

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

KELON 科龙

GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED
廣東科龍電器股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 921)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTION

On 16 September 2005, the Company and Hisense Agent entered into the Sales Agency Agreement under which Hisense Agent would act as sales agent of the Company's domestic sales products by way of distribution within the entire domestic market.

Hisense Air-Conditioner has entered into the Equity Transfer Agreement with Guangdong Greencool, the single largest shareholder of the Company under which Guangdong Greencool intends to transfer 262,212,194 domestic legal person shares in the Company to Hisense Air-Conditioner representing 26.43% of the Company's total issued share capital. The aforesaid transfer is expected to complete after the relevant regulatory approvals have been obtained. Both Hisense Air-Conditioner and Hisense Agent are subsidiaries controlled by Hisense Group which through Qingdao Hisense Electric indirectly holds 93% and 70% equity interest in Hisense Air-Conditioner and Hisense Agent respectively.

Under Rule 14A.11(4), each of Hisense Group and its subsidiaries are deemed to be an associate of the Company's existing substantial shareholder, Guangdong Greencool, and therefore connected persons of the Company. As a result, the transactions contemplated by under the Sales Agency Agreement will be deemed to be a continuing connected transaction under the Listing Rules. As the consideration under the Sales Agency Agreement is subject to a maximum of RMB1.4 billion, the Sales Agency Agreement will be subject to independent shareholders' approval. A circular containing, among other things, details of the transaction will be despatched to the Shareholders as soon as practicable.

At the request of the Company, trading in H 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 a further announcement in relation to, amongst others, the financial, production and trading position of the Group, trading in H Shares of the Company will remain suspended until further notice. Trading in A Shares of the Company will resume on Tuesday, 27 September 2005.

THE SALES AGENCY AGREEMENT

The Sales Agency Agreement contains terms set out below.

Parties:

Party A (the "Agent") : Hisense Agent;

Party B (the "Supplier") : Guangdong Kelon Electrical Holdings Company Limited

Date of the agreement:

16 September 2005 (As amended on 26 September 2005)

TERM

Subject to independent shareholders' approval of the Company, the Sales Agency Agreement is for a term of approximately 6 months commencing from 16 September 2005 to 31 March 2006.

SALES AGENCY IN THE DOMESTIC MARKET

Hisense Agent would act as sales agent of the Company's domestic sales products by way of distribution within the entire domestic market in the PRC. Hisense Agent would purchase certain products (as it may require from time to time) from the Company and distribute to various vendors in the PRC.

PRE-PAYMENT AMOUNT

Hisense Agent agreed that it would advance an aggregate prepayment for purchases of the Company's products not exceeding RMB600 million, of which RMB300 million will be paid within 10 business days upon signing of the Sales Agency Agreement, and another prepayment not exceeding RMB300 million will be paid within 1 month after the first payment of RMB300 million as the parties see fit according to then prevailing circumstances. It is agreed that the Company is not required to repay any of the prepayments within the term of the Sales Agency Agreement.

The Company intends to apply the prepayments to be received from Hisense Agent to purchase raw materials for production of its products.

HISENSE AGENT'S ORDERS AND SET-OFFS AGAINST THE PREPAYMENTS

The Sales Agency Agreement contemplates that Hisense Agent will purchase products from the Company from time to time. Within 15 days from the date of expiry of the Sales Agency Agreement, the balance of the sum of the total amount of pre-payment and the proceeds received by the Company from sale of goods made under the Sales Agency Agreement minus the total value of agency products sold by the Company to Hisense Agent will be calculated. If this is a positive figure, the Company shall make repayment to Hisense Agent. If this is a negative figure, Hisense shall make payment to the Company. The price at which goods will be sold to Hisense Agent will be that equivalent to prices offered by the Company to various distributors, including but not limited to sales discounts, price differences and all expenses which have been included in such prices.

Interest will be calculated by reference to the amount of prepayments received by the Company and will accrue until 31 March 2006. The rate of interest is equivalent to the annual interest rates on working capital loans announced by the People's Bank of China from time to time. Accrued interest shall be paid on a quarterly basis.

AGENCY FEES

Hisense Agent will receive 1% of the total amount of sales proceeds of goods under the Sales Agency Agreement as agency fees from the Company. Details of the basis of consideration will be disclosed in the circular. The agency fees will be paid quarterly. Hisense Agent will not charge any other fees and it is not responsible for any sales expenses. All sales expenses relating to the sale of goods will be reimbursed by the Company.

Means of Settlement:

- (1) Agency fees will be settled on a three month basis upon completion of evaluation of the operational targets (sales volumes, the same hereafter). Settlement of agency fees will be finally determined by the Company based on the evaluation results of the agreed operational target and the means of calculation, and will be notified to Hisense Agent in writing.
- (2) Agency fees will be deposited into the account designated by Hisense Agent by way of bank transfer within 7 working days upon confirmation of settlement made by both parties.

If the result of Hisense Agent cannot reach the operational targets (which are subject to further negotiation by the Company and Hisense Agent and the first assessment will be taken by reference to the target of 31 December 2005) the Company will deduct its agency fees on the basis below:

- (1) If 90%-100% of the operational targets is achieved, 5% agency fees of Hisense Agent will be deducted.
 - (2) If 80%-90% of the operational targets is achieved, 10% agency fees of Hisense Agent will be deducted.
 - (3) If 70%-80% of the operational targets is achieved, 15% agency fees of Hisense Agent will be deducted.
 - (4) If 60%-70% of the operational targets is achieved, 20% agency fees of Hisense Agent will be deducted.
 - (5) If less than 60% of the operational targets is achieved, all agency fees of Hisense Agent will be deducted.
- (3) The operational targets will be assessed on 31 December 2005 and 31 March 2006.

