

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)

2003 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (“Board”) of Guangdong Kelon Electrical Holdings Company Limited (the “Company”) is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 (the “Period”), together with the unaudited comparative figures for the corresponding period in 2002 or the audited comparative figures as at 31 December 2002. The consolidated interim financial statements have not been audited but have been reviewed by the Audit Committee of the Company and the Auditors.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

		For the six months ended 30 June	
	Notes	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)
Turnover	3	3,315,066	2,550,332
Cost of sales		(2,510,141)	(1,833,170)
Gross profit		804,925	717,162
Other operating income		35,420	31,702
Distribution costs		(467,012)	(446,944)
Administrative expenses		(150,098)	(130,472)
Other operating expenses		(7,332)	(12,783)
Profit from operations		215,903	158,665
Finance costs		(60,546)	(52,796)
Share of results of associates		(5,808)	2,421
Profit before taxation	4	149,549	108,290
Taxation	5	(6,026)	(2,855)
Profit after taxation		143,523	105,435
Minority interests		(1,291)	(537)
Net profit for the period		142,232	104,898
Dividends	6	—	—
Basic earnings per share	7	RMB0.14	RMB0.11

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2003

(Prepared under International Financial Reporting Standards)

	Notes	30.6.2003 RMB'000 (Unaudited)	31.12.2002 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	2,391,314	2,504,342
Interests in associates		248,931	234,486
Amounts due from related companies		85,603	85,603
Other assets		39,510	25,912
Goodwill		39,993	42,187
Negative goodwill		(83,821)	(86,216)
		<u>2,721,530</u>	<u>2,806,314</u>
Current assets			
Inventories		1,483,613	1,123,326
Trade and other receivables	9	3,525,032	2,366,365
Taxation recoverable		1,838	2,703
Pledged bank deposits		1,099,670	730,447
Bank balances and cash		802,925	686,638
		<u>6,913,078</u>	<u>4,909,479</u>
Current liabilities			
Trade and other payables	10	3,624,444	2,636,678
Trade deposits from customers		812,033	337,666
Warranty provision		76,265	105,031
Taxation payable		4,951	11,534
Bank borrowings – amount due within one year		1,664,045	1,025,398
		<u>6,181,738</u>	<u>4,116,307</u>
Net current assets		<u>731,340</u>	<u>793,172</u>
		<u><u>3,452,870</u></u>	<u><u>3,599,486</u></u>
Capital and reserves			
Share capital	11	992,007	992,007
Reserves		1,767,428	1,598,061
		<u>2,759,435</u>	<u>2,590,068</u>
Minority interests		<u>220,120</u>	<u>218,829</u>
Non-current liabilities			
Bank borrowings – amount due after one year		400,000	714,767
Pension liabilities		61,887	67,683
Other payables		11,428	8,139
		<u>473,315</u>	<u>790,589</u>
		<u><u>3,452,870</u></u>	<u><u>3,599,486</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

	Share capital	Share premium	Statutory reserves	Capital reserve	Revaluation reserve	Translation reserve	Accumulated (losses) profits	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2002	992,007	2,160,621	343,743	-	373,570	(3,450)	(1,367,123)	2,499,368
Net loss for the year	-	-	-	-	-	-	84,593	84,593
Contribution by a shareholder of an associate	-	-	-	1,773	-	-	-	1,773
Exchange differences on translation of financial statements of operations outside Mainland China and gains not recognised in the condensed consolidated income statement	-	-	-	-	-	4,334	-	4,334
At 1 January 2003	992,007	2,160,621	343,743	1,773	373,570	884	(1,282,530)	2,590,068
Utilisation of the Company's reserves to make up for the Company's accumulated losses	-	(965,024)	(229,162)	-	-	-	1,194,186	-
Share of reserves of an associate	-	-	-	27,135	-	-	-	27,135
Net profit for the period	-	-	-	-	-	-	142,232	142,232
At 30 June 2003	992,007	1,195,597	114,581	28,908	373,570	884	53,888	2,759,435
At 1 January 2002	992,007	2,160,621	343,743	-	373,570	(3,450)	(1,367,123)	2,499,368
Net profit for the period	-	-	-	-	-	-	104,898	104,898
Exchange differences on translation of financial statements of operations outside Mainland China and gains not recognised in the condensed consolidated income statement	-	-	-	-	-	6,561	-	6,561
At 30 June 2002	992,007	2,160,621	343,743	-	373,570	3,111	(1,262,225)	2,610,827

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

(Prepared under International Financial Reporting Standards)

	For the six months ended 30 June	
	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)
Net cash from operating activities	305,566	503,533
Net cash used in investing activities	(513,159)	(281,281)
Net cash from (used in) financing activities	323,880	(343,250)
Net increase (decrease) in cash and cash equivalents	116,287	(120,998)
Cash and cash equivalents at beginning of the period	686,638	651,196
Effect of foreign exchange rate changes	–	4,556
Cash and cash equivalents at end of the period	802,925	534,754

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

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.

The condensed financial statements have been prepared in accordance with International Financial Reporting 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 statements have been prepared under the historical cost convention, except for the revaluation of certain property, plant and equipment, and in accordance with International Financial Reporting Standards (“IFRS”). 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 2002.

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 30.6.2003				For the six months ended 30.6.2002			
		Air-	Freezers	Consolidated		Air-	Freezers	Consolidated
	Refrigerators	conditioners	and others		Refrigerators	conditioners	and others	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,445,221	1,641,370	228,475	3,315,066	1,190,463	1,359,869	-	2,550,332
Profit from operations	103,738	92,188	19,977	215,903	72,582	86,083	-	158,665
Profit after taxation but before minority interests	76,931	54,040	12,552	143,523	44,539	60,896	-	105,435
Minority interests	(1,291)	-	-	(1,291)	(537)	-	-	(537)
Net profit for the period	75,640	54,040	12,552	142,232	44,002	60,896	-	104,898

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

No segment 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 statement was determined after charging (crediting) the following items:

	For the six months ended 30 June	
	2003 RMB'000	2002 RMB'000
Amortisation of goodwill	2,194	50
Depreciation	166,539	216,115
Interest expense	60,546	53,795
Interest income	(8,537)	(11,249)
Release of negative goodwill to income	<u>(2,395)</u>	<u>-</u>

5. TAXATION

	For the six months ended 30 June	
	2003 RMB'000	2002 RMB'000
The amount consists of:		
PRC enterprise income tax ("EIT")		
The Company and its subsidiaries	5,934	2,799
Associates	<u>92</u>	<u>56</u>
	<u>6,026</u>	<u>2,855</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.

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

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

A subsidiary of the Company, Chengdu Kelon Refrigerator Co., Ltd., is subjected to an EIT rate of 30%. Together with 3% of the local enterprise income tax, the aggregate EIT rate is 33%. A subsidiary of the Company, Yingkou Kelon Refrigerator Co., Ltd., established in coastal open economic zone, is 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 also entitled to preferential tax treatment, with full exemption from income tax for two years starting from the first profitable year of operations, after offsetting all tax losses brought forward from the previous years (for a maximum period of five years), followed by a 50% reduction in tax rate for the next three years.

