



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)
(Stock Code: 921)

ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2004

The Board of Directors of Guangdong Kelon Electrical Holdings Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group" or "Kelon") for the year ended 31 December 2004 (the "Reporting Period") together with the 2003 comparative figures, prepared in accordance with International Financial Reporting Standards ("IFRS") as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

	Notes	2004 RMB'000	2003 RMB'000
Turnover	2	8,436,404	6,168,110
Cost of sales		(6,615,807)	(4,508,317)
Gross profit		1,820,597	1,659,793
Other operating income	4	95,642	91,902
Distribution costs		(1,206,613)	(1,002,753)
Administrative expenses		(509,251)	(368,425)
Other operating expenses	5	(5,817)	(5,711)
Profit from operations		194,558	374,806
Finance costs		(159,138)	(122,463)
Share of results of associates		(82,226)	(41,394)
(Loss) profit before taxation	6	(46,806)	210,949
Taxation	8	(8,308)	(13,632)
(Loss) profit after taxation		(55,114)	197,317
Minority interests		10,456	(6,147)
Net (loss) profit for the year		(44,658)	191,170
Basic (loss) earnings per share	9	RMB(0.05)	RMB0.19

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER

	2004 RMB'000	2003 RMB'000
Non-current assets		
Property, plant and equipment	2,697,880	2,407,234
Interests in associates	124,138	220,165
Amount due from a related company	34,000	34,000
Intangible assets	789,406	768,631
Other investments	7,249	21,579
Goodwill	39,195	30,779
Negative goodwill	(76,636)	(81,426)
	<u>3,615,232</u>	<u>3,400,962</u>
Current assets		
Inventories	2,996,855	1,945,618
Trade and other receivables	2,899,707	2,316,257
Taxation recoverable	102	172
Pledged bank deposits	1,302,587	1,393,134
Bank balances and cash	1,017,534	726,905
	<u>8,216,785</u>	<u>6,382,086</u>
Current liabilities		
Trade and other payables	4,297,084	2,698,025
Trade deposits from customers	848,041	716,413
Warranty provision	119,338	89,557
Taxation payable	6,893	4,894
Bank borrowings		
– amount due within one year	3,351,445	3,147,184
	<u>8,622,801</u>	<u>6,656,073</u>
Net current liabilities	<u>(406,016)</u>	<u>(273,987)</u>
	<u>3,209,216</u>	<u>3,126,975</u>
Capital and reserves		
Share capital	992,007	992,007
Reserves	1,772,592	1,818,859
Shareholders' equity	<u>2,764,599</u>	<u>2,810,866</u>
Minority interests	<u>357,931</u>	<u>233,976</u>
Non-current liabilities		
Bank borrowings		
– amount due after one year	16,723	19,354
Pension liabilities	53,096	54,143
Other payables	16,867	8,636
	<u>86,686</u>	<u>82,133</u>
	<u>3,209,216</u>	<u>3,126,975</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Capital reserve RMB'000	Revaluation reserve RMB'000	Translation reserve RMB'000	Accumulated (losses) profits RMB'000	Total RMB'000
Balance 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	–	–	–	27,562	–	–	–	27,562
Net profit for the year	–	–	–	–	–	–	191,170	191,170
Exchange differences on translation of financial statements of operations outside Mainland China and gains not recognised in the consolidated income statement	–	–	–	–	–	2,066	–	2,066
Balance at 31 December 2003	992,007	1,195,597	114,581	29,335	373,570	2,950	102,826	2,810,866
Share of reserves of an associate	–	–	–	238	–	–	–	238
Net loss for the year	–	–	–	–	–	–	(44,658)	(44,658)
Exchange differences on translation of financial statements of operations outside Mainland China and losses not recognised in the consolidated income statement	–	–	–	–	–	(1,847)	–	(1,847)
Balance at 31 December 2004	<u>992,007</u>	<u>1,195,597</u>	<u>114,581</u>	<u>29,573</u>	<u>373,570</u>	<u>1,103</u>	<u>58,168</u>	<u>2,764,599</u>

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Operating activities		
(Loss) profit before taxation	(46,806)	210,949
Adjustments for:		
Share of results of associates	(2,908)	27,658
Interest income	(38,832)	(22,122)
Interest expense	155,053	122,187
Depreciation of property, plant and equipment	362,193	373,841
Amortisation of goodwill	18,275	17,306
Amortisation of intangible assets	55,951	14,093
Impairment loss recognised in respect of goodwill	71,400	7,838
Loss on disposal of property, plant and equipment	2,950	2,629
Gain on disposal of associates	(656)	–
Loss on winding up of an associate	–	216
Release of negative goodwill to income	(4,790)	(4,790)
Discount on acquisition of a subsidiary released to income	(12,429)	–
Allowance (reversal of allowance) for inventories	41,412	(32,807)
Allowance for irrecoverable debts	41,977	5,481
Operating cash flows before movements in working capital	642,790	722,479
Increase in inventories	(1,064,056)	(789,485)
Increase in trade and other receivables	(582,182)	(331,452)
Decrease (increase) in amounts due from associates	4,384	(1,683)
Increase in trade and other payables	1,529,439	159,317
Increase in trade deposits from customers	131,661	378,700
Increase (decrease) in warranty provision	29,781	(15,474)
Decrease in pension liabilities	(1,047)	(13,540)
Increase in other long-term payables	8,231	497
Cash generated from operations	699,001	109,359
Interest received	38,832	22,122
Interest paid	(154,627)	(122,187)
Tax paid	(4,214)	(15,789)
Net cash from (used in) operating activities	578,992	(6,495)
Investing activities		
Purchase of property, plant and equipment	(423,319)	(289,412)
Purchase of intangible assets	(47,833)	(46,128)
Proceeds on disposal of property, plant and equipment	10,662	10,522
Decrease (increase) in pledged bank deposits	90,547	(662,687)
Proceeds on disposal of other assets	–	4,333
Proceeds on disposal of associates	8,286	–
Acquisition of subsidiaries	(55,533)	–
Repayment from (advance to) related companies	19,000	(12,076)
Capital contributed by minority shareholders	44,300	9,000
Net cash used in investing activities	(353,890)	(986,448)

	2004 RMB'000	2003 RMB'000
Financing activities		
Bank borrowings raised	7,198,543	3,914,299
Repayment of bank borrowings	(7,132,881)	(2,881,200)
Net cash from financing activities	65,662	1,033,099
Net increase in cash and cash equivalents	290,764	40,156
Cash and cash equivalents at beginning of the year	726,905	686,638
Effect of foreign exchange rate changes	(135)	111
Cash and cash equivalents at end of the year representing bank balances and cash	1,017,534	726,905

NOTES

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain property, plant and equipment, and in accordance with IFRSs.

In the current year, the Group has adopted, for the first time, the accounting treatment of IFRS 3 “Business combinations” to business combinations for which the agreement date is on or after 31 March 2004 and has also adopted, for the first time, International Accounting Standard (“IAS”) 36 (Revised) “Impairment of assets” and IAS 38 (Revised) “Intangible assets” for goodwill and intangible assets acquired through business combinations for which the agreement date is on or after 31 March 2004.

For business combinations which the agreement date was before 31 March 2004, goodwill and negative goodwill arising on those acquisitions is accounted for in accordance with IAS 22 “Business combinations”. Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the fair value of identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition and is stated at cost less accumulated amortisation and accumulated impairment losses. IFRS 3 required goodwill arising from acquisitions to be determined as the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities on the date of acquisition and is measured after initial recognition of cost less accumulated impairment losses. Under IFRS 3, goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Under IAS 22, negative goodwill represents the excess of the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on the analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately. Under IFRS 3, any deficiency of the costs of acquisition below the fair values of the identifiable net assets, liabilities and contingent liabilities on the date of acquisition (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The adoption of IFRS 3, IAS 36 (Revised) and IAS 38 (Revised) have had no material effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment has been made.

2. TURNOVER

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

	2004 RMB'000	2003 RMB'000
Sales of refrigerators	3,274,329	3,016,247
Sales of air-conditioners	4,501,234	2,680,590
Sales of freezers	335,890	211,467
Sales of product components	324,951	259,806
	<u>8,436,404</u>	<u>6,168,110</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Segment information about these businesses is presented below:

Year 2004

Income statement

	Refrigerators <i>RMB'000</i>	Air- conditioners <i>RMB'000</i>	Freezers <i>RMB'000</i>	Product components <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
TURNOVER						
External sales	3,274,329	4,501,234	335,890	324,951	–	8,436,404
Inter-segment sales	–	–	–	1,433,329	(1,433,329)	–
	<u>3,274,329</u>	<u>4,501,234</u>	<u>335,890</u>	<u>1,758,280</u>	<u>(1,433,329)</u>	<u>8,436,404</u>
Total revenue						
	<u>3,274,329</u>	<u>4,501,234</u>	<u>335,890</u>	<u>1,758,280</u>	<u>(1,433,329)</u>	<u>8,436,404</u>
RESULT						
Segment result	<u>101,539</u>	<u>174,084</u>	<u>976</u>	<u>(61,290)</u>	<u>–</u>	215,309
Unallocated corporate expenses						(20,751)
Profit from operations						194,558
Finance costs						(159,138)
Share of results of associates	(31,913)	(43,872)	(3,274)	(3,167)	–	(82,226)
Loss before taxation						(46,806)
Taxation						(8,308)
Loss after taxation						<u>(55,114)</u>

Year 2003

Income statement

	Refrigerators <i>RMB'000</i>	Air- conditioners <i>RMB'000</i>	Freezers <i>RMB'000</i>	Product components <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i>
TURNOVER						
External sales	3,016,247	2,680,590	211,467	259,806	–	6,168,110
Inter-segment sales	–	–	–	959,071	(959,071)	–
Total revenue	<u>3,016,247</u>	<u>2,680,590</u>	<u>211,467</u>	<u>1,218,877</u>	<u>(959,071)</u>	<u>6,168,110</u>
Inter-segment sales are charged at prevailing market rates.						
RESULT						
Segment result	<u>219,688</u>	<u>150,986</u>	<u>25,352</u>	<u>(8,705)</u>	<u>–</u>	387,321
Unallocated corporate expenses						(12,515)
Profit from operations						374,806
Finance costs						(122,463)
Share of results of associates	(26,261)	(12,870)	(1,015)	(1,248)	–	(41,394)
Profit before taxation						210,949
Taxation						(13,632)
Profit after taxation						<u>197,317</u>

Geographical segments

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

	Turnover by geographical market	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
The PRC		
Mainland China	4,977,478	3,922,870
Hong Kong	<u>118,762</u>	<u>297,494</u>
	5,096,240	4,220,364
Europe	1,481,458	1,011,031
America	1,002,743	200,845
Others	<u>855,963</u>	<u>735,870</u>
	<u>8,436,404</u>	<u>6,168,110</u>

4. OTHER OPERATING INCOME

2004	2003
RMB'000	RMB'000

An analysis of the Group's other operating income is as follows:

Sales of scrap materials	39,366	39,678
Interest income	38,832	22,122
Others	17,444	30,102
	<u>95,642</u>	<u>91,902</u>

5. OTHER OPERATING EXPENSES

2004	2003
RMB'000	RMB'000

An analysis of the Group's other operating expenses is as follows:

Loss on disposal of property, plant and equipment	2,950	2,629
Others	2,867	3,082
	<u>5,817</u>	<u>5,711</u>

6. (LOSS) PROFIT BEFORE TAXATION

2004	2003
RMB'000	RMB'000

(Loss) profit before taxation has been arrived at after charging:

Allowance for inventories (<i>note a</i>)	41,412	—
Allowance for irrecoverable debts (<i>note a</i>)	41,977	5,481
Amortisation of goodwill of associates (<i>note b</i>)	13,734	13,736
Amortisation of goodwill of subsidiaries (<i>note a</i>)	4,541	3,570
Amortisation of intangible assets (<i>note a</i>)	55,951	14,093
Auditors' remuneration	5,500	4,200
Depreciation of property, plant and equipment (<i>note 7</i>)	362,193	373,841
Impairment loss recognised in respect of goodwill of an associate (<i>note b</i>)	71,400	—
Impairment loss recognised in respect of goodwill of subsidiaries (<i>note a</i>)	—	7,838
Loss on winding up of an associate (<i>note a</i>)	—	216
Research and development expenses	6,147	3,170
Staff costs, including directors' and supervisors' remuneration	497,174	412,227

and after crediting:

Discount on acquisition of a subsidiary release to income (<i>note a</i>)	12,429	—
Gain on disposal of associates	656	—
Release of negative goodwill of subsidiaries to income (<i>note a</i>)	4,790	4,790
Reversal of allowance for inventories (<i>note a</i>)	<u>—</u>	<u>32,807</u>

Notes:

- (a) The amount is included in administrative expenses.
- (b) The amount is included in share of results of associates.