TERMINATION

Both parties have agreed and confirmed that the effective period of this agreement shall be from the signing date to 31 March 2006, except that:

- (1) The agreement may be rescinded or extended at any time with mutual consents of both parties.
- (2) If any one party proposes any extension, early termination or modification of this agreement, such party shall serve a written notice to the other party within 15 working days and gain consent of the other party before extension, modification or withdrawal of this agreement, failing which the proposal shall be void.

NON-EXEMPT CONNECTED TRANSACTION

The transactions contemplated under the Sales Agency Agreement are in the ordinary and usual course of business of the Company, and on arm's length basis between the parties. There has been no previous connected transaction between the Company and Hisense Agent.

It is agreed that the purchases for the period from 16 September 2005 and 31 March 2006 will not exceed RMB1.4 billion.

INFORMATION ON HISENSE AGENT

Hisense Agent was incorporated on 21 July 2003 with a registered capital of RMB30,000,000. The registered place of Hisense Agent is Hisense Information Industrial Park, 18, Tuanjie Road, Qingdao Economic and Technical Development Zone, and the legal representative is Yu Shu Min.

Hisense Agent is principally engaged in the sales of household electrical appliances, electronic products and the relevant services. As audited, the total assets of Hisense Agent as at 31 December 2004 was RMB815,289,900 and its revenue from principal business amounted to RMB3,211,607,800. Its net profit for 2004 amounted to RMB48,540,000.

REASONS FOR, BENEFITS AND THE EFFECTS OF THE SALES AGENCY AGREEMENT

The Company's production has been interrupted from May to August 2005 and the Directors consider that it is not easy for the Company to raise funds from bank loans. The Company therefore has to seek additional means of obtaining extra funding so as to resume operation as soon as possible. The Company considered that the prepayments to be received from Hisense Agent would improve the Company's cash flow position considerably and allow it to normalize production as soon as possible. As such, the Directors believe that the terms of the Sales Agency Agreement are fair and reasonable and in the interests of the shareholders as a whole.

On 16 September 2005, the Board passed a resolution with 6 directors voting in favour the Company entering into the Sales Agency Agreement and no director voted against the resolution or abstained from voting. On 26 September 2005 the Board passed a further written resolution with 6 directors voting in favour of the Company entering into the amendments to the Sales Agency Agreement and no director voting against the resolution or abstained from voting.

RELATIONSHIP WITH HISENSE AGENT

On 9 September 2005, Guangdong Greencool and Hisense Air-Conditioner entered into Equity Transfer Agreement. Pursuant to the provisions of the Equity Transfer Agreement, Guangdong Greencool intends to transfer 262,212,194 domestic legal person shares in the Company to Hisense Air-Conditioner representing 26.43% of the Company's total issued share capital. The aforesaid transfer is expected to complete after the relevant regulatory approvals have been obtained. Both Hisense Air-Conditioner and Hisense Agent are subsidiaries controlled by Hisense Group which through Hisense Electric indirectly holds 93% and 70% equity interest in Hisense Air-Conditioner and Hisense Agent respectively.

GENERAL

The Company is principally engaged in the manufacture and sales of refrigerators and air-conditioners.

Under Rule 14A.11(4), Hisense Group and its subsidiaries are deemed to be an associate of the Company's existing substantial shareholder, Guangdong Greencool, and therefore connected persons of the Company. As a result, the transactions contemplated by under the Sales Agency Agreement will be deemed to be a continuing connected transaction under the Listing Rules. As the consideration under the Sales Agency Agreement are estimated to be a maximum of RMB1.4 billion, the Sales Agency Agreement will be subject to independent shareholders' approval. A circular containing, among other things, details of the transaction will be despatched to the Shareholders as soon as practicable.

SUSPENSION OF TRADING OF H SHARES

At the request of the Company, trading in H 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 a further announcement in relation to, amongst others, the financial, production and trading position of the Group, trading in H Shares of the Company will remain suspended until further notice. Trading in A Shares of the Company will resume on Tuesday, 27 September 2005.

DEFINITIONS

The following terms are used in this announcement with the meanings assigned to them below:

“agency products”	products ordered by Hisense Agent pursuant to the Sales Agency Agreement
“associate”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Guangdong Kelon Electrical Holdings Company Limited, a company incorporated in the PRC with limited liability and listed on the main board of the Stock Exchange and Shenzhen Stock Exchange
“Director(s)”	director(s) of the Company
“Equity Transfer Agreement”	the agreement entered into by Guangdong Greencool and Hisense Air-Conditioner in relation to the Transfer of the Shares of the Company on 9 September 2005

“Guangdong Greencool”	Guangdong Greencool Enterprise Development Company Limited, the Company’s existing single largest shareholder
“Group”	the Company and its subsidiaries
“Hisense Agent”	青島海信營銷有限公司, an indirect non-wholly owned subsidiary of the Hisense Group
“Hisense Air-Conditioner”	青島海信空調有限公司(Qingdao Hisense Air-Conditioner Company Limited)
“Hisense Group”	海信集團有限公司, a limited company incorporated in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan
“Shareholder(s)”	holder(s) of Shares
“Sales Agency Agreement”	the sales agency agreement entered into by the Company and Hisense Agent on 16 September 2005
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board of
Guangdong Kelon Electrical Holdings Company Limited
Liu Cong Meng
Vice 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.

As disclosed above, Mr. Gu, Mr. Yan and Mr. Zhang had been formally arrested by the Foshan City Police. None of them can be contacted as at the date hereof. As such, Mr. Gu, Mr. Yan and Mr. Zhang Hong do not accept responsibility for the contents of this announcement.

Foshan City, Guangdong, the PRC, 26 September 2005

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