6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003. No interim dividend was declared for the same Period last year.

7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share was based on the unaudited consolidated net profit of RMB142,232,000 for the six months ended 30 June 2003 (six months ended 30 June 2002: RMB104,898,000) divided by 992,006,563 ordinary shares (2002: 992,006,563 ordinary shares) in issue during the Period.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group spent RMB140,950,000 (2002: RMB127,449,000) on the acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

	30.6.2003	31.12.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables – third parties	1,165,403	381,536
Notes receivable – third parties	746,875	622,628
Other receivables – third parties	1,591,906	1,355,277
Amounts due from related companies	20,848	6,924
	<u>3,525,032</u>	<u>2,366,365</u>

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

10. TRADE AND OTHER PAYABLES

	30.6.2003	31.12.2002
	RMB'000	RMB'000
Trade payables – third parties	1,340,230	732,498
Notes payable – third parties	1,440,717	942,592
Other payables – third parties	841,788	959,411
Amounts due to related companies	1,709	2,177
	<u>3,624,444</u>	<u>2,636,678</u>

At the reporting date, the accounts payable were aged less than one year.

11. SHARE CAPITAL

There were no movements in the issued capital of the Company in the Period.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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 2003 and the respective balances with the related companies as of 30 June 2003:

I. Transactions with related companies

	For the six months	
	ended 30 June	
	2003	2002
	RMB'000	RMB'000
Sale of goods/raw materials to:		
– Chongqing Kelon Electrical Appliance Company Limited (“Chongqing Kelon”) (<i>note c (vii)</i>)	–	53,945
– Shunde Wangao Import & Export Co., Ltd. (“Wangao Co”) (<i>note c (iv)</i>)	–	34,159
– Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd. (“Chongqing Rongsheng”) (<i>note c (viii)</i>)	49,329	33,213
– Shunde Huaao Electronics Company Limited (“Huaao Electronics”) (<i>note c (iii)</i>)	–	4,267
– Guangdong Kelon Refrigerator Co., Ltd. (formerly Guangdong Sanyo Kelon Refrigerator Co., Ltd.) (“Sanyo Kelon”) (<i>note c (ix)</i>)	–	3,685

Purchase of goods/raw materials from:		
– Chengdu Xinxing Electrical Appliance Holdings Company Limited (“Chengdu Xinxing”) (<i>note c (xi)</i>)	20,689	22,044
– Huaao Electronics (<i>note c (iii)</i>)	–	144,120
– Wangao Co (<i>note c (iv)</i>)	–	46,969
– Hainan Greencool Environmental Protection Engineering Co., Ltd. (“Hainan Greencool”) (<i>note b (i)</i>)	–	27,000
– Shunde Kelon Household Electrical Appliance Company Limited (“Kelon HEA”) (<i>note c (vi)</i>)	–	16,538
– Others	–	21
Loan guarantee provided by:		
– Greencool Enterprise Development Company Limited (“Greencool Enterprise”)	385,000	250,000
– Guangdong Kelon (Rongsheng) Group Company Limited (“GKG”)	–	340,000
Other transactions:		
Interest charged to Chengdu Xinxing (<i>note c (xi)</i>)	993	1,606
Sale of property, plant and equipment to Huaao Electronics (<i>note c (iii)</i>)	–	1,223
Logistic management fee paid to Guangzhou Antaida Logistic Co. Ltd. (“Guangzhou Antaida”) (<i>note c (xii)</i>)	(2,687)	(1,017)
Advertising fee paid to Communication and You Holdings Company Limited (“C&Y”) (<i>note c (x)</i>)	–	(350)
	<u> </u>	<u> </u>

II. Balances due from/to related companies

	30.6.2003	31.12.2002
	RMB’000	RMB’000
Balance due from GKG (note a), included in other receivables – third parties	<u>684,993</u>	<u>684,993</u>
Balances due from related companies		
Amounts due within one year:		
– Chengdu Xinxing (trade balance)	20,848	–
– Others	1,555	6,924
	<u>22,403</u>	<u>6,924</u>
Amounts due after one year:		
– Chengdu Xinxing (<i>note c (xi)</i>)	34,000	34,000
– Employee Union (<i>note c (v)</i>)	51,603	51,603
	<u>85,603</u>	<u>85,603</u>
	<u>108,006</u>	<u>92,527</u>

Balances due to related companies		
– Hainan Greencool (<i>note b (ii)</i>)	311	149
– Others	<u>1,398</u>	<u>2,028</u>
	<u><u>1,709</u></u>	<u><u>2,177</u></u>

Notes:

(a) Transactions with GKG

The transactions with GKG are summarised as follows:

(i) Change of shareholdings

Pursuant to the “Contract of shares transfer of Guangdong Kelon Electrical Holdings Company Limited” and “Supplementary Contract of shares transfer of Guangdong Kelon Electrical Holdings Company Limited” signed between GKG, former single largest shareholder of the Company, and Greencool Enterprise dated 29 October 2001 and 5 March 2002 respectively, the transaction was completed on 18 April 2002. Greencool Enterprise became the single largest shareholder of the Company.

In April 2002, GKG 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.

(ii) Debt settlement arrangement

On 21 November 2002, the Company entered into several conditional agreements with GKG and/or other relevant parties in order to settle the balance due from GKG and the amount due from the Employee Union of RMB684,993,000 (net of allowance of RMB172,409,000) and RMB51,603,000 respectively. Pursuant to these agreements, the above outstanding debts will be settled by transferring the land use right in respect of a parcel of residential land located at Shunde, Guangdong Province, the PRC (the “Land”) and several trademarks (the “Trademarks”) to the Group. The aggregate fair values of the Land and the Trademarks approximate the aggregate carrying amount of the balance due from GKG and the amount due from the Employee Union. As a result, no reversal of allowance for balance due from GKG is made.

The above outstanding debts will be completely settled after the transfer of the Land and the Trademarks being completed and the Company will make a further announcement upon such completion.

Details of the above are set out, inter alia, in the circular dated 12 December 2002 issued by the Company.

Up to the report date, the Group has obtained the land use right certificate of the Land and the application of transfer of the Trademarks is still in progress.

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

Under a licence agreement (“Licence Agreement”) dated 6 July 1996 entered into between the Company and GKG, GKG granted to the Company an exclusive right to use the trademarks “Kelon” and “Ronshen” for no consideration (a) as registered in the PRC and Hong Kong; and/or (b) 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 (c) 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 equivalent 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 been using the trademarks of “Kelon” and “Ronshen” on the refrigerators products and “Kelon” on the air-conditioners products under the Licence Agreement.

