

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

# **KELON 科龙**

## **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)*

### **ANNOUNCEMENT OF REVISED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002**

This revised results announcement is made pursuant to the provisions of the document Zheng Jian Fa (2001) No. 157 "Rule 14 on Information Disclosure by Companies Issuing Securities – Non-standard unqualified opinion of the auditor and handling of relevant matters" (證監發[2001] 157 號文《公開發行證券公司信息披露編報規則第14號 – 非標準無保留審計意見及涉及事項的處理》), issued by the China Securities Regulatory Commission. Since the auditors of the Company have expressed a qualified opinion in their auditors' report on the Company's results for the year ended 31 December 2002 which involved adjustments in certain financial aspects, the Company is required by the said document to make adjustments to the relevant items in its results for the year 2002.

Trading in the shares of the Company was suspended at the request of the Company with effect from 10:28 a.m. on 1 April 2003 pending the publication of this announcement. Application has been made to The Stock Exchange of Hong Kong Limited for the resumption of trading in the shares of the Company with effect from 9:30 a.m. on 4 April 2003.

The board of directors of Guangdong Kelon Electrical Holdings Company Limited (the "Company") announces that this revised results announcement is made pursuant to the provisions of the document Zheng Jian Fa (2001) No. 157 "Rule 14 on Information Disclosure by Companies Issuing Securities - Non-standard unqualified opinion of the auditor and handling of relevant matters" (證監發[2001] 157 號文《公開發行證券公司信息披露編報規則第14號 – 非標準無保留審計意見及涉及事項的處理》), issued by the China Securities Regulatory Commission. Since the auditors of the Company have expressed a qualified opinion in their auditors' report on the Company's results for the year ended 31 December 2002 (please refer to the Company's announcement dated 31 March 2003 for details) which involved adjustments in certain financial aspects, the Company is required by the said document to make adjustments to the relevant items in its results for the year 2002. The revised results of the Company for the year ended 31 December 2002 are announced as follows:

## CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>2002</b> <i>RMB'000</i> <i>(As restated)</i>	<b>2001</b> <i>RMB'000</i> <i>(As restated)</i>
Turnover	1	4,878,257	4,381,616
Cost of sales		(3,869,102)	(3,574,714)
Gross profit		1,009,155	806,902
Other operating income		47,766	53,487
Distribution costs		(791,764)	(1,206,014)
Administrative expenses		(76,611)	(978,038)
Other operating expenses		(6,540)	(83,782)
Profit (loss) from operations	3	182,006	(1,407,445)
Finance costs		(90,637)	(96,295)
Share of results of associates		(4,134)	(611)
Profit (loss) before taxation		87,235	(1,504,351)
Taxation	4	(3,031)	–
Profit (loss) after taxation		84,204	(1,504,351)
Minority interests		389	12,995
Net profit (loss) for the year		84,593	(1,491,356)
Basic earnings (loss) per share	5	RMB0.09	RMB(1.50)

*Notes:*

### 1. TURNOVER

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

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
Sales of refrigerators	2,252,045	2,164,254
Sales of air-conditioners	2,337,240	2,177,207
Sales of freezers	103,979	–
Sales of product components	184,993	40,155
	<u>4,878,257</u>	<u>4,381,616</u>

### 2. BUSINESS SEGMENTS

#### Business segments

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

Segment information about these businesses is presented below:

#### Year 2002

#### Income statement

	<b>Refrigerators</b> <i>RMB'000</i>	<b>Air- conditioners</b> <i>RMB'000</i>	<b>Freezers</b> <i>RMB'000</i>	<b>Others</b> <i>RMB'000</i>	<b>Elimination</b> <i>RMB'000</i>	<b>Consolidated</b> <i>RMB'000</i>
TURNOVER						
External sales	2,252,045	2,337,240	103,979	184,993	–	4,878,257
Inter-segment sales	–	–	–	375,553	(375,553)	–
Total revenue	<u>2,252,045</u>	<u>2,337,240</u>	<u>103,979</u>	<u>560,546</u>	<u>(375,553)</u>	<u>4,878,257</u>

Inter-segment sales are charged at prevailing market rates.

RESULT						
Segment result	<u>307,664</u>	<u>209,750</u>	<u>(109,044)</u>	<u>(209,582)</u>	<u>-</u>	198,788
Unallocated corporate expenses						<u>(16,782)</u>
Profit from operations						182,006
Finance costs						(90,637)
Share of results of associates	17		(1,398)	(2,753)		<u>(4,134)</u>
Profit before taxation						87,235
Taxation						<u>(3,031)</u>
Profit after taxation						<u>84,204</u>

### Year 2001

#### Income statement

	Refrigerators RMB'000	Air-conditioners RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
TURNOVER					
External sales	2,164,254	2,177,207	40,155	-	4,381,616
Inter-segment sales	-	-	467,010	(467,010)	-
Total revenue	<u>2,164,254</u>	<u>2,177,207</u>	<u>507,165</u>	<u>(467,010)</u>	<u>4,381,616</u>

Inter-segment sales are charged at prevailing market rates.

RESULT					
Segment result and loss from operations	<u>(608,300)</u>	<u>(740,611)</u>	<u>(58,534)</u>	<u>-</u>	(1,407,445)
Finance costs					(96,295)
Share of results of associates	(611)				<u>(611)</u>
Loss before taxation					<u>(1,504,351)</u>

### 3. PROFIT (LOSS) FROM OPERATIONS

	2002 RMB'000	2001 RMB'000
Profit (loss) from operations has been arrived at after charging:		
Amortisation of goodwill	1,597	16,014
Depreciation of property, plant and equipment	<u>442,263</u>	<u>346,317</u>

### 4. TAXATION

	2002 RMB'000	2001 RMB'000
Taxation consists of:		
The People's Republic of China (the "PRC") enterprise income tax	1,903	-
Hong Kong Profits Tax	<u>1,128</u>	<u>-</u>
Taxation attributable to the Company and its subsidiaries	<u>3,031</u>	<u>-</u>

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.

As at 31 December 2002, deferred tax assets not recognised in the financial statements were analysed into:

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
Tax losses	423,817	366,023
Miscellaneous provisions	120,763	126,887
Revaluation of property, plant and equipment	(34,166)	(34,166)
	<u>510,414</u>	<u>458,744</u>

## 5. BASIC EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the year is based on the net profit for the year of RMB84,593,000 (2001: net loss for the year of RMB1,491,356,000) and on 992,006,563 shares (2001: 992,006,563 shares) outstanding during the year.

No diluted earnings (loss) per share have been presented as these were no dilutive potential ordinary shares in issue in either 2002 and 2001.

## 6. PRIOR PERIOD ADJUSTMENTS

The effect of correction of accounting errors accounted for as prior period adjustments is as follows:

	<b>2002</b> <i>RMB'000</i>	<b>2001</b> <i>RMB'000</i>
Overprovision of advertising expenses	79,681	–
Excess loss of minority shareholders of subsidiaries taken by the Group	–	(158,116)
	<u>79,681</u>	<u>(158,116)</u>

## REVISED FINANCIAL STATEMENTS

These financial statements are revised financial statements which supersede the original financial statements issued by the Company dated 28 March 2003 and which were the subject of the results announcement dated 31 March 2003.

In the original financial statements, a repayment of bank loans of Guangdong Kelon Refrigerator Co., Ltd (formerly known as Guangdong Sanyo Electric Kelon Refrigerator Co., Ltd.) (“Sanyo Kelon”) in the sum of RMB154 million by Japan Sanyo Electrical Corporation (“Japan Sanyo”), the Company’s former joint venture partner, was recognised in the income statement as compensation income. The directors consider that this payment was not in substance in the nature of compensation and should have been taken into consideration with the repayment of bank loans of RMB26.4 million made by the Company in the determination of the amount of negative goodwill arising on the acquisition of the remaining 56% interest in Sanyo Kelon by the Group as disclosed in note 18. Accordingly, in preparing the revised financial statements, compensation income of RMB154 million has been derecognised, impairment loss in respect of goodwill of approximately RMB77 million has been reversed, capital reserve of approximately RMB11.6 million has been derecognised and negative goodwill of approximately RMB88.6 million has been recognised. Of negative goodwill recognised of approximately RMB88.6 million, approximately RMB2.4 million has been released to income statement in the current year.

