THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Guangdong Kelon Electrical Holdings Company Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

CONTINUING CONNECTED TRANSACTIONS

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

AMS Corporate Finance Limited

A letter from the board of directors of Guangdong Kelon Electrical Holdings Company Limited (the "Company") is set out on pages 6 to 16 of this circular. A letter from the Independent Board Committee is set out on page 17 of this circular. A letter from AMS Corporate Finance Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 33 of this circular.

27 April 2006

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"2005 Agency Fees Cap"	RMB5 million, being the maximum aggregate value of agency fees payable by the Company to Hisense Agent for the period from 16 September 2005 to 31 December 2005 (both days inclusive) pursuant to the Sales Agency Agreement
"2006 Agency Fees Cap"	RMB9 million, being the maximum aggregate value of agency fees payable by the Company to Hisense Agent for the period from 1 January 2006 to 31 March 2006 (both days inclusive) pursuant to the Sales Agency Agreement
"2005 Purchase Cap"	RMB500 million, being the maximum aggregate value of purchases of products from the Company by Hisense Agent for the period from 16 September 2005 to 31 December 2005 (both days inclusive) pursuant to the Sales Agency Agreement
"2006 Purchase Cap"	RMB900 million, being the maximum aggregate value of purchases of products from the Company by Hisense Agent for the period from 1 January 2006 to 31 March 2006 (both days inclusive) pursuant to the Sales Agency Agreement
"2005 Revised Agency Fees Cap"	RMB8 million, being the maximum aggregate value of agency fees payable by the Company to Hisense Agent for the period from 16 September 2005 to 31 December 2005 (both days inclusive) pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement)
"2006 Revised Agency Fees Cap"	RMB20 million, being the maximum aggregate value of agency fees payable by the Company to Hisense Agent for the period from 1 January 2006 to 10 May 2006 (both days inclusive) pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement)

DEFINITIONS

"2005 Revised Purchase Cap"	RMB800 million, being the maximum aggregate value of purchases of products from the Company by Hisense Agent for the period from 16 September 2005 to 31 December 2005 (both days inclusive) pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement)
"2006 Revised Purchase Cap"	RMB2,000 million, being the maximum aggregate value of purchases of products from the Company by Hisense Agent for the period from 1 January 2006 to 10 May 2006 (both days inclusive) pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement)
"A Shares"	domestic ordinary Shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
"Announcement"	the announcement issued by the Company dated 21 September 2005 relating to the change of senior management and the continuing connected transaction
"associate"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"Cap"	RMB1,414 million, being the aggregate of the values under each of the 2005 Purchase Cap, the 2006 Purchase Cap, the 2005 Agency Fees Cap, and the 2006 Agency Fees Cap
"Company"	Guangdong Kelon Electrical Holdings Company Limited, a company incorporated in the PRC with limited liability, the H Shares of which are listed on the main board of the Stock Exchange and the A Shares of which are listed on the Shenzhen Stock Exchange
"Connected Transaction Announcement"	the announcement issued by the Company dated 26 September 2005 relating to the Continuing Connected Transaction

"Connected Transaction Circular"	the circular issued by the Company dated 29 November 2005 relating to the transactions as contemplated under the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement)
"Continuing Connected Transaction"	the transactions engaged in by the Company as contemplated under the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement)
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting held to consider and, if thought fit, among other things, to ratify the Company's transactions conducted pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement) and the Second Supplemental Agency Agreement)
"Equity Transfer Agreement"	the agreement entered into by Guangdong Greencool and Hisense Air-Conditioner in relation to the transfer of the Sale Shares of the Company on 9 September 2005
"First Supplemental Agency Agreement"	the first supplemental agreement to the Sales Agency Agreement entered into by the Company and Hisense Agent on 26 September 2005
"Group"	the Company and its subsidiaries
"Guangdong Greencool"	廣東格林柯爾企業發展有限公司 (Guangdong Greencool Enterprise Development Company Limited), the Company's existing single largest shareholder
"H Shares"	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange
"Hisense Agent"	青島海信營銷有限公司 (Qingdao Hisense Marketing Company Limited), an indirect non-wholly owned subsidiary of Hisense Group
"Hisense Air-Conditioner"	青島海信空調有限公司 (Qingdao Hisense Air-Conditioner Company Limited), a limited liability company incorporated in the PRC

"Hisense Group"	海信集團有限公司 (Hisense Group Company), a limited liability company incorporated in the PRC
"Independent Shareholders"	Shareholder(s) other than Guangdong Greencool and its associates
"Latest Practicable Date"	21 April 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"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
"Qingdao Hisense Electric"	青島海信電子產業控股股份有限公司 (Qingdao Hisense Electronics Holdings Company Limited)
"Revised Cap"	RMB2,828 million, being the aggregate of the values under each of the 2005 Revised Purchase Cap, the 2006 Revised Purchase Cap, the 2005 Revised Agency Fees Cap and the 2006 Revised Agency Fees Cap
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	262,212,194 domestic legal person shares of the Company
"Sales Agency Agreement"	the sales agency agreement entered into by the Company and Hisense Agent on 16 September 2005
"Second Supplemental Agency Agreement"	the second supplemental agreement to the Sales Agency Agreement and the First Supplemental Agency Agreement entered into by the Company and Hisense Agent on 1 April 2006
"Second Supplemental Agency Agreement Announcement"	the announcement issued by the Company dated 4 April 2006 relating to the Second Supplemental Agency Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time