(b) Transactions with Hainan Greencool

Transactions with Hainan Greencool are summarised as follows:

- (i) During the six months ended 30 June 2002, the Company purchased CFC-free refrigerants from Hainan Greencool of RMB27,000,000.
- (ii) For the six months 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 the PRC at RMB35,000 per unit, totalling RMB6,930,000. Up to 30 June 2003, RMB6,619,000 had been paid to Hainan Greencool and the balance payable of RMB311,000 was outstanding as at 30 June 2003.

(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 Greencool Enterprise. 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 its debt owing to the Company, amounting to RMB348,000,000, to Greencool Enterprise. As at 31 December 2001, an amount of RMB150,000,000 had been settled by Greencool Enterprise. Further payment of RMB198,000,000 was made by Greencool Enterprise on 25 April 2002 and the total debt of RMB348,000,000 had been fully settled as at 31 December 2002.
- (ii) The Group through a 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, Huao Electronics and Wangao Co.

On 6 August 2002, the transfer of shares of Kelon Advertising, Wangao Co and Huao Electronics held by GKG to Jiake Electronic was completed. The acquisition of Kelon HEA was completed on 4 September 2002.

- (iii) Huaao Electronics was formerly a subsidiary of GKG. During the year ended 31 December 2002, GKG transferred its entire equity interest in Huaao Electronics to the Group and Huaao Electronics became a subsidiary of the Company.
- (iv) Wangao Co was formerly an associate of the Group and a subsidiary of GKG. During the year ended 31 December 2002, GKG transferred its entire equity interest in Wangao Co to the Group and Wangao Co became a subsidiary of the Company.
- (v) During the year ended 31 December 2001, the Company provided funds of RMB116,000,000 to Employee Union, an employee association owned by the employees of the Company and controlled through their delegates. As at 30 June 2003, the amount due from Employee Union in this connection amounted to approximately RMB51,603,000 (31 December 2002: RMB51,603,000).
- (vi) Kelon HEA was formerly an associate of the Group and also a subsidiary of GKG. During the year ended 31 December 2002, GKG transferred its entire equity interest in Kelon HEA to the Group and Kelon HEA became a subsidiary of the Company.
- (vii) Chongqing Kelon is an associate of the Group.
- (viii) Chongqing Rongsheng is an associate of the Group.
- (ix) Sanyo Kelon was formerly an associate of the Group. It became a subsidiary of the Company during the year ended 31 December 2002.
- (x) C&Y is an associate of the Group.

As at 30 June 2003, the Group provided corporate guarantees of RMB3,975,000 (31 December 2002: RMB3,975,000) for banking facilities granted to C&Y.

- (xi) 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 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.
- (xii) Guangzhou Antaida is an associate of the Group. The Group and Guangzhou Antaida entered into a logistic service agreement, pursuant to which Guangzhou Antaida provides transportation service to the Group. A 4% service fee is charged on delivery and discharge of goods.

(d) Pricing of the related party transactions

The pricing of the transactions set out in (a) to (c) above was determined with reference to comparable market prices and/or with reference to the term of the relevant agreements.

(e) **Terms of the related party balances**

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

(f) **Violation of listing rules**

As disclosed in the Company's announcement on 13 March 2002, the Group was 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

	30.6.2003 <i>RMB'000</i>	31.12.2002 <i>RMB'000</i>
Capital expenditure for acquisition of property, plant and equipments contracted for but not provided in the condensed financial statements	<u>19,026</u>	<u>37,910</u>

15. DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS AND REGULATIONS AS APPLICABLE TO THE GROUP

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

	30.6.2003 <i>RMB'000</i>	31.12.2002 <i>RMB'000</i>
Net assets as per condensed financial statements prepared under IFRS	2,759,435	2,590,068
Adjustment on property, plant and equipment revaluation and related depreciation	<u>(12,693)</u>	<u>(15,067)</u>
Net assets as per financial statements prepared under PRC accounting standards and regulations	<u>2,746,742</u>	<u>2,575,001</u>

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

	For the six months ended 30 June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Net profit for the period as per condensed financial statements prepared under IFRS	142,232	104,898
Adjustments on property, plant and equipment revaluation and related depreciation	2,374	7,732
Adjustments on amortisation of goodwill	<u>-</u>	<u>50</u>
Net profit for the period as per financial statements prepared under PRC accounting standards and regulations	<u>144,606</u>	<u>112,680</u>

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

REVIEW CONCLUSION OF INDEPENDENT REVIEW REPORT

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six months ended 30 June 2002 disclosed in the interim financial report may not be comparable with the figures for the current period. 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 were unable to conclude as to whether the net assets of the Group as at 31 December 2001 were free from material misstatement. Any adjustments to the opening net assets of the Group as at 1 January 2002 would affect the profit of the Group for the six months ended 30 June 2002.

INTERIM DIVIDENDS

At a meeting of the Board held on 15 August 2003, the Board resolved not to declare any interim dividend for the six months ended 30 June 2003. No interim dividends were distributed for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Results Review

After the successful turnaround from a loss-making position to a profit-making position in 2002, the Group has continued to achieve satisfactory results. During the Period, the Group's turnover increased by approximately 30.0% as compared to the corresponding period in 2002, amounting to approximately RMB3,315 million. Net profit grew by approximately 35.6% to approximately RMB142 million, while basic earnings per share was RMB0.14.

2. Business Review

Adhering to the management concept of "Technologically Led and Profitability Driven", the Group continued to improve the technological benefits of its products and to strictly enforce its cost control measures. At the same time, the Group actively expanded the application of its unique and leading inventions – "Shuang Xiao Wang" and "Independent Multi-cycling Refrigeration" (IMCR) technologies in new products. Riding on its advantage in product differentiation of the Children's Refrigerator ("I-box") product line and the pricing advantage of the new "Kombine" brand, the Group has successfully expanded its market share, which in turn has made a significant contribution to the increase in the Group's total turnover.

Rapid Increase – Export Operations

The Group manufactures air-conditioners and refrigerators for world renowned international home appliance corporations and distributors through its OEM services, and has maintained excellent results. In the first half of 2003, the Group's revenue from its export operations significantly increased by 93% as compared to the corresponding period last year, remaining as an important growth driver of the Group's profit and income.

With its export market currently extending to 75 countries and regions around the world, coupled with its pricing and product quality advantages, the Group's export sales grew rapidly. In the first half of 2003, export sales volume and revenue for refrigerators rose by 136.8% and 114.9% respectively as compared to the corresponding period last year, with the relevant sales revenue already exceeding the total export revenue from refrigerators recorded in 2002. Export sales volume and revenue for air-conditioners increased by 95.4% and 70.6% respectively as compared to the corresponding period last year.

Stable Growth – Refrigerator Operations

During the Period, the Group achieved noticeable growth for its refrigerator operations. Total sales revenue from refrigerators recorded an increase of approximately 21.4%, with domestic sales volume and revenue growing by 24.8% and 9.4% respectively as compared to the corresponding period last year.

