002 amounted to RMB503,533,000. Accordingly, the Company considers that the values attached to such assets are reasonable.

5. The present management team noted that a contract was signed at the end of 2000 with advertising agents relating to the advertisements which they would handle for and on behalf of the Company in 2001 with an aggregate value of RMB160,000,000. After consulting the previous management team and on the basis of the terms of the contract, and a representation made by the previous management team and in accordance with the conservative policy in accounting standards, the advertising fees were included in the accrual and other payable balance. Andersen is of the opinion that there is insufficient evidence to support that the advertising services had been performed in 2001 and therefore is not able to form an opinion. Up to the date hereof, an approximate sum of RMB80,000,000 has been paid, and payment for the balance is suspended due to the lack of evidence supporting the performance of the related advertising services. At present the management is seeking more evidence to support such expenses.

6. At the end of 2001, accounts receivable from GKG amounted to RMB862,000,000. The present management believes that the chance of recovery of such amount is very high. Nevertheless, the management has, in accordance with the conservative policy in accounting standards made a 20% provision amounting to approximately RMB172,000,000. Andersen was unable to assess whether the provision is adequate and whether any reclassification may be required to reflect the timing of the ultimate settlement. The Company is currently negotiating with GKG on the method and timing of settlement of the outstanding balance, but no formal agreement is finalised.

7. Long term receivables for 2001 include an approximate sum of RMB58,000,000 to be collected from the Employee Union of the Company. No provision has been made on this amount as the present management believes that the total amount can be collected. An approximate sum of RMB6,500,000 has already been collected at the end of June 2002.

   As Andersen is unable to assess the collectibility of the above amount, it has reserved its opinion in respect of this matter. At present, the Company is negotiating with the Employee Union on the method of settlement of the amount.

CODE OF BEST PRACTICE

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

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

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

DOCUMENT AVAILABLE FOR INSPECTION

The original 2002 interim report signed by the chairman is available for inspection at the following address:

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

By Order of the Board
Guangdong Kelon Electrical Holdings Company Limited
Gu Chu Jun
Chairman

Shunde, Guangdong, PRC, 26 August 2002

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 STATISTICS AND INDICATORS

(Prepared in accordance with PRC GAAP)

(Unit: RMB)

Item	For the six months ended 30 June **2002**	2001
Net profit	**112,681,302**	19,750,961
Net profit deducted by extraordinary profit (loss)	**113,778,916**	28,399,845
Total assets	**7,327,972,237**	7,930,262,396
Assets-liability ratio (%)	**62.49%**	46.76%
Shareholders' equity (excluding minority interests)	**2,521,857,904**	4,137,302,548
Earnings per share	**0.11**	0.02
Earning per share considering share change after the balance sheet date	**0.11**	0.02
Return on net assets (%)	**4.47%**	0.48%
Net assets per share	**2.54**	4.17
Adjusted net assets per share	**2.33**	3.93
Net assets per share considering share change after balance sheet date	**2.54**	4.17
Net cash flow from operating activities per share	**0.16**	1.04

Items	31 December 2001
Net loss	1,555,573,089
Net loss deducted by extraordinary profit (loss)	1,496,027,378
Earnings per share	(1.57)
Earning per share considering share change after the balance sheet date	(1.57)
Return on net assets (%)	(48.91%)

* *Note: Item & amount of extraordinary profit (loss)*

Items	Amount
Non-operating income	4,921,767
Non-operating expense	(974,981)
Amortisation on equity investment difference	(6,650,000)
Interest received from related party	1,605,600
Total	(1,097,614)

DIFFERENCE ON NET PROFIT AND NET ASSETS BETWEEN THE IAS AND PRC GAAP

Items	Net profit	Net Assets
Reported in accordance with IAS	104,899,460	2,531,145,739
Reported in accordance with PRC	112,681,302	2,521,857,904
Difference	(7,781,842)	9,287,835