Also, in the original financial statements, there were a reversal in the income statement of an allowance for slow moving inventories of approximately RMB25 million which had been made in year 2001. The directors consider that such allowance should not have been reversed and have re-instated it accordingly.

The combined effect of these adjustments is to reduce the net assets of the Group by approximately RMB111.2 million as at 31 December 2002 and the net profit of the Group for the year then ended by approximately RMB99.6 million.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Results Review

Under the leadership of the new management team, Kelon has successfully turned around from a loss-making position to a profit-making position within a year and has recorded encouraging results. In 2002, the Group recorded a turnover of RMB4,878,257,000, representing an increase of approximately 11.33% as compared to 2001. Net profit reached RMB84,593,000. Basic earnings per share were RMB0.09.

The substantial improvement in the Group's profitability was attributable to three factors. Firstly, the Group places strong emphasis on product quality and continues to improve the technological level of its products, leading to an increase in its products' total added value and brand recognition among consumers. As a result, smaller scales of price cut on "Kelon" refrigerators and air-conditioners as well as "Ronshen" refrigerators were maintained despite increasingly intense competition, ensuring the Group's profit level in 2002. Secondly, overall costs were reduced as the average cost of sales of refrigerators and air-conditioners declined by 13.05% and 8.78% respectively as compared to 2001. Distribution and administrative expenses also declined by 57.75% during the Reporting Period. Thirdly, overall turnover recorded an increase of 11.33% as compared to last year, with the turnover from the air-conditioning and refrigeration businesses rising by 7.35% and 4.06% respectively.

#### *Turnover Structure Analysis*

Despite intense competition in the domestic appliances market, the domestic sales of air-conditioners recorded increases in the Reporting Period both in terms of sales volumes and revenues, growing by 21% and 10.62% respectively as compared to 2001. The sales volumes and revenues of the domestic sales of refrigerators were basically maintained.

The Group's export sales performance maintained its growth momentum. Export sales volumes and revenues for refrigerators increases by 14.8% and 44.5% respectively as compared to 2001. Export sales for air-conditioners increases by 4.6% and 0.4% as compared to last year.

#### *Healthy Financial Standing*

During the Reporting Period, the Group continued to exercise stringent financial management. Riding on its strong foundation from previous years, the Group was able to maintain its sound financial standing. This was reflected in the following areas:

For the year ended 31 December 2002, the Group's total assets reached RMB7,715,793,000, with net assets of RMB2,808,897,000. Bank balances and cash amounted to RMB1,417,085,000. Current assets stood at RMB4,909,479,000.

During the Reporting Period, the Group cleared its old inventories at a discount, basically eliminating all old inventories and greatly improving the liquidity and quality of its total inventory.

## **2. Operations Review**

### *High Technology Products*

Kelon believes that "leading technology" is the key to continuous corporate development, and thus this approach has been adopted in Kelon's product development. During the Reporting Period, Kelon launched three major products that led the industry:

Kelon's "Shuang Xiao Wang" Cooling and Heating Air-Conditioner – A pioneer in the domestic air-conditioner industry, it adopts internationally patented technology, and uses the highly efficient and environmentally-friendly "Greencool Refrigerants", to optimize the performance of its cooling and heating functions. The cooling efficiency of the "Shuang Xiao Wang" Cooling and Heating Air-Conditioner is high at 3.8, which is 65% higher than the national standard and 40% higher than the national energy-saving standard. Its heating efficiency also leads in the industry at a high of 4.2, which is 83% higher than the national standard and 56% higher than national energy-saving standard.

Kelon's IMCR (Independent Multi-cycling Refrigeration) Refrigerator – This refrigerator uses multi-cycling technology for the first time in the world's refrigeration industry. This revolutionary technology enables individual cooling and freezing operations, bringing the energy savings level of the refrigerators to new highs. IMCR technology not only places Kelon well ahead of the competition, it also opens up more room for higher profitability.

Ronshen's Children's Refrigerator ("I-box") – This refrigerator pioneers in product categorization by age. It was regarded as a breakthrough in the refrigeration industry in 2002 in terms of product innovation and market segmentation. The Children's Refrigerator is tailor-made with 16 patents, providing individual storage for children's food and

eradicating bacteria in food as stored in regular adult refrigerators. This Children's Refrigerator also adopts durable antibacterial additives as developed by national research organizations, with an antibacterial rate as high as 99.9% and with antibacterial effectiveness also lasting for over 10 years. Its antibacterial as well as its freshness preservation capabilities are 30% to 40% higher than regular refrigerators.

#### *"Project of Perfection"*

Kelon's refrigerators and air-conditioners are the front-runners in China's domestic appliances industry in terms of technology, quality and product design. To speed up their adaptation to the international market, as well as to confront the challenges of globalization, Kelon implemented its "Project of Perfection" during the Reporting Period. Meticulous design, delicate manufacturing techniques, elegant products and attentive services are the guidelines adhered to, to enhance Kelon's competitive edge and raise the products to leading international standards. Through this "Project of Perfection", not only are quality controls and product design enhanced, wastage in any single production process is minimized and the corporate management process is optimized.

#### *Cost Controls*

Kelon turned around from a loss-making position to a profit-making position this year mainly due to the leadership of its visionary management, and their "Profitability Driven" objective, which resulted in stringent cost controls during the Reporting Period.

Kelon implemented an open tender resources procurement system during the Reporting Period, reducing the procurement costs of raw materials and components. The Group also lowered product costs reasonably by optimizing product design. In 2002, Kelon's production cost for an air-conditioner decreased 13.05% as compared to the previous year, while the production cost for a refrigerator dropped 8.78% as compared to last year. The lower costs allow Kelon to benefit from higher flexibilities in price reductions and in market expansion. In addition, Kelon optimized the management of its overall sales network and administrative processes, reducing the costs of sales and administrative expenses by 8.24% and 86.60% respectively during the Reporting Period.

In July 2002, Kelon adopted a "Cost-Optimization Strategy" by cooperating with China Southern Airlines Company Limited. This cooperation will help Kelon reduce its freight cost by more than 30% annually.

#### *"Total Carefree" Customer Services*

"Total Carefree" customer services are among the first batch of domestic appliances service brand names registering its service trademark. Its service scope covers research of consumer needs, product research and manufacturing, as well as a total service package offered during the sales processes. The aim is to achieve 100% customer satisfaction while realizing the service mission to offer total carefree services. Currently, Kelon has over 2,800 service partners, with about 30,000 staff working directly for Kelon's after-sales services. In the past 3 years, Kelon's customer satisfaction level has increased by 10%.

#### *Comprehensive Branding Strategies*

Kelon's products have been sold under the "Kelon", "Ronshen" and "Huabao" brands for many years. The "Kelon" and "Ronshen" brands are well-known PRC trademarks, targeting the high- to mid-end markets. These brands have been widely applied to a range of product series for air-conditioners, refrigerators, freezers and small home appliances.

The "Combine" brand is a new brand launched by Kelon in 2002 to capture the low-end market and to expand its market share. Riding on Kelon's competitive advantages in terms of professional refrigeration technology, product quality and services, the "Combine" products are priced at the same level as third-tier domestic appliances, filling the gap which exists in the low-end market, and raising overall industry standards in the low-end market. In addition, capitalizing on Kelon's nationwide after-sales service network, customers of these "Combine" products can enjoy "Total Carefree" services support to the same service quality as offered by Kelon for its top-tier brands.

The launch of the “Combine” brand, coupled with the existing “Kelon” and “Ronshen” brands for refrigerators and air-conditioners which are positioned for the high- to mid-end markets, and the “Huabao” brand which targets the mid- to low-end markets, enables Kelon’s four brands to complement each other nicely in their market positioning, completely embracing the high-, mid- and low-end product lines. Kelon thus becomes the sole enterprise in the PRC to offer domestic refrigeration appliances with four different market positions, but with one core strategic mission.

#### *Internationalization Strategy*

During the Reporting Period, Kelon continued to export products to the international market through OEM and has achieved excellent results. Export volumes increased by 14.3% and the export amount rose by 24.75%.

In addition, the Group established an International Cooperation Department during the Reporting Period, led by professionals with extensive overseas experience. They streamlined the internal organization and management, as well as sales channels, to enhance efficiency and strengthen the team, accelerating its adaptation to the international marketplace.