"Share(s)"	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares
"Share Transfer Announcement"	the announcement issued by the Company dated 14 September 2005 relating to share transfer pursuant to the Equity Transfer Agreement
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

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)

Executive Directors:
Mr. Gu Chu Jun
Mr. Liu Cong Meng
Mr. Li Zhen Hua
Mr. Yan You Song
Mr. Zhang Hong
Mr. Fang Zhi Guo

Independent non-executive Directors:
Mr. Li Kung Man
Mr. Xu Xiao Lu

Registered office:
No. 8 Ronggang Road
Ronggui Street
Shunde District
Foshan City
Guangdong Province
China

Principal place of business in Hong Kong:
Room 2502-2505, Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

27 April 2006

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the Share Transfer Announcement, the Announcement, the Connected Transaction Announcement and the Second Supplemental Agency Agreement Announcement.

Unless the context provides otherwise, references to the Sales Agency Agreement in this circular shall mean the Sales Agency Agreement as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement.

As disclosed in the Connected Transaction Announcement, the Company and Hisense Agent entered into the Sales Agency Agreement on 16 September 2005 and entered into the First Supplemental Agency Agreement amending the terms of the Sales Agency Agreement on 26 September 2005. Under the Sales Agency Agreement, Hisense Agent would act as sales agent of the Company's domestic sales products by way of distribution within the entire domestic market.

In addition, there are the following arrangements in relation to the products under the Sales Agency Agreement:

(a) upon delivery of the products by the Company to the warehouses designated by Hisense Agent, the title to the products will pass to Hisense Agent, and the Company will recognise the relevant proceeds from such sales as sales revenue;

(b) upon the sale of the products by the Company to Hisense Agent, Hisense Agent has no right to return any unsold products to the Company; and

(c) in the event that Hisense Agent is unable to recover any proceeds from the sale of products under the Sales Agency Agreement to any distributor, Hisense Agent and/or the distributor has no right to claim against the Company pursuant to the Sales Agency Agreement.

As disclosed in the Second Supplemental Agency Agreement Announcement, the Company and Hisense Agent entered into the Second Supplemental Agency Agreement on 1 April 2006. Under the Second Supplemental Agency Agreement, the Company and Hisense Agent agreed to revise the Cap to the Revised Cap, and amend the duration of the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement).

As announced in the Share Transfer Announcement, 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 the Sale Shares 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) of the Listing Rules, each of Hisense Group and its subsidiaries is 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 under the Sales Agency Agreement will be deemed to be a continuing connected transaction under Chapter 14A of the Listing Rules. As the consideration under the Sales Agency Agreement is estimated to be a maximum of RMB2,828 million, the Sales Agency Agreement and the transactions contemplated thereunder will be subject to Independent Shareholders' approval pursuant to Rule 14A.35 of the Listing Rules.

The Company would like to inform the Shareholders that the transactions contemplated under the Sales Agency Agreement have been commenced since the entering into of the Sales Agency Agreement by the Company. The Company recognises the fact that it engaged in the transactions as contemplated by the Sales Agency Agreement without the prior approval of the Independent Shareholders has constituted non-compliance with Rule 14A.52 of the Listing Rules, and such non-compliance cannot be rectified by the ratification of the transactions by the Shareholders. However, the Board is of the view that the engagement in the transactions as contemplated by the Sales Agency Agreement was necessary in order to maintain and continue the operations of the Company and therefore such transactions were conducted in the interest of the Company and the Shareholders as a whole. In these circumstances, the EGM will be held to consider and, if thought fit, among other things, to ratify the Company's transactions conducted pursuant to the Sales Agency Agreement.

The Independent Board Committee has been set up to advise the Independent Shareholders on the terms of the Sales Agency Agreement and the Revised Cap in relation to the Continuing Connected Transaction. AMS Corporate Finance Limited has been appointed as the independent financial adviser to the Independent Board Committee and Independent Shareholders. The recommendation of the Independent Board Committee and the advice of AMS Corporate Finance Limited are as set out on pages 17 to 33 of this circular.

The purpose of this circular is (i) to provide you with further information on the Sales Agency Agreement and the Continuing Connected Transaction (including its Revised Cap); and (ii) to set out the opinions and recommendations of the Independent Board Committee and AMS Corporate Finance Limited. A notice convening the EGM will be announced separately and despatched to the H Shares Shareholders as soon as reasonably practicable in accordance with the Listing Rules.