The Group is committed to product and technology innovations. Further to the development of its world-leading IMCR technology, the Group developed refrigerators with triple and quadruple cycling technologies during the Period. These new products have satisfied the needs of the high-end customers for free selection of temperatures in multiple compartments, precise control of temperature, and the need for environmentally friendly and energy saving features.

Intense Competition – Air-conditioner Operations

Despite the outbreak of SARS and a relatively cool summer, the overall performance of the air-conditioner operations recorded a steady growth during the Period. Turnover increased by approximately 20.7% as compared to the corresponding period last year. The domestic sales of air-conditioners both in terms of sales volume and turnover grew by 52.7% and 6.3% respectively as compared to the corresponding period in 2002.

However, competition in the air-conditioner market remained extremely intense. The market price of the products has been decreasing at a faster rate than the decrease in the Group's production costs. Many manufacturers have been forced to sell their products at prices that are lower than their costs, exerting strong pressure on the Group's product prices. As a result, the Group is not able to make a forecast on the profit contribution from its air-conditioner operations this year.

Well-Defined Positioning – Multi-Branding Strategies

On top of its three existing brands – “Kelon”, “Huabao” and “Ronshen”, the Group introduced products under a new brand “Kombine” at the end of 2002 to capture the low-end market.

With the implementation of comprehensive and distinctive branding strategies, the Group successfully achieved all-embracing coverage in the high-, mid- and low-end markets. This has not only led to excellent sales performance, but has also expanded the Group's market share. In the refrigerator market for example, the Group has strived for the high-end market with the world's first IMCR refrigerators, and has endeavoured to satisfy the demand for good function-to-value ratio from the mid- to high-end markets with its computerised refrigerators. At the same time, the Group launched the world's first Children's Refrigerator – the “I-box” to open up and lead in the children's consumer market. The Group uses traditional mechanical refrigerators such as those under the “Kombine” brand to expand its market share in the low-end market.

Pricing Advantage – Cost Controls

During the Period, the Group accomplished noticeable results in cost controls. In addition to cutting down the procurement costs of raw materials and components through the analysis of market trends and the employment of flexible purchasing rules, the Group also lowered the design cost of products by optimising the designs of the products and the refrigerating systems. These factors partially offset the increase in production costs caused by the increased cost of raw materials in the first half of 2003.

Sales Channel Expansion – “龍霸行動”

The Group launched “龍霸行動” throughout the PRC in 2003 to actively expand its sales channels, and has achieved satisfactory results. As at June 2003, the number of wholesalers, direct retailers and franchised retailers for “Kelon”, “Huabao” and “Kombine” air-conditioners increased by 33%, 25% and 80% respectively as compared to June 2002. The point of sale for refrigerators has also doubled as compared to the same period last year, bringing the Group's point of sale coverage for refrigerators in the PRC to approximately 80%.

Improving Competitiveness – “Project of Perfection”

The Group continued to implement the “Project of Perfection” as launched in 2002, aiming for meticulous design, delicate manufacturing techniques, elegant products and attentive customer services. The initiative establishes the Group's vision to enhance the competitive edge of its products and to achieve leading international standards.

3. Future Prospects

With the hard work of the entire company, the Company's special treatment (“ST”) status has been ultimately removed, and the Company is posed on the brink of a bright future. Looking to the future, the Group will strive to maintain its competitiveness in possessing leading technologies, and is dedicated to strengthen its leading position in the domestic refrigeration appliances industry in the PRC. The Group will also actively promote its “Shuang Xiao Wang” and IMCR products, and further expand the application of these advanced technologies to more product lines to enhance the overall technological benefits of its products. This will lead to new driving forces for growth and bring greater competitive edge in the highly competitive market.

The Group will adhere to the “Project of Perfection” and continue to improve product quality and production techniques, with the vision to achieving international standards and attaining a leading position globally.

In addition, the Group will continue to implement its comprehensive multi-branding strategies to strengthen the market coverage and to gain a larger market share. The Group will also strictly control product quality and production costs to increase the market competitiveness of its products and the profitability.

By strengthening its internationalisation strategy in addition to maintaining its leading position in the PRC market, the Group is set to work towards its goal of becoming a leading international domestic appliances manufacturer.

4. Significant Events

1. On 18 May 2003, the resignation of Ms. Yu Xiaoyang as an independent non-executive director of the Company and the appointment of Mr. Xu Xiaolu as an independent non-executive director of the Company were approved at the Annual General Meeting.
2. On 18 May 2003, the resolution to utilise the Company's statutory common reserve and capital reserve to make up for the Company's accumulated losses was approved at the Annual General Meeting.
3. On 4 June 2003, the Shenzhen Stock Exchange cancelled the special treatment on the Company's A shares. The stock name abbreviation of the Company on Shenzhen Stock Exchange has been reinstated as “科龍電器”.

SOURCES OF WORKING FUNDS AND CAPITAL

The Group's net cash inflow from operating activities for the six months ended 30 June 2003 amounted to RMB305,566,000.

As at 30 June 2003, the Group had bank balances and cash on hand totaling approximately RMB802,925,000 and bank loan balances of approximately RMB2,064,045,000.

The Company's total capital expenditure for the six months ended 30 June 2003 amounted to RMB513,159,000.

As at 30 June 2003, the net proceeds from the Group's initial public offering and subsequent placement of H shares and public offer of A shares have been applied as the Group's capital expenditure and working capital.

As at 30 June 2003, the gearing ratio of the Group was 74.8%.

TRUST DEPOSITS

As at 30 June 2003, the Company did not have any trust deposits or fixed deposits with any financial institution 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 difficulty in withdrawing the deposits.

UNIFIED INCOME TAX AND LOCAL TAX BENEFIT

The Company is subject to an income tax rate of 27% since 2002.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2003, the Group had approximately 6,180 employees, of which 2,148 were professional staff, representing 34.76% of the total number of employees. Eleven of the Group's employees hold a doctorate's degree while 234 hold a master's degree. There were 556 employees with an official title of middle rank or above. Employees below the age of 30 represent 45.84% of the Group's total number of employees. Besides, the Group has 285 retired staff. For the half year ended 30 June 2003, the Group's staff payroll amounted to RMB84,191,154 (corresponding period in 2002: RMB92,116,180).

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2003, the Group's properties, plant and equipment with a value of approximately RMB1,122,040,000 (31 December 2002: RMB453,961,000) were pledged as security for the Group's bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

CONTINGENT LIABILITIES

As at 30 June 2003, the Group had contingent liabilities of RMB3,975,000 in relation to a guarantee for loan facilities granted to a related party.