7. DEPRECIATION

2004	2003
RMB'000	RMB'000

An analysis of the Group's depreciation is as follows:

Amount charged as cost of sales	226,762	223,001
Amount included in distribution costs	82,085	98,552
Amount included in administrative expenses	53,346	52,288
	<u>362,193</u>	<u>373,841</u>

8. TAXATION

2004	2003
RMB'000	RMB'000

Taxation consists of:

PRC enterprise income tax ("EIT")

- The Company and its subsidiaries
- Associates

7,070	11,676
2,025	1,956

9,095	13,632
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Hong Kong Profits Tax

- The Company's subsidiaries
- Overprovision in prior year

(787)	–
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8,308	13,632
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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 established in Shunde, Guangdong Province and, pursuant to "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" ("Income Tax Law"), the Company is normally subject to EIT at a rate of 24%, which is applicable to enterprises located in coastal open economic zone. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 27%. In June 2003, the Company is classified as a high new technology enterprise and is subject to an EIT of 15%. Together with the local enterprise income tax rate of 3%, the aggregate EIT rate is 18%.

The Company's subsidiaries, Guangdong Kelon Refrigerator Co., Ltd. ("Kelon Refrigerator"), Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner"), Hangzhou Kelon Electrical Co. Ltd. ("Hangzhou Kelon"), Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings") and Shunde Rongsheng Plastic Products Co., Ltd. ("Rongsheng Plastic") and Yingkou Kelon Refrigerator Co. Ltd. ("Yingkou Kelon"), 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.

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

The average effective tax rate can be reconciled to the applicable tax rate as follows:

	2004	2003
	%	%
Applicable tax rate (<i>note</i>)	27	27
Tax effect of share of results of associates	(6)	4
Tax effect of income not taxable in determining current year taxable profit	44	(7)
Tax effect of expenses not deductible in determining current year taxable profit	(118)	96
Tax effect of tax losses not recognised	(146)	8
Tax effect of utilisation of tax losses previously not recognised	145	(123)
Reduction of income tax in respect of preferential tax treatment	22	(3)
Others	14	4
	<u> </u>	<u> </u>
Average effective tax rate	<u> (18) </u>	<u> 6 </u>

Note: The applicable tax rate represents the domestic tax rate in the jurisdiction where the operation of the Group is substantially based.

9. BASIC (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the year is based on the net loss for the year of RMB44,658,000 (2003: net profit for the year of RMB191,170,000) and on 992,006,563 shares (2003: 992,006,563 shares) outstanding during the year.

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

10. DIFFERENCES BETWEEN IFRS AND PRC ACCOUNTING STANDARDS AND REGULATIONS ("PRC GAAP") AS APPLICABLE TO THE GROUP

The consolidated balance sheet of the Group prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	2004	2003
	RMB'000	RMB'000
Net assets as per financial statements prepared under IFRS	2,764,599	2,810,866
Adjustment on property, plant and equipment revaluation and related depreciation	(5,667)	(2,135)
Adjustment on contribution from minority shareholders	26,684	—
Adjustment on pre-operating expenses	9,938	—
Others	7,603	—
	<u> </u>	<u> </u>
Net assets as per financial statements prepared under PRC GAAP	<u> 2,803,157 </u>	<u> 2,808,731 </u>

The consolidated income statement of the Group prepared under IFRS and that prepared under PRC GAAP have the following major differences:

	2004 RMB'000	2003 RMB'000
Net (loss) profit for the year as per financial statements prepared under IFRS	(44,658)	191,170
Adjustment on property, plant and equipment revaluation and related depreciation	3,532	11,010
Release of discount on acquisition of a subsidiary	(12,429)	–
Notional rental expenses	(17,660)	–
Adjustment on pre-operating expenses	9,938	–
Others	(2,883)	–
Net (loss) profit for the year as per financial statements prepared under PRC GAAP	<u>(64,160)</u>	<u>202,180</u>

There are differences in other items in the financial statements due to differences in classification between IFRS and PRC GAAP.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

In 2004, Kelon further consolidated its leading market position and achieved a record high turnover of RMB8,436,404,000, representing a growth of 36.77% as compared with 2003. During the Reporting Period, the profit level of the Group was adversely affected by the following factors, thus the Group recorded a net loss of RMB44,658,000:

- 1) intense competition in both domestic and export markets squeezed the already narrow profit margins of products;
- 2) the price of raw materials, such as copper, aluminium and plastics, surged sharply in the second half of 2004, and the Group was not able to offset the increased cost entirely by raising the market price of new products;
- 3) a decrease in VAT-rebate for exports of refrigerators and air-conditioners from 17% to 13% in 2004;
- 4) the sales revenue in the fourth quarter recorded a substantial drop as compared with the first three quarters, while the ratio of expenses to sales revenue weighted relatively higher, resulting in a decline of the operating results in the fourth quarter;
- 5) the Group wrote off approximately RMB71,400,000 in goodwill for its investment in Huayi Compressor Holdings Company Limited, an associated company of the Group which reported had operating losses in consecutive years;
- 6) the provision for inventories increased by approximately RMB41,412,000 due to the net realizable value of certain inventories dropped below their costs as a result of revaluation performed at the end of 2004;
- 7) bad debt provision increased by approximately RMB30,000,000 in the fourth quarter.

For the year 2004, basic loss per share were RMB0.05. The Board of Directors does not recommend the payment of a final dividend for 2004 (2003: Nil).

Despite the negative external factors, the Group has sustained its dominant position in the domestic refrigerator and air-conditioner markets and has become the OEM-supplier of choice for most of the world's leading multinationals in 2004 by leveraging the core technologies of its products, its brand advantage, its expanded economies of scale and the continuously improved product quality.

In November 2004, Kelon formed a joint venture company – Kelon Weili Electrical Appliances – making its first move into the manufacturing of washing machines and giving the Group a more complete product offering both in the domestic market and in overseas market.

Turnover Analysis

During the Reporting Period, the sales revenues of refrigerators and air-conditioners accounted for 38.81% and 53.35% of the Group's total turnover respectively. The sales revenue of freezers represented 3.98% of the Group's total turnover, while the remaining 3.86% of income came from the sales of product components.

Domestic sales accounted for 60.4% of the Group's total turnover, whereas export sales recorded excellent results with a surge of 71.5% over that of 2003, contributing 39.6% to the Group's total turnover. The export business remained as one of the major growth drivers of the Group's turnover and profit.

Healthy Financial Standing

During the Reporting Period, the Group was prudent in its financial management. It strived for perfection in the management of its budget, resources and operating finance, ensuring the stability of the Group's financial position. As at 31 December 2004, the Group's total assets reached RMB11,832,017,000 while net asset amounted to RMB3,209,216,000. Bank balances and cash (including pledged bank deposits) amounted to RMB2,320,121,000. Net current liabilities stood at RMB406,016,000.

OPERATIONS REVIEW

Encouraging Export Sales Growth

Despite the intense competition in the international domestic appliances market during the Reporting Period, the Group continued to record strong growth in sales revenue and improved profit level for the air-conditioners and refrigerators manufactured under OEM arrangements for well renowned international home domestic appliance corporations, sizeable domestic appliances chain stores and supermarkets. This revealed the competitive advantages of the Group's products in terms of technology, cost and quality. During the Reporting Period, Kelon's export business achieved even better results, with revenue reaching RMB3,340,164,000 an 71.5% growth over 2003. Within the business segment, revenue from air-conditioners accounted for 46.5% of the total export sales, whilst that of refrigerators and freezers made up 25% and 5.6% of the total export sales respectively. Small home appliances, accessories and other income accounted for the remaining 22.9%.

Kelon continued to expand its international sales network rapidly in 2004. Currently, the Group's products are exported to over 100 countries and regions, and its customer base has doubled in size to over 600. Export turnover contribution from Europe and Africa as well as America made up the largest portions of 44.4% and 30% respectively. The rest of the export revenue came from the Asia Pacific region.

Larger Market Share for Refrigerator Business

With the refrigerator market in China plagued by severe price wars during the Reporting Period, the industry saw an overall plunge in profit. The market price of major raw materials for refrigerators was rising sharply, creating unprecedented cost pressure on the entire refrigerator industry. Nevertheless, with its newly established production bases in Hangzhou, Nanjing, Shangqiu, Xian, Nanchang swung into operation during the Reporting Period, the Group's production capacity reached a new high and the enhanced economies of scale buffered part of the cost pressure. The Group thus had the leverage to more effectively influence the market price trend.

In addition, capitalizing its comprehensive multi-branding strategy, the Group was able to consolidate the position of its "Kelon" brand in the high-end market, and continued to gain grounds in the mid-to high-end markets with its "Ronshen" brand and the low-end market with its "Combine" brand. In 2004, the Group regained its top seller position for refrigerators in China.

The Group's continuous endeavor to advance technology underlines the success of its refrigerator business. The Group's Ronshen BCD-209S refrigerator, which received the "United Nations Energy Saving Grand Prix" award, was launched in the end of 2003. After five months' promotion, it became the top seller on the list of energy saving refrigerators in China surveyed jointly by the Research Institute of Market Economy of the State Council Development Research Center and the Beijing GuNeng Market Research Center. On the same technology foundation, the Group launched two more new models in the same series, which helped boost sales volume.

During the Reporting Period, Kelon augmented promotion through its sales channels. The Group also obtained fruitful results from participating in the joint promotion campaigns in China. Through expanding its refrigerator business geographically, Kelon was able to broaden its network coverage to rural areas and thus elevated its sales network to a new scale, achieving fruitful results in 2004.

Satisfactory Growth for Air-Conditioner Business

During the Reporting Period, the Group fully applied its multi-branding strategy. The Group achieved better defined positioning for its three brands, namely "Kelon", "Huabao" and "Combine", and developed respective sales network for each of them. With the different sales networks operating in complement, the air-conditioner business recorded satisfactory overall growth, with a 67.9% increase in turnover over 2003.

The Group's air-conditioners are produced with market leading, state-of-the-art technologies. With the government advocating the usage of efficient and energy saving air-conditioners to help ease power shortage, Kelon "Shuang Xiao Wang" series, which boasts enhanced cooling and heating efficiencies, was popular in the market. With the help of effective sales and distribution strategy encompassing attractive sales offers, distributors' profitability was enhanced as the sales of Kelon "Shuang Xiao Wang" shot up, creating a win-win scenario. The products topped the market of energy saving air-conditioners and also the market of highly efficient and energy saving air-conditioners with cooling efficiency over 3.0.

Steady Growth for Small Home Appliances Business

With the refrigerator and air-conditioner businesses progressing steadily and strongly and enjoying consolidated market leadership, Kelon stepped up development of its small home appliance business during the Reporting Period. Apart from the OEM business mode, at full steam, Kelon also established its own production base for the manufacture of small home appliances and developed its own products. Its goal is to achieve large-scale production and product differentiation, ensuring that its products stand out among the competitors.

The Group's newly built production base in Shunde has commenced operation. With gross floor area of 22,000 sq.m., the production base manufactures six categories of products, namely electric fans, rice cookers, electromagnetic heaters, water dispensers, gas stoves and exhaust fans, at 5 million units a year. The construction of the Group's new production base in Zhuhai with gross floor area of 200,000 sq.m. was also completed. It is expected to commence operation in 2005 and will mainly be responsible for the manufacture of small refrigerators, electric fans and water dispensers, etc. When the two new production bases commence operation, Kelon will be among players who lead the industry in small home appliances output.

Venturing into Washing Machine Market

In November 2004, Kelon and Zhongshan Shuncang Industrial Company Limited formed the joint venture, Guangdong Kelon Weili Electrical Appliances Company Limited ("Kelon Weili Electrical Appliances"), in which the Group owns 80% interest, to focus on manufacturing and selling washing machines. Leveraging Kelon's management expertise and many advantages, and through streamlining operation, increasing production efficiency, enhancing product quality and utilizing the Group's established sales and distribution channels to expand market share, the Group believes its washing machine business will deliver satisfying results in the near future.