#### *Significant Events*

On 18 April 2002, the share transfer procedures between Greencool Enterprise Development Company Limited (“Greencool”) and Guandong Kelon (Rongsheng) Group Company Limited (“GKG”) were completed and Greencool became the single largest shareholder of Kelon, holding 204,775,755 legal person shares, representing 20.64% of Kelon’s total issued capital.

On 18 June 2002, the resolution to appoint 德勤華永會計師事務所 and Deloitte Touche Tohmatsu as Kelon’s auditors in mainland China and Hong Kong for the year ended 31 December 2002 was approved at the Annual General Meeting.

On 16 August 2002, the resolution to set up an audit committee was approved by Kelon’s Board of Directors, and Mr. Chan Pei Cheong, Andy was appointed as the chairman of the audit committee.

On 21 November 2002, Kelon entered into a debt settlement agreement with GKG, its previous single largest shareholder. GKG agreed to transfer the 「科龍」、 「容聲」 and 「容升」 trademarks to Kelon to settle the debt owed to Kelon. Concurrently, GKG agreed to procure that a parcel of residential land located at Wai Huan Road, Ronggui District, Shunde City with a total area of 399,614 square metres be transferred by the Land Development Centre, which is owned by the government of the Ronggui Prefecture, to Kelon for settlement of the remaining debt owed by GKG to Kelon. Upon completion of the relevant procedures stipulated in the agreements, the debt owed by GKG to Kelon will be completely settled.

### **3. Prospects**

With the reforms in strategy and operations in 2002, Kelon has managed to extricate itself from the unfavourable past. However, anticipating even more intense competition in the domestic appliances market, the Group will take a steady approach in its future development, moving cautiously to obtain success. Kelon’s long-term vision is to become a leading international domestic appliances manufacturer, while its short-term strategy is to consolidate its development in China and move on to expand its international markets gradually.

In the future, the Group will continue to implement stringent cost controls by comprehensively and closely monitoring all aspects of its activities, including procurement, production and distribution, with a view to strengthening the Group’s profitability. In addition, the Group will expand the applications of its “Shuang Xiao Wang” and IMCR technologies to more product lines to enhance the overall technological benefit of its products, to achieve a competitive edge in the highly competitive marketplace.

The Group believes that a talented team is the driving force for corporate development. To face globalization and tackle market competition, the Group will continue to recruit and promote top quality, high-tech personnel to build an international team.

Furthermore, with Greencool becoming its single largest shareholder, Kelon has introduced the international experience and networks of the Greencool Group's management to Kelon, thereby strengthening the Group's competitive advantages in its internationalization, as it grows into a leading enterprise in the refrigeration industry.

#### **FINAL DIVIDENDS**

The Group recorded a profit of RMB84,593,000 in the year 2002, resulting in a decrease in the accumulated losses from RMB1,367,123,000 in 2001 to RMB1,282,530,000 in 2002. The directors maintained the original resolution not to pay any dividend for the year 2002 and not to capitalize any reserve funds (no dividend was paid by the Group for the year ended 31 December 2001).

#### **LIQUIDITY AND SOURCES OF FUNDS**

Net cash inflow for operating activities was approximately RMB383,988,000 (2001: net cash outflow of approximately RMB109,278,000) for the year ended 31 December 2002.

As of 31 December 2002, the Company had bank balances and cash amounting to approximately RMB1,417,085,000 (2001: RMB778,191,000), and bank loans amounting to approximately RMB1,740,164,000 (2001: RMB1,558,230,000).

Total capital expenditures for the year 2002 amounted to approximately RMB216,916,000 (2001: RMB218,306,000) and the major expenditure item was the purchase of new equipment for operating purpose and fixtures for promotion purpose. The capital expenditures were funded by the working capital of the Group.

#### **HUMAN RESOURCE AND EMPLOYEES' REMUNERATION**

As of 31 December 2002, the Group had approximately 6,500 employees (2001: 7,400), of which 2,799 were professional staff, representing 43.23% of the total number of employees. Six of the Company's employees hold a doctorate's degree while 82 hold a master's degree. There were 580 employees with an official title of middle rank or above. Staff below the age of 30 represent 51.86% of the total workforce of the Company. In addition, the Company currently has 285 retired staff. Staff cost (including pension costs) for the year ended 31 December 2002 amounted to approximately RMB301,283,000 (2001: RMB309,683,000).

The Company believes that human resource is the primary impetus to the strong growth of a corporate. The Company will continue to strengthen the training of the existing staff, as well as to recruit higher caliber personnel with good qualification and extensive experience, especially professionals with international background, so as to lay down a strong foundation for the Company to become a leading international electrical appliances manufacturer.

#### **BASIC MEDICAL INSURANCE SCHEME FOR EMPLOYEES**

Since 1 January 2002, the Company has implemented the policy of basic medical insurance for employees according to the Provisional Rules of Basic Medical Insurance in Shunde City (順德市基本醫療保險暫行規定) issued by the People's Government of Shunde City on 2 December 2000. Pursuant to the relevant accounting requirements of the PRC, the amount involved is stated as the Company's welfare expenditure.

The directors of the Company consider that the above scheme has no significant impact on the Company's financial condition nor the consolidated income statement and balance sheet of the Company.

#### **CHARGES ON THE GROUP'S ASSETS**

As of 31 December 2002, the Group's property, plant and equipment of approximately RMB453,961,000 (2001: RMB199,477,000) were pledged as security for the Group's bank borrowings.

#### **EXPOSURE TO EXCHANGE RATE FLUCTUATION**

Since substantially all of the Group's sales and purchases were denominated in RMB, the Group had no significant exposure to exchange rate fluctuation and no financial instrument was used to hedge exchange rate risk.

#### **CONTINGENT LIABILITIES**

As of 31 December 2002, the Group had contingent liabilities in relation to guarantee for loan facilities granted to a related party of approximately RMB3,975,000.

## SHARE CAPITAL STRUCTURE

As of 31 December 2002, the share capital structure of the Company was as follows:

	Number of Shares	Percentage of Total Issued Share Capital (%)
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 of 31 December 2002, the Company has a total of 78,037 shareholders. 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:

*Statement of share capital movement*

*Unit: number of shares*

Name of Shareholder	Movement during the year	Shareholding at the end of the year	Percentage (%)	Nature of shares	Class
Greencool Enterprise Development Company Limited ("Greencool")	+204,775,755	204,775,755	20.64	Unlisted	Domestic shares
Shunde Economic Consultancy Company	+68,666,667	68,666,667	6.92	Unlisted	Domestic shares
Shunde Xin Hong Enterprise Company Limited	+57,436,439	57,436,439	5.79	Unlisted	Domestic shares
Shenyin Wanguo Securities (H.K.) Limited	+41,048,000	49,212,000	4.96	Listed	H shares
The Hongkong and Shanghai Banking Corporation Limited	-19,852,416	46,009,238	4.64	Listed	H shares
Bank of China (Hong Kong) Limited	+940,000	38,163,000	3.85	Listed	H shares
First Shanghai Securities Limited	+30,805,000	30,937,000	3.12	Listed	H shares
Hang Seng Bank Limited	+12,890,000	21,645,000	2.18	Listed	H shares
Citibank, N.A.	-6,654,430	17,963,372	1.81	Listed	H shares
Guotai Junan Securities (Hong Kong) Limited	+3,826,000	14,240,000	1.44	Listed	H shares

*Notes:*

- (1) During the Reporting Period, no shares held by the above top ten shareholders were subject to any charges or freezing orders.
- (2) None of the above top ten shareholders were connected or belong to persons acting in concert under the Administrative Rules on the Disclosure of Information on Shareholding Movement of Shareholders of Listed Company (上市公司股東持股變動資訊披露管理辦法).

## INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As of 31 December 2002, the directors, supervisors and chief executive of the Company had the following beneficial interests (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)) in the Company’s PRC domestic shares, A shares or H shares of RMB1.00 each as recorded in the Register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

Name	Position	Nature of Interest	Number of Shares
Mr. Gu Chu Jun	Director	Corporate	204,775,755 legal person shares*
		Corporate	3,830,000 H shares**
Ms. He Si	Supervisor	Personal/family	50,000 A shares***

\* Greencool is the single largest shareholder of the Company and holds 204,775,755 legal person shares of RMB1.00 each in the Company, representing approximately 20.64% of the existing issued share capital of the Company. Mr. Gu Chu Jun holds 90% of the total investment of Greencool.