SHARE CAPITAL STRUCTURE

As at 30 June 2003, there was no change in the share capital structure of the Company and the structure 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	<u>992,006,563</u>	<u>100.00%</u>

As at 30 June 2003, there were 74,372 shareholders in total, of which the top ten/substantial shareholders were as follows:

Name of Shareholders	Increase/ decrease during the Period	Shareholdings at the end of the Period	Proportion to total share capital (%)	Share class	Nature of Shares
Greencool Enterprise Development Company Limited	0	204,775,755	20.64	Unlisted shares	Legal person shares
Shunde Economic Consultancy Company	0	68,666,667	6.92	Unlisted shares	Legal person shares
Guotai Junan Securities (Hong Kong) Limited	+46,650,000	60,890,000	6.14	Listed shares	H shares
Shunde Xin Hong Enterprise Company Limited	0	57,436,439	5.79	Unlisted shares	Legal person shares
Shenyin Wanguo Securities (H.K.) Limited	-10,649,000	38,563,000	3.89	Listed shares	H shares
First Shanghai Securities Limited	+7,133,000	38,070,000	3.84	Listed shares	H shares
Bank of China (Hong Kong) Ltd.	-10,130,000	28,033,000	2.83	Listed shares	H shares
The Hongkong and Shanghai Banking Corporation Ltd.	-21,440,637	24,568,601	2.48	Listed shares	H shares
Hang Seng Bank Ltd.	-3,799,000	17,846,000	1.80	Listed shares	H shares
Citibank N.A.	-2,633,166	15,330,206	1.55	Listed shares	H shares

Descriptions of shareholding connections among the top ten 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, there was no change in the single largest shareholder or ultimate controlling entity of the Company.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 30 June 2003, the interests or short positions (including interests or short positions which they are deemed or taken to have under the relevant provisions of the Securities and Futures Ordinance) of the directors, supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register required to be kept by the Company under Section 352 of the Securities and Futures Ordinance were as follow:

<u>Name</u>	<u>Position</u>	<u>Type of Interest</u>	<u>Number of Shares</u>
Gu Chu Jun (i)	Director	Corporate	204,775,755 Legal Person Shares
Gu Chu Jun (ii)	Director	Corporate	3,830,000 H Shares
He Si	Supervisor	Personal/Family	50,000 A Shares

Notes:

- (i) Greencool Enterprise Development Company Limited owns 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 Greencool Enterprise Development Company Limited.
- (ii) Mr. Gu Chu Jun is the substantial shareholder of Greencool Technology Holdings Limited (a company listed on the Hong Kong Stock Exchange Growth Enterprise Market) and owns approximately 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, as of 30 June 2003, the Company was not aware of any interests or short positions (including interests or short positions which they are deemed or taken to have under the relevant provisions of the Securities and Futures Ordinance) held by the directors, supervisors and chief executive of the Company which are required, pursuant to the provisions of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

PURCHASE, SALE AND REDEMPTION OF SHARES

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

STATEMENT OF AFFAIRS RELATED TO THE 2002 AUDITORS' REPORT

In response to the opinion issued by the present auditors in respect of the 2002 financial report of the Company ("Auditors' Report"), the Company has issued an explanation in its 2002 Annual Report, and it wishes to further explain as follows:

1. As the financial statements of the Company for the year 2001 were not audited by the present auditors and the former auditors issued a disclaimer opinion for the year 2001, the present auditors were therefore unable to conclude as to whether the financial data as at 31 December 2001 present a true and fair view. As a result, a qualified opinion in respect of the profit of the Company in 2002, etc. was issued for the year 2002 due to the limitations of the audit scope. The management of the Company understood the reasons for the auditors' opinion. As the management did not discover any material deviation from the balances of the 2001 figures after a period of more than one year, the correctness of the financial data announced in 2002 was confirmed.
2. The audit of one of the Company's associates, the shares of which were listed on the Shenzhen Stock Exchange, had not yet been completed as at the date of release of the Company's 2002 annual results announcement. This resulted in the auditors of the Company being unable to complete the verification of the value of the said associate due to the limitation of scope and a qualified opinion was rendered in respect of the matter. The management of the Company had directly enquired with the said associate as to its financial status for 2002, and arrived at a preliminary conclusion that the financial status of the associate was not expected to have a material impact on the value of the Group's investment in the associate. Subsequently, the associate published its audited 2002 annual report and there were no material differences between its financial status and the data then obtained by the Company. Accordingly, the Company considered that the value of the associate reflected in the Company's 2002 annual report was fair.

AUDIT COMMITTEE

The Company established the Audit Committee on 16 August 2002. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee comprises two independent non-executive directors, Mr. Chan Pei Cheong, Andy and Mr. Li Kung Man. The Audit Committee has reviewed the Group's unaudited interim report for the six months ended 30 June 2003 before it was tabled for the Board's approval. The review of the unaudited interim financial statements was conducted in conjunction with the external auditors of the Group.

CODE OF BEST PRACTICE

The Director are not aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the Period, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE OF HONG KONG LIMITED'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 2003 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
Gu Chu Jun
Chairman

Shunde, 15 August 2003

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

(1) PRINCIPAL FINANCIAL OPERATIONS DURING THE PERIOD

1. Principal Financial Statistics and Indicators

	<i>(Unit: RMB)</i>		Change of the amounts at the end of the Period as compared with the beginning of 2003 (%)
	As at 30 June 2003	As at 31 December 2002	
Current assets	6,763,577,262	4,862,868,408	39.09%
Current liabilities	6,030,975,934	4,068,730,484	48.23%
Total assets	9,474,543,099	7,656,539,329	23.74%
Shareholders' equity (excluding minority interests)	2,746,742,128	2,575,000,833	6.67%
Net assets per share	2.77	2.60	6.67%
Adjusted net assets per share	2.56	2.39	7.15%

	<i>(Unit: RMB)</i>		Change of the amounts at the end of the Period as compared with the beginning of 2003 (%)
	As at 30 June 2003	As at 31 December 2002	
Net profit	144,606,105	112,681,302	28.33%
Net profit deducted by extraordinary profit	146,455,095	113,778,916	28.72%
Earnings per share	0.15	0.11	28.33%
Return on net assets	5.26%	4.38%	20.31%
Net cash flow from operating activities	334,133,780	155,283,907	115.18%

2. Items of Extraordinary Profit (Loss) During the Period

Extraordinary items	<i>(Unit: RMB)</i> Amount
Non-operating income	4,624,096
Non-operating expense	(799,968)
Amortisation on equity investment difference	(6,666,088)
Interest received from related party	992,970
Total extraordinary profit (loss)	<u>(1,848,990)</u>

3. Difference on Net Profit Calculated in Accordance with the International Financial Reporting Standards (“IFRS”) and PRC accounting standards and regulations (“PRC GAAP”)

Items	<i>(Unit: RMB)</i> Net profit during the Period
Reported in accordance with IFRS	142,231,903
Reported in accordance with PRC GAAP	144,606,105
Difference	<u>(2,374,202)</u>

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 at the end of the Period x 100%

Net assets per share	=	shareholders' equity as at the end of the Period/ number of ordinary shares outstanding as at the end of the Period
Adjusted net assets per share	=	(shareholders' equity as at the end of the Period – accounts receivable with aging over 3 years – deferred expenditures – long-term deferred expenditures)/number of ordinary shares outstanding as at the end of the Period
Net cash flow from operating activities per share	=	Net cash flow from operating activities/number of ordinary shares outstanding as at the end of the Period

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

At the Company's 2002 Annual General Meeting held on 18 May 2003, the resignation of Ms. Yu Xiaoyang as an independent non-executive director of the Company for personal reasons, and the appointment of Mr. Xu Xiaolu as an independent non-executive director of the Company were approved (for details, please refer to the announcements published in "中國證券報", "證券時報", "Ta Kung Pao", "Hong Kong Economic Journal" and "China Daily" on 20 May 2003).

