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# **KELON 科龙**

## **GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

### **廣東科龍電器股份有限公司**

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

**(Stock Code: 0921)**

## **INTENTION TO RESIGN AS INDEPENDENT NON-EXECUTIVE DIRECTORS**

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received notification from its three independent non-executive directors, Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu, of their intention to resign as independent non-executive directors of the Company. According to the laws of the PRC and the Company's articles of association, the Company is required to look for replacements within two months of such notification. The reasons for their resignation are stated in this announcement. Further announcement will be made when the actual date of resignation is confirmed.

At the request of the Company, trading in shares of the Company was suspended with effect from 10:00 a.m. on 16th June, 2005 pending the release of an announcement in relation to price sensitive information. Subject to the publication of an announcement in relation to the financial, production and trading position of the Group, trading in shares of the Company will remain suspended until further notice.

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Guangdong Kelon Electrical Holdings Company Limited (the "Company" and together with its subsidiaries, the "Group") has on 24th June, 2005 received a letter ("24th Letter") in English from its three independent non-executive directors, Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu, the full text of which is produced as follows:

*"The undersigned are independent non-executive directors (INEDs) of the Company. Since our engagement we have always tried our best endeavour to serve the Company and safeguard the interest of its shareholders.*

*However, in the course of our work we frequently encountered cases where despite our continual effort to obtain information necessary for our work or demand for remedial work, satisfactory results are not furnished in a timely manner. Proper attention and support from the Company is lacked.*

*In respect of related party transactions, which have always been a major concern to us, queries have been repeatedly raised, yet proper attention was not given. Outstanding issues such as the "COMBINE" brand kept unresolved.*

*With respect to the latest audit report, we have already expressed our great concern over matters raised in the auditors' qualified report, whose opinions we concurred. A thorough investigation into these matters has been requested repeatedly. It has been more than 2 months now and little, if any, follow up work is seen.*

*Recently, we are brought to the attention of few potential irregularities, however, in our attempt to follow up we experienced limitations in carrying out our work.*

*In addition, we are always not posted timely updated information about the Company which is necessary to enable us perform our duties as INED.*

*In view of the above, we are of the opinion that our work is restricted and thus unable to perform our duties as INED of the Company satisfactorily. As a result, we are regretfully forced to resign as INED of the Company with immediate effect.*

*Signed*

<i>sd.</i> _____ <i>Andy Chan</i>	<i>sd.</i> _____ <i>Lewis Li</i>	<i>sd.</i> _____ <i>Xiaolu Xu</i>	”
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On 28th June 2005, the Company received a letter in Chinese setting out supplemental information to the 24th Letter, the text of which is translated as follows:

*“We have on 24th June, 2005 tendered our resignation to the Company. In accordance with the regulations of the Chinese Securities Regulatory Commission (“CSRC”), the Company is required within two months, i.e. before 23rd August, to convene a shareholders meeting to replace independent non-executive directors. In the interim period, all the independent non-executive directors must fulfil their responsibilities. As such, we will continue with our appointment. If the vacancy cannot be filled during this period, we shall not be responsible for the duties of independent non-executive directors after 23rd August.*

*signed*

*Independent non-executive directors*

*Chan Pei Cheong*

*Li Kung Man*

*Xu Xiao Lu*

*28th June, 2005”*

## **COMPANY’S RESPONSE**

The Company does not entirely agree with the reasons stated by its independent non-executive directors for the following reasons:

1. The Company has always been providing support and attention to the three independent non-executive directors during their appointment.

2. The trademark “COMBINE” is owned by the Company’s related company, Greencool Refrigerant (PRC) Company Limited (“Greencool Refrigerant”) which has allowed the Company and its subsidiaries to use the trademark “COMBINE” exclusively at no cost. In fact, the Company had previously responded, in writing, to the Independent non-executive Directors on this matter. Consequently, while there is a difference of opinion, the Company feels that it is inappropriate to characterise the Combine matter as one with unresolved outstanding issues.

In early 2002, “COMBINE” was first used by the Company on its products including refrigerators, freezers, air-conditioners and domestic appliances. At that time, there was little value attributable to “COMBINE” as it was not a well known brand in the PRC. After being assigned the right to use “COMBINE”, the Company invested resources to promote the sales of its products bearing the name “COMBINE”. The Company has a contractual right to use “COMBINE” at no cost until the end of April, 2007. When nearer the time, the Company will assess whether it is commercially viable to extend the term of the right or to purchase the name. No valuation has been performed on the trademark “COMBINE”. The Company has no present intention to acquire “COMBINE”.

Greencool Refrigerant is a company which is majority owned by the Company’s chairman, Mr. Gu Chu Jun.

3. In respect of matters relating to the latest audited report for the year ended 2004, the Company is reviewing its position.
4. The Company noted that the three independent non-executive directors have observed few potential irregularities within the Company. The Company has discussed these matters with the three independent non-executive directors and has commenced a review of these matters. Further announcement will be made after a satisfactory conclusion is reached.

In accordance with the requirements of article 10.41 of the Company’s articles of association and the laws of the PRC, the Company will find a replacement to fill the vacancy of the independent non-executive directors as soon as practicable. Further announcement will be made when the actual date of resignation is confirmed.

Article 10.41 of the Company’s articles of association provides that:

“An independent director may resign before the expiry its term of appointment. An independent director should submit a written resignation report to the board of directors and explain matters which should be brought to the attention of the Company’s shareholders and creditors in relation to his resignation or matters which he considers necessary to be noted.

If due to the resignation of an independent director, the Company’s board of directors or its independent board of directors fall below the minimum number of directors as required under the Company’s articles of association, the resigning independent director should continue to fulfil his duties in accordance with the applicable laws, regulations and the requirements of the articles of association before a director is appointed. The board of directors must within two months convene a shareholders meeting to appoint an independent director and if a meeting is not convened within this period, the independent director no longer has to fulfil his duties.”

If in the event that the Company does not convene an extraordinary general meeting to appoint replacements for independent non-executive directors before 23 August, 2005, the resignation of the three independent non-executive directors will take effect automatically.

Save as disclosed in this announcement, the three independent non-executive directors have confirmed that there are no other disagreements with the board of directors of the Company or other matters that should be brought to the attention of the shareholders of the Company in relation to their resignation. The Company will endeavour to look for replacements in order to fulfil the requirements of Rule 3.10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited which requires the Company to have at least three independent non-executive directors.

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

*As at the date of this announcement, the Company's executive directors are 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 are Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu.*

Foshan City, Guangdong, the PRC, 8 July, 2005

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