High Technology Products Bring Fame and Profit

With “Technologically Led” as its guiding principle for development, the Group established the Kelon Research and Development Center in late 2003. The center is responsible for conducting different technological research and development projects and technological exchange and collaboration activities, with the aim of boosting the Group’s core competitiveness. In December 2004, the Group’s R&D team had 700 members.

During the Reporting Period, the Group further improved the technological levels of its refrigerators and air-conditioners and maintained its leading market position. The Group’s important technological achievements in 2004 included:

High efficiency “Digital Shuang Xiao Wang” Air-Conditioner Series Broke World Record Twice

The Group launched the first generation of Kelon “Shuang Xiao Wang” air-conditioner in early 2002 which set and subsequently broke time and again the energy efficiency (EER) record in China. In June 2004, the Group successfully developed the fourth generation of Kelon “Digital Shuang Xiao Wang” with EER reaching 6.65, breaking for the first time the world record long held by Japanese manufacturers. While the industry was still applauding this achievement, Kelon broke its own record in October 2004 by launching the Kelon “Shuang Xiao Wang” KFR-22GW air-conditioner with an EER of 7.0. This not only proved the world leading status of Kelon’s energy efficient air-conditioners, but also attained for the air-conditioner industry of China its first world championship in the energy saving aspect. It also marked the achievement by Kelon of its goal to leap from being a leader in China’s air-conditioning industry to a leader in the global air-conditioning industry.

Kelon constantly strives to advance and improve its core energy saving technology and the quality of its air-conditioners. In a survey targeting air-conditioner users conducted by the Research Institute of Market Economy of the State Council Development Research Center, Kelon’s air-conditioners came first among all domestic brands in “Recognition on quality”, “Leading in technology” and “Brand loyalty”.

World’s Best Energy Saving Refrigerator and Environmentally Friendly Refrigerant

Encouraged by Ronshen BCD-209S refrigerator winning the “Energy Saving Grand Prix” title thus earning high industry and market recognition, the Group continued to invest resources in research and development, leading to the successful launch of the BCD-209S/ET series with two new models in October 2004. The series boasts power consumption as low as 0.33 units per day, 0.22 units lower than the first generation of BCD-209S refrigerator and exceeding by far the highest A++ energy saving grading in Europe. Kelon broke yet again another world record.

In addition, in June 2004, HFC-245fa, the third generation foaming agent which the Group pioneered in developing and putting to use, received professional accreditation from an expert committee comprising representatives of the State Administration of Environmental Protection, the China Household Electrical Appliance Association, China Association of Refrigeration and other professional parties. The third generation foaming agent has good heat insulating capability, hence can substantially reduce the energy consumption of a refrigerator. More importantly, this foaming agent does not damage the ozone layer, thus environmentally safe. This achievement exemplified the Group’s leadership in energy saving and environmental protection technology.

Expanded Production Scale Fortifying Effective Cost Structure

During the Reporting Period, Kelon continued to optimize the resources allocation and management workflow of its sales and distribution network. The Group in association with the subsidiary of its single largest shareholder, Guangdong Greencool Enterprise Development Company Limited, adopted an open and transparent bidding system in procurement. It also enhanced its design techniques. Through acquiring under-utilized production lines, the Group expanded its production scale. In addition, Kelon's international management skills translated into added productivity and economies of scale. A series of cost control measures were implemented to ensure Kelon's overall production cost was at the lower level in both the global and domestic markets. Thus, the Group was able to sustain its cost advantage in the vigorously competitive market.

Prevailing Brand Positions

In 2004, Kelon ranked 12th among "China's 500 Most Valuable Brands" and 2nd in the category of domestic appliance jointly issued by World Brand Laboratory and the World Economic Forum. Its brand equity was worth approximately RMB34.7 billion.

Basic Medical Insurance Scheme for Employees

In accordance with the Provisional Rules of Basic Medical Insurance in Shunde City issued by the People's Government of Shunde City on 2 December 2000, and other relevant accounting requirements of the PRC, the Group has implemented a set of basic medical insurance policy for its employees since 1 January 2002. The amount involved is stated as the Group's welfare expenditure.

Significant Events

On 14 October 2004, the transfer of 57,436,439 Legal Person Shares, representing 5.79% of the total issued share capital of the Company, from Foshan Shunde Xinhong Enterprise Company Limited to Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), the single largest shareholder of the Company, was completed. The shares held by Greencool Enterprise were increased from 204,775,755 to 262,212,194 Legal Person Shares, with shareholding rising from 20.64% to 26.43%.

On 27 October 2004, Kelon and Zhongshan Shunchang Industrial Company Limited entered into a joint venture agreement to form Guangdong Kelon Weili Electrical Appliances Company Limited. The total investment amounted to US\$24,160,000. The Group has 80% share of the joint venture.

On 26 November 2004, the proposal to re-elect namely Mr. Gu Chu Jun, Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Yan You Song, Mr. Zhang Hong and Mr. Fang Zhi Guo as executive directors of the fifth session of the Board were endorsed by the Board of the Company, and so were the proposed re-election of independent non-executive directors, namely Mr. Chan Pei Cheong, Mr. Li Kung Man and Mr. Xu Xiao Lu. On 15 January 2005, all the above-mentioned proposals were passed at the Extraordinary General Meeting of the Company.

On 26 November 2004, the re-election of Mr. Bai Yun Feng and election of Mr. Zeng Jun Hong as shareholder representative supervisors of the fifth session of the Supervisory Committee were proposed, whereas Ms. He Si was resolved to be the staff representative supervisor and form the Supervisory Committee together with the shareholder representative supervisors. On 15 January 2005, the re-election of Mr. Bai Yun Feng and election of Mr. Zeng Jun Hong as shareholder representative supervisors of the fifth session of the Supervisory Committee were approved.

On 26 November 2004, the Board of the Company proposed the resolution to use the Group's internal resources to repurchase not more than 10% of the issued H shares (namely 45.96 million H shares) of the Company. This resolution was approved by the Extraordinary General Meeting on 15 January 2005.

OUTLOOK

Entering 2005, Kelon sees its magnificent business development blueprint taking shape. Firmly founded on the advantages of its traditional refrigerator and air-conditioner products, the Group is taking its small home appliances and washing machine products into a new stage. Kelon is emerging as a leading enterprise in the global domestic appliances industry.

In the past year, “survival of the fittest” ruled the domestic appliances industry. Through consolidating its air-conditioner and refrigerator businesses, Kelon has not only ridden out the extremely difficult operating environment, but has also attained controlling influence among domestic market players. The selling prices of refrigerators and air-conditioners in China and overseas have started to rebound since the end of 2004. The rising product prices coupled with the advantage of economies of scale which the Group enjoys, the management believes Kelon is able to ensure a more brilliant future for its refrigerator and air-conditioner businesses.

Boosting its technological edges remains at the core of Kelon’s development strategy. Capitalizing the success of its “Digital Shuang Xiao Wang” air-conditioners and Ronshen energy saving refrigerators, the Group is committed to developing more trend-setting energy saving products. Kelon is going to tap the opportunities arising from the energy saving concept, which is taking roots among consumers in China, to achieve rapid growth.

The multi-branding strategy of the Group is bearing fruit. The Group is enjoying optimum benefits from its extensive market coverage, while at the same time, will strive for larger and more stable market share. To further expand its sales channels, Kelon’s regional sales centers will continue to move downstream to penetrate the third-and fourth-tier markets such as the rural areas.

The Group does not rule out the possibility of raw material price rising in 2005, but given its superb quality products and stringent cost control, the Group will be able to stay at the head of the industry in competitiveness and profitability.

In the aspect of export sales, Kelon has become the major supplier for many major global domestic appliances manufacturers. Leveraging its product quality, economies of scale and leading cost advantage, complemented by effective export sales strategy and management, the Group will be able to sustain its rapid growth of export business, thus laying the foundation for it to excel in the global market.

The small home appliances market in China is growing at high speed. Despite the intense competition, it has a rosy prospect. Kelon’s small home appliances will also be sold under its “Kelon” and “Combine” brands to capture the mid- to high-end and mid- to low-end markets respectively. The Group will also inject additional resources into research and development to facilitate the introduction of more energy saving small home appliances. The newly established Kelon Weili Electrical Appliances will focus on refining its production process and product designs in 2005. Supported by Kelon’s extensive sales channels, Kelon Weili Electrical Appliances will be able to further expand its market.

The Group has built solid position in the China air-conditioner and refrigeration markets. Looking ahead, the Group will strive to explore and capture the small home appliance and washing machine markets, and step up its internationalization efforts. Kelon will forge ahead towards its goal of becoming a leading international domestic appliances manufacturer.

FINAL DIVIDENDS

The Group recorded a loss of RMB44,658,000 in the year 2004. The board of directors resolved not to pay any dividend for the year 2004 and not to capitalize any reserve funds (no dividend was paid by the Group for the year ended 31 December 2003).

LIQUIDITY AND SOURCES OF FUNDS

Net cash inflow for operating activities was approximately RMB578,992,000 (2003: net cash outflow of approximately RMB6,495,000) for the year ended 31 December 2004.

As of 31 December 2004, the Company had bank deposits and cash (including pledged bank balances) amounting to approximately RMB2,320,121,000 (2003: RMB2,120,039,000), and bank loans amounting to approximately RMB3,368,168,000 (2003: RMB3,166,538,000).

Total capital expenditures for the year 2004 amounted to approximately RMB423,319,000 (2003: RMB289,412,000) 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 2004, the Group had approximately 24,700 employees, mainly comprising 1,160 technical staff, 5,560 sales representatives, 450 financial staff, 1,310 administrative staff and 16,200 production staff. 18 of the Company's employees hold a doctorate's degree while 460 and 2,970 hold a master's degree and a bachelor's degree respectively. There were 860 employees with an official title of middle rank or above. In addition, the Company currently has 73 resigned or retired staff. Staff cost for the year ended 31 December 2004 amounted to approximately RMB498,899,000 (2003: RMB412,227,000).

CHARGES ON THE GROUP'S ASSETS

As of 31 December 2004, the Group's property, plant and equipment of approximately RMB726,597,000 (2003: RMB1,067,711,000) 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 Renminbi, the Group had no significant exposure to exchange rate fluctuation and no financial instrument was used to hedge exchange rate risk.

PUBLIC FLOAT

As at 28 April 2005, the Directors acknowledge that based on publicly available information and within the knowledge of the Directors, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirements stipulated under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

CONTINGENT LIABILITIES

As at 31 December 2004, the Group had no material contingent liabilities (As at 31 December 2003, the Group had no material contingent liabilities).

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the final result announcement and report for the year ended 31 December 2004.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2005 to be approximately RMB0.3675 billion, and the Group's capital resources are sufficient to finance its capital expenditure and day to day operating requirements.

TRUST DEPOSITS

As at 31 December 2004, the Group did not own any trust deposit in any financial institution in the PRC. All of the Group's deposits are placed with the commercial banks in the PRC and Hong Kong and the Company has not encountered any difficulty in withdrawing the deposits.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2004, the Group had long-term bank borrowings of RMB16,723,000 (2003: RMB19,354,000) and cash and cash equivalents of RMB1,017,534,000 (2003: RMB726,905,000), of which over 90% are denominated in RMB.

GEARING RATIO

As at 31 December 2004, there are no significant adverse changes to the Group's gearing ratio (Total bank borrowing/shareholders equity) as compared with last year. The gearing ratio of the Group was 122%.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board of Directors have received written confirmations from all of the independent non-executive directors in respect of their independence in accordance with the requirements provided under Rule 3.13 of the Listing Rules, and consider that all the existing independent non-executive directors are in compliance with the relevant guidelines under Rule 3.13 of the Listing Rules and are still independent persons.

INTERESTS IN CONTRACTS OF DIRECTORS AND SUPERVISORS

All Directors and Supervisors have entered into service contracts with the Company for a term of three years which may be renewed by re-engagement or re-election. The Company has not entered into any service contracts with the Directors or Supervisors who will be proposed for re-election at the Company's 2004 annual general meeting, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Save as disclosed in this announcement, as at 31 December 2004 or during the year 2004, no Director or Supervisor was materially interested, either directly or indirectly, in any contract of significance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules as the code of securities transactions of the Directors and Supervisors; after specific enquiries made to all Directors and Supervisors, the Company found that all the Directors and Supervisors of the Company have complied with the code for securities transactions of the Directors in the Reporting Period.