2. THE CONTINUING CONNECTED TRANSACTIONS

2.1 The Sales Agency Agreement, the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement

The Sales Agency Agreement contains terms set out below.

2.1.1 Parties

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

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

.

2.1.2 Date of the agreement

16 September 2005 (as amended on 26 September 2005 and 1 April 2006).

2.1.3 Term

The term of the Sales Agency Agreement is from 16 September 2005 to 10 May 2006, unless it is terminated, modified or extended in accordance with 2.1.8 below.

2.1.4 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.

2.1.5 Pre-payment amount

As stated in the Connected Transaction Circular, Hisense Agent agreed that it would advance an aggregate prepayment for purchases of the Company's products in an amount not exceeding RMB600 million. The Company confirmed that it has received a total amount of RMB301 million as prepayments in various stages from Hisense Agent during the period from 21 September 2005 to 24 October 2005. The Company applied the prepayments received from Hisense Agent to purchase raw materials for production of its products.

2.1.6 Hisense Agent's orders and set-offs against the pre-payments

In relation to sales to Hisense Agent which occur when the aggregate value of the Company's sales to Hisense Agent has exceeded the aggregate prepayments actually received by the Company during the term of the Sales Agency Agreement, each of such sales will be settled in cash by Hisense Agent within a period of 60 days from the day when the products pursuant to each of such sales are delivered to Hisense Agent.

The Sale 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 prepayment and the proceeds received by the Company from sale of products made under the Sales Agency Agreement minus the total value of the products sold by the Company to Hisense Agent will be calculated, confirmed and settled by the Company and Hisense Agent. If this is a positive figure, the Company shall make repayment of the entire balance to Hisense Agent. If this is a negative figure, Hisense Agent shall make payment of the entire balance to the Company. The price at which products will be sold to Hisense Agent will be that equivalent to prices offered by the Company to various distributors, which are independent third parties, including but not limited to sales discounts, price differences and all expenses which have been included in such prices.

As stated in the Connected Transaction Circular, interest (at the rate equivalent to the annual interest rates on working capital loans announced by the People's Bank of China from time to time) would be calculated by reference to the amount of prepayments received by the Company and would accrue until 31 March 2006. As at the Latest Practicable Date, the prepayments by Hisense Agent in the amount of RMB301 million has been fully set-off against the value of purchases of products made by Hisense Agent from the Company since the entering into of the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement). The amount of interest payable by the Company to Hisense Agent on the prepayments will be calculated, confirmed and settled upon the expiry of the Sales Agency Agreement on 10 May 2006.

2.1.7 Agency fees

As stated in the Connected Transaction Circular, Hisense Agent will receive 1% of the total amount of sales proceeds of products under the Sales Agency Agreement as agency fees from the Company. Such agency fees will be settled in cash on a quarterly basis upon completion of assessment of the operational targets by the Company, and will be adjusted pursuant to a scale basis based on the results of such assessment, which would take place on 31 December 2005 and 31 March 2006.

The Company confirms that, as at the Latest Practicable Date, it has not yet paid any agency fees to Hisense Agent pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement). As the Company and Hisense Agent have amended the duration of the Sales Agency Agreement and the Cap in relation to the Continuing Connected Transaction pursuant to the Second Supplemental Agency Agreement, it is the intention of the Company and Hisense Agent to assess the operational target by reference to the amount of the Revised Cap and settle all of the agency fees upon the expiry of the Sales Agency Agreement on 10 May 2006.

2.1.8 Termination

The Company and Hisense Agent have agreed and confirmed that the effective period of the Sales Agency Agreement shall be from 16 September 2005 (being the signing date) to 10 May 2006 except that:

(A) The Sales Agency Agreement may be terminated or extended at any time with mutual consent of both parties.

(B) If any one party to the Sales Agency Agreement proposes any extension, early termination or modification of the Sales Agency 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 termination of the Sales Agency Agreement, failing which the proposal shall be void.

In the event that the Company and Hisense Agent agree to terminate the Sales Agency Agreement, the balance of the sum of the total amount of prepayments and the proceeds received by the Company from sale of products made under the Sales Agency Agreement minus the total value of the products sold by the Company to Hisense Agent will be calculated, confirmed and settled by the Company and Hisense Agent. If this is a positive figure, the Company shall make repayment of the entire balance to Hisense Agent. If this is a negative figure, Hisense Agent shall make payment of the entire balance to the Company.