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

Earnings per share	=	net profit/weighted average number of ordinary shares outstanding for the period
Return on net assets	=	net profit/shareholders' equity as of the period end * 100%
Net assets per share	=	shareholders' equity as of the period end/number of ordinary shares outstanding as of the Period end
Adjusted net assets per share	=	(shareholders' equity as of the period end – accounts receivable with aging over 3 years – deferred expenditure – long-term deferred expenditures) /number of ordinary shares outstanding as of the period end
Net cash flow from operating activities per share	=	Net cash flow from operating activities/number of ordinary shares outstanding as of the period end

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

1. At the 2002 Annual General Meeting of the Company, shareholders of the Company approved the resignation of Li Di Qiang (李棣強), He Zheng Guang (何正光) and Wang Kun You (黃坤友) as supervisors for work reasons, whereas He Si (何斯) will remain as supervisor and Wang Kun Ping (王康平) and Jiang Bao Jun (薑寶軍) were appointed as the supervisors of the Company (for details, please refer to announcements published in "中國證券報", "證券時報" , "Hong Kong Economic Journal" and "HK iMail 19 June 2002");

2. Huang Xiao Chi (黃小池), the Vice President (Technical Department) (技術副總裁) of the Company has resigned as Vice President for personal reason on 1 June 2002.

(3) COMPARING FIGURES ON MAJOR FINANCIAL INDICATORS

Items	For the six months ended 30 June 2002	2001	Increase/ Decrease
Turnover from principal operations	2,550,506,407	2,791,119,830	-8.62%
Profit from principal operation	717,162,794	646,573,309	10.92%
Net profit	112,681,302	19,750,961	470.51%
Net (decrease)/increase in cash and cash equivalents	(116,442,261)	930,960,376	-112.51%

Items	As at 30 June 2002	As at 31 December 2001	Increase/ Decrease
Total assets	7,327,972,237	6,526,963,960	12.27%
Shareholders' equity	2,521,857,904	2,402,616,534	4.96%

1. The decrease in turnover from principal operations is mainly due to the tremendous drop in sales in the first quarter resulting from the transition of the new and old management in January and February this year and the decrease in price of certain air-conditioner products.

2. The increase in profit from principal operations is mainly due to the decrease in cost, increase in the sales of high value-added products and the improvements in the product portfolio, which all serve to improve the profitability of the products.

3. The increase in net profit is mainly due to the increase in profit from principal operations and decrease in operation management cost during the period.

4. The increase in total assets is because the Company was in the peak season during the period.

5. The increase in shareholders equity is due to the Company realising profit during the period.

(4) ANALYSIS OF TURNOVER FROM PRINCIPAL OPERATIONS BY GEOGRAPHIC SEGMENT

Turnover from principal operations	For the six months ended 30 June 2002 Refrigerator business	Air-Conditioner business	Total
Internal sales	1,055,435,733	1,055,456,514	2,110,892,247
External sales	135,161,622	304,452,538	439,614,160
Total	1,190,597,355	1,359,909,052	2,550,506,407

(5) ANALYSIS BY BUSINESS SEGMENT

Principal business	For the six months ended 30 June 2002 Turnover from principal business	Cost of principal business	Profit from principal business
Refrigerator	1,190,597,355	(847,478,579)	342,984,403
Air-conditioner	1,359,909,052	985,690,938)	374,178,391
Total	2,550,506,407	(1,833,169,517)	717,162,794

(6) PRINCIPAL FINANCIAL STATEMENTS FOR A-SHARE

BALANCE SHEET
(Prepared in accordance with PRC GAAP)
At 30 June 2002
(Denominated in RMB)

