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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: 921)

DISCLOSEABLE TRANSACTION RELATING TO THE FORMATION OF A JOINT VENTURE COMPANY

On 27th October, 2004, the Company, Kelon Development and Zhongshan Industrial entered into a joint venture agreement to form a joint venture company, Kelon Weili, in Zhongshan, PRC.

Kelon Weili will be a sino-foreign equity joint venture whose currently proposed operations are the manufacture and sale of electrical appliances in Zhongshan, PRC.

LISTING RULES IMPLICATIONS

As the investment amount of RMB160,000,000 (equivalent to approximately HK\$150,944,000) exceeds 5% of the results of the market capitalisation test as calculated under Rule 14.07 of the Listing Rules, the entering into the Joint Venture Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. A circular containing details of the formation of the Joint Venture Company will be despatched to Shareholders in due course.

The Directors are pleased to announce that on 27th October, 2004, the Company, Kelon Development and Zhongshan Industrial entered into the Joint Venture Agreement to form a Joint Venture Company, Kelon Weili, in Zhongshan, PRC. Details are contained in this announcement.

THE JOINT VENTURE AGREEMENT

Date

27th October, 2004

Parties

- (1) the Company
- (2) Kelon Development, a wholly-owned subsidiary of the Company
- (3) Zhongshan Industrial

Having made all reasonable enquiry, the Directors confirm to the best of their knowledge, information and belief that Zhongshan Industrial and its ultimate beneficial owner are third parties independent of and not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates.

Joint Venture Company

The proposed name of the Joint Venture Company is 廣東科龍威力電器有限公司 (Guangdong Kelon Weili Electrical Appliances Company Limited).

Term

20 years

Investment amount

US\$24,160,000 (equivalent to approximately HK\$188,680,000)

Registered capital

US\$24,160,000 (equivalent to approximately HK\$188,680,000)

Capital injection into registered capital

Joint Venture Party	Amount of capital injection		By way of	Percentage of total registered capital %
	RMB	HK\$ equivalent (approximate)		
Kelon Development	50,000,000	47,170,000	Cash	25%
Company	110,000,000	103,774,000	Cash, machineries, and air conditioning technique (<i>Note</i>)	55%
Zhongshan Industrial	40,000,000	37,736,000	Machineries and a parcel of land in the Weili Industrial Park in Zhong Shan	20%
Total	<u>200,000,000</u>	<u>188,680,000</u>		<u>100%</u>

Note: A valuation will be carried out on the machineries and air conditioning technique. If there is a shortfall on the Company's portion of capital injection, the remaining portion will be satisfied by way of cash. If there is a surplus, the Company may make adjustment to the number of machineries to be injected.

The parties shall obtain a valuation and/or capital verification report from a valuer to be agreed by the three parties to the Joint Venture Agreement on its respective proportion of capital injection. It is expected that the valuer will be third party independent of and not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective

associates. Kelon Development and Zhongshan Industrial is to make capital injection within 2 months of the issue of the business licence of the Joint Venture Company. The Company is to make 20% of its proportion of capital injection within 2 months of issue of the business licence of the Joint Venture Company, within 8 months the remaining 40% and within 12 months the remaining 40%. It is currently expected (as the Company understands as normal practice) that the business licence of the Joint Venture Company will be issued within 2 months of application of the business licence. As at the date of this announcement, no deposit has been made by the Company.

The Company's portion of capital injection will be funded by internal resources of the Group. None of the parties to the Joint Venture Agreement is contractually bound to make future capital injection into the Joint Venture Company.

Condition

The Joint Venture Agreement is subject to approval by the Zhong Shan City Foreign Economic Trade Cooperation Committee (中山市對外經濟貿易合作委員會).

Profit/loss arrangement

The profit and loss of Kelon Weili will be shared pro-rata to the joint venture party's interest in its registered capital.

Pre-emptive right

Each party to the Joint Venture Company has a pre-emptive right over the transfer of interest in registered capital (in whole or in part) by the other parties.

Board composition

The board of directors of the Joint Venture Company will consist of 7 directors amongst whom 4 will be nominated by the Company, 1 will be nominated by Kelon Development and 2 will be nominated by Zhongshan Industrial.

Information on Zhongshan Industrial, Kelon Weili and the Group and reasons for the transaction

Kelon Weili will be a sino-foreign equity joint venture whose currently proposed operations are the manufacture and sale of electrical appliances in Zhongshan, PRC.

Zhongshan Industrial is a company incorporated under the laws of the PRC. It is an investment holding company which is ultimately and beneficially owned by the government of Zhong Shan.

The Group is one of the largest domestic refrigeration appliances manufacturers in PRC, a market leader in the refrigeration and air-conditioning markets in PRC and overseas. The formation of the Joint Venture Company will enable the Group to diversify its operations into the manufacture and sale of electrical appliances in Zhong Shan, PRC. The Directors believe that the terms of the transaction are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“associate”	has the meaning ascribed thereto in the Listing Rules
“Company”	Guangdong Kelon Electrical Holdings Company Limited, the shares of which are listed on the Stock Exchange
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Joint Venture Agreement”	an agreement dated 27th October, 2004 entered into between the Company, Kelon Development and Zhongshan Industrial in relation to the formation of the Joint Venture Company
“Joint Venture Company” or “Kelon Weili”	a company to be formed pursuant to the Joint Venture Agreement whose proposed name is 廣東科龍威力電器有限公司 (Guangdong Kelon Weili Electrical Appliances Company Limited)
“Kelon Development”	Guangdong Kelon Development Company Limited, a company incorporated under the laws of Hong Kong with limited liability, which is a wholly-owned subsidiary of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Shareholder(s)”	holder(s) of share(s) in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongshan Industrial”	中山市阜沙鎮順暢工業有限公司 (Zhong Shan Fousha Town Shunchang Industrial Company Limited), a company incorporated under the laws of the PRC, which is ultimately and beneficially owned by the government of Zhong Shan

Note: Amounts expressed in RMB and USD in this announcement have been translated into HK\$ at a rate of HK\$1=RMB1.06 and USD1=HK\$7.8

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, 27th October, 2004

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