2.1.9 Material amendments made by the First Supplemental Agency Agreement to the Sales Agency Agreement

Pursuant to the First Supplemental Agency Agreement, the Company and Hisense Agent have made the following material amendments to the Sales Agency Agreement:

(A) The First Supplemental Agency Agreement stipulates a period of 60 days within which the excess of the value of the Company's sales to Hisense Agent over the aggregate prepayment actually received by the Company during the term of the Sales Agency Agreement must be paid, but no such specific time period is stipulated under the corresponding term of the Sales Agency Agreement;

(B) The First Supplemental Agency Agreement stipulates that the price of the products that the Company sells to Hisense Agent will be equivalent to the price Hisense Agent sells to the distributors, which price shall be determined by the Company and the distributors, whereas the Sales Agency Agreement is silent on the point of the price between Hisense Agent and the distributors;

(C) The First Supplemental Agency Agreement sets out the maximum aggregate value of purchases of products from the Company by Hisense Agent for the period from 16 September 2005 to 31 March 2006 to be RMB1,400 million, but no such maximum value is stipulated in the Sales Agency Agreement; and

(D) The First Supplemental Agency Agreement clarifies that the operational targets will be assessed by the Company on 31 December 2005 and on 31 March 2006. This superseded the corresponding term in the Sales Agency Agreement, which states that the operational targets will be assessed by the Company on a quarterly basis.

2.1.10 Material amendments made by the Second Supplemental Agency Agreement to the Sales Agency Agreement and the First Supplemental Agency Agreement

Pursuant to the Second Supplemental Agency Agreement, the Company and Hisense Agent have made the following material amendments to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement):

(A) Pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement), the Company and Hisense Agent agreed that the maximum aggregate value of purchases of products from the Company by Hisense Agent during the period from 16 September 2005 to 31 March 2006 would not exceed RMB1,400 million. Under the Second Supplemental Agency Agreement, the Company and Hisense Agent agreed that the maximum aggregate value of purchases of products during the period from 16 September

2005 to 10 May 2006 will not exceed RMB2,800 million. In particular, the maximum aggregate value of purchases of products during the period from 16 September 2005 to 31 December 2005 and during the period from 1 January 2006 to 10 May 2006 will not exceed RMB800 million and RMB2,000 million, respectively.

The revision in the Cap in respect of the transactions contemplated under the Sales Agency Agreement are summarised in the table below:

	Sales Agency Agreement (as amended by the First Supplemental Agency Agreement) *(RMB, in million)*	**Sales Agency Agreement (as amended by the First Agency Agreement and the Second Supplemental Agency Agreement)** *(RMB, in million)*
2005 Purchase Cap	500	800
2006 Purchase Cap	900	2,000
2005 Agency Fees Cap	5	8
2006 Agency Fees Cap	9	20
Total Cap	1,414	2,828

(B) Pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement), the Company and Hisense Agent have agreed that the effective period of the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement) shall be from 16 September 2005 to 31 March 2006. Under the Second Supplemental Agency Agreement, the Company and Hisense Agent have agreed to extend the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement), such that the revised term of the Sales Agency Agreement is from 16 September 2005 to 10 May 2006 unless it is terminated, modified or extended in accordance with 2.1.8 above.

2.2 Reasons for, benefits and the effects of the Sales Agency Agreement

The Company's production has been partly interrupted from May to August 2005 and the Directors considered that it was not easy for the Company to raise funds from bank loans. The Company therefore had to seek additional means of obtaining extra funding so as to resume operations. The Company considered that the prepayments received from Hisense Agent had improved the Company's cash flow position considerably and allowed it to normalise production and confirms that such prepayments amounted to approximately RMB301 million as opposed to RMB401 million (which was the result of an inadvertent error) as disclosed in the Connected Transaction Circular. As such, the Directors believe that the terms of the Sales Agency Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

On 16 September 2005, the Board passed a resolution with 6 Directors voting in favour of the Company entering into the Sales Agency Agreement and no Director voting 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 First Supplemental Agency Agreement amending the terms of the Sales Agency Agreement and no Director voting against the resolution or abstained from voting. On 31 March 2006, the Board passed a further resolution with 5 Directors voting in favour of the Company entering into the Second Supplemental Agency Agreement amending the terms of the Sales Agency Agreement and the First Supplemental Agency Agreement, and no Director voting against the resolution or abstained from voting.

2.3 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 prepared and audited in accordance with the financial accounting standards of the PRC, the total assets of Hisense Agent as at 31 December 2004 amounted to RMB815,289,900 and its revenue from principal business amounted to RMB3,211,607,800. Its net profit for the year ended 31 December 2004 amounted to RMB48,540,000.

2.4 Relationship with Hisense Agent

On 9 September 2005, Guangdong Greencool and Hisense Air-Conditioner entered into the Equity Transfer Agreement. Pursuant to the provisions of the Equity Transfer Agreement, Guangdong Greencool agreed to transfer the Sale Shares to Hisense Air-Conditioner representing 26.43% of the Company's total issued share capital (subject to certain conditions as disclosed in the Share Transfer Announcement). 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.

2.5 Revised Cap for the Continuing 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 Company and Hisense Agent. As at the Latest Practicable Date, there is no previous connected transaction between the Company and Hisense Agent.

The Company and Hisense Agent agreed that the purchases for the period from 16 September 2005 to 10 May 2006 will not exceed RMB2,800 million. In particular, the maximum aggregate value of purchases for the period from 16 September 2005 to 31 December 2005 and for the period from 1 January 2006 to 10 May 2006 will not exceed RMB800 million and RMB2,000 million, respectively. Accordingly, the maximum value of agency fees payable by the Company to Hisense Agent for the period from 16 September 2005 to 31 December 2005 and for the period from 1 January 2006 to 10 May 2006 will not exceed RMB8 million and RMB20 million, respectively.