SHARE CAPITAL STRUCTURE

As of 31 December 2004, 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	<u>992,006,563</u>	<u>100.00</u>

TOP TEN/SUBSTANTIAL SHAREHOLDERS

- (1) As at 31 December 2004, there were 70,520 shareholders in total, of which the top ten/substantial shareholders were as follows:

Names of Shareholders	Increase/decrease during the Period	Shareholdings at the end of the period	Proportion to total share capital (%)	Share class (listed or unlisted)	Nature of Shares
Guangdong Greencool Enterprise Development Company Limited	+57,436,439	262,212,194	26.43%	Unlisted	Domestic Legal Person Shares
The Hongkong and Shanghai Banking Corporation Ltd.	+433,537	109,957,896	11.08%	Listed	H Shares
Shunde Economic Consultancy Company	0	68,666,667	6.92%	Unlisted	Domestic Legal Person Shares
Guotai Junan Securities (Hong Kong) Limited	+2,755,000	47,864,000	4.82%	Listed	H Shares
HSBC Nominees (Hong Kong) Limited	+20,000	40,106,904	4.04%	Listed	H Shares
Shenyin Wanguo Securities (H.K.) Limited	+244,000	34,128,000	3.44%	Listed	H Shares
First Shanghai Securities Limited	+5,034,000	32,033,000	3.23%	Listed	H Shares
Standard Chartered Bank (HK) Ltd	-4,891,000	24,435,000	2.46%	Listed	H Shares
Bank of China (Hong Kong) Ltd	+8,179,000	18,692,000	1.88%	Listed	H Shares
Liu Chong Hing Bank Limited	+6,000,000	16,000,000	1.61%	Listed	H Shares

Descriptions:

- (1) Except those held by the top ten legal person shareholders, all of the shares held by the above top ten shareholders has not been pledged or under freezing orders during the Period. The Company does not know whether any shares held by the other shareholders have been pledged or under freezing orders during the Period.
- (2) Among the top ten shareholders, none of the legal person shareholders is connected with any of the others or is a party acting in concert with any of the others as defined in Administrative Measures for Information Disclosure of the Shareholders of Listed Companies (上市公司股東持股變動信息管理辦法). Furthermore, the Company does not know whether any shareholders is connected with any of the others or is a party acting in concert with any of the others as defined in Administrative Measures for Information Disclosure of the Shareholders of Listed Companies.

- (3) Foshan Shunde Xinhong Enterprise Company Limited (“Xinhong Enterprise”), a legal person shareholder who holds 5% of issued shares of the Company, entered into a “Legal Person Share Transfer Agreement” with Guangdong Greencool Enterprise Development Company Limited (“Greencool Enterprise”), the Company’s single substantial shareholder on 10 June 2004. Xinhong Enterprise transferred 57,436,439 legal person shares of the Company held by it. The transfer price was RMB1.7 per share, totalling RMB97,641,946.30. The registration procedure of this share transfer was completed on 14 October 2004. The “Share Registration Confirmation (過戶登記確認表)” and “Shareholding Statement (股東擁股信息報表)” from China Securities Depository & Clearing Corporation Limited Shenzhen Branch were received, confirming that the registration procedure of the share transfer of these two companies has been legally completed. After the completion of this share transfer, the number of share of our company held by Greencool Enterprise will increase from 204,775,755 before the transfer to 262,212,194 after the transfer. The percentage of shares held by Greencool Enterprise will also rise from 20.64% of the total issued shares of our company before the transfer to 26.43% after the transfer. Xinhong Enterprise will no longer hold any share of our company.
- (4) The name of the Company’s single major shareholder which was previously known as “順德市格林柯爾企業發展有限公司” has been changed to “廣東格林柯爾企業發展有限公司” on 20 April 2004 because of the change in plotting of administrative zone of Shunde.

II Introduction to the controlling shareholder

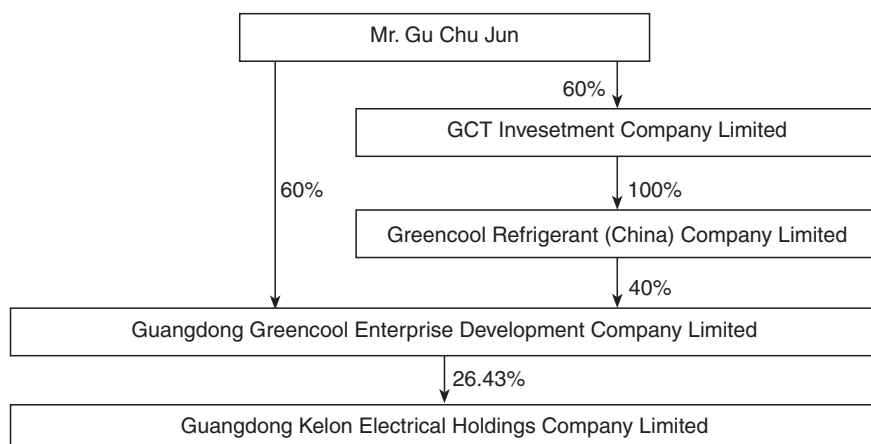
- (1) Greencool Enterprise Development Company Limited, the Company’s single substantial shareholder, was incorporated on 22 October 2001 with a registered capital of RMB 1,200,000,000. Its registered address is 8/F, Rongshan Building, Shunde District, Foshan, Guangdong. The company is primarily engaged 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.

Greencool Enterprise Development Company Limited is a limited corporation jointly invested by Mr. Gu Chu Jun and Greencool Refrigerant (China) Company Limited. Mr. Gu Chu Jun holds its 60% equity interests and Greencool Refrigerant (China) Company Limited holds its 40% equity interests.

Greencool Refrigerant (China) Company Limited is a foreign-invested company incorporated in Tianjin on 3 March 1995 by 英屬維爾京群島 GCT Investment Company Limited, of which Mr. Gu Chu Jun is an absolute controlling shareholder. Greencool Refrigerant (China) Company Limited has a registered capital of US\$ 150,000,000. It is primarily engaged in the development, manufacturing and sales of Gushi refrigerants, various cholrofluorocarbon (CFC) substitutes, new refrigerants, 熱動質, 熱循環介質 and their respective raw material, and the development, manufacturing and sales of the ancillary equipment and application equipment for the above products.

Mr. Gu Chu Jun, graduated from Tianjin University, the PRC with a master’s degree in engineering.. Mr. Gu is the founder of the Greencool Group and the inventor and patent rights holder of Greencool Refrigerants. He is the chairman of Guangdong Greencool Enterprise Development Company Limited, Greencool Refrigerant (China) Company Limited, Yangzhou Yaxing Motor Coach Company Limited, Guangdong Kelon Electrical Holdings Company Limited, Hefei Meiling Company Limited and Greencool Technology Holdings Limited. Mr. Gu has over 20 years of experience in refrigeration engineering and the refrigerant industry. Prior to founding the Greencool Group, he taught at Tianjin University and devoted himself to the research of thermodynamics and refrigeration engineering.

(2) Relationship between the Company and its Beneficial Controlling Shareholders



(3) There is no change to the controlling shareholders during this period.

III Shareholdings of the top ten tradable shares shareholders (as at 31 December 2004)

Name of shareholders (full name)	Number of listed shares at the end of the period	Class (A, B, H share or others)
The Hongkong and Shanghai Banking Corporation Ltd.	109,957,896	H Shares
Guotai Junan Securities (Hong Kong) Limited	47,864,000	H Shares
HSBC Nominees (Hong Kong) Limited	40,106,904	H Shares
Shenyin Wanguo Securities (H.K.) Limited	34,128,000	H Shares
First Shanghai Securities Limited	32,033,000	H Shares
Standard Chartered Bank (HK) Ltd	24,435,000	H Shares
Bank of China (Hong Kong) Ltd	18,692,000	H Shares
Liu Chong Hing Bank Limited	16,000,000	H Shares
Dah Sing Bank, Ltd.	15,000,000	H Shares
Citibank, N.A.	10,471,484	H Shares

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, as shown in the register of substantial shareholders kept according to Section 336 under the Securities and Futures Ordinance, the following shareholders maintain long positions in the issued shares of the Company:

Names of Shareholders	Nature of Shares	Number of issued ordinary shares held	Percentage of the Group's related issued shares	Proportion to total share capital (%)
Guangdong Greencool Enterprise Development Company Limited	Domestic Legal Person Shares	262,212,194	77.60%	26.43%
The Hongkong and Shanghai Banking Corporation Ltd.	H Shares	109,957,896	23.93%	11.08%
Shunde Economic Consultancy Company	Domestic Legal Person Shares	68,666,667	20.32%	6.92%
Guotai Junan Securities (Hong Kong) Limited	H Shares	47,864,000	10.41%	4.82%
HSBC Nominees (Hong Kong) Limited	H Shares	40,106,904	8.73%	4.04%
Shenyin Wanguo Securities (H.K.) Limited	H Shares	34,128,000	7.43%	3.44%
First Shanghai Securities Limited	H Shares	32,033,000	6.97%	3.23%
Standard Chartered Bank (HK) Ltd	H Shares	24,435,000	5.32%	2.46%

Save as the abovementioned, the Company is not aware of other long or short positions in the issued shares of the Company being held as at 31 December 2004 as recorded in the register of substantial shareholders kept according to Section 336 of the Securities and Futures Ordinance.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As at 31 December 2004, the interests and short positions of the directors, supervisors and the chief executive of the Company and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name	Capacity	Number of issued ordinary shares held	Percentage of the relevant class of issued share capital of the Company	Percentage of the total issued share capital of the Company
Gu Chu Jun	Held by controlled corporation	262,212,194 Legal Person Shares (<i>note a</i>)	77.60%	26.43%
	Held by controlled corporation	3,830,000 H Shares (<i>note b</i>)	0.83%	0.39%
He Si	Beneficial owner	50,000 A Shares	0.03%	0.005%

Notes:

- (a) Gu Chu Jun owns a 60% equity interest in Guangdong Greencool Enterprise Development Company Limited, a limited liability company established in the People's Republic of China and the single largest shareholder of the Company. Greencool owned 262,212,194 legal person shares in the Company as at 31 December 2004.
- (b) Gu Chu Jun owns approximately 62.5% of the issued share capital of Greencool Technology Holdings Limited ("Greencool Technology"), a company listed on the Growth Enterprise Market of the Stock Exchange. Two subsidiaries of Greencool Technology held together 3,830,000 H shares in the Company as at 31 December 2004.

Other than as disclosed above, none of the directors, supervisors, chief executive nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2004.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules then in force prior to 1 January 2005.

PUBLICATION OF ANNUAL REPORT ON THE INTERNET WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

All information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules then in force prior to 31 March 2004 which remain applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.

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

Please also refer to the published version of this announcement in China Daily and Hong Kong Commercial Daily on 29 April 2005.

Shunde District, Foshan City, Guangdong Province, the PRC, 28 April 2005

As at the date of this announcement, the Company's executive directors include Mr. Gu Chu Jun, Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Yan You Song, Mr. Zhang Hong and Mr. Fang Zhi Guo; and the independent non-executive directors include Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu.

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 47 which have been prepared in accordance with International Financial Reporting Standards.

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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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.

- (a) Included in turnover for the year ended 31 December 2004 of approximately RMB8,436 million were recorded sales to two customers in the People's Republic of China in the aggregate amount of approximately RMB576 million of which approximately RMB427 million were recorded in December 2004. One of these customers for which sales of RMB297 million were recorded in December was a new customer with which the Group had not previously traded. We sought but were unable to obtain direct confirmations from these customers. We were unable to satisfy ourselves as to the validity of the sales to this new customer. Of the aggregate amount of sales to these two customers during the year, approximately RMB576 million had not been settled at the balance sheet date and approximately RMB556 million remained unsettled as at the date of this report. Against this background, we were unable to obtain sufficient evidence to satisfy ourselves concerning either the validity of the above sales or the validity of the related trade receivables included in the consolidated balance sheet as at 31 December 2004. Accordingly, we were unable to satisfy ourselves that sales for the year ended 31 December 2004 and trade receivables as at that date were free from material misstatement.
- (b) The Group has recorded sales returns of over RMB200 million during the year ended 31 December 2004. Notwithstanding this, the management of the Group considered that no allowance for sales returns at 31 December 2004 is necessary. However, we were unable to obtain sufficient information and explanation to satisfy ourselves that no allowance for sales returns at 31 December 2004 is required to be made.