\*\* Mr. Gu Chu Jun is a substantial shareholder of Greencool Technology Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, controlling approximately 62.5% of the shareholding of such company. Two subsidiaries of Greencool Technology Holdings Limited hold 3,830,000 H shares in the Company, representing approximately 0.39% of the issued share capital of the Company.

\*\*\* As at 2 June 2002, three years have lapsed since the issue of the Company’s A shares 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 the announcements published in China Securities Daily (中國證券報), Securities Times Daily (證券時報), Hong Kong Economic Journal and HK iMail on 16 July 2002). For changes in the share capital structure of the Company before and after the listing of the domestic employee shares, please refer to the statement of share capital movement as set out in the aforesaid announcements. According to the Listing Rules of the Shenzhen Stock Exchange (深圳證券交易所上市規則), the 50,000 domestic employee shares held by Ms. He Si, being a senior management of the Company, were still subject to a moratorium notwithstanding the listing of the Company’s domestic employee shares.

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 31 December 2002.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed shares.

## CODE OF BEST PRACTICE

On 2 January 2003, the Company announced that it has received on 30 August 2002 from the Guangzhou Securities Administration Office of the China Securities Regulatory Commission a notice containing instructions to the Company to make remedial changes to certain problems relating to its financial management and accounting audits within a prescribed period. The Company has made changes to such matters pursuant to the notice and has rectified the problems relating to its financial management and accounting audits before 2002.

Save as disclosed above, the board of directors considers that the Company has complied with the Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2002.

## DETAILED ANNUAL RESULTS ANNOUNCEMENT

A detailed annual results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of The Rules Governing the Listing of Securities on the Stock Exchange will be published on the Stock Exchange’s website (<http://www.hkex.com.hk>) in due course.

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

Shunde, the PRC, 3 April 2003

**REPORT OF THE AUDITORS**

**TO THE SHAREHOLDERS OF  
GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED**  
**廣東科龍電器股份有限公司**

*(A Sino-foreign joint venture joint stock limited company established in the People's Republic of China)*

We have audited the financial statements on pages 7 to 50 which have been prepared in accordance with International Financial Reporting Standards. The revised financial statements replace the original financial statements approved by the directors on 28 March 2003.

**Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows.

1. The previous auditors explained in their auditors' report on the financial statements for the year ended 31 December 2001 that they were unable to obtain reasonable representations and assurances on which they could rely for the purposes of their audit and there were no satisfactory audit procedures that they could perform to obtain reasonable assurance that all material transactions were properly recorded and completely disclosed. Against this background, we are unable to conclude as to whether the net assets of the Group (as adjusted) as at 31 December 2001 were free from material misstatement. Any adjustments to the opening net assets of the Group would affect the profit of the Group for the year ended 31 December 2002. Also, the comparative figures as at 31 December 2001 shown in the consolidated balance sheet and in the consolidated income statement for the year then ended may not be comparable with the figures for the current year.
2. Interests in associates of approximately RMB234,486,000 as at 31 December 2002 and the share of results of associates of approximately RMB4,134,000 for the year then ended incorporate certain associates on the basis of unaudited management accounts. Accordingly, we were unable to satisfy ourselves that the above amounts are free from material misstatement. Any adjustment to these amounts would affect the net assets of the Group as at 31 December 2002 and the profit of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Qualified opinion arising from limitations of audit scope**

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters described in the basis of opinion section of this report, in our opinion the revised financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work described in the basis of opinion section of this report:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

Without qualifying our auditors' opinion, we draw attention to note 1(a) to the financial statements which explains that the Group's financial statements for the year ended 31 December 2002 issued on 28 March 2003 have been revised by the directors to account for the substance of a transaction with a former joint venture partner of the Company and to re-instate an allowance for slow moving inventories. The combined effect of these adjustments is to reduce the net assets of the Group by approximately RMB111.2 million as at 31 December 2002 and the net profit of the Group for the year then ended by approximately RMB99.6 million.

Hong Kong, 3 April 2003

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

### **1. Particulars of the Company**

#### *1. Particulars*

<b>Stock Name</b>	ST Kelon
<b>Stock Code</b>	000921
<b>Listed on</b>	Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited
<b>Registered Address and Place of Business</b>	No. 8, Ronggang Road, Ronggui, Shunde, Guangdong Province, the PRC
<b>Postal code</b>	528303
<b>Website</b>	<a href="http://www.kelon.com">http://www.kelon.com</a>
<b>Email</b>	sec@kelon.com

#### *2. Contact person and contact details*

	<b>Secretary for the Board</b>	<b>Company Secretary</b>
<b>Name</b>	Liu Cong Meng	Gary Li Chi Sing
<b>Correspondence Address</b>	No. 8, Ronggang Road, Ronggui, Shunde, Guangdong Province, the PRC	No. 8, Ronggang Road, Ronggui, Shunde, Guangdong Province, the PRC
<b>Telephone</b>	0765-8362570	0765-8362570
<b>Fax</b>	0765-8361055	0765-8361055
<b>Email</b>	sec@kelon.com	sec@kelon.com

## Representative for matters relating to securities

Name	Zhong Liang
Correspondence Address	No. 8, Ronggang Road, Ronggui, Shunde, Guangdong Province, the PRC
Telephone	0765-8362570
Fax	0765-8361055
Email	sec@kelon.com

## 2. Accounting Data and Financial Indices

### 1. Major accounting data

Unit: RMB

	2002 (As restated)	2001	Change over prior year (%)	2000
Revenue from principal business	4,878,257,017	4,381,616,368	11.33%	4,410,880,037
Total profit (loss)	103,919,721	(1,489,548,691)	106.98%	1,007,150,805
Net profit (loss)	101,276,990	(1,475,892,124)	106.86%	662,677,775
Net profit (loss) before extraordinary items	92,819,455	(1,416,346,413)	106.55%	(662,677,775)
	End of year of 2002 (As restated)	Eng of year of 2001	Change over prior year (%)	End of year of 2000
Total assets	7,656,539,329	6,509,847,794	17.61%	6,893,105,945
Shareholders' interests excluding minority interests	2,575,000,833	2,470,316,183	4.24%	3,957,879,122
Net cash flow from operating activities	499,784,760	148,093,735	237.48%	1,051,526,957

### 2. Major financial indices

	2002 (As restated)	2001	Change over prior year (%)	2000
Earnings (loss) per share	0.1021	-1.4878	106.86%	-0.84
Return on net assets (%)	3.93%	-59.75%	106.58%	-19%
Return on net assets calculated on the net profit (loss) before extraordinary items	3.60%	-57.33%	106.28%	-19%
Net cash flow from operating activities per share	0.5038	0.1493	237.44%	1.06
	End of year of 2002 (As restated)	End of year end of prior year	Change over 2000 (%)	End of year of
Net assets per share	2.5957	2.49	4.24%	3.99
Adjusted net assets per share	2.39	2.21	8.14%	3.75

3. *Difference between the PRC and overseas accounting standards* *Unit: RMB*

	<b>PRC accounting standards</b>	<b>Overseas accounting standards</b>
Net profit	101,276,990	84,593,000
Adjustment under IFRS: adjustment on property, plant and equipment revaluation and related depreciation totalling RMB16,684,000.		

**3. Changes in share capital and shareholders**

1. *Change in the single largest shareholder and its ultimate controlling beneficiary*

<b>Name of the new single largest shareholder</b>	Greencool Enterprise Development Company Limited
<b>Name of ultimate controlling beneficiary of the new single largest shareholder</b>	Gu Chu Jun
<b>Date of change</b>	18 April 2002
<b>Date and newspapers on which announcement was published</b>	19 April 2002 China Securities Daily (中國證券報), Securities Times Daily (證券時報), Hong Kong Economic Journal and HK iMail

2. *Particulars of the single largest shareholder and its ultimate controlling beneficiary*

Greencool Enterprise Development Company Limited, the single largest shareholder of the Company, is a continuing limited liability company established according to laws of the PRC in October 2001 and its address is at 8/F, Rongshan Building, No. 88 Rongqi Road Central (容奇大道中), Ronggui, Shunde, Guangdong Province, the PRC. The company is primarily engaged in the development, manufacturing and sales of refrigeration equipments and parts and cholrofluorocarbon-free (CFC-free) refrigerants, research and development of refrigerating technology, and the development, manufacturing and sales of computer and broadband networking facilities. The registered capital of Greencool Enterprise Development Company Limited is RMB1,200,000,000. Shareholding Structure: 90% of the equity interests of Greencool Enterprise Development Company Limited is owned by Mr. Gu Chu Jun and the remaining 10% is owned by Mr. Gu Shan Hong. The company's legal representative is Mr. Gu Chu Jun.