The amount of the 2005 Revised Purchase Cap was determined by reference to the value of the transactions actually conducted in 2005, and the amount of the 2006 Revised Purchase Cap was determined after discussions between the Company and Hisense Agent, having taken into account the revised level of products expected to be purchased by Hisense Agent from the Company from 1 January 2006 to 10 May 2006. The amount of the 2005 Revised Agency Fees Cap and 2006 Revised Agency Fees Cap were determined after arm's length negotiations between the Company and Hisense Agent with reference to the Revised Cap in respect of the purchases of products from the Company by Hisense Agent for the periods between 16 September 2005 and 31 December 2005, and from 1 January 2006 to 10 May 2006 as mentioned above.

2.6 Disclosure requirements, ratification and approval by the Independent Shareholders

Under Rule 14A.11(4) of the Listing Rules, Hisense Group and its subsidiaries are deemed to be associates of the Company's existing substantial Shareholder, Guangdong Greencool, and therefore connected persons of the Company. As a result, the transactions contemplated 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 RMB2,828 million, the Sales Agency Agreement and the transactions contemplated thereunder will be subject to Independent Shareholders' approval at general meeting of the Company. Pursuant to Rule 14A.35 of the Listing Rules. Guangdong Greencool and its associates will abstain from voting at the EGM.

The Company would like to inform the Shareholders that the transactions contemplated under the Sales Agency Agreement have been commenced since the entering of the Sales Agency Agreement by the Company. Based on the information available to the Company, up until 31 December 2005 and 28 February 2006, the total amount of purchases of products by Hisense Agent from the Company pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement) amounted to approximately RMB727 million and RMB1,352 million, respectively.

The Company recognises the fact that it engaged in the transactions as contemplated by the Sales Agency Agreement without the prior approval of the Independent Shareholders has constituted non-compliance with Rule 14A.52 of the Listing Rules, and such non-compliance cannot be rectified by the ratification of the transactions by the Shareholders. However, the Board is of the view that the engagement in the transactions as contemplated by the Sales Agency Agreement was necessary in order to maintain and continue the operations of the Company and therefore such transactions were conducted in the interest of the Company and the Shareholders as a whole. In these circumstances, the EGM will be held to consider and, if thought fit, among other things, to ratify the Company's transactions conducted pursuant to the Sales Agency Agreement.

3. THE COMPANY

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

4. SUSPENSION OF TRADING OF H SHARES

At the request of the Company, trading in the H Shares 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, among others, the financial, production and trading position of the Group, and the satisfaction by the Stock Exchange of the adequacy of the internal control measures of the Company, trading in the H Shares will remain suspended until further notice.

5. EGM

A notice convening the EGM will be announced separately and despatched to the H Shares Shareholders as soon as reasonably practicable in accordance with the Listing Rules.

6. PROCEDURE TO DEMAND A POLL

In accordance with article 8.27 of the Articles of Association, a poll may be demanded in any general meeting of the Company by:

(A) the chairman of the meeting; or

(B) at least two shareholders with voting rights or their representative; or

(C) individual or a group of shareholders (including their representatives) holding 10% or more of the voting rights present in that general meeting.

7. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 17 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Sales Agency Agreement and the Revised Cap in relation to the Continuing Connected Transaction. Your attention is also drawn to the letter of advice received from the AMS Corporate Finance Limited, independent financial adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 18 to 33 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Sales Agency Agreement and the Revised Cap in relation to the Continuing Connected Transaction, the casting of votes for or against the resolution ratifying the Company's transactions conducted pursuant to the Sales Agency Agreement by poll at the EGM as well as the principal factors and reasons considered by it in concluding its advice.

Your attention is also drawn to the general information as set out in the appendix of this circular.

Yours faithfully,
By order of the Board of
Guangdong Kelon Electrical Holdings Company Limited
Liu Cong Meng
Vice Chairman

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)

27 April 2006

To the Independent Shareholders

Dear Sir and Madam,

CONTINUING CONNECTED TRANSACTION

We refer to the circular issued by the Company to its shareholders and dated 27 April 2006 (the "Circular") of which this letter forms part. Terms defined in this Circular have the same meanings when used in this letter unless the context otherwise requires.

Under the Listing Rules, the transactions engaged in by the Company as contemplated under the Sales Agency Agreement between the Company and Hisense Agent constitute Continuing Connected Transaction for the Company and are thus subject to the approval and ratification of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider the terms of the Sales Agency Agreement, the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement and to advise the Independent Shareholders in connection with the Continuing Connected Transaction as to whether, in our opinion, their terms and the Revised Cap are fair and reasonable so far as the Independent Shareholders are concerned. AMS Corporate Finance Limited has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from AMS Corporate Finance Limited as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, AMS Corporate Finance Limited as set out in its letter of advice, we consider that the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement) is on normal commercial terms, and that the Continuing Connected Transaction is in the best interest of the Company and the Shareholders as a whole. We also consider that the Continuing Connected Transaction and the Revised Cap of the Continuing Connected Transaction are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of ratifying the Company's transactions conducted pursuant to the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement).