Any adjustments found to be necessary to the above amounts would affect the net assets of the Group as at 31 December 2004 and the loss 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 matter described in the basis of opinion section of the report, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the loss 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 April 2005

Supplementary information as required by the Stock Exchange of Hong Kong Limited in relation to the Company's A shares results announcement.

I. PARTICULARS OF THE COMPANY

(1) Particulars

1. Legal Chinese name of the Company: 廣東科龍電器股份有限公司
Legal English name of the Company: Guangdong Kelon Electrical Holdings Co., Ltd.
2. Legal representative of the Company: Gu Chu Jun
3. Secretary for the Board of the Company: Liu Cong Meng (Alternative), Li Chi Sing
Representative for securities affairs: Zhong Liang
Contact address: No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, China
Telephone: (0757) 28362570
Fax: (0757) 28361055
Email: sec@kelon.com
4. Correspondence: No. 8 Ronggang Road, Ronggui Street, Shunde District, Foshan City, Guangdong Province, China
Postal code: 528303
Website: <http://www.kelon.com>
Email: sec@kelon.com
5. Designated newspapers for information disclosure: China Securities Journal, 證券時報, Hong Kong Commercial Daily, China Daily
Internet address for the publication of the annual report of the company: <http://www.cninfo.com.cn>
Place of preparation of the annual report of the year: The office of the Secretary for the Board of Directors, Guangdong Kelon Electrical Holdings Co. Ltd.

6. Listing stock exchanges: Shenzhen Stock Exchange, Stock Exchange of Hong Kong Company Limited
 Stock name of A shares: Kelon Electrical
 Code of A shares: 000921
 Stock name of H shares: Guangdong Kelon
 Code of H shares: 0921
7. Other related information:
 Change of registration date: 21 January 2002
 Institution of registration: Administration of Industry and Commerce, Guangdong Province
 Registration number of business license of corporate legal person: Qi Gu Yue Zong Zi Di 003092
 Taxation registration number: 440681190343548
 Name of Auditor: Deloitte Touche Tohmatsu CPA Ltd.
 Business address of auditor: 30/F, Bund Center, 222 Yanán Road East, Shanghai, PRC

II. HIGHLIGHTS OF ACCOUNTING FIGURES AND BUSINESS FIGURES:

(Prepared in accordance with PRC GAAP))

1. Total loss of the year and its composition

Items	Unit: RMB Amount
Total revenue	8,436,403,435
Net loss	(64,160,206)
Net loss less extraordinary loss/profit	(81,480,760)
Profit derived from principal operations	1,823,967,815
Profit derived from other businesses	42,986,073
Operating profit	10,181,485
Investment profit	(83,108,297)
Subsidy income	6,252,764
Non-operating income/expenses, net	(1,659,612)
Net cash flow from operating activities	893,706,657
Net increase in cash and cash equivalents	290,628,826

Notes: Less of extraordinary items and the related amounts

Items	Amount
Non-operating income	4,281,343
Subsidy income	6,252,764
Treated income from investee	894,917
Expenses for used capital received from associates, credited into the current profit and loss	1,985,940
Reversal of impairment loss for asset, provided in previous year	9,846,545
Non-operating expenses	(5,940,955)
Total	<u>17,320,554</u>

Difference between PRC GAAP and IFRS

	PRC accounting standards	IFRS
Net loss	(64,160,000)	(44,658,000)
Description of differences		
Adjustment under IFRS:		
Adjustment on increase in revaluation of fixed assets and related depreciation	(3,532,000)	
Adjustment on goodwill	12,429,000	
Adjustment on difference of related parties transaction	17,660,000	
Adjustment on operating expenses of subsidiary	(9,938,000)	
Other	2,883,000	

Unit: RMB

2. Major accounting figures and financial indicators for the recent three years

Items	2004	2003	2002
Income derived from primary operations	8,436,403,435	6,168,109,963	4,878,257,017
Net (loss) profit	(64,160,206)	202,180,248	101,276,990
Net of net (loss) profit from extra-ordinary profit and loss	(81,480,760)	193,095,839	92,819,455
Total assets	11,361,393,597	9,501,441,214	7,656,539,329
Shareholders' equity (excluding minority interests)	2,803,156,761	2,808,730,941	2,575,000,833
Earnings per share (diluted)	0.0647	0.2038	0.1021
Earnings per share (weighted)	0.0647	0.2038	0.1021
Net assets per share	2.7257	2.8314	2.5957
Adjusted net assets per share	2.7837	2.7638	2.3910
Net cash flow from operating activities per share	1.3663	(0.1268)	0.5038
Earnings of net assets (%) (diluted)	(2.29)%	7.20%	3.93%
Earnings of net assets (%) (weighted)	(2.31)%	7.48%	4.02%
Earnings of net assets deducted by extraordinary items (%)	(2.91)%	6.87%	3.60%

Note: Total asset before adjustment of 2003 was \$9,432,791,214, while the total asset after adjustment was 9,501,441,214.

3. Appendix to profit statement

Profit during the period	Earning rate of net assets		Earning per share	
	Diluted	Weighted average	Diluted	Weighted average
Profit derived from primary operations	65.07%	65.69%	1.8387	1.8387
Operating profit	0.36%	0.37%	0.01	0.0103
Net profit	(2.29)%	(2.31)%	(0.0647)	(0.0647)
Net profit less of extraordinary loss/profit	(2.91)%	(2.94)%	(0.0821)	(0.0821)

The calculation of various indicators refers to the requirements under the Rules for Information Disclosure and Preparation of Public Listed Companies No. 9.

4. Changes and description of shareholders' equity during the period

Items	Share Capital	Capital Reserve	Revenue Reserve	Statutory Common Welfare Fund	Unappropriated Profits	Translation Reserve	Unit: RMB
							Total Shareholders' Equity
Amount at the beginning of the period	992,006,563	1,516,787,706	114,580,901	114,580,901	184,436,195	919,576	2,808,730,941
Increase for the period	-	59,896,523	-	-	-	-	(4,263,683)
Decrease for the period	-	-	-	-	(64,160,206)	1,310,497	1,310,497
Amount at the end of the period	992,006,563	1,576,684,229	-	114,580,901	120,275,989	(390,921)	2,803,156,761

Connected transaction mark-ups, shareholder investment provision, cash contribution received and defaulted debts.

Reasons for change: amid the increase in capital reserve during the period, the increase of RMB38,070,504 in equity investment reserve during the year represents the differences arising from the initial investment cost in Kaifeng Kelon and 蕪湖盈嘉 by the Company and its subsidiaries and ownership share attributed to the investee company; the increase of RMB17,712,651 in the difference of connected transactions during the year is due to the utilization of the connected party's fixed assets by Jaingxi Kelon at no consideration basis; and a sum of RMB4,113,368 of reserve in terms of non-cash asset donation is accepted. The increase in undistributed profit amounting to -RMB64,160,206 is attributed to net profit of the year. The decrease of RMB1,310,497 arising from translation differences appeared in foreign currency financial statement is attributed to the changes in currency exchange rates.

III. SHARE ISSUE AND LISTING

- (1) The Company did not issue any new shares and derivatives for the three years ended the end of the reporting period;
- (2) There was no change in the Company's total shares and shareholding structure during the reporting period; and
- (3) The Company has no existing internal staff shares.

IV. MAJOR DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Major details of directors, supervisors and senior management

Name	Position	Gender	Age	Term of office	Shareholding at the beginning of the year	Shareholding at the end of the year
Gu Chu Jun	Chairman	Male	46	2001.12.23–2004.12.23	0	0
Liu Cong Meng	Vice chairman, president and Secretary for the board	Male	60	2001.12.23–2004.12.23	0	0
Li Zhen Hua	Vice chairman	Male	53	2001.12.23–2004.12.23	0	0
Yan You Song	Executive director and vice president	Male	40	2001.12.23–2004.12.23	0	0
Zhang Hong	Executive director	Male	43	2001.12.23–2004.12.23	0	0
Fang Zhi Guo	Executive director	Male	43	2001.12.23–2004.12.23	0	0
Chen Bi Chang	Independent non-executive director	Male	44	2001.12.23–2004.12.23	0	0
Li Gong Min	Independent non-executive director	Male	48	2002.12.29–2004.12.23	0	0
Xu Xiao Lu	Independent non-executive director	Male	49	2003.05.18–2004.12.23	0	0
Jiang Bao Jun	Supervisor	Male	38	2002.06.18–2004.12.23	0	0
He Si	Supervisor	Female	51	2002.06.18–2004.12.23	50,000	50,000
Bai Yun Feng	Supervisor	Male	43	2002.12.29–2004.12.23	0	0
Li Zhi Cheng	Company Secretary, Financial Controller	Male	49	2002.09.02–2004.12.23	0	0
Lin Lan	Vice president	Male	47	2002.09.09–now	0	0

Notes:

- In view of that the fourth term of members of the Board of Directors and Supervisors is to be expired, the Company held the first Extraordinary General Meeting of 2005 according to the Company Law, the Articles of Association and the Guiding Opinions relating to the Rules of Establishing Independent Directors of Listed Company, on 15 January 2005. Mr. Gu Chu Jun, Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Yan You Song, Mr. Zhang Hong and Mr. Fang Zhi Guo reviewed and approved as executive directors of the fifth Board of Directors by poll vote casted for ordinary resolution at the meeting. Mr. Chen Bi Chang, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu as independent non-executive directors of the fifth Board of Directors; Mr. Bai Yun Feng and Mr. Zeng Jun Hong as supervisors representing the shareholders, Ms. He Si as supervisor representing staff of the supervisory board, all together forming the fifth supervisory board.
- The Board of Directors held a meeting on 15 January 2005 and elected Mr. Gu Chu Jun as the Chairman of the fifth Board of Directors, Mr. Liu Cong Meng as Vice chairman of the fifth Board of Directors, Mr. Li Zhen Hua as Vice chairman of the fifth Board of Directors, appointed Mr. Liu Cong Meng as President of the Company, Mr. Yan You Song as Vice President of the Company, Mr. Lin Lan as Vice President of the Company, Mr. Li Chi Sing as the Financial Controller of the Company, appointed Mr. Liu Cong Meng as the alternative Secretary for the Board and Mr. Li Chi Sing as the Company Secretary responsible for businesses in Hong Kong.

Note: Employment of directors and supervisors in shareholder company

Name	Unit	Position	Term of office
Gu Chu Jun	Guangdong Greencool Enterprise Development Co. Ltd.	Chairman	2001–now

2. Remuneration for the year

(1) Decision procedures and basis of determination of the remuneration of directors, supervisors and senior management

At the Extraordinary General Meeting on 25 May 1996, the Company examined and approved the Proposal concerning the Directors' remuneration, fees, incentives and the Supervisors' rewards, which regulating the salaries of executive directors, non-executive directors and supervisors. The salaries of the senior management were approved by the Board of Directors.

(2) Remuneration of directors, supervisors and senior management for the year

Total remunerations of Directors, Supervisors and Senior Management of the Company for the year 2004 was RMB19,120,852; total remunerations of the three highest paid directors was RMB10,201,920; total remunerations of the three highest paid senior management was RMB2,678,004; allowance and other benefits of independent non-executive directors was RMB1,147,716. During the Reporting Period, remunerations and allowances of Directors, Supervisors and Senior Management of the Company were received from the Company.

Directors, Supervisors and Senior Management of the Company whose remunerations for the year 2004 fell within the following bands are as follows:

Executive Directors:	Number
Nil to HK\$1,000,000	2
HK\$1,000,001 to HK\$2,000,000	3
HK\$2,000,001 to HK\$7,000,000	1
Independent Non-Executive Directors:	
RMB0 – RMB1,000,000	3
Supervisors:	
Nil – RMB1,000,000	3
Senior Management	
Nil – RMB1,000,000	0
RMB1,000,001 – RMB2,000,000	2

3. Duties performance of the Independent Non-executive Directors

During the period, the independent non-executive directors of the Company were able to observe the code of conduct, namely acting for the maximum interests of the Company and its shareholders. Accordingly, the requirements of the laws and regulations were strictly complied with. It was ensured that the duties of the independent non-executive directors were voluntarily performed with sufficient time and manpower and their powers were exercised in serious manner. As such, proactive influence was cast on the Directors' scientific decisions, their regulated operations and the development of the Company.