(3) CHANGES IN TOTAL ASSETS, LONG-TERM LIABILITIES, SHAREHOLDER'S EQUITY, PROFIT FROM PRINCIPAL OPERATIONS AND NET PROFIT OF THE COMPANY DURING THE PERIOD

(Unit: RMB)

Indicators	Figures at the end of the Period	Figures at the beginning of 2003	Increase/ decrease (%)
Total assets	9,474,543,099	7,656,539,329	23.74%
Long-term liabilities	473,314,724	790,588,699	-40.13%
Shareholders' equity	2,746,742,128	2,575,000,833	6.67%
Profit from principal operations	807,052,477	717,162,794	12.53%
Net profit	144,606,105	112,681,302	28.33%

Analysis of reasons for the changes:

1. The increase in total assets is caused by the increase in shareholders' equity and the concurrent increases in current assets and current liabilities.
2. The decrease in long-term liabilities is caused by a repayment of long term liabilities in the sum of RMB150,000,000 and the transfer of long-term borrowings to long-term liabilities payable within one year increasing by approximately RMB160,000,000 during the Period.
3. The increase in shareholders' equity is due to the profit realised during the Period.

4. The increase in profit from principal operations is due to the increase in sales during the Period.
5. The increase in net profit is due to the increase in sales and the decrease in costs of management.

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

(Unit: '0000RMB)

Operation indicators	Revenue from principal operations	Increase ratio (%)
Domestic market	246,492	17%
Overseas market	85,015	93%
Total	<u>331,507</u>	<u>30%</u>

(5) STATEMENT OF PRINCIPAL OPERATIONS BY INDUSTRY/PRODUCT

(Unit: '0000RMB)

By product	Revenue from principal operations	Cost of principal operations	Gross profit margin (%)	Change in revenue from principal operations as compared to corresponding period last year (%)	Change in cost of principal operations as compared to corresponding period last year (%)	Change in gross profit margin with corresponding period last year (%)
Refrigerators	144,522	102,281	29.23%	21.39%	20.69%	0.41%
Air Conditioners	164,137	129,515	21.09%	20.70%	31.40%	-6.42%
Freezers	13,931	11,438	17.90%	-	-	-
Others	8,916	7,542	15.41%	-	-	-

(6) INVESTMENTS OF THE COMPANY DURING THE PERIOD

1. During the Period, there was no application of raised funds nor was there an application of raised funds in the previous period that continued through to the Period.
2. Progress on significant investments made by the Company without raising funds:
 - (a) During the Period, Jiangxi Kelon Industrial Development Co. Ltd., which was set up by the Company in June 2002, was still in its construction phase. However, the Company expects that it will be put into production before the end of 2003.

- (b) On 28 May 2003, a joint venture agreement was entered into between the Company and 杭州西冷集團有限公司, pursuant to which a joint venture company, 杭州科龍製冷電器有限公司 (「杭州科龍」), was established. The registered capital was RMB200,000,000. The Company holds a 70% interest in 杭州科龍 while 杭州西冷集團有限公司 holds the remaining 30% interest.

(7) HIGHLIGHTS ON ACQUISITIONS MADE BY THE COMPANY DURING THE PERIOD OR PREVIOUS PERIODS BUT CONTINUING THROUGH TO THE PERIOD

1. On 14 September 2002, the Company acquired the operational assets from 吉林吉諾爾電器(集團)有限公司 for a consideration of RMB40,000,000 and, on this basis, established 吉林科龍電器有限公司 on 6 November 2002. As at the end of the Period, 吉林科龍電器有限公司 was already in the trial-production phase.
2. In July 2002, the Company acquired the 56% interest which was held by external parties in its associated company, Guangdong Sanyo Kelon Refrigerator Co. Ltd., at a consideration of RMB3. Such company became a wholly-owned subsidiary of the Company, and was renamed as Guangdong Kelon Refrigerator Co. Ltd. The share transfer has been completed as at the end of the Period.

(8) OTHER SIGNIFICANT EVENTS

1. During the Period, neither the Company nor any of its subsidiaries was involved in any material litigation or arbitration.
2. During the Period, the Company was not involved in any material connected transactions, guarantee or other significant events that may have a material impact on the Company.
3. During the Period, there was no trust, subcontract and lease of other companies' assets by the Company and there was no trust, subcontract and lease of the Company's assets by other companies.

(9) PRINCIPLE FINANCIAL STATEMENTS FOR A-SHARE

BALANCE SHEET

(Prepared in accordance with PRC GAAP)

At 30 June 2003

(Denominated in RMB)

	Group		Company	
	30 June 2003 (Unaudited)	31 December 2002 (Audited)	30 June 2003 (Unaudited)	31 December 2002 (Audited)
ASSETS				
1. CURRENT ASSETS:				
Bank balances and cash	1,902,594,833	1,417,085,462	1,380,080,025	1,065,118,299
Notes receivable	746,874,538	622,627,806	653,878,775	613,597,439
Accounts receivable	1,166,958,252	381,535,897	278,194,451	275,661,469
Other receivables	1,315,604,102	1,222,868,831	2,545,257,568	2,107,281,156
Prepayments	135,538,051	89,011,737	44,576,451	36,549,630
Inventories	1,483,612,796	1,123,325,956	770,552,085	679,131,994
Deferred expenditures	11,295,877	6,411,749	3,976,853	5,135,474
Other current assets	1,098,813	970	970	970
	<u>6,763,577,262</u>	<u>4,862,868,408</u>	<u>5,676,517,178</u>	<u>4,782,476,431</u>
2. LONG-TERM INVESTMENTS:				
Long-term equity investments	223,526,174	198,173,987	1,359,382,660	1,223,334,010
	<u>223,526,174</u>	<u>198,173,987</u>	<u>1,359,382,660</u>	<u>1,223,334,010</u>
3. FIXED ASSETS				
Fixed assets, cost	3,594,118,098	3,635,836,132	1,416,384,295	1,420,958,597
Less: Accumulated depreciation	(1,679,131,592)	(1,586,467,593)	(536,557,753)	(509,851,837)
Fixed assets, net	1,914,986,506	2,049,368,539	879,826,542	911,106,760
Less: Provision for impairment of fixed assets	(36,927,236)	(61,375,205)	-	-
Fixed assets, net	1,878,059,270	1,987,993,334	879,826,542	911,106,760
Construction in progress	14,990,566	11,323,062	7,613,888	7,550,688
	<u>1,893,049,836</u>	<u>1,999,316,396</u>	<u>887,440,430</u>	<u>918,657,448</u>
4. INTANGIBLE ASSETS AND OTHER ASSETS				
Intangible assets	314,849,234	313,881,774	194,454,745	198,209,350
Long-term deferred expenditures	193,937,685	196,695,856	57,999,735	66,644,180
Long-term receivable above 1 year	85,602,908	85,602,908	51,602,908	51,602,908
	<u>594,389,827</u>	<u>596,180,538</u>	<u>304,057,388</u>	<u>316,456,438</u>
TOTAL ASSETS	<u>9,474,543,099</u>	<u>7,656,539,329</u>	<u>8,227,397,656</u>	<u>7,240,924,327</u>