Yours faithfully,
For and on behalf of the Independent Board Committee
LI Kung Man **XU Xiao Lu**
Independent non-executive Directors
Guangdong Kelon Electrical Holdings Company Limited

The following is the full text of the letter of advice from AMS Corporate Finance Limited in respect of the Sales Agency Agreement and is prepared for the purpose of incorporation into this circular.

博資財務顧問有限公司
AMS Corporate Finance Limited

20th Floor
Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central
Hong Kong

27 April 2006

To the Independent Board Committee and
the Independent Shareholders of
Guangdong Kelon Electrical Holdings Company Limited

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sales Agency Agreement (as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement, the "Revised Agency Agreement"), details of which have been set out in the circular to the Shareholders dated 27 April 2006 (the "Circular"), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Revised Agency Agreement. Unless the context otherwise requires, terms used in this letter have the same meanings as those defined in the Circular.

In connection with the Connected Transaction Circular, the Board announced on 4 April 2006 that the Company entered into the Second Supplemental Agency Agreement with Hisense Agent on 1 April 2006 to amend certain terms of the Sales Agency Agreement and the First Supplemental Agency Agreement. In particular, the Company and Hisense Agent agreed to revise the relevant caps and the duration previously proposed under the Sales Agency Agreement and the First Supplemental Agency Agreement.

As disclosed in the Share Transfer Announcement, Guangdong Greencool, which was the single largest shareholder of the Company, entered into the Equity Transfer Agreement with Hisense Air-Conditioner on 9 September 2005 pursuant to which Guangdong Greencool intended to transfer 262,212,194 domestic legal person shares of the Company (representing approximately 26.43% of the Company's total issued share capital as at the Latest Practicable Date) to Hisense Air-conditioner. Since 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, Hisense Group and its subsidiaries are deemed to be associates of the Company's existing substantial shareholder, Guangdong Greencool, under Rule 14A.11(4) of the Listing Rules and each of them is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Revised Agency Agreement are deemed to be continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to, among others, the approval of the Independent Shareholders at a general meeting of the Company.

However, as set out in the Letter from the Board, the Company has engaged in the transactions contemplated under the Revised Agency Agreement without the prior approval of the Independent Shareholders and such transactions have constituted non-compliance with Rule 14A.52 of the Listing Rules. In this connection, the Independent Board Committee, comprising of all the independent non-executive Directors, has been established to consider and, if thought fit, to ratify the transactions contemplated under the Revised Agency Agreement and to advise the Independent Shareholders on the fairness and reasonableness of these transactions. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the transactions contemplated under the Revised Agency Agreement are in the interests of the Company and the Shareholders as a whole; (ii) whether or not the terms of the Revised Agency Agreement and the Revised Cap are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the resolution to ratify the transactions contemplated under the Revised Agency Agreement at the EGM.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, its advisers and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company and the Directors and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be so at the date hereof. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors (except Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong who have been formally arrested by the Foshan City Police) have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business and affairs of the Group and Hisense Group and the markets in which they respectively operate.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Revised Agency Agreement, we have taken into consideration the following principal factors:

1. Background information and reasons for the Revised Agency Agreement

(i) Information on the Group

The Group is principally engaged in the manufacture and sales of refrigerators and air-conditioners. As stated in the Company's 2004 annual report and its latest interim report, the Group's operations were carried out in the PRC and almost all of the production facilities of the Group were located in the PRC. For the year ended 31 December 2004, approximately 60% of the Group's turnover was derived from the PRC market (including Hong Kong) with the rest derived from European, American and other overseas markets. Similarly, for the six months ended 30 June 2005, approximately 52% of the Group's turnover was derived from the PRC market (including Hong Kong) while the remaining 48% of the turnover was derived from the European, American and other overseas markets.

Set out below is a summary of the financial results of the Group extracted from the Company's 2003 and 2004 annual reports and interim report for the six months ended 30 June 2005:

	For the year ended 31 December			For the six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Turnover					
– Sales of refrigerators	2,252,045	3,016,247	3,274,329	1,919,998	1,469,138
– Sales of air-conditioners	2,337,240	2,680,590	4,501,234	2,688,304	2,596,029
– Sales of freezers	103,979	211,467	335,890	149,920	193,905
– Sales of product components	184,993	259,806	324,951	172,794	299,201
	4,878,257	6,168,110	8,436,404	4,931,016	4,558,273
Gross profit	1,009,155	1,659,793	1,820,597	1,028,011	411,762
Profit from operations	182,006	374,806	194,558	240,762	(368,260)
Net profit/(loss)	84,593	191,170	(44,658)	158,063	(434,554)

As shown in the above table, the operations of the Group were profitable for each of the two years ended 31 December 2003. The Group's turnover increased substantially by over 25% from approximately RMB4,878.3 million for the year ended 31 December 2002 to approximately RMB6,168.1 million for the year ended 31 December 2003, whereas over the same period, the Group's operating profit doubled from approximately RMB182.0 million to RMB374.8 million.