	Group		Company	
	30 June 2002 (Unaudited)	31 December 2001 (Audited)	**30 June 2002 (Unaudited)**	31 December 2001 (Audited)
ASSETS				
CURRENT ASSETS:				
Bank balances and cash	**1,056,115,152**	778,191,077	**872,788,027**	492,198,063
Short-term investments	**–**	–	**–**	–
Notes receivable	**191,691,863**	351,188,636	**184,977,773**	346,601,619
Dividends receivable	**–**	–	**–**	–
Interest receivable	**–**	–	**–**	–
Accounts receivable	**351,038,162**	220,899,049	**126,673,278**	127,250,589
Other receivables	**988,642,529**	920,145,160	**1,476,512,268**	1,944,443,323
Prepayments	**69,664,068**	68,102,966	**34,601,160**	16,158,696
Subsidies receivable	**–**	–	**–**	–
Inventories	**1,823,301,550**	1,225,838,916	**1,309,453,699**	801,622,736
Deferred expenditures	**6,661,350**	4,302,593	**1,598,853**	1,075,281
Investments in debt securities, current portion	**–**	–	**–**	–
Other current assets	**–**	592,731	**–**	592,731
Total current assets	**4,487,114,674**	3,569,261,128	**4,006,605,058**	3,729,943,038
LONG-TERM INVESTMENTS:				
Long-term equity investments	**254,253,891**	259,892,540	**1,134,006,052**	1,168,495,412
Long-term investments in debt securities, non-current portion	**–**	–	**–**	–
Total long-term investments	**254,253,891**	259,892,540	**1,134,006,052**	1,168,495,412
FIXED ASSETS				
Fixed assets, cost	**3,432,792,797**	3,383,892,823	**1,440,691,880**	1,410,203,800
Less: Accumulated depreciation	**(1,393,762,031)**	(1,278,861,600)	**(473,979,086)**	(409,811,665)
Fixed assets, net	**2,039,030,766**	2,105,031,223	**966,712,794**	1,000,392,135
Less: Provision for impairment loss of fixed assets	**(47,236,170)**	(47,236,170)	**–**	–
Fixed assets, net	**1,991,794,596**	2,057,795,053	**966,712,794**	1,000,392,135
Project materials	**–**	–	**–**	–
Construction in progress	**7,950,352**	31,187,206	**4,438,888**	16,597,973
Disposal of fixed assets	**–**	–	**–**	–
Total fixed assets	**1,999,744,948**	2,088,982,259	**971,151,682**	1,016,990,108
INTANGIBLE ASSETS AND OTHER ASSETS				
Intangible assets	**301,295,800**	305,783,805	**205,521,573**	209,127,331
Long-term deferred expenditures	**199,960,018**	210,904,281	**70,946,184**	108,379,846
Long-term receivable above 1 year	**85,602,906**	92,139,947	**51,602,906**	58,139,947
Other long-term assets	**–**	–	**–**	–
Total intangible assets and other assets	**586,858,724**	608,828,033	**328,070,663**	375,647,124
DEFERRED TAX				
Deferred tax assets	**–**	–	**–**	–
TOTAL ASSETS	**7,327,972,237**	6,526,963,960	**6,439,833,455**	6,291,075,682
LIABILITIES AND SHAREHOLDERS' EQUITY				

CURRENT LIABILITIES:				
Short-term loans	**887,700,000**	1,323,309,386	**825,700,000**	965,700,000
Notes payable	**920,542,080**	678,710,489	**756,692,079**	824,359,379
Accounts payable	**1,501,927,994**	578,148,753	**743,401,239**	9,318,641
Advance from customers	**189,462,777**	440,396,170	**169,679,918**	432,266,240
Accrued payroll	**43,426,684**	55,442,703	**19,489,882**	35,287,596
Staff welfare payable	**6,758,092**	2,392,998	**1,124,104**	798,006
Dividends payable	**2,067**	3,187	**–**	–
Taxes payables	**(112,790,834)**	(157,832,050)	**(90,645,258)**	(168,419,901)
Payable to others	**5,362,023**	4,287,088	**3,133,099**	2,443,887
Other Payables	**160,484,328**	73,887,114	**132,058,638**	439,111,897
Accruals	**434,125,771**	389,735,410	**371,357,580**	377,674,560
Provision	**142,616,546**	157,356,546	**142,616,546**	157,356,546
Long-term loan due within 1 year	**205,089,957**	204,958,929	**200,000,000**	200,000,000
Other current liabilities	**–**	965,158	**–**	–
Total current liabilities	**4,384,707,485**	3,751,761,881	**3,274,607,827**	3,275,896,851
LONG-TERM LIABILITIES				
Long-term loan	**87,419,132**	29,961,937	**60,000,000**	–
Debentures	**–**	–	**–**	–
Long-term payable	**107,232,943**	116,492,478	**104,395,514**	113,263,739
Payable for special purpose	**–**	–	**–**	–
Accrued liabilities of investee enterprise	**–**	–	**482,083,509**	495,849,789
Other long-term payable	**–**	–	**–**	–
Total long-term liabilities	**194,652,075**	146,454,415	**646,479,023**	609,113,528
DEFERRED TAX				
Deferred tax liability	**–**	–	**–**	–
TOTAL LIABILITIES	**4,579,359,560**	3,898,216,296	**3,921,086,850**	3,885,010,379
MINORITY INTEREST	**226,754,773**	226,131,130	**–**	–
SHAREHOLDERS' EQUITY				
Share capital	**992,006,563**	992,006,563	**992,006,563**	992,006,563
Capital reserve	**2,451,222,837**	2,451,222,837	**2,451,222,837**	2,451,222,837
Revenue reserve	**343,742,703**	343,742,703	**343,742,703**	343,742,703
Including: Statutory common welfare fund	**114,580,901**	114,580,901	**114,580,901**	114,580,901
Accumulated losses	**(1,268,225,498)**	(1,380,906,800)	**(1,268,225,498)**	(1,380,906,800)
Exchange difference	**3,111,299**	(3,448,769)	**–**	–
Total shareholders' equity	**2,521,857,904**	2,402,616,534	**2,518,746,605**	2,406,065,303
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**7,327,972,237**	6,526,963,960	**6,439,833,455**	6,291,075,682