LIABILITIES AND
SHAREHOLDERS' EQUITY

1. CURRENT LIABILITIES:

Short-term loans	1,449,045,154	960,164,036	535,700,000	400,000,000
Notes payable	1,440,716,764	942,591,729	1,805,112,639	1,075,014,036
Accounts payable	1,319,381,499	739,184,874	652,933,647	652,568,689
Advance from customers	812,032,842	337,665,921	638,044,910	300,245,037
Accrued payroll	43,655,125	44,211,152	7,434,440	30,370,421
Staff welfare payable	6,073,916	3,986,906	1,293,069	1,489,938
Dividends payable	–	52,409	–	–
Taxes payables	(24,256,828)	39,849,854	16,032,797	62,552,141
Payable to others	1,545,495	2,944,393	318,981	2,029,317
Other Payables	402,829,517	616,737,987	433,528,772	519,065,990
Accruals	288,687,714	211,076,574	231,830,222	185,670,788
Provision	76,264,736	105,031,134	76,264,736	105,031,134
Long-term loan due within 1 year	215,000,000	65,233,515	215,000,000	60,000,000
Total current liabilities	6,030,975,934	4,068,730,484	4,613,494,213	3,394,037,491

2. LONG-TERM LIABILITIES

Long-term loan	400,000,000	714,766,571	400,000,000	690,000,000
Long-term payable	73,314,724	75,822,128	65,781,108	70,126,659
Accrued liabilities of investee enterprise	–	–	394,452,224	494,015,291
Total long-term liabilities	473,314,724	790,588,699	860,233,332	1,254,141,950

TOTAL LIABILITIES

6,504,290,658	4,859,319,183	5,473,727,545	4,648,179,441
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3. MINORITY INTEREST

223,510,313	222,219,313	–	–
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4. SHAREHOLDERS' EQUITY

Share capital	992,006,563	992,006,563	992,006,563	992,006,563
Capital reserve	1,515,106,771	2,452,995,887	1,515,106,771	2,452,995,887
Revenue reserve	114,580,901	343,742,703	114,580,901	343,742,703
Including: Statutory common welfare fund	114,580,901	114,580,901	114,580,901	114,580,901
Accumulated losses	126,862,052	(1,211,930,161)	133,790,035	(1,194,186,108)
Exchange difference	(1,814,159)	(1,814,159)	(1,814,159)	(1,814,159)
Total shareholders' equity	2,746,742,128	2,575,000,833	2,753,670,111	2,592,744,886

**TOTAL LIABILITIES AND
SHAREHOLDERS' EQUITY**

9,474,543,099	7,656,539,329	8,227,397,656	7,240,924,327
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STATEMENTS OF INCOME AND PROFIT APPROPRIATION

(Prepared in accordance with PRC GAAP)

For the six months ended 30 June 2003

(Denominated in RMB)

	Group		Company	
	For the six months ended 30 June 2003 (Unaudited)	For the six months ended 30 June 2002 (Unaudited)	For the six months ended 30 June 2003 (Unaudited)	For the six months ended 30 June 2002 (Unaudited)
1. Revenue from				
principal operations	3,315,066,447	2,550,506,407	2,328,509,987	2,078,130,087
Less: Cost of sales	(2,507,767,367)	(1,833,169,517)	(1,924,172,394)	(1,478,480,580)
Sales tax	(246,603)	(174,096)	(136,151)	(120,272)
	<hr/>	<hr/>	<hr/>	<hr/>
2. Profit from principal operations	807,052,477	717,162,794	404,201,442	599,529,235
Add: Other operating profit				
(loss)	15,708,524	10,374,662	1,209,348	(690,253)
Less: Distribution costs	(466,765,323)	(446,943,789)	(408,659,880)	(414,782,070)
Administrative expenses	(141,579,779)	(123,083,746)	(9,102,811)	(18,854,128)
Financial Expenses	(53,643,822)	(41,547,584)	(24,281,566)	(33,967,159)
	<hr/>	<hr/>	<hr/>	<hr/>
3. Operating profit (loss)	160,772,077	115,962,337	(36,633,467)	131,235,625
Add: Investment (loss) income	(12,783,202)	(4,284,922)	168,476,327	(20,723,080)
Subsidy income	18,190	-	18,190	-
Non-operating income	4,624,096	4,921,767	2,506,806	2,456,337
Less: Non-operating expenses	(799,968)	(974,981)	(577,821)	(287,580)
	<hr/>	<hr/>	<hr/>	<hr/>
4. Total profit	151,831,193	115,624,201	133,790,035	112,681,302
Less: Income Tax	(5,934,088)	(2,799,256)	-	-
Add: Minority interests	(1,291,000)	(143,643)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
5. Net profit	144,606,105	112,681,302	133,790,035	112,681,302
Add: (accumulated losses)				
retained earnings,				
beginning of period	(1,211,930,161)	(1,313,207,151)	(1,194,186,108)	(1,285,391,909)
	<hr/>	<hr/>	<hr/>	<hr/>
Add: Utilisation of				
statutory common				
reserve to make up				
accumulated losses	229,161,802	-	229,161,802	-
Utilisation of capital				
reserve to make up				
accumulated losses	965,024,306	-	965,024,306	-
	<hr/>	<hr/>	<hr/>	<hr/>

	Group		Company	
	For the six months ended 30 June 2003 (Unaudited)	For the six months ended 30 June 2002 (Unaudited)	For the six months ended 30 June 2003 (Unaudited)	For the six months ended 30 June 2002 (Unaudited)
6. Profit available for appropriation	126,862,052	(1,200,525,849)	133,790,035	(1,172,710,607)
Less: Statutory common reserve surplus	-	-	-	-
Statutory common welfare fund	-	-	-	-
7. Profit available for distribution	126,862,052	(1,200,525,849)	133,790,035	(1,172,710,607)
Less: Discretionary reserve	-	-	-	-
Dividends on ordinary Shares	-	-	-	-
8. Unallocated profit	<u>126,862,052</u>	<u>(1,200,525,849)</u>	<u>133,790,035</u>	<u>(1,172,710,607)</u>

STATEMENT OF IMPAIRMENT PROVISION FOR ASSETS

(Prepared in accordance with PRC GAAP)

For the six months ended 30 June 2003

(Unit: RMB)

	31 December 2002	Provision	Written back	30 June 2003
1. Provision for doubtful accounts	319,294,128	1,794,704	(15,660,398)	305,428,434
Including:				
Accounts receivable	140,506,141	1,794,704	(15,660,398)	126,640,447
Other receivables	178,787,987	-	-	178,787,987
2. Provision for impairment loss of short-term investments	-	-	-	-
Including:				
Investments in stock securities	-	-	-	-
3. Provision for impairment of inventories	136,726,986	-	(35,417,848)	101,309,138
Including:				
Finished goods	85,729,527	-	(4,961,082)	80,768,445
Raw materials	-	-	-	-
Work-in-progress	50,997,459	-	(30,456,766)	20,540,693
4. Provision for impairment in value of long-term investments	71,200,641	-	-	71,200,641
Including:				
Long-term equity investments	71,200,641	-	-	71,200,641

5. Provision for impairment of fixed assets	61,375,205	–	(24,447,969)	36,927,236
Including:				
Buildings, machinery and equipment	61,375,205	–	(24,447,969)	36,927,236

CASH FLOW STATEMENTS

(Prepared in accordance with PRC GAAP)

For the six months ended 30 June 2003

	For the six months ended 30 June 2003		For the six months ended 30 June 2002	
	Group (Unaudited)	Company (Unaudited)	Group (Unaudited)	Company (Unaudited)
I. Cash flows from operating activities:				
Cash received from sale of goods or rendering of services	3,263,357,958	2,478,701,340	2,762,516,763	2,331,027,036
Other cash received relating to operating activities	28,888,308	11,099,675	43,788,659	385,016,735
Sub-total of cash inflows	<u>3,292,246,266</u>	<u>2,489,801,015</u>	<u>2,806,305,422</u>	<u>2,716,043,771</u>
Cash paid for purchases of goods and services	2,426,390,916	1,917,309,407	1,974,905,410	1,771,128,458
Cash paid to and on behalf of employees	213,901,174	85,637,720	144,444,705	61,061,020
Tax paid	39,767,214	28,408,063	23,922,545	3,685,839
Other cash paid relating to operating activities	278,053,182	77,363,279	507,748,855	938,260,214
Sub-total of cash outflows	<u>2,958,112,486</u>	<u>2,108,718,469</u>	<u>2,651,021,515</u>	<u>2,774,135,531</u>
Net cash flows from operating activities	<u>334,133,780</u>	<u>381,082,546</u>	<u>155,283,907</u>	<u>(58,091,760)</u>
II. Cash flows from investing activities:				
Net cash receipt from disposals of fixed assets, intangible assets and other long-term assets	10,611,877	8,230,434	15,806,721	–
Other cash received relating to investing activities	–	–	215,785,585	210,473,592
Sub-total of cash inflows	<u>10,611,877</u>	<u>8,230,434</u>	<u>231,592,306</u>	<u>210,473,592</u>

Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	113,034,347	12,744,123	76,797,879	18,558,878
Cash paid for acquisition of investments	11,000,000	35,000,000	–	–
Other cash paid relating to investing activities	369,222,378	335,602,720	–	–
Sub-total of cash outflows	<u>493,256,725</u>	<u>383,346,843</u>	<u>76,797,879</u>	<u>18,558,878</u>
Net cash flows from investing activities	<u>(482,644,848)</u>	<u>(375,116,409)</u>	<u>154,794,427</u>	<u>191,914,714</u>
III. Cash flows from financing activities:				
Cash received from the borrowings	1,174,700,000	325,000,000	950,000,000	910,000,000
Sub-total of cash inflows	<u>1,174,700,000</u>	<u>325,000,000</u>	<u>950,000,000</u>	<u>910,000,000</u>
Cash paid for repayment of borrowings	850,818,968	324,300,000	1,328,021,163	990,000,000
Cash paid for distribution of dividends, profits or interest expenses	59,082,971	27,307,131	55,059,500	42,602,965
Sub-total of cash outflows	<u>909,901,939</u>	<u>351,607,131</u>	<u>1,383,080,663</u>	<u>1,032,602,965</u>
Net cash flows from financing activities	<u>264,798,061</u>	<u>(26,607,131)</u>	<u>(433,080,663)</u>	<u>(122,602,965)</u>
IV. Effect of foreign exchange rate changes on cash	–	–	6,560,068	–
V. Net increase (decrease) in cash and cash equivalents	<u>116,286,993</u>	<u>(20,640,994)</u>	<u>(116,442,261)</u>	<u>11,219,989</u>

Supplemental Information

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

Net profit	144,606,105	133,790,035	112,681,302	112,681,302
Add: Minority interests	1,291,000	–	143,643	–
Provision for impairment loss of assets	(49,283,542)	(52,499,389)	4,278,734	1,644,500
Depreciation of fixed assets	109,782,501	31,861,157	130,571,860	64,290,202
Amortisation of intangible assets	5,745,841	3,754,605	5,333,355	4,460,716
Amortisation of long-term expenditures	51,128,245	11,918,239	83,214,110	11,467,617
Decrease in deferred expenditure (less: increase)	(4,884,128)	1,158,621	(2,358,757)	(523,571)
Increase in accruals (less: decrease)	49,356,351	14,480,746	44,390,361	(6,316,980)

Loss from disposal of fixed assets, intangible assets and other long-term assets	43,823,154	595,756	395,406	–
Financial expenses	58,518,953	30,219,421	41,547,584	33,967,158
Investment profit (add: loss)	12,783,202	(168,476,327)	4,284,922	17,716,721
Increase in inventories (add: decrease)	(324,868,992)	(53,937,628)	(601,741,368)	(509,475,463)
Increase in operating receivables (add: decrease)	(1,036,162,821)	(478,800,825)	(272,109,840)	163,008,849
Decrease in operating payables (less: decrease)	<u>1,272,297,911</u>	<u>907,018,135</u>	<u>604,652,595</u>	<u>48,987,189</u>
Net cash flows from operating activities	<u>334,133,780</u>	<u>381,082,546</u>	<u>155,283,907</u>	<u>(58,091,760)</u>
2. Net increase (decrease) in cash and cash equivalents:				
Cash at the end of period	802,925,133	335,587,025	534,754,303	392,578,825
Less: Cash at the beginning of period	<u>686,638,140</u>	<u>356,228,019</u>	<u>651,196,564</u>	<u>381,358,836</u>
Net increase (decrease) in cash and cash equivalents	<u>116,286,993</u>	<u>(20,640,994)</u>	<u>(116,442,261)</u>	<u>11,219,989</u>

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