Nevertheless, for the year ended 31 December 2004, despite the increase in turnover by over 35% to approximately RMB8,436.4 million, the Group's operating profit decreased substantially by approximately 48% to approximately RMB194.6 million. In addition, the Group recorded a net loss of approximately RMB44.7 million for the year ended 31 December 2004 as opposed to a net profit of approximately RMB191.2 million for 2003. As indicated in the Company's annual report for 2004, although the Group was able to achieve a record high turnover of approximately RMB8,436.4 million for the year ended 31 December 2004, the operating results of the Group were significantly affected by, among others, the decrease in the overall gross profit margin of the Group's products from approximately 27% for 2003 to 22% for 2004 due to intense competition in both the domestic and export markets, the increase in price of raw materials such as copper, aluminium and plastics during the second half of 2004 and the decrease in VAT-rebate for exports of refrigerators and air-conditioners from 17% in 2003 to 13% in 2004. Furthermore, as a result of (i) the write-off of approximately RMB71.4 million in goodwill for investment in an associated company; (ii) the provision of approximately RMB41.4 million for inventories for 2004 versus a write-back of approximately RMB32.8 million for the allowance for inventories for 2003; and (iii) the provision for irrecoverable debts of approximately RMB42.0 million, the Group reported a net loss for the year ended 31 December 2004.

In addition, we notice that since 16 June 2005, the H Shares had been suspended from trading at the request of the Company pending the issue of an announcement in relation to price-sensitive information of the Company. As at the Latest Practicable Date, the H Shares remained suspended from trading.

For the six months ended 30 June 2005, the Group recorded an unaudited turnover of approximately RMB4,558.3 million, representing a decrease of approximately 8% from the unaudited turnover of approximately RMB4,931.0 million for the corresponding period last year. Over the same period, the Group recorded loss from operations and net loss of approximately RMB368.3 million and RMB434.6 million, respectively. As stated in the Company's interim report for 2005 (the "Interim Report"), the significant loss for the six months ended 30 June 2005 was mainly attributable to the suspension of certain production lines of the Group since May 2005.

According to the Company's announcement dated 9 May 2005, the Company confirmed that it was being formally investigated by the China Securities Regulatory Commission (the "CSRC") for alleged breaches of the securities laws and regulations in the PRC. As further stated in the Interim Report, such investigation by the CSRC was the result of the formal investigation by the PRC's Public Security Bureau in connection with criminal offences on the Company's former chairman, Mr. Gu Chu Jun, and other senior management officers who are suspected of having committed economic crimes. According to an announcement of the Company dated 12 August 2005, as Mr. Gu Chu Jun has been formally investigated by the PRC police department, in order to maintain the Company's production and operation, the Board unanimously resolved to remove Mr. Gu Chu Jun as chairman of the Company at a meeting of the Board held on 12 August 2005.

As indicated in the Company's announcement dated 26 August 2005, the incidents of the investigations announced in May 2005 had adversely affected the confidence of the financial institutions, suppliers and customers on the Company. The Company was unable to settle the amounts due to certain suppliers and about 40% of the suppliers reduced or stopped supplying raw materials for the production of air-conditioners to the Company since May 2005. As a result, about 70% of the Group's production lines of air-conditioners were gradually suspended during the period from May to August 2005. Similarly, about 20% of the suppliers reduced or stopped supplying raw materials for the production of refrigerators and freezers to the Company and accordingly, about 50% of the production lines of freezers and refrigerators were suspended during the period from May to August 2005. As further disclosed in the Interim Report, the Group experienced difficulties in renewal and origination of banking facilities and the lack of working capital significantly disturbed the Group's relationship with its suppliers and sales agents. As a result, the Group missed the peak season for production and sales of refrigerators and air-conditioners in May and June 2005 in which the turnover dropped by over 50% when compared with the corresponding period in 2004.

As noted in the Interim Report, as at 30 June 2005, the Group had total current assets of approximately RMB6,541 million and total current liabilities of approximately RMB7,470 million, representing net current liabilities of approximately RMB929 million. As at 30 June 2005, the Group had outstanding bank borrowings of approximately RMB2,452 million, substantially all of which were short-term in nature, of which approximately RMB240 million were overdue as at 30 June 2005 and approximately RMB1,420 million would fall due in December 2005. It was mentioned in the Interim Report that the Group was in the process of negotiating with certain banks and other creditors to restructure the amounts due to them.

According to the Company's announcement dated 26 August 2005, the Group announced that its principal production lines have resumed operations gradually since 20 August 2005 and the Company had in August 2005 established a special working unit, comprising the Company's vice chairman and president and five other members of the Company's principal management, who would be responsible for the Company's daily operation and the management of the workers so as to maintain production. It was also stated in the announcement that the Company intended to use the funding from the Company's available banking facilities, payments from customers for goods sold and deposits for new orders from customers in order to conduct its day to day operation, including production. It appears that the management of the Company has been actively working with the relevant financial institutions and creditors on matters relating to debt management and the Group is striving to settle the amounts due to its suppliers and to ensure stability of its sales network.

Given the substantial loss recorded by the Group for the six months ended 30 June 2005 as a result of the suspension of certain production lines of the Group due to the CSRC's investigation for alleged breaches of the PRC securities regulations by the Company (which arose from the investigation by the PRC's Public Security Bureau in connection with criminal offences on the Company's former chairman, Mr. Gu Chu Jun, and others who are suspected of having committed economic crimes), we consider it important for the Group being able to resume, in a timely manner, its production and sales activities to a scale comparable to the pre-crisis level. As stated in the Second Supplemental Agency Agreement Announcement, the total amount of purchases of products by Hisense Agent from the Company pursuant to the Revised Agency Agreement up to 28 February 2006 was approximately RMB1,352 million (further details will be discussed in the section headed "Rationale for determining the maximum value of the transactions contemplated under the Revised Agency Agreement" below). We therefore consider that the entering into the Revised Agency Agreement is in the interests of the Company and the Shareholders as a whole.

(ii) Information on Hisense Group

Hisense Agent, which is an indirect 70%-owned subsidiary of Hisense Group, is principally engaged in the sales of household electrical appliances, electronic products and the provision of related services. Based on the information available from the website of Hisense Group, we understand that Hisense Group is one of the major electronic companies in the PRC. Hisense Group is headquartered in Qingdao, the PRC and has an operational presence in every major continent and sells its products to more than 100 countries worldwide. Its major product lines include televisions, set-top boxes, mobile phones, air-conditioning systems and refrigerators. In addition, we note that Hisense Electric Co., Ltd. ("Hisense Electric"), of which Hisense Group was beneficially interested in approximately 58.72% of the issued share capital as at the Latest Practicable Date, has been listed on the Shanghai Stock Exchange of the PRC since 1997. The following financial results of Hisense Electric for each of the three years ended 31 December 2004 and the six months ended 30 June 2005 are extracted from its annual report for 2004 and interim report for 2005, respectively.

	For the year ended 31 December			**For the six months ended 30 June**
	2002	**2003**	**2004**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)
Turnover	5,623,550	5,734,404	7,500,208	4,464,962
Net profit	35,059	41,401	58,424	33,870
Net assets as at end of year/ period	2,307,219	2,348,758	2,408,199	2,399,365

As indicated above, Hisense Electric reported an average annual compound growth of approximately 15.5% and approximately 29.1% for its turnover and net profit, respectively, from 2002 to 2004. As stated in its annual report for the year ended 31 December 2004, the turnover of Hisense Electric mainly represented sales of televisions and refrigerators and approximately 85% of its turnover was generated from the domestic sales in the PRC. As at 30 June 2005, Hisense Electric had unaudited net asset value of approximately RMB2,399.4 million. In view of the favourable historical financial performance of Hisense Electric for the past few years and its strong financial position as at 30 June 2005, we consider that it has demonstrated a good track record and is one of the major electronic companies in the PRC.

In addition, we consider that Hisense Electric has established an effective domestic sales network in the PRC. As a fellow subsidiary of Hisense Electric, Hisense Agent can benefit from Hisense Electric's expertise and local knowledge in the domestic electric appliances market in the PRC. As stated in the Letter from the Board, the total assets of Hisense Agent as at 31 December 2004 were approximately RMB815.3 million and the revenue generated from its principal business amounted to approximately RMB3,211.6 million. On this basis, we are of the view that it is in the commercial interest of the Company to enter into the Revised Agency Agreement as Hisense Agent has the relevant expertise and resources to assist the Group in rebuilding its market position.

(iii) Reasons for the Revised Agency Agreement

As mentioned above, the production of the Group has been severely disrupted since May 2005 due to the withdrawal of support from the financial institutions, suppliers and sales agents to the Group as a result of the CSRC's investigation for alleged breaches by the Company of the PRC securities regulations which arose from the investigation by the PRC's Public Security Bureau in connection with criminal offences on the Company's former chairman, Mr. Gu Chu Jun, and others who are suspected of having committed economic crimes. As stated in the Letter from the Board, the Directors consider that it is unlikely for the Company to raise funds by way of bank borrowings and therefore has to seek other means of financing so as to resume operation as soon as possible.

Pursuant to the Revised Agency Agreement, an aggregate prepayment for purchases of the Company's products not exceeding RMB600 million would be made available to the Group for the purchases of raw materials for production of its products. As stated in the Letter from the Board, prepayments amounted to a total of approximately RMB301 million had been received by the Company pursuant to the Sales Agency Agreