



# 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)

### NOTICE ON MAJOR LITIGATIONS

This announcement is made in accordance with Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Several subsidiaries of Guangdong Kelon Electrical Holdings Company Limited (the "Company") have recently initiated respective proceedings at the Intermediate People's Court of Foshan City of Guangdong Province (the "Intermediate People's Court of Foshan City"), the People's Republic of China (the "PRC"). The Company announces the details of the proceedings as follows:

#### Definitions

**Kelon Companies:** means the Company and the companies directly or indirectly controlled by the Company

**Greencool Companies:** means, other than the Kelon Companies, Guangdong Greencool Enterprise Development Company Limited ("Guangdong Greencool") and the companies directly or indirectly controlled by Gu Chu Jun and/or Guangdong Greencool

#### I. Particulars of the major litigations

The relationship between the subsidiaries of the Company referred to in this announcement and the Company are set out as follows:

- (1) The Company holds 60% of the equity interest in Guangdong Kelon Air-Conditioner Co., Ltd. ("Kelon Air-Conditioner");
  - (2) The Company holds 60% of the equity interest in Jiangxi Kelon Industrial Development Co., Ltd. ("Jiangxi Kelon"), while Kelon Development Company Limited, a subsidiary of the Company, holds the remaining 40% of the equity interest in Jiangxi Kelon;
  - (3) The Company holds 70% of the equity interest in Guangdong Kelon Fittings Co., Ltd. ("Kelon Fittings"), and indirectly holds the remaining 30% of the equity interest in Kelon Fittings through its subsidiaries;
  - (4) The Company holds 95% of the equity interest in Shenzhen Kelon Procurement Co., Ltd. ("Kelon Procurement"), and indirectly holds the remaining 5% of the equity interest in Kelon Procurement through Shunde Kelon Jiake Electronic Company Limited, a subsidiary of the Company.
- (1) The case relating to other damages to the interests of a company initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Greencool Refrigerant (China) Company Limited ("Tianjin Greencool"), Hainan Greencool Environmental Protection Engineering Co. Ltd. ("Hainan Greencool") and Jinan San Ai Fu Petrochemical Co., Ltd. ("San Ai Fu")**

Jiangxi Kelon, a subsidiary of the Company, received a case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 14 (2006)) from the Intermediate People's Court of Foshan City on 24 February 2006, which stated that the case relating to other damages to the interests of a company which Jiangxi Kelon (the plaintiff) initiated against Guangdong Greencool (the first defendant), Gu Chu Jun (the second defendant), Tianjin Greencool (the third defendant), Hainan Greencool (the fourth defendant) and San Ai Fu (the fifth defendant) has been accepted by the Intermediate People's Court of Foshan City on 23 February 2006.

### **1. Basic information on the parties**

Plaintiff: Jiangxi Kelon, authorised representative: Peng Zhi Guang, Chairman

The first defendant: Guangdong Greencool, authorised representative: Gu Chu Jun, Chairman

The second defendant: Gu Chu Jun

The third defendant: Tianjin Greencool, authorised representative: Gu Chu Jun, Chairman

The fourth defendant: Hainan Greencool, authorised representative: Gu Chu Jun, Chairman

The fifth defendant: San Ai Fu, authorised representative: Zhou Ke Jing, Chairman

### **2. Basis of the Case**

Dispute relating to other damages to the interests of a company

### **3. Summary of the Case**

Guangdong Greencool and Gu Chu Jun, in their capacities as the controllers of the Kelon Companies and the Greencool Companies, instructed Jiangxi Kelon and San Ai Fu to enter into an Industrial Products Sales and Purchase Contract, pursuant to which Jiangxi Kelon agreed to purchase from San Ai Fu 600 tons of environmentally friendly refrigerant for an aggregate amount of RMB 81.60 million.

Although Jiangxi Kelon paid San Ai Fu the aforementioned total amount under the contract, San Ai Fu has not made any delivery of the goods to Jiangxi Kelon as at the date of this announcement. In addition, San Ai Fu has transferred most of Jiangxi Kelon's payments to Tianjin Greencool and Hainan Greencool, which are two companies controlled by Guangdong Greencool and Gu Chu Jun.

In the opinion of Jiangxi Kelon, the defendants infringed the lawful interests of Jiangxi Kelon by entering into the sales and purchase contract so as to conceal their illegal attempt to embezzle the funds of Jiangxi Kelon.