(1) Attendance of board meeting of the independent non-executive directors

Name of independent non-executive directors	Number of board meetings attended for the year	Attended personally	Attended by proxy	Absent	Remarks
Chen Bi Chang	4	4	0	0	
Li Gong Min	4	4	0	0	
Xu Xiao Lu	4	4	0	0	

(2) Disagreement raised by the independent non-executive directors on the relevant matters of the Company

During the period, the independent non-executive directors had raised no disagreement on the resolutions of the board meeting of the Company for the year and the other matters of the Company.

4. Resignation of directors, supervisors and senior management

- (1) There was no resignation of directors, supervisors and senior management during the period.
- (2) There was no employment or dismissal of senior management of the Company such as managers, deputy managers, persons in charge of finance and secretary to the board of directors.

REPORT OF THE BOARD OF DIRECTORS

(I) Operation during the period

1. Scope of primary operations and the operations

The Company is principally engaged in the development, manufacturing, domestic and overseas sales and provision of after-sales services of electrical appliances and the relevant components and products of refrigerators, air conditioners, freezers and small size electrical appliances.

2. Analysis of income and profit from the primary operations of the Group by geographic and product segments

(1) Income and profit from primary operations by geographic segments

Operation indicators	Income from primary operations	(Unit: RMB) ('000) Increase (%)
Domestic market	509,624	20.75%
Overseas market	334,016	71.49%
Total	8,436,404	36.77%

(2) Primary businesses and products

Primary products	Income from sale of products (‘000)	Cost of sale of products (‘000)	Gross Profit Ratio (%)
Refrigerators	3,274,329	2,462,876	24.72%
Air Conditioners	4,501,234	3,584,784	20.36%
Freezers	335,890	278,588	17.06%
Product components	324,951	286,028	11.98%

3. Operations and results of the major controlling companies and associates

Major controlling companies or associates	Interest (%)	Nature of business	Principal products or services	Registered capital	Scale of assets	Net profit
Guangdong Kelon Refrigerator Ltd.	100%	Manufacturing	Manufacture and sale of refrigerators	US\$26,800,000	1,996,416,633	95,170,944
Guangdong Kelon Air-Conditioner Co., Ltd.	60%	Manufacturing	Manufacture and sale of air-conditioners	US\$36,150,000	2,281,465,196	166,573,713
Guangdong Kelon Fittings Co., Ltd.	100%	Manufacturing	Manufacture and sale of components of refrigerators and air-conditioners	US\$5,620,000	372,646,876	8,770,592
Guangdong Kelon Mould Co., Ltd.	70%	Manufacturing	Manufacture moulds	US\$15,000,000	170,151,962	9,056,365
Shunde Rongsheng Plastic Products Co., Ltd.	70%	Manufacturing	Manufacture plastic components	US\$15,800,000	327,630,146	305,085
Guangdong Kelon Refrigerator Co., Ltd.	100%	Manufacturing	Manufacture and sale of refrigerators	RMB237,000,000	380,188,451	5,483,532
Shunde Jiake Electronic Company Limited	100%	Manufacturing	IT and communication technology, and micro-electronics technology development	RMB60,000,000	53,538,135	(4,500,915)
Shunde Wangao Import & Export Co., Ltd.	100%	Import and export	Import and export business	RMB3,000,000	118,616,490	(9,639,753)
Shunde Kelon Household Electrical Appliance Company Limited	100%	Manufacturing	Manufacture and Electrical Appliance household appliances	RMB10,000,000	87,259,809	(13,837,114)
Huayi Compressor Holdings Company Limited	22.725%	Manufacturing	Manufacture and sale of compressors	RMB260,854,000	1,743,974,567	7,729,965

4. Major suppliers and customers

During the year, the aggregate amount of the Company's purchases from the top five suppliers was 745,695,000, which represents 11 percent of total purchase amount of the Company for the year and the aggregate sales amount of the top five sales customers was RMB1,359,447,000, which represents 16 percent of total sales amount of the Company for the year.

(II) Investments of the Company during the period

1. During the period, there was no application to raised funds nor was there an application to raised funds in the previous period that continued throughout the period.
2. Progress on and revenue from significant investments made by the Company without raising funds
 - (1) As at the end of the period, Hangzhou Kelon Electric Co. Ltd. (杭州科龍電器有限公司) and Kaifeng Kelon Air-conditioners Co. Ltd. (開封科龍空調有限責任公司) commenced production.
 - (2) As at the end of the period, the second phase expansion project of Shangqiu Kelon Electric Co. Ltd. (商丘科龍電器有限公司) was in progress.
 - (3) As at the end of the period, over half of the project investment of Zhuhai Kelon Development Co. Ltd. (珠海科龍實業發展有限公司) was completed and its trial production is expected to be commenced in June of this year.
 - (4) As at the end of the period, the first phase infrastructure project of 揚州科龍電器有限公司 was entirely completed. The production equipment is gradually entering into the trial production stage.
 - (5) As at the end of the period, 江西科龍實業發展有限公司 duly commenced production.
 - (6) On 27 October 2004, the Company and its wholly owned subsidiary, 科龍發展有限公司 ("科龍發展"), entered into a 廣東科龍威力電器有限公司 Joint Venture Contract with Zhongshan Municipal 阜沙鎮順暢工業有限公司 ("順暢公司") at Zhongshan municipal, Guangdong province in order to jointly establish 廣東科龍威力電器有限公司 ("科龍威力公司"). Thereafter, the Company entered into the field of washing machines. As at the end of the period, 科龍威力公司 was still at the start-up production stage.

(III) Financial position and operation results during the period

(Prepared in accordance with PRC GAAP)

Item	31 December 2004	31 December 2003	Unit: RMB Increase/ Decrease
Total assets	11,361,393,597	9,501,441,214	19.58%
Shareholders' equity	2,803,156,761	2,808,730,941	(0.20)%
Profit derived from primary operations	1,823,967,815	1,684,544,880	8.28%
Net profit	(64,160,206)	202,180,248	(131.73)%
Net increase in cash and cash equivalents	290,628,826	40,266,536	621.76%

(IV) Deloitte Touche Tohmatsu has issued an auditors' report for the Company which contains its qualified opinions. The Board of the Company explained the matters relating to the auditing opinion in detail as follows:

The Company's sales for the year 2004 is RMB 8,400,000,000, including sales of inventory of approximately RMB 430,000,000 (approximately RMB 47,000,000 of refrigerators and RMB 383,000,000 of air-conditioners) recognized after adjustment for auditing purpose. These products were delivered before 31 December 2004 according to the sales contracts. The customers will pay the receivables by stages in credit terms of six months as agreed in the sales contracts. As a practice of the previous years, the Company has adjusted delivered inventories (goods delivered to customers) out of warehouse before 31 December 2004 as sales revenue for the year 2004.

Based on the average gross margin, the effect of these delivered goods on the gross profit is about RMB 93,000,000.

The auditor of the Company considers that the credit period for the above sales is too long, and there is not sufficient information to prove the credit status of the relevant customers, or whether there is serious mistake relating to this sales of RMB 430,000,000. Therefore, the auditor has given their qualified opinion of the audit work being restricted. However, the Board of Directors of the Company considers that the Company has provided such documents as sales contracts, out-of-warehouse documents and market analysis upon request of the auditor in accordance with the practice of the Company and sales practice in the industry, and that no risk or mistake is involved in the sales to such customers. Furthermore, this mode of sales was recognized in the previous years. As such, the Board of Directors cannot understand such judgment.

Since these are sales on credit in which the Company provides its customers with credit terms of 6 months, most of the account receivables were undue at the date of the 2004 financial statement. As the amounts become due and are recovered by stages, the sales will complete and their effect can be confirmed. The Company believes that the qualified opinion can be removed accordingly.

In 2004 the total amount of returned goods to the Company was RMB0.2 billion, approximately RMB0.12 billion of which was attributable to a single customer. This sum of RMB0.2 billions had offset the full amount of the 2004 sales revenue.

In view of the returned goods of RMB0.2 billion, the auditor of the Company, concerned about the possibility that in 2005 large amounts of goods sold in 2004 would be returned, has requested for the provision for returned goods.

The Board has noted that in 2004 the total amount of returned goods to the Company was RMB0.2 billion, RMB0.12 billion of which was attributable to a single customer. The returned goods of the customer resulted from the commission by the Company to repurchase products of the Company which flooded the market, in an attempt of the Company to stabilize regional prizes. Besides the amount attributable to the above-mentioned customer, the ratio of other returned goods was 0.9%. For the period from 1 January 2005 to 20 April 2005, the total amount of returned goods to the Company was only RMB12 million. Moreover, in the new year of sales, the Company has strengthened its monitoring over market prices. Therefore, the Board considers it not necessary to make provision for returned goods.

(V) Work progress of the Board of Directors

1. Meetings held by the board of directors during the period

During the period, the board of directors of the Company has held four meetings.

- (1) The Company held a meeting at the Conference Room at the Company's head office on 19 April 2004. The meeting was attended by all of the nine directors of the Company, 2 of which attended the meeting by way of telephone conference. During which the Company's audited financial statements for the year 2003, the text and the summary of the Company's annual report for the year 2003, the profit distribution proposal of the Company for the year 2003, the reappointment of 德勤華永會計師事務所有限公司 and Deloitte Touche Tohmatsu as the Company's domestic and offshore auditors for the 2004 financial year, the proposed amendments to the Company's Articles of Association, the «The Rules and Regulations Governing Directors' Meetings» and «The Rules and Regulations Governing Shareholders' Meetings». The convening date for the 2003 AGM was fixed on 19 June 2004 and the agenda and notice of AGM, the Company's first quarterly report for the year 2004 had been considered and approved.
- (2) The Company held a meeting at the conference room at the head office of the Company on 20 August 2004. All nine directors of the Company attended the meeting, amongst them, the executive directors Mr. Gu Chu Jun, Mr. Fang Zhi Guo and Mr. Zhang Hong attended and voted at the meeting by way of telephone conference. During which, the text and summary of the 2004 interim results and the profit distribution proposal for the interim period of 2004 were considered and approved.

- (3) The Company held a meeting at the conference room at the head office of the Company on 27 October 2004. All nine directors of the Company attended the meeting, amongst them, the independent non-executive directors Mr. Chan Pei Cheong, Mr. Li Kung Man and Mr. Xu Xiao Lu attended and voted at the meeting by way of telephone conference. During which, the third quarter report of 2004 and the “Joint Venture Agreement of 廣東科龍威力電器有限公司” were considered and approved.
- (4) The Company held a board meeting by way of written resolutions on 26 November 2004. All nine directors of the Company attended the meeting. During which the resolutions for the re-election of the board of directors and the nominees for the members of the fifth session of the board of directors, the resolution to be submitted to the first 2005 extraordinary general meeting for the authorization of the board of directors to use internal resources to repurchase H Shares, notices for the convening of the first 2005 extraordinary general meeting, the first 2005 extraordinary general meeting for domestic shares and the first 2005 extraordinary general meeting for H shares were considered and approved.

2. *The execution of the resolutions by the board of directors*

During the reporting period, the board of directors of the Company has fully implemented the resolutions passed at the shareholders’ meeting by strictly adhering to the Articles of Association, the Company Law and powers conferred by the Shareholders’ meeting of the Company.

(VI) Other discloseable matters

1. Specific explanation on the use of funds by the controlling shareholders of Guangdong Kelon Electrical Holdings Company Limited and other related parties

To the Board of Directors of Guangdong Kelon Electrical Holdings Company Limited

We have been appointed to carry out the audit of the balance sheets of Guangdong Kelon Electrical Holdings Company Limited (the “Company”) and the Group as at 31 December 2004 and the Statement of Income and Profit Appropriation and Cash Flow Statement of the Company and the Group for the year 2004 in accordance with Independent Auditing Standards for Chinese Certified Public Accountants and issued an unqualified auditor’s report, document number De Shi Bao (Shen) Zi (05) PSZ004 on 28 April 2005.

According to the requirements of “Notice of Issues in Relation to Regulating Capital Exchange between Listed Companies and Related Parties and Listed Companies’ Guarantee for Other Parties” promulgated by the China Securities Regulatory Commission and the State-owned Assets Regulatory Commission under State Council Regulatory Commission, the Company prepared a report on the Company’s use of fund (the “Report”) for the year ended 31 December 2004 annexed in this letter.

The Company is responsible for the preparation and the disclosure of the Report and shall ensure its accuracy, legality and the completeness. We have reconciled the information provided in the Report with the accounting information reviewed in connection with our audit of the Company’s financial statements for the year 2004 and the relevant information as stated in the audited financial reports, no significant discrepancy is found. Save as the audit on the related parties transactions carried out in connection with our audit to the financial statements for the year 2004, we did not carry out additional audit procedures for the information provided in the Report.

This letter is solely prepared for the purpose of reporting to China Securities Regulatory Commission in relation to the use of funds by the controlling shareholders of the Company and other related parties for the year of 2004 and shall not be used for any other purpose without our prior written consent.

Appendix I Report on the use of fund by Guangdong Kelon Electrical Holdings Company Limited

Use of fund	Name of related parties	Relationship	Amount	Accounting category	Amount: in ten thousand	
					Year-end balance	emarks
Assigned loan	Nil	Nil	Nil	Nil	Ni	Nil
Assigned investments by related parties	Nil	Nil	Nil	Nil	Nil	Nil
Issue of commercial bills of acceptance with no substantial transactions	Nil	Nil	Nil	Nil	Nil	Nil
Repayment of loans	Nil	Nil	Nil	Nil	Nil	Nil
Others (such as advances)	Nil	Nil	Nil	Nil	Nil	Nil

Deloitte Touche Tohmatsu CPA Ltd.
Shanghai, the PRC
28 April 2005

2. Specific independent opinions by the independent non-executive directors of the Company regarding external guarantees

Specific independent opinions

By the independent non-executive directors of the Company

Regarding the accumulated and the current external guarantees of the Company

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

- (1) During the reporting period, the Company did not provided guarantees to its controlling shareholders, other related parties in which the Company held less than 50% interests, non legal entities or individuals;
- (2) During the reporting period, the aggregated guarantees provided by the Company to external parties did not exceed 50% of the amount of net assets as stated in the latest published combined financial statements;
- (3) The accumulated and current external security of the Company amounted to RMB11,121,600. The total accumulated external security of RMB48,940,000 was provided in favour of Jiaxipera (加西貝拉壓縮機有限公司), the subsidiaries of Huayi Compressor Holding Company Limited in which the Company holds a 22.725% equity interest. Therefore, the external security of the Company amounted to RMB11,121,600; and
- (4) The Company has amended the Articles of Association in response to the demand of the securities regulatory authorities. New articles were added to govern the procedures, powers and limitation regarding the grants of external guarantees, and the assets and liabilities level of the beneficiaries of guarantees. The amended Articles of Association also provided that any guarantees granted to external parties shall obtain the consent and signed by more than two-third of all the members of the board of directors or shall be approved by the general meeting and no guarantees shall be provided to any entities with an asset-liability ratio of over 70%, so as to minimize the exposure of external guarantees.

Independent non-executive directors: Mr. Chan Pei Cheong, Mr. Li Kung Man and Mr. Xu Xiao Lu

28 April 2005

REPORT OF SUPERVISORY COMMITTEE

Dear Shareholders:

During the reporting period, the Supervisory Committee (the “Supervisory Committee”) of Guangdong Kelon Electrical Holdings Company Limited (the “Company”) thoroughly complied with the PRC Companies Law, the List Rules of Shenzhen Stock Exchange, the List Rules of Hong Kong Stock Exchange and the articles of association of the Company and earnestly carried out its duty to protect the legal interests of the employees and the shareholders of the Company as a whole. I, on behalf of the Supervisory Committee, would like to report to you the activities of the Supervisory Committee in 2004.

During the period, the Supervisory Committee’s main task included:

During the period, the Supervisory Committee held three meetings and considered and approved the Report of Supervisory Committee for 2003, the Annual Report and it’s Summary for 2003, the First Quarter Report for 2004, the Interim Report and it’s Summary for 2004 and the Resolution on re-election of the Supervisory Committee and the list of the nominated candidates for the 5th session of the Supervisory Committee.

During the period, the Supervisory Committee had given, to the extent of its function and power, independent opinion on the following subjects:

1. Lawful operation of the Company

The Supervisor Committee considered that significant decisions of the Company were scientific and reasonable and the procedures of the decisions were lawful and reasonable; the Company has established and fine tuned various internal management and control systems; the Directors and Senior Management of the Company discharged their duties in the Company diligently, and conducted no acts which were in violation of the laws, regulations, articles of association or with prejudice to the Company’s interests during the performance of their duties.

2. Inspection of the financial status of the Company

Deloitte Touche Tohmatsu CPA Ltd. has issued an auditing report for the Company which contains its qualified opinions. The assessment of the Supervisory Committee over the matters relating to the audit opinions issued by Deloitte Touche Tohmatsu CPA is in line with that of the Board of Directors, except for the matters relating to the qualified opinions expressed in the auditing report. The Supervisory Committee considers that the financial report gives a true view of the state of affairs and operating results of the Company.

3. Inspection of use of funds raised

There was no fund raising and no use of such fund of the Company in 2004.

4. Opinion on the acquisition and disposal of assets

The Supervisory Committee considered that disposal and acquisition of assets by the Company during the Reporting Period are conducted in an open, fair and just 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 transactions

The Supervisory Committee considered that related party transactions of the Company during the Reporting Period were conducted at arm’s length and in a fair manner. The Committee was not aware of any acts which were prejudicial to the interest of the Company and its shareholders within such transactions.

6. Explanation by the supervisory committee in connection with the related matters of qualified opinions on 2004 auditor's report.

The supervisory committee totally agreed with the explanations of the Board of Directors on related matters of auditor's opinions.

The Supervisory Committee would like to take this opportunity to express its gratitude for the trust and support of the shareholders and the public. It will continue to explore ways to perform its supervision more effectively so as to serve and protect the interests of the shareholders.

By Order of the Supervisory Committee
Zeng Jun Hong
Chairman

Shunde District, Foshan City, Guangdong Province, the PRC, 28 April 2005

SIGNIFICANT EVENT

- (1) The Company was neither involved in any material litigation nor significant arbitration during the year.
- (2) Acquisition or disposal of assets or merger transactions by the Company during the Reporting Period.

During the Reporting Period, the Company acquired 70.62% equity interests of 西安高科遠東制冷有限公司 (Xi'an Hi-Tech Far East Refrigerating Co. Ltd.) and changed its registered name to 西安科龍有限公司 (「西安科龍」) Xi'an Kelon Co. Ltd. ("Xi'an Kelon"). As at the end of the Reporting Period, the relocation and re-engineering of the compressor production line of Xi'an Kelon was completed.

- (3) Substantial related party transactions of the Company during the Reporting Period.

In accordance with the provisions of “深圳證券交易所股票上市規則 (2004 revised)” implemented on 10 December 2004, the purchase of raw material by the Company and its controlling subsidiaries from Huayi and its subsidiaries constituted a connected transaction. During the Reporting Period, the Company and its controlling subsidiaries purchased raw material amounted to approximately RMB55,262,137 from its associated company, Huayi and its subsidiaries at market rate, representing 2% or less of the total purchase.

(4) Material contracts and their performance

1. External guarantees

Notes: Particulars of external guarantees by the Company (excluding the guarantees provided by the Company to principal subsidiaries)

(Unit: RMB ten thousand)

Secured Objects	Date (Day of agreement)	Secured Amount	Security Type	Security Period	Performance complete or not	Whether security provided by related party (Y or N)
民豐特種紙股份有限公司	2004-11-26	1,000.00	Joint & Several Liabilities	2004-11-26 to 2005-11-25	N	N
民豐特種紙股份有限公司	2004-3-05	1,500.00	Joint & Several Liabilities	2004-3-5 to 2005-3-04	N	N
民豐特種紙股份有限公司	2004-9-21	800.00	Joint & Several Liabilities	2004-9-21 to 2006-6-30	N	N
民豐特種紙股份有限公司	2004-7-27	70.00	Letter of credit	2004-7-27 to 2005-9-25	N	N
中寶科技投資股份有限公司	2004-4-16	2,500.00	Joint & Several Liabilities	2004-4-16 to 2005-4-15	N	N
中寶科技投資股份有限公司	2004-3-26	500.00	Joint & Several Liabilities	2004-3-26 to 2005-3-23	N	N
浙江嘉欣絲綢股份有限公司	2004-1-7	350.00	Joint & Several Liabilities	2004-1-7 to 2005-1-5	Performance completed upon repayment as at 2005-1-5	N
浙江嘉欣絲綢股份有限公司	2004-6-24	650.00	Joint & Several Liabilities	2004-6-24 to 2005-6-10	N	N
浙江嘉欣絲綢股份有限公司	2004-11-10	1,130.00	Joint & Several Liabilities	2004-11-10 to 2005-11-3	N	N
浙江嘉欣絲綢股份有限公司	2004-12-16	600	Joint & Several Liabilities	2004-12-16 to 2005-12-15	N	N

Total amount of security incurred during the Reporting Period	1,112.16
Total balance of security as at the end of the Reporting Period	1,112.16

Particulars of security provided for subsidiaries by the Company

Total amount of security provided for subsidiaries during the Reporting Period	139,939.43
Total balance of security as at the end of the Reporting Period	87,533.68

Particulars of the total amount of security provided by the Company (including security provided for subsidiaries)

Total amount of security	88,646
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Proportion of total security to net assets of the Company	31.62%
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Particulars of the Company's non-performance security

Amount of security provided for controlling shareholders and other related parties of the Company holding less than 50% shares of the Company	0
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Amount of loan security provided, directly or indirectly, for secured parties having a gearing ration of more than 70%	0
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Whether the total amount of security exceeds 50% net assets (Y or N)	N
--	---

Total amount of non-performance security

The aggregate external guarantees provided by the Company amounted to RMB11,121,600. An aggregate external guarantee of RMB48,940,000 was provided on behalf of Jiaxipera (加西貝拉壓縮機有限公司), a subsidiary of Huayi Compressor Holding Company Limited in which the Company holds a 22.725% equity interest. Therefore, the external guarantee provided by the Company amounted to RMB11,121,600.

Except for the lease of production facilities for the production of refrigerators from 南昌齊洛瓦電器有限公司 for the consideration of RMB500,000, during the Reporting Period, the Company has not held in trust and operated under contract assets of other companies and none of the Company's assets have been held in trust, operated under contract or leased by other companies.

During the Reporting Period, the Company has not appointed any outside party to manage its monetary assets.

The Company has not entered into any other material contracts during the Reporting Period.

Neither the Company nor the shareholders representing 5% or more of the shareholdings has material undertaking in relevant publications or websites during the Reporting Period.

Deloitte Touche Tohmatsu and 德勤華永會計師事務所有限公司 were respectively re-appointed as the auditors of the Company in Hong Kong and the Mainland China during the Reporting Period. The corporate auditors have provided auditing service to the Company for about three financial years. A total remuneration of RMB5,500,000 was paid to Deloitte Touche Tohmatsu and 德勤華永會計師事務所有限公司 in 2004, and related operating costs and traveling expenses were borne by the Company.

During the Reporting Period, neither the Company nor the board and directors of the Company was subject to any investigation by the CSRC or administrative penalty or notice of criticism by the administrative department under the CSRC, or public censure by any stock exchange.