**4. Directors, Supervisors and Senior Management**

1. *Movement of shareholdings of directors, supervisors and senior management and their employment in shareholder companies*

Name	Position	Gender	Age	Term of office	Shareholding at the beginning of the year	Shareholding at the end of the year	Reason of movement
Gu Chu Jun	Chairman	Male	44	2001.12.23– 2004.12.23	0	0	Nil
Liu Cong Meng	Vice Chairman and President	Male	58	2001.12.23– 2004.12.23	0	0	Nil
Li Zhen Hua	Vice Chairman	Male	51	2001.06.18– 2004.06.18	0	0	Nil

Yan You Song	Executive Director and Vice President	Male	38	2001.12.23–2004.12.23	0	0	Nil
Zhang Hong	Executive Director	Male	41	2001.12.23–2004.12.23	0	0	Nil
Fang Zhi Guo	Executive Director	Male	41	2001.12.23–2004.12.23	0	0	Nil
Chan Pei Cheong, Andy	Independent Non-executive Director	Male	42	2001.12.23–2004.12.23	0	0	Nil
Li Kung Man	Independent Non-executive Director	Male	46	2002.12.29–2005.12.29	0	0	Nil
Yu Xiaoyang	Independent Non-executive Director	Female	47	2001.12.23–2004.12.23	0	0	Nil
Jiang Bao Jun	Supervisor	Male	36	2002.06.18–2005.06.18	0	0	Nil
Bai Yun Feng	Supervisor	Male	41	2002.12.29–2005.12.29	0	0	Nil
He Si	Supervisor	Female	49	2002.06.18–2005.06.18	50,000	50,000	Nil
Gary Li Chi Sing	Secretary for the Board	Male	48	2002.09.02–2005.09.02	0	0	Nil
Lin Lan	Vice President	Male	45	2002.09.09–	0	0	Nil

2 *Employment of directors and supervisors in shareholder company*

Name	Shareholder Company	Position in Shareholder Company	Duration	Entitlement to emolument or allowance
Gu Chu Jun	Greencool Enterprise Development Company Limited	Director	2001.10 – present	Nil
Liu Cong Meng	Greencool Enterprise Development Company Limited	Standing Vice President	2001.10 – present	Nil

3. *Remuneration of directors, supervisors and senior management for the year*

<b>Aggregate remuneration for the year</b>	RMB12,900,000
<b>Total remuneration of the three highest paid directors</b>	RMB4,800,000
<b>Total remuneration of the three highest paid senior management</b>	RMB4,800,000
<b>Allowance for independent directors</b>	HK\$360,000 per person per year
<b>Other benefits for independent directors</b>	Nil
<b>Names of directors and supervisors who do not receive remuneration or benefits from the Company</b>	Nil
<b>Band of remuneration</b>	Number of persons
RMB1,000,001 – 2,000,000	4
Below RMB1,000,000	13

## 5. Operations of the Company

### 1. Analysis of principal business by industry

By industry or by product	Revenue from principal business	Cost of principal business	Gross profit margin (%)	Unit: RMB		
				Revenue difference compared to prior year (%)	Cost difference compared to prior year (%)	Change of gross profit margin over prior year (%)
Refrigerator	2,252,046,000	1,648,538,000	26.80	4.06	(7.15)	55.25
Air Conditioner	2,337,240,000	1,980,182,000	15.28	7.35	8.58	0.99
Freezer	103,979,000	93,159,000	10.41	100.00	100.00	100.00
Other	184,992,000	130,660,000	29.37	360.69	690.53	129.95

Basis of pricing of related party transactions

On market rates at arm's length

Explanation on the necessity and continuity of the related party transactions

To enhance the price performance ratio of the Group's refrigerators and air conditioners

### 2. Analysis of principal business by region

Region	Revenue from principal business	Revenue difference compared to prior year (%)
Domestic	4,097,577,000	8.5
Overseas	780,680,000	29.05
Total	4,878,257,000	11.33

### 3. Suppliers and customers

Aggregate purchases from the top five suppliers	499,908,973	Percentage of total purchases	13.44%
Aggregate sales to the top five customers	384,209,032	Percentage of total sales	7.88%

### 4. Analysis of the material changes in operating results and profit structure as compared to the previous year

In 2002, the Company successfully turned from a loss-making position to a profit-making position, and the net profit was RMB101,276,990 (A shares). This was primarily due to an increase in sales revenues over the previous year and an overall decrease in operating costs of the Company.

## 6. Explanations of the board of directors of the Company in respect of matters under the auditors' opinion.

- The management of the Company accepts the auditors' view in respect of the treatment of the matters relating to Guangdong Kelon Refrigerator Co., Ltd and the reversal in the income statement of an allowance for slow moving inventories, both as described under the heading of Revised Financial Statements (set out above).

2. The financial statements of the Group for 2001 were not audited by the current auditors. As the previous auditors were of the view that they were unable to form an audit opinion, this has led to the current auditors not being able to conclude their opinion on whether the financial data for the year ended 31 December 2001 provide a true and fair view. The management of the Company understands the reasons for such decision. The management has not, over the course of more than a year, found any material errors in the year-end balances for 2001. Therefore, they are satisfied with the accuracy of the announced profit figures for 2002. The year-end balances for 2002 have been duly audited and brought forward to the coming year. As such, it is expected that there will be no such qualified opinion for the next results announcement.
3. The audit of an associate of the Group has not yet been completed. Subject to the limitation of the scope of audit, this has resulted in the auditors of the Group being unable to complete the verification of the value of the said associate and a qualified opinion was rendered in respect of the matter. The management of the Group has directly enquired with the said associate as to its financial status for 2002, and has arrived at a preliminary conclusion that the financial status of the associate is not expected to have a material impact on the Group's investment in the associate. However, the final conclusion cannot be drawn only after the financial statements have been audited.

## 7. Significant Events

### 1. Acquisition of assets

Other parties to the transaction and the assets acquired	Date of acquisition	Consideration	Contribution to the Company's net profit for the period from the date of acquisition to the year end	Related party transaction (if yes, please state the basis for pricing)
Acquisition of 56% equity interests in Sanyo Kelon, then an associate of the Company	3 July 2002	RMB3	13,112,788	No
Acquisition of the operational assets of 吉林吉諾爾電器(集團)公司 from the Economic and Trade Commission of Jilin City (吉林市經濟貿易委員會)	14 September 2002	RMB40 million	Still at arrangement stage, no contribution yet	No

### 2. Implementation of committed projects

On 18 June 2001, the Board of Directors of the Company ("the Board") resolved to approve the profit distribution policy for the year 2002. The Board proposed to make no less than one profit distribution in 2002. Approximately 30% to 50% of the net profit of the Company for the year 2002 would be used for distribution, principally by way of cash bonus. Before implementation of such distribution policy, a proposal for distribution will be prepared by the Board and to be laid before the shareholders' general meeting for the shareholders' consideration and approval. In addition, the Board shall retain the right to make any adjustment to such policy in accordance with the development and profits of the Company. As the Company recorded an accumulated loss of RMB1,211,930,161 as of 31 December 2002, the Board resolved not to proceed with the profit distribution for the year 2002.

3. *Performance of duties by the independent directors*

At present, the Board has retained three financial and industry professionals as independent non-executive directors of the Company. The independent non-executive directors have discharged their duties in an independent manner. They have reviewed the systematic operation of the Company and expressed their independent and fair opinions on the related party transactions which occurred during the reporting period (“Reporting Period”).

**8. Report of the Supervisory Committee**

*(1) Meetings of the supervisory committee*

During the Reporting Period, the supervisory committee convened meetings four times.

- (1) A meeting of the supervisory committee was held on 24 April 2002 at the conference room of the Company’s head office. The meeting was attended by two out of four supervisors and was chaired by Wang Kun You. The annual results announcement for the year 2001, the budget, the profit and loss statement and other financial reports for the year 2001 and the report of the supervisory committee for the year 2001 were considered and approved at the meeting. The meeting also approved the resignation of Li Di Qiang, He Zheng Guang and Wang Kun You as supervisors for work reasons, whereas He Si will remain as supervisor and Wang Kang Ping and Jiang Bao Jun were appointed as new supervisors of the Company and this was to be submitted to the general meeting for the approval of the shareholders.
- (2) A meeting of the supervisory committee was held on 26 August 2002 at the conference room of the Company’s head office. The meeting was attended by all three supervisors. The interim report for the first half of 2002 and the summary for the interim report for the first half of 2002 were considered and approved at the meeting.
- (3) A meeting of the supervisory committee was held on 28 October 2002 at the conference room of the Company’s head office. The meeting was attended by all three supervisors. The report for the third quarter of 2002 was considered and approved at the meeting.
- (4) A meeting of the supervisory committee was convened by way of written resolutions on 11 November 2002 at the conference room of the Company’s head office. The meeting was attended by all three supervisors and the following resolutions were considered and approved:
  1. that the resignation of Wang Kang Ping as a supervisor of the Company by reason of the change of his work be approved;
  2. that the nomination of Mr. Bai Yun Feng as a supervisor of the Company be considered and approved; and
  3. that the proposal to amend the Articles of Associations of the Company be considered and approved.

(2) *Work progress and independent opinions of the supervisory committee*

**1. Lawful operation of the Company**

The supervisory committee has monitored the proceedings of the shareholders' general meeting, procedures for convening meetings of the Board, the resolutions, implementation of general meeting resolutions by the Board and the performance of duties of the directors and senior management of the Company according to duties conferred to it by the Company Law, the Securities Law, the Articles of Association and other relevant laws and regulations.

The supervisory committee considered that the Board will implement resolutions of the shareholders' general meeting faithfully, that its decision making process has complied with the requirements of the Company Law and the Articles of Association, and that it has exercised its powers within the scope of authorisation of the shareholders' general meeting. It was also the opinion of the supervisory committee that the directors and senior management of the Company have discharged their duties in the Company faithfully and diligently, and were in compliance with the provisions of the Articles of Association and the directions of the shareholders' general meeting and the Board.

The supervisory committee was not aware of any breach of laws, regulations or the Articles of Association of the Company nor any acts which prejudice the Company's interests during the discharge of duties by the Company's directors and senior management.

**2. Financial status of the Company**

The supervisory committee considered it understandable for 德勤華永會計師事務所 to issue an audit report with explanatory statement in connection with its audit of the Company's accounting report for the year 2002. The committee has completely accepted explanations on the financial report made by the Board.

**3. Use of proceeds from public offer**

No public offer and use of proceeds thereof were made by the Company in 2002.

**4. Opinion on the disposals and acquisitions of assets**

The supervisory committee considered that disposals and acquisitions of assets by the Company during the Reporting Period are conducted in an open, fair and impartial manner and that there was no prejudice to shareholders' interests or loss of assets of the Company incurred in such disposals and acquisitions.

**5. Opinion on related party transactions**

The supervisory committee considered that related party transactions of the Company during the Reporting Period were conducted on normal commercial terms at arm's length and in a fair manner. The committee was not aware of any acts which were prejudicial to the interests of the Company and its shareholders within such transactions.

## 9. Financial Report

### Balance Sheet

Prepared in accordance with the PRC GAAP

Unit: RMB

Items	2002.12.31		2001.12.31	
	Consolidation (As restated)	The Company (As restated)	Consolidation	The Company
Current Assets:				
Bank balances and cash	1,417,085,462	1,065,118,299	778,191,077	492,198,063
Notes receivable	622,627,806	613,597,439	351,188,636	346,601,619
Accounts receivable	381,535,897	275,661,469	220,899,049	127,250,589
Other receivables	1,222,868,831	2,107,281,156	920,145,160	1,944,443,323
Prepayments	89,011,737	36,549,630	68,102,966	16,158,696
Inventories	1,123,325,956	679,131,994	1,225,838,916	801,622,736
Deferred expenditures	6,411,749	5,135,474	4,302,593	1,075,281
Other current assets	970	970	592,731	592,731
Total current assets	<u>4,862,868,408</u>	<u>4,782,476,431</u>	<u>3,569,261,128</u>	<u>3,729,943,038</u>
Long-term Investments:				
Long-term equity investments	<u>198,173,987</u>	<u>1,223,334,010</u>	<u>259,892,540</u>	<u>1,180,880,569</u>
Fixed Assets:				
Fixed assets, cost	3,635,836,132	1,420,958,597	3,383,892,823	1,410,203,800
Less: Accumulated depreciation	(1,586,467,593)	(509,851,837)	(1,278,861,600)	(409,811,665)
Fixed assets, net	2,049,368,539	911,106,760	2,105,031,223	1,000,392,135
Less: Provision for impairment loss of fixed assets	(61,375,205)	–	(59,137,584)	–
Fixed assets, net	1,987,993,334	911,106,760	2,045,893,639	1,000,392,135
Construction-in-progress	11,323,062	7,550,688	31,187,206	16,597,973
Disposal of fixed assets	–	–	–	–
Total fixed assets	<u>1,999,316,396</u>	<u>918,657,448</u>	<u>2,077,080,845</u>	<u>1,016,990,108</u>
Intangible assets and other assets:				
Intangible assets	313,881,774	198,209,350	300,569,053	209,127,331
Long-term deferred expenditures	196,695,856	66,644,180	210,904,281	108,379,846
Other long-term assets	85,602,908	51,602,908	92,139,947	58,139,947
Total intangible assets and other assets	<u>596,180,538</u>	<u>316,456,438</u>	<u>603,613,281</u>	<u>375,647,124</u>
Total assets	<u><u>7,656,539,329</u></u>	<u><u>7,240,924,327</u></u>	<u><u>6,509,847,794</u></u>	<u><u>6,303,460,839</u></u>

<b>Current Liabilities:</b>				
Short-term loans	960,164,036	400,000,000	1,323,309,386	965,700,000
Notes payable	942,591,729	1,075,014,036	678,710,489	824,359,379
Accounts payable	739,184,874	652,568,689	578,148,753	9,318,641
Advance from customers	337,665,921	300,245,037	440,396,170	432,266,240
Accrued payroll	44,211,152	30,370,421	55,442,703	35,287,596
Staff welfare payable	3,986,906	1,489,938	2,392,998	798,006
Dividends payable	52,409	–	3,187	–
Taxes payables	39,849,854	62,552,141	(157,832,050)	(168,419,901)
Payable to others	2,944,393	2,029,317	4,287,088	2,443,887
Other payables	616,737,987	519,065,990	73,887,114	439,111,897
Accruals	211,076,574	185,670,788	310,054,445	297,993,595
Provision	105,031,134	105,031,134	157,356,546	157,356,546
Long-term loans due within one year	65,233,515	60,000,000	204,958,929	200,000,000
Other current liabilities	–	–	965,158	–
<b>Total current liabilities</b>	<b>4,068,730,484</b>	<b>3,394,037,491</b>	<b>3,672,080,916</b>	<b>3,196,215,886</b>
<b>Non-current liabilities:</b>				
Long-term loans	714,766,571	690,000,000	29,961,937	–
Debentures	75,822,128	70,126,659	116,492,478	113,263,739
Long-term payable	–	494,015,291	–	495,849,789
<b>Total non-current liabilities</b>	<b>790,588,699</b>	<b>1,254,141,950</b>	<b>146,454,415</b>	<b>609,113,528</b>
	<b>2002.12.31</b>		<b>2001.12.31</b>	
<b>Items</b>	<b>The Consolidation (As restated)</b>	<b>The Company (As restated)</b>	<b>The Consolidation</b>	<b>The Company</b>
<b>Deferred Tax:</b>				
Deferred tax liabilities	–	–	–	–
<b>Total liabilities</b>	<b>4,859,319,183</b>	<b>4,648,179,441</b>	<b>3,818,535,331</b>	<b>3,805,329,414</b>
Minority interests	222,219,313	–	220,996,280	–
<b>Shareholders' equity:</b>				
Share capital	992,006,563	992,006,563	992,006,563	992,006,563
Capital reserve	2,452,995,887	2,452,995,887	2,451,222,837	2,451,222,837
Common 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	(1,211,930,161)	(1,194,186,108)	(1,313,207,151)	(1,285,391,909)
Exchange difference	(1,814,159)	(1,814,159)	(3,448,769)	(3,448,769)
<b>Total shareholders' equity</b>	<b>2,575,000,833</b>	<b>2,592,744,886</b>	<b>2,470,316,183</b>	<b>2,498,131,425</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,656,539,329</b>	<b>7,240,924,327</b>	<b>6,509,847,794</b>	<b>6,303,460,839</b>

## Statement of Income and Profit Appropriation

Prepared in accordance with the PRC GAAP

Unit: RMB

Items	2002		2001	
	Consolidation (As restated)	The Company (As restated)	Consolidation	The Company
1. Revenue from principal operations	4,878,257,017	4,069,394,196	4,381,616,368	3,698,319,059
Less: Cost of sales	(3,852,539,111)	(3,209,655,362)	(3,615,716,071)	(3,061,260,085)
Sales tax	(265,104)	(214,873)	(70,884)	(68,134)
2. Profit from principal operations	1,025,452,802	859,523,961	765,829,413	636,990,840
Add: Other operating profit (loss)	16,612,542	(4,231,250)	19,930,301	9,098,660
Less: Distribution costs	(791,497,880)	(764,887,134)	(1,126,262,303)	(1,070,577,944)
Administrative expenses	(59,899,332)	162,038,190	(911,607,048)	(597,308,928)
Financial expenses	(75,536,164)	(54,012,477)	(86,687,871)	(54,337,938)
3. Profit (loss) from operations	115,131,968	198,431,290	(1,338,797,508)	(1,076,135,310)
Add: Investment loss	(17,070,782)	(107,961,019)	(99,063,264)	(371,073,107)
Subsidy income	16,805	16,805	64,764	64,764
Non-operating income	9,941,494	1,584,742	21,529,992	13,826,125
Less: Non-operating expenses	(4,099,764)	(866,017)	(73,282,675)	(14,759,354)
4. Profit (loss) before taxation	103,919,721	91,205,801	(1,489,548,691)	(1,448,076,882)
Less: Income tax	(3,031,454)	-	-	-
Minority interests	388,723	-	13,656,567	-
5. Net profit (loss)	101,276,990	91,205,801	(1,475,892,124)	(1,448,076,882)
Add: (Accumulated losses) retained earnings at beginning of the year	(1,313,207,151)	(1,285,391,909)	162,684,973	162,684,973
Other transfer in	-	-	-	-
6. Loss available for appropriation	(1,211,930,161)	(1,194,186,108)	(1,313,207,151)	(1,285,391,909)
Less: Statutory common reserve fund	-	-	-	-
Statutory common welfare fund	-	-	-	-
Staff welfare and bonus fund	-	-	-	-
Reserve fund	-	-	-	-
Enterprise expansion fund	-	-	-	-
Return of profits	-	-	-	-
7. Loss available for distribution	(1,211,930,161)	(1,194,186,108)	(1,313,207,151)	(1,285,391,909)
Less: Dividends on preferential shares	-	-	-	-
Discretionary reserve	-	-	-	-
Dividends on ordinary shares	-	-	-	-
Dividends transferred to share capital	-	-	-	-
8. Accumulated losses at end of the year	<u>(1,211,930,161)</u>	<u>(1,194,186,108)</u>	<u>(1,313,207,151)</u>	<u>(1,285,391,909)</u>

Items	2002		2001	
	Consolidation (As restated)	The Company (As restated)	Consolidation	The Company
Supplemental information:				
1.	Proceeds from sale or disposal of departments or invested companies	-	-	-
2.	Loss incurred by natural disasters	-	-	-
3.	Increase (or decrease) of total profit from change of accounting policy	-	-	-
4.	Increase (or decrease) of total profit from change of accounting estimates	-	-	-
5.	Loss incurred from debt restructuring	-	-	-
6.	Increase of total profit from accounting error	-	79,680,965	107,496,207
7.	Others	-	-	-

### Cash Flow Statement

Prepared in accordance with the PRC GAAP

Unit: RMB

Items	2002		
	Consolidation	The Company	
1.	Cash flows from operating activities:		
	Cash received from sales of good or rendering of services	4,599,555,916	4,340,024,516
	Refund of tax and levies	-	-
	Cash received from other operating activities	24,638,444	13,772,281
	Sub-total of cash inflows	4,624,194,360	4,353,796,797
	Cash paid for purchases of goods and services	3,491,550,189	3,291,622,581
	Cash paid to and on behalf of employees	329,590,993	154,073,311
	Tax paid	109,248,030	71,367,624
	Other cash paid relating to operating activities	194,020,388	213,147,377
	Sub-total of cash outflows	4,124,409,600	3,730,210,893
	Net cash flows from operating activities	499,784,760	623,585,904
2.	Cash flows from investing activities:		
	Cash received from acquisition of subsidiaries	56,909,418	-
	Cash received from investment income	-	-
	Net cash received from disposals of fixed assets, intangible assets and other long-term assets	48,769,648	282,277
	Other cash received relating to investing activities	204,537,039	204,537,039
	Sub-total of cash inflows	310,216,105	204,819,316
	Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	264,510,507	43,113,074
	Cash paid for acquisition of investments	-	147,763,896
	Other cash paid for relating to investing activities	603,452,809	598,051,003

	Sub-total of cash outflows	867,963,316	788,927,973
	Net cash flows from investing activities	<u>(557,747,211)</u>	<u>(584,108,657)</u>
3.	Cash flows from financing activities:		
	Cash received from investment	–	–
	Cash received from the borrowings	1,454,465,000	1,180,000,000
	Other cash received relating to financial activities	–	–
	Sub-total of cash inflows	<u>1,454,465,000</u>	<u>1,180,000,000</u>
	Cash paid for repayment of borrowings	1,272,530,166	1,190,000,000
	Cash paid for distribution of dividends, profit or interest expenses	90,008,597	54,608,064
	Other cash paid relating to financing activities	–	–
	Sub-total of cash outflows	<u>1,362,538,763</u>	<u>1,244,608,064</u>
	Net cash flows from financing activities	<u>91,926,237</u>	<u>(64,608,064)</u>
4.	Effect of foreign exchange rate changes on cash	<u>1,477,790</u>	–
5.	Net increase (decrease) in cash and cash equivalents	<u>35,441,576</u>	<u>(25,130,817)</u>
	Supplemental information:		
1.	Reconciliation of net profit to net cash flows from operating activities:		
	Net profit	101,276,990	91,205,801
	Add: Provision for impairment loss of assets	(246,564,161)	(266,496,625)
	Depreciation of fixed assets	245,868,462	100,635,167
	Amortisation of intangible assets	13,547,960	8,218,113
	Amortisation of long-term expenditures	179,347,229	28,566,834
	Increase in deferred expenditures	(2,109,156)	(4,060,193)
	Decrease in accruals	(121,675,246)	(164,648,219)
	Loss (gain) from disposal of fixed assets, intangible assets and other long-term assets	748,140	(63,386)
	Loss from write-off of fixed assets	–	–
	Financial expenses	90,008,597	54,608,064
	Investment loss	17,070,782	107,961,019
	Deferred tax credit	–	–
	Decrease in inventories	464,434,244	334,393,833
	Increase in operating receivables	(629,736,039)	(570,198,817)
	Increase in operating payables	387,955,681	903,464,313
	Others	–	–
	Minority interests	(388,723)	–
	Net cash flows from operating activities	<u>499,784,760</u>	<u>623,585,904</u>
2.	Non-cash investing and financing activities:		
	Debts transferred to capital	–	–
	Convertible bonds due within one year	–	–
	Fixed assets purchased under finance lease	–	–

3. Net increase (decrease) in cash and cash equivalents:		
Cash at the end of period	686,638,140	356,228,019
Less: Cash at the beginning of year	651,196,564	381,358,836
Add: Cash equivalent at the end of year	-	-
Less: Cash equivalent at the beginning of year	-	-
	<u>35,441,576</u>	<u>(25,130,817)</u>
Net increase (decrease) in cash and cash equivalents	<u>35,441,576</u>	<u>(25,130,817)</u>

**REPORT OF THE AUDITORS OF  
GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED  
FOR THE YEAR 2002**

**TO THE SHAREHOLDERS OF  
GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

We have audited the accompanying revised balance sheets of the Company and the Group as of 31 December 2002 and the related revised statements of income and cash flows of the Company and the Group for the year then ended. The revised financial statements replace the original financial statements approved by the directors on 28 March 2003 (see note 1(a)). These revised financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Independent Auditing Standards for Chinese Certificated Public Accountants. Our audit included such tests of the accounting records and such other auditing procedure as we considered necessary in the circumstances of the Company and the Group.

1. The previous auditors explained in their auditors' report on the financial statements for the year ended 31 December 2001 that they were unable to obtain reasonable representations and assurances on which they could rely for the purposes of their audit and there were no satisfactory audit procedures that they could perform to obtain reasonable assurance that all material transactions were properly recorded and completely disclosed. Against this background, we are unable to conclude as to whether the net assets and consolidated net assets of the Company and the Group as at 31 December 2001 were free from material misstatement. Any adjustments to the opening net assets of the Company and the Group would affect the net profit of the Company and the Group for the year ended 31 December 2002. Also, the comparative figures as at the beginning of the year shown in the Company's and the Group's balance sheet, in the statement of income and profit appropriation and in the cash flow statement for the year then ended may not be comparable with the figures for the current year.
2. The investment profit and loss in 華意壓縮機股份有限公司, an associate of the Company, was not recognised by equity method as the Company could not obtain the audited financial statements of such associate for the year 2002 ended 31 December. Accordingly, we are unable to determine the effects of profit and loss of such investment in the year on the net assets of the Company as at 31 December 2002 and its profit for the year then ended had such profit and loss been recognised by equity method.

Except for matters covered above, in our opinion, the financial statements comply with the relevant requirements of the Accounting Standards for Business Enterprises and Accounting System for Business Enterprises, and present fairly, in all material respects, the financial statement position of the Company and Group as of 31 December 2002 and the result of their operations and cash flows for the year then ended. The accounting policies have been consistently applied.

Without qualifying our auditors' opinion, we draw attention to note 1(a) to the financial statements which explains that the Group's financial statements for the year ended 31 December 2002 issued on 28 March 2003 have been revised by the directors to account for the substance of a transaction with a former joint venture partner of the Company and to re-instate an allowance for slow moving inventories. The combined effect of these adjustments is to reduce the net assets of the Group by RMB111,216,225 as at 31 December 2002 and the net profit of the Group for the year then ended by RMB99,591,425.

Shanghai, the PRC, 3 April 2003

#### 10. Difference between the International Financial Reporting Standards ("IFRS") and Generally Accepted Accounting Principles in the PRC

This financial statement is prepared in accordance with the Generally Accepted Accounting Principles of the PRC, and is different from the financial statement prepared in accordance with the IFRS.

As at 31 December 2002, the net profit and net assets for the year as stated in the statutory financial statements was RMB101,277,000 and RMB2,575,001,000 respectively, the major adjustments made to the net profit and net assets based on the IFRS are as follows:

	Net profit for 2002 RMB'000	Net Assets as at 31 December 2002 RMB'000
Amount stated in financial statement as per PRC GAAP	101,277	2,575,001
IFRS Adjustment		
– Adjustment on property, plant and equipment revaluation and related depreciation	(16,684)	15,067
Amount stated in financial statement as per IFRS	<u>84,593</u>	<u>2,590,068</u>

#### Suspension and Resumption in Trading

Trading in the shares of the Company was suspended at the request of the Company with effect from 10:28 a.m. on 1 April 2003 pending the publication of this announcement. Application has been made to The Stock Exchange of Hong Kong Limited for the resumption of trading in the shares of the Company with effect from 9:30 a.m. on 4 April 2003.

#### Announcement on the Resolutions of the Meeting of the Fourth Board of Directors of Guangdong Kelon Electrical Holdings Company Limited

A meeting (the "Meeting") of the fourth board of directors of Guangdong Kelon Electrical Holdings Company Limited (the "Company") was held on 3 April 2003 at the conference room of the Company's head office. The Meeting was attended by eight out of the nine directors and Ms. Yu Xiaoyang, non-executive director, was unable to attend the Meeting due to personal reason. Mr. Jiang Bao Jun, Ms. He Si and Mr. Bai Yun Feng, members of the Supervisory Committee, also attended the Meeting. The Meeting was held in accordance with the Company Law of the People's Republic of China and the Articles of Association of the Company. The Meeting was chaired by Mr. Gu Chu Jun, and the following resolutions were considered and approved:

1. That the revised results announcements of Guangdong Kelon Electrical Holdings Company Limited for the year 2002 (A shares and H shares) be adopted, and the chairman of the Board, Mr Gu Chu Jun, be authorised to sign such announcements;
2. That the revised Report of the Directors of Guangdong Kelon Electrical Holdings Company Limited for the year 2002 be adopted;
3. That the revised audited financial statements of Guangdong Kelon Electrical Holdings Company Limited for the year 2002 be adopted;

4. That the profit distribution proposal of the Company for the year 2002 be approved: According to Generally Accepted Accounting Principles in the PRC, the Company recorded a profit of RMB101,276,990 for the year 2002, resulting in a decrease in accumulated losses from RMB1,313,207,151 in 2001 to RMB1,211,930,161 in 2002. According to International Financial Reporting Standards, the Company recorded a profit of RMB84,593,000 for the year 2002, resulting in a decrease in accumulated losses from RMB1,367,123,000 in 2001 to RMB1,282,530,000 in 2002. The board of directors resolved not to pay any dividend for the year 2002 and not to capitalize any reserve funds.
5. That the revised proposal to utilize the Company's statutory common reserve and capital reserve to make up for the Company's accumulated losses (see Attachment 1) be approved;
6. That the revised explanations of the Board of directors of the Company in respect of matters under the auditors' opinion be approved; and
7. That the resolution relating to the application for a cancellation of the special treatment on the Company's shares be approved: During the reporting period of 2002, the Company successfully turned from a loss-making position to a profit-making position within a short period of one year under the leadership of the new management. According to Generally Accepted Accounting Principles in the PRC, the profit was RMB101,276,990 and the net profit after extraordinary profit/loss was RMB92,819,455. Net assets per share was RMB2.60. According to the relevant requirements in Rule 9.2.4 of Chapter 9 of the Listing Rules of the Shenzhen Stock Exchange (as revised in 2002), the Company has decided to apply to the Shenzhen Stock Exchange for a cancellation of the special treatment on the Company's shares.

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

Shunde, the PRC, 3 April 2003

#### **Attachment 1:**

#### **Proposal to utilize the Company's statutory common reserve and capital reserve to make up for the Company's accumulated losses**

In order to increase the flexibility in carrying out the Company's future profit allocation, the Company is required to make up for losses in previous years pursuant to the requirements of the relevant state laws and policies. In accordance with Generally Accepted Accounting Principles in the PRC and Article 177 of the Company Law, the Company proposes to use the entire amount of the Company's net profit after tax for the year 2002 ( which is RMB101,276,990 as shown in the Company's audited financial reports for the year 2002) to make up for the Company's accumulated losses as at the year end of 2002 (which is RMB1,313,207,151). The Company also proposes to use RMB229,161,802 and RMB982,768,359 (balances as at 31 December 2002) out of its statutory common reserve and capital reserve respectively to make up for the remainder of the Company's accumulated losses after the audit for the year 2002 (which is RMB1,211,930,161). The unallocated profit of the Company will become zero after the above transfers.

**Guangdong Kelon Electrical Holdings Company Limited**

3 April 2003

#### **Announcement on the Resolutions of the Meeting of the Third Supervisory Committee of Guangdong Kelon Electrical Holdings Company Limited**

A meeting (the "Meeting") of the third Supervisory Committee of Guangdong Kelon Electrical Holdings Company Limited (the "Company") was held on 3 April 2003 at the Company's conference room. The Meeting was attended by all three supervisors and was held in accordance with the Company Law of the People's Republic of China and the Articles of Association of the Company. The following resolutions were considered and approved:

1. That the revised results announcements of Guangdong Kelon Electrical Holdings Company Limited for the year 2002 (A shares and H shares) be considered and approved; and
2. That the revised audited financial statements of Guangdong Kelon Electrical Holdings Company Limited for the year 2002 be considered and approved.

Supervisory Committee of  
**Guangdong Kelon Electrical Holdings Company Limited**

Shunde, the PRC, 3 April 2003

"Please also refer to the published version of this announcement in China Daily"