#### 4. Claims

- (1) that Tianjin Greencool repays Jiangxi Kelon the principal amount of RMB 81.60 million, and that Guangdong Greencool, Gu Chu Jun, Hainan Greencool and San Ai Fu be jointly and severally liable with Tianjin Greencool;
- (2) that Tianjin Greencool reimburses Jiangxi Kelon interest in an amount of RMB 3.554088 million, and that Guangdong Greencool, Gu Chu Jun, Hainan Greencool and San Ai Fu be jointly and severally liable with Tianjin Greencool; and
- (3) that the defendants bear all of the litigation costs.

#### **(2) The case relating to other damages to the interests of a company initiated by Kelon Procurement against Guangdong Greencool, Tianjin Lixin Commercial Trading Development Company Limited (“Tianjin Lixin”), Greencool Procurement Centre (Shenzhen) Co., Ltd. (“Greencool Shenzhen Procurement Centre”) and Gu Chu Jun**

Kelon Procurement, a subsidiary of the Company, received a case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 13 (2006)) from the Intermediate People’s Court of Foshan City on 24 February 2006, which stated that the case relating to other damages to the interests of a company which Kelon Procurement (the plaintiff) initiated against Guangdong Greencool (the first defendant), Tianjin Lixin (the second defendant), Greencool Shenzhen Procurement Centre (the third defendant) and Gu Chu Jun (the fourth defendant) has been accepted by the Intermediate People’s Court of Foshan City on 23 February 2006.

##### **1. Basic information on the parties**

Plaintiff:	Kelon Procurement, authorised representative: Liu Cong Meng
The first defendant:	Guangdong Greencool, authorised representative: Gu Chu Jun
The second defendant:	Tianjin Lixin, authorised representative: Li Lian De
The third defendant:	Greencool Shenzhen Procurement Centre, authorised representative: Gu Chu Jun
The fourth defendant:	Gu Chu Jun
The third party:	the Company

##### **2. Basis of the Case**

Dispute relating to other damages to the interests of a company

##### **3. Summary of the Case**

Guangdong Greencool and Gu Chu Jun, in their capacities as the controllers of the Kelon Companies and the Greencool Companies, instructed Kelon Procurement and Tianjin Lixin to enter into a Purchase Contract, pursuant to which Kelon Procurement agreed to purchase from Tianjin Lixin 12,700 tons of steel for an aggregate amount of RMB 89.6003 million.

Although Kelon Procurement paid Tianjin Lixin the total amount under the contract, Tianjin Lixin has not made any delivery of the goods to Kelon Procurement as at the date of this announcement. In addition, Tianjin Lixin has transferred all of Kelon Procurement's payments to Greencool Shenzhen Procurement Centre, which is a company controlled by Guangdong Greencool and Gu Chu Jun.

In the opinion of Kelon Procurement, the defendants infringed the lawful interests of Kelon Procurement by entering into the sales and purchase contract so as to conceal their illegal attempt to embezzle the funds of Kelon Procurement.

#### **4. Claims**

(1) that the defendants repay the total amount of RMB 89.6003 million and the interest thereof; and

(2) that the the defendants bear all of the litigation costs.

#### **(3) The case relating to other damages to the interests of a company initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng Industry and Trading Company Limited (“Jiangxi Kesheng”)**

Kelon Air-Conditioner, a subsidiary of the Company, received a case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 10 (2006)) from the Intermediate People's Court of Foshan City on 24 February 2006, which stated that the case relating to other damages to the interests of a company which Kelon Air-Conditioner (the plaintiff) initiated against Guangdong Greencool (the first defendant), Gu Chu Jun (the second defendant) and Jiangxi Kesheng (the third defendant) has been accepted by the Intermediate People's Court of Foshan City on 22 February 2006.

##### **1. Basic information on the parties**

Plaintiff: Kelon Air-Conditioner, authorised representative: Yan You Song

The first defendant: Guangdong Greencool, authorised representative: Gu Chu Jun

The second defendant: Gu Chu Jun

The third defendant: Jiangxi Kesheng

The third party: the Company

##### **2. Basis of the Case**

Dispute relating to other damages to the interests of a company

##### **3. Summary of the case**

Guangdong Greencool and Gu Chu Jun, in their capacities as the controllers of the Kelon Companies and the Greencool Companies, instructed Kelon Air-Conditioner and Jiangxi Kesheng to enter into a Refrigerant Purchase Contract, pursuant to which Kelon Air-Conditioner agreed to purchase from Jiangxi Kesheng 14.1 tons of refrigerant for an aggregate amount of RMB 18.63 million.