FINANCIAL STATEMENT PREPARED UNDER PRC GAAP

BALANCE SHEET

As at 31 December 2004

Assets	31 December 2004 Group RMB	31 December 2004 Company RMB	1 January 2004 Group RMB (Restated)	1 January 2004 Company RMB (Restated)
Current Assets:				
Bank balances and cash	2,320,120,532	1,177,175,655	2,120,038,297	1,595,877,944
Notes receivables	792,903,018	506,457,634	803,527,589	548,232,619
Accounts receivable	1,178,037,096	1,015,558,117	731,120,036	261,438,092
Other receivables	203,943,804	1,692,453,331	133,664,884	1,652,631,976
Prepayments	197,803,725	26,244,296	165,879,789	20,599,915
Subsidy receivables	20,796,124	—	187,704,983	—
Inventories	2,996,855,338	1,095,891,539	1,945,617,637	961,962,539
Deferred expenditures	4,368,346	2,869,526	14,966,645	13,870,001
Total current assets	7,714,827,983	5,516,650,098	6,102,519,860	5,054,613,086
Long-term Investments:				
Long-term equity investments	93,945,657	1,805,001,608	172,383,399	1,458,354,550
Fixed Assets:				
Fixed assets, cost	4,289,997,578	1,448,426,106	4,303,879,694	1,427,389,640
Less: Accumulated depreciation	2,165,216,534	667,853,330	2,292,794,964	584,404,702
Fixed assets, net book value	2,124,781,044	780,572,776	2,011,084,730	842,984,938
Less: Provision for impairment loss of fixed assets	64,011,849	—	61,471,947	—
Fixed assets, net value	2,060,769,195	780,572,776	1,949,612,783	842,984,938
Construction in progress	349,490,180	33,061,019	117,845,210	33,015,098
Total fixed assets	2,410,259,375	813,633,795	2,067,457,993	876,000,036
Intangible Assets and Other Assets:				
Intangible assets	1,071,066,931	887,902,262	1,073,068,727	953,917,703
Long-term deferred expenditures	37,293,651	25,424,841	52,011,235	43,368,194
Long-term receivables due after one year	34,000,000	—	34,000,000	—
Total intangible assets and other assets	1,142,360,582	913,327,103	1,159,079,962	997,285,897
Total assets	11,361,393,597	9,048,612,604	9,501,441,214	8,386,253,569

Liabilities and Shareholder's equity

Current Liabilities:

Short-term loans	2,911,715,168	1,172,365,000	2,540,900,000	835,000,000
Notes payable	1,719,560,637	1,987,375,448	850,285,005	1,940,688,655
Accounts payable	1,939,251,222	955,442,361	1,401,689,440	365,938,682
Advance from customers	852,637,382	765,356,039	716,413,479	674,052,842
Accrued payroll	25,677,559	7,052,331	28,064,768	9,858,676
Staff welfare payable	620,445	–	220,777	–
Taxes payables	50,711,661	24,376,919	(32,821,459)	(48,587,455)
Payable to others	4,355,736	970,585	5,833,042	230,783
Other payables	282,707,583	367,546,767	146,316,061	389,918,149
Accruals	226,123,563	201,335,871	221,235,587	191,113,522
Provision	119,337,512	119,337,512	89,556,581	89,556,581
Long-term loans due within one year	4,215,420	–	405,517,722	400,000,000
Total current liabilities	8,136,913,888	5,601,158,833	6,373,211,003	4,847,770,435
Long-term Liabilities				
Long-term loans	16,723,295	–	19,353,852	–
Long-term payable	69,962,105	64,991,061	62,778,960	57,986,314
Accrued liabilities of investee enterprise	–	173,408,114	–	335,383,123
Total long-term liabilities	86,685,400	238,399,175	82,132,812	393,369,437
Total liabilities	8,223,599,288	5,839,558,008	6,455,343,815	5,241,139,872
Minority Interests	334,637,548	–	237,366,458	–
Shareholders' Equity:				
Share capital	992,006,563	992,006,563	992,006,563	992,006,563
Capital reserve	1,576,684,229	1,997,201,731	1,516,787,706	1,840,635,588
Revenue reserve	114,580,901	114,580,901	114,580,901	114,580,901
Including: Statutory common welfare fund	114,580,901	114,580,901	114,580,901	114,580,901
Unappropriated profits	120,275,989	105,265,401	184,436,195	197,890,645
Exchange difference	(390,921)	–	919,576	–
Total shareholders' equity	2,803,156,761	3,209,054,596	2,808,730,941	3,145,113,697
Total liabilities and shareholders' equity	11,361,393,597	9,048,612,604	9,501,441,214	8,386,253,569

STATEMENT OF INCOME AND PROFIT APPROPRIATION

Year ended 31 December 2004

Items	Year ended 31 December 2004 Group RMB	Year ended 31 December 2004 Company RMB	Year ended 31 December 2003 Group RMB (Restated)	Year ended 31 December 2003 Company RMB (Restated)
1. Revenue from principal operations	8,436,403,435	6,454,367,596	6,168,109,963	5,338,472,342
Less: Cost of sales	6,612,276,473	5,320,225,952	4,483,202,710	4,321,611,797
Sales tax	159,147	148,282	362,373	306,774
2. Profit from principal operations	1,823,967,815	1,133,993,362	1,684,544,880	1,016,553,771
Add: Other operating profit	42,986,073	(17,810,978)	48,399,942	5,345,511
Less: Distribution costs	1,206,454,256	988,273,731	1,002,390,964	832,122,148
Administrative expenses	522,860,315	227,518,210	364,897,076	91,675,644
Financial expenses	127,457,832	56,988,087	100,397,258	37,616,150
3. Operating profit	10,181,485	(156,597,644)	265,259,524	60,485,340
Add: Investment profit	(83,108,297)	60,512,937	(50,182,698)	132,529,717
Subsidy income	6,252,764	4,084,592	18,190	18,190
Non-operating income	4,281,343	1,989,626	10,402,787	7,196,799
Less: Non-operating expenses	5,940,955	2,614,755	5,494,299	2,339,401
4. Profit before taxation	(68,333,660)	(92,625,244)	220,003,504	197,890,645
Less: Income tax	6,282,249	—	11,676,111	—
Minority interests	(10,455,703)	—	6,147,145	—
5. Net profit	(64,160,206)	(92,625,244)	202,180,248	197,890,645
Add: Unappropriated Profits at the beginning of the year	184,436,195	197,890,645	(1,211,930,161)	(1,194,186,108)
Utilisation of capital reserve to make up accumulated losses	—	—	965,024,306	965,024,306
Utilisation of statutory common reserve to make up accumulated losses	—	—	229,161,802	229,161,802
6. Profit available for appropriation	120,275,989	105,265,401	184,436,195	197,890,645
Less: Appropriations to statutory common reserve fund	—	—	—	—
Appropriations to statutory common welfare fund	—	—	—	—
7. Profit available for appropriation to shareholders	120,275,989	105,265,401	184,436,195	197,890,645
Less: Appropriations to discretionary reserve	—	—	—	—
Dividends on ordinary shares	—	—	—	—
8. Unappropriated profits	120,275,989	105,265,401	184,436,195	197,890,645

STATEMENT OF CASH FLOWS

Year ended 31 December 2004

Items	Year ended 31 December 2004 Group RMB	Year ended 31 December 2004 Company RMB	Year ended 31 December 2003 Group RMB (Restated)	Year ended 31 December 2003 Company RMB (Restated)
1. Cash flows from operating activities:				
Cash received from sales of goods and rendering of services	9,152,702,388	6,841,331,737	7,379,157,010	6,208,775,706
Refund of tax and levies	527,197,037	—	100,603,053	18,190
Cash received from other operating activities	8,157,507	18,373,845	8,624,168	8,641,980
Sub-total of cash inflows	9,688,056,932	6,859,705,582	7,488,384,231	6,217,435,876
Cash paid for purchases of goods and services	7,072,321,751	5,841,331,699	6,184,344,395	4,627,547,141
Cash paid to and on behalf of employees	498,899,159	204,517,241	438,566,099	178,782,591
Tax paid	218,768,849	148,452,719	199,542,039	148,224,752
Cash paid for other operating activities	1,004,360,516	674,017,825	748,902,468	610,776,906
Sub-total of cash outflows	8,794,350,275	6,868,319,484	7,571,355,001	5,565,331,390
Net cash flows from operating activities	893,706,657	(8,613,902)	(82,970,770)	652,104,486
2. Cash flows from investing activities:				
Cash received from acquisition of subsidiaries	8,286,133	4,822,916	—	—
Net cash received from disposals of fixed assets, intangible	10,111,976	731,547	10,616,021	11,720,563
Other cash received from investing activities	38,831,794	30,585,243	22,122,290	18,795,238
Sub-total of cash inflows	57,229,903	36,139,706	32,738,311	30,515,801
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	509,145,375	39,077,237	349,838,222	87,899,447
Cash paid for investments	—	359,225,800	—	88,666,950
Net cash paid for subsidiaries and other operating units	—	—	—	—
Cash paid for other investing activities	55,532,548	—	—	—
Sub-total of cash outflows	564,677,923	398,303,037	349,838,222	176,566,397
Net cash flows from investing activities	(507,448,020)	(362,163,331)	(317,099,911)	(146,050,596)

3. Cash flows from financing activities:

Cash contribution from minority shareholders by subsidiaries	44,300,000	–	9,000,000	–
Cash received from borrowings	5,599,913,128	1,783,865,000	4,444,400,000	1,075,000,000
Cash received from other financing activities	93,405,960	318,523,968	–	–
Sub-total of cash inflows	5,737,619,088	2,102,388,968	4,453,400,000	1,075,000,000
Cash paid for repayment of borrowings	5,673,540,819	1,751,010,000	3,225,567,357	990,000,000
Cash paid for distribution of dividends, profit or interest expenses	154,626,987	79,981,855	125,846,480	59,294,245
Cash paid for other financing activities	–	–	663,686,299	556,675,410
Sub-total of cash outflows	5,828,167,806	1,830,991,855	4,015,100,136	1,605,969,655
Net cash flows from financing activities	(90,548,718)	271,397,113	438,299,864	(530,969,655)
4. Effect of foreign exchange rate changes on cash	(5,081,093)	(798,201)	2,037,353	–
5. Net increase (decrease) in cash and cash equivalents	290,628,826	(100,178,321)	40,266,536	(24,915,765)

	Year ended 31 December 2004 Group RMB	Year ended 31 December 2004 Company RMB	Year ended 31 December 2003 Group RMB (Restated)	Year ended 31 December 2003 Company RMB (Restated)
1. Reconciliation of net profit to net cash flows from operating activities:				
Net profit	(64,160,206)	(92,625,244)	202,180,248	197,890,645
Add: Minority interests	(10,455,703)	–	6,147,145	–
Provision (reversal of provision) for impairment loss of assets	83,389,664	41,944,984	40,841,322	30,812,035
Depreciation of fixed assets	344,895,556	94,016,175	328,321,981	79,753,505
Amortisation of intangible assets	73,458,329	66,295,441	31,115,320	25,088,249
Amortisation of long-term expenditures	28,005,331	18,827,932	34,630,552	23,090,855
Decrease in deferred expenditures (less: increase)	10,598,299	11,000,475	(8,553,926)	(8,733,557)
Increase in accruals (less: decrease)	4,461,850	10,222,349	13,818,429	(6,866,548)
Loss from disposal of fixed assets, intangible assets and other long-term assets (less: gains)	2,950,447	(597)	832,307	(1,160,844)
Financial expenses	119,991,915	50,194,814	100,064,774	37,909,994
Investment loss (less: gains)	83,108,297	(60,512,937)	50,182,698	(132,529,717)
Decrease in inventories (less: increase)	(1,064,056,860)	(177,912,158)	(857,552,716)	(313,642,580)
Decrease in operating receivables (less: increase)	(466,479,647)	(782,870,932)	(486,659,072)	45,258,647
Increase in operating payables (less: decrease)	1,730,286,734	812,805,796	460,660,168	674,233,802
Difference of related parties transactions	17,712,651	–	–	–
Others	–	–	1,000,000	1,000,000
Net cash flows from operating activities	<u>893,706,657</u>	<u>(8,613,902)</u>	<u>(82,970,770)</u>	<u>652,104,486</u>
2. Investing and financing activities not involving in cash receipts and payments:				
Settlement of accounts receivable by intangible assets	–	–	736,595,440	736,595,440
Repayment of borrowings of receivable notes	193,990,000	95,490,000	98,500,000	–
Investment on non-monetary assets	–	43,150,000	–	18,000,000
3. Net increase in cash and cash equivalents:				
Cash and cash equivalents at the end of the year	1,017,533,502	231,133,933	726,904,676	331,312,254
Less: Cash and cash equivalents at the beginning of the year	<u>726,904,676</u>	<u>331,312,254</u>	<u>686,638,140</u>	<u>356,228,019</u>
Net increase (decrease) in cash and cash equivalents	<u>290,628,826</u>	<u>(100,178,321)</u>	<u>40,266,536</u>	<u>(24,915,765)</u>

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