STATEMENTS OF INCOME AND PROFIT APPROPRIATION

(Prepared in accordance with PRC GAAP)
For the six months ended 30 June 2002
(Denominated in RMB)

	Group			Company		
	For the six months ended 30 June 2002 (Unaudited)	For the six months ended 30 June 2001 (Unaudited)	For the year ended 31 December 2001 (Audited)	**For the six months ended 30 June 2002 (Unaudited)**	For the six months ended 30 June 2001 (Unaudited)	For the year ended 31 December 2001 (Audited)
Revenue from principal operations	**2,550,506,407**	2,791,119,830	4,381,616,368	**2,078,130,087**	2,303,478,772	3,698,319,059
Less: Cost of sales	**(1,833,169,517)**	(2,144,503,435)	(3,615,716,071)	**(1,478,480,580)**	(1,802,081,123)	(3,061,260,085)
Sales tax	**(174,096)**	(43,086)	(70,884)	**(120,272)**	(43,086)	(68,134)
Profit from principal operations	**717,162,794**	646,573,309	765,829,413	**599,529,235**	501,354,563	636,990,840
Add: Other operating profit (loss)	**10,374,662**	11,805,566	19,930,301	**(690,253)**	1,611,755	9,098,660
Less: Distribution costs	**(446,943,789)**	(462,032,471)	(1,205,943,268)	**(414,782,070)**	(439,228,622)	(1,150,258,909)
Administrative expenses	**(123,083,746)**	(160,532,751)	(911,607,048)	**(18,854,128)**	(49,188,250)	(597,308,928)
Financial Expenses	**(41,547,584)**	(21,063,011)	(86,687,871)	**(33,967,159)**	(712,896)	(54,337,938)

Operating profit (loss)	**115,962,337**	14,750,642	(1,418,478,473)	**131,235,625**	13,836,550	(1,155,816,275)
Add: Investment (loss) income	**(4,284,922)**	(1,627,420)	(99,063,264)	**(20,723,080)**	6,624,800	(398,888,349)
Subsidy income	**–**	–	64,764	**–**	–	64,764
Non-operating income	**4,921,767**	2,737,599	21,529,992	**2,456,337**	77,545	13,826,125
Less: Non-operating expenses	**(974,981)**	(292,665)	(73,282,675)	**(287,580)**	(787,934)	(14,759,354)
(Loss) profit before Taxation	**115,624,201**	15,568,156	(1,569,229,656)	**112,681,302**	19,750,961	(1,555,573,089)
Less: Income Tax	**(2,799,256)**	–	–	**–**	–	–
Minority interests	**(143,643)**	4,182,805	13,656,567	**–**	–	–
Net profit (loss)	**112,681,302**	19,750,961	(1,555,573,089)	**112,681,302**	19,750,961	(1,555,573,089)
Add: (accumulated losses) retained earnings, beginning of period	**(1,380,906,800)**	332,782,066	174,666,289	**(1,380,906,800)**	332,782,066	174,666,289
Others transfer in	**–**	–	–	**–**	–	–

	Group			Company		
	For the six months ended 30 June 2002 (Unaudited)	For the six months ended 30 June 2001 (Unaudited)	For the year ended 31 December 2001 (Audited)	**For the six months ended 30 June 2002 (Unaudited)**	For the six months ended 30 June 2001 (Unaudited)	For the year ended 31 December 2001 (Audited)
(Loss) profit available for appropriation	**(1,268,225,498)**	352,533,027	(1,380,906,800)	**(1,268,225,498)**	352,533,027	(1,380,906,800)
Less: Statutory common reserve surplus	**–**	–	–	**–**	–	–
Statutory common welfare fund	**–**	–	–	**–**	–	–
Staff welfare and bonus fund	**–**	–	–	**–**	–	–
Reserve fund	**–**	–	–	**–**	–	–
Enterprise expansion fund	**–**	–	–	**–**	–	–
Return of profits	**–**	–	–	**–**	–	–
(Loss) profit available for distribution	**(1,268,225,498)**	352,533,027	(1,380,906,800)	**(1,268,225,498)**	352,533,027	(1,380,906,800)
Less: Dividends on preferential shares	**–**	–	–	**–**	–	–
Discretionary reserve	**–**	–	–	**–**	–	–
Dividends on ordinary Shares	**–**	–	–	**–**	–	–
Dividends transferred to share capital	**–**	–	–	**–**	–	–
(Accumulated losses) retained earnings, end of period	**(1,268,225,498)**	352,533,027	(1,380,906,800)	**(1,268,225,498)**	352,533,027	(1,380,906,800)

Profit for the reporting period (Unaudited)	**Group**				**Company**			
	Return on net assets		**Earnings per share**		**Return on net assets**		**Earnings per share**	
	Fully diluted	**Weighted average**	**Fully diluted**	**Weighted average**	**Fully diluted**	**Weighted average**	**Fully diluted**	**Weighted average**
Profit from principal operations	28.4%	29.2%	0.72	0.72	23.8%	24.4%	0.60	0.60
Operating profit	4.6%	4.7%	0.12	0.12	5.2%	5.3%	0.13	0.13
Net profit	4.5%	4.6%	0.11	0.11	4.5%	4.6%	0.11	0.11
Net profit deducted by extraordinary gain (or loss)	4.5%	4.6%	0.11	0.11	4.7%	4.8%	0.12	0.12

STATEMENT OF IMPAIRMENT PROVISION FOR ASSETS
(Prepared in accordance with PRC GAAP)
For the six months ended 30 June 2002
(Denominated in RMB)

	31 December 2001	Provision	Return back	30 June 2002
1. Provision for doubtful accounts	363,232,791	–	(17,963,262)	345,269,529
Including:				
Accounts receivable	190,823,758	–	(17,963,262)	172,860,496
Other receivables	172,409,033	–	–	172,409,033
2. Provision for impairment loss of short-term investments	–	–	–	–
Including:				
Investments in stock securities	–	–	–	–
Investments in debt securities	–	–	–	–
3. Provision for inventory obsolescence	323,978,805	4,278,734	(145,525,519)	182,732,020
Including:				
Finished goods	273,831,903	1,644,500	(145,152,676)	130,323,727
Raw materials	48,500,305	2,634,234	(372,843)	50,761,696
Work-in-progress	1,646,597	–	–	1,646,597
4. Provision for impairment in value of long-term investments	145,329,641	–	(3,603,617)	141,726,024
Including:				
Long-term equity investments	145,329,641	–	(3,603,617)	141,726,024
Long-term investments in debt securities	–	–	–	–
5. Provision for impairment loss of fixed assets	47,236,170	–	–	47,236,170
Including:				
Buildings, machinery and equipment	47,236,170	–	–	47,236,170
6. Provision for impairment loss of intangible assets	–	–	–	–
Including:				
Technology knowhow	–	–	–	–
Trademark	–	–	–	–
7. Provision for impairment loss of construction -in-progress	–	–	–	–
8. Provision for impairment loss of entrusted loans	–	–	–	–

CASH FLOW STATEMENTS
(Prepared in accordance with PRC GAAP)
For the six months ended 30 June 2002
(Denominated in RMB)

	For the six months ended 30 June 2002	
	Group (Unaudited)	Company (Unaudited)
I. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	2,762,516,763	2,331,027,036
Refund of taxes and levies	–	–
Other cash received relating to operating activities	43,788,659	385,016,735
Sub-total of cash inflows	2,806,305,422	2,716,043,771
Cash paid for purchases of goods and services	1,974,905,410	1,771,128,458
Cash paid to and on behalf of employees	144,444,705	61,061,020
Tax paid	23,922,545	3,685,839
Other cash paid relating to operating activities	507,748,855	938,260,214

	Sub-total of cash outflows	2,651,021,515	2,774,135,531
	Net cash flows from operating activities	155,283,907	(58,091,760)
II.	Cash flows from investing activities:		
	Cash received from disposal of investment	–	–
	Cash received from investment income	–	–
	Net cash receipt from disposals of fixed assets, intangible assets and other long-term assets	15,806,721	–
	Other cash received relating to investing activities	215,785,585	210,473,592
	Sub-total of cash inflows	231,592,306	210,473,592
	Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	76,797,879	18,558,878
	Cash paid for acquisition of investments	–	–
	Other cash paid relating to investing activities	–	–
	Sub-total of cash outflows	76,797,879	18,558,878
	Net cash flows from investing activities	154,794,427	191,914,714
III.	Cash flows from financing activities:		
	Cash received from investment	–	–
	Cash received from the borrowings	950,000,000	910,000,000
	Other cash received relating to financial activities	–	–
	Sub-total of cash inflows	950,000,000	910,000,000
	Cash paid for repayment of borrowings	1,328,021,163	990,000,000
	Cash paid for distribution of dividends, profits or interest expenses	55,059,500	42,602,965
	Other cash paid relating to financing activities	–	–
	Sub-total of cash outflows	1,383,080,663	1,032,602,965
	Net cash flows from financing activities	(433,080,663)	(122,602,965)
IV.	Effect of foreign exchange rate changes on cash	6,560,068	–
V.	Net (decrease) increase in cash and cash equivalents	(116,442,261)	11,219,989

Supplemental Information

1. Reconciliation of net profit to net cash flows from operating activities:

Net profit	112,681,302	112,681,302
Add: Minority interests	143,643	–
Provision for impairment loss of assets	4,278,734	1,644,500
Depreciation of fixed assets	130,571,860	64,290,202
Amortisation of intangible assets	5,333,355	4,460,716
Amortisation of long-term expenditures	83,214,110	11,467,617
Decrease in deferred expenditure (less: increase)	(2,358,757)	(523,571)
Increase in accruals (less: decrease)	44,390,361	(6,316,980)
Loss from disposal of fixed assets, intangible assets and other long-term assets	395,406	–
Financial expenses	41,547,584	33,967,158
Investment profit (add: loss)	4,284,922	17,716,721
Deferred tax credit (less: debit)	–	–
Increase in inventories (add: decrease)	(601,741,368)	(509,475,463)
Increase in operating receivables (add: decrease)	(272,109,840)	163,008,849
Decrease in operating payables (less: decrease)	604,652,595	48,987,189
Others	–	–
Net cash flows from operating activities	155,283,907	(58,091,760)

2. Non-cash investing and financing activities:

Debts transferred to capital	–	–
Convertible bonds due within 1 year	–	–
Fixed assets purchased under finance lease	–	–

3. Net increase in cash and cash equivalents:

Cash at the end of period	534,754,303	392,578,825
Less: Cash at the beginning of period	651,196,564	381,358,836
Add: Cash equivalent at the end of period	–	–
Less: Cash equivalent at the beginning of period	–	–
Net (decrease) increase in cash and cash equivalents	(116,442,261)	11,219,989

"Please also refer to the published version of this announcement in the South China Morning Post"