Although Kelon Air-Conditioner paid Jiangxi Kesheng the aforementioned total amount under the contract, Jiangxi Kesheng has not made any delivery of the goods to Kelon Air-Conditioner as at the date of this announcement.

In the opinion of Kelon Air-Conditioner, the defendants infringed the lawful interests of Kelon Air-Conditioner by entering into the sales and purchase contract so as to conceal their illegal attempt to embezzle the funds of Kelon Air-Conditioner.

#### **4. Claims**

(1) that the defendants repay Kelon Air-Conditioner an amount of RMB 18.63 million and the interest thereof; and

(2) that the defendants bear all of the litigation costs.

#### **(4) The case relating to other damages to the interests of a company initiated by Kelon Air-Conditioner against Guangdong Greencool, San Ai Fu, Tianjin Greencool, Hainan Greencool and Gu Chu Jun**

Kelon Air-Conditioner, a subsidiary of the Company, received a case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 11 (2006)) from the Intermediate People's Court of Foshan City on 24 February 2006, which stated that the case relating to other damages to the interests of a company which Kelon Air-Conditioner (the plaintiff) initiated against Guangdong Greencool (the first defendant), San Ai Fu (the second defendant), Tianjin Greencool (the third defendant), Hainan Greencool (the fourth defendant) and Gu Chu Jun (the fifth defendant), has been accepted by the Intermediate People's Court of Foshan City on 23 February 2006.

##### **1. Basic information on the parties**

Plaintiff: Kelon Air-Conditioner, authorised representative: Yan You Song

The first defendant: Guangdong Greencool, authorised representative: Gu Chu Jun

The second defendant: San Ai Fu, authorised representative: Zhou Ke Jing

The third defendant: Tianjin Greencool, authorised representative: Gu Chu Jun

The fourth defendant: Hainan Greencool, authorised representative: Gu Chu Jun

The fifth defendant: Gu Chu Jun

The third party: the Company

##### **2. Basis of the Case**

Dispute relating to other damages to the interests of a company

### 3. Summary of the Case

Guangdong Greencool and Gu Chu Jun, in their capacities as the controllers of the Kelon Companies and the Greencool Companies, instructed Kelon Air-Conditioner and San Ai Fu to enter into an Industrial Products Sales and Purchase Contract, pursuant to which Kelon Air-Conditioner agreed to purchase from San Ai Fu 300 tons of environmentally friendly refrigerant for an aggregate amount of RMB 40.80 million.

Although Kelon Air-Conditioner paid San Ai Fu the aforementioned total amount under the contract, San Ai Fu has not made any delivery of the goods to Kelon Air-Conditioner as at the date of this announcement. In addition, San Ai Fu has transferred most of Kelon Air-Conditioner's payments to Tianjin Greencool and Hainan Greencool, which are two companies controlled by Guangdong Greencool and Gu Chu Jun.

In the opinion of Kelon Air-Conditioner, the defendants infringed the lawful interests of Kelon Air-Conditioner by entering into the sales and purchase contract so as to conceal their illegal attempt to embezzle the funds of Kelon Air-Conditioner.

### 4. Claims

- (1) that the defendants repay Kelon Air-Conditioner an amount of RMB 40.80 million; and
- (2) that the defendants bear all of the litigation costs.

### **(5) The case relating to other damages to the interests of a company initiated by Kelon Fittings against Guangdong Greencool, Tianjin Xiangrun Commercial Trading Development Company Limited ("Tianjin Xiangrun"), Greencool Shenzhen Procurement Centre and Gu Chu Jun**

Kelon Fittings, a subsidiary of the Company, received a case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 12 (2006)) from the Intermediate People's Court of Foshan City on 24 February 2006, which stated that the case relating to other damages to the interests of a company which Kelon Fittings (the plaintiff) initiated against Guangdong Greencool (the first defendant), Tianjin Xiangrun (the second defendant), Greencool Shenzhen Procurement Centre (the third defendant) and Gu Chu Jun (the fourth defendant) has been accepted by the Intermediate People's Court of Foshan City on 23 February 2006.

#### 1. Basic information on the parties

Plaintiff:	Kelon Fittings, authorised representative: Yan You Song
The first defendant:	Guangdong Greencool, authorised representative: Gu Chu Jun
The second defendant:	Tianjin Xiangrun, authorised representative: Yue Ying
The third defendant:	Greencool Shenzhen Procurement Centre, authorised representative: Gu Chu Jun
The fourth defendant:	Gu Chu Jun
The third party:	the Company

## **2. Basis of the Case**

Dispute relating to other damages to the interests of a company

## **3. Summary of the Case**

Guangdong Greencool and Gu Chu Jun, in their capacities as the controllers of the Kelon Companies and the Greencool Companies, instructed Kelon Fittings and Tianjin Xiangrun to enter into two purchase contracts, pursuant to which Kelon Fittings agreed to purchase from Tianjin Xiangrun 13,820 tons of steel at an aggregate amount of RMB 97.41222 million.

Although Kelon Fittings paid to Tianjin Xiangrun the total amount under the contract, Tianjin Xiangrun has not made any delivery of the goods to Kelon Fittings as at the date of this announcement. In addition, Tianjin Xiangrun has transferred all of Kelon Fittings's payments to Greencool Shenzhen Procurement Centre, which is a company controlled by Guangdong Greencool and Gu Chu Jun.

In the opinion of Kelon Fittings, the defendants infringed the lawful interests of Kelon Fittings by entering into the sales and purchase contract so as to conceal their illegal attempt to embezzle the funds of Kelon Fittings.

## **4. Claims**

- (1) that the defendants repay Kelon Fittings an amount of RMB 97.41222 million; and
- (2) that the defendants bear all of the litigation cost.

## **II. Summary of other undisclosed litigations and arbitrations**

As at the date of this announcement, the Company and its subsidiaries have no other discloseable litigations or arbitrations which have not been disclosed.

## **III. The possible effects of the litigations disclosed in this announcement on the profits of the Company for the 2005 financial year and thereafter**

The Company has made a provision of approximately RMB 154.37 million in 2005 for bad debts relating to the above litigations based on the aging analysis method. As a result, the profit of the Company in 2005 will be decreased by RMB 154.37 million. Since it is currently not possible to estimate the amount that could be recovered from the above litigations, the Company is unable to ascertain the possible effects of the above litigations on the profits of the Company after the 2005 financial year.

## **IV. Documents available for inspection**

1. The civil complaint regarding the case relating to other damages to the interests of a company initiated by Jiangxi Kelon against Guangdong Greencool, Gu Chu Jun, Tianjin Greencool, Hainan Greencool and San Ai Fu
2. The civil complaint regarding the case relating to other damages to the interests of a company initiated by Kelon Procurement against Guangdong Greencool, Tianjin Lixin, Greencool Shenzhen Procurement Centre and Gu Chu Jun

3. The civil complaint regarding the case relating to other damages to the interests of a company initiated by Kelon Air-Conditioner against Guangdong Greencool, Gu Chu Jun and Jiangxi Kesheng
4. The civil complaint regarding the case relating to other damages to the interests of a company initiated by Kelon Air-Conditioner against Guangdong Greencool, San Ai Fu, Tianjin Greencool, Hainan Greencool and Gu Chu Jun
5. The civil complaint regarding the case relating to other damages to the interests of a company initiated by Kelon Fittings against Guangdong Greencool, Tianjin Xiangrun, Greencool Shenzhen Procurement Centre and Gu Chu Jun
6. Case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 10 (2006)) issued by the Intermediate People's Court of Foshan City
7. Case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 11 (2006)) issued by the Intermediate People's Court of Foshan City
8. Case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 12 (2006)) issued by the Intermediate People's Court of Foshan City
9. Case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 13 (2006)) issued by the Intermediate People's Court of Foshan City
10. Case acceptance notice (Fo Zhong Fa Min Er Chu Zi No. 14 (2006)) issued by the Intermediate People's Court of Foshan City

At the request of the Company, trading in H Shares of the Company was suspended with effect from 10:00 a.m. on 16 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.

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. Li Kung Man and Mr. Xu Xiao Lu.*

*As disclosed in the Company's previous announcements, Mr. Gu, Mr. Yan and Mr. Zhang Hong 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, 27 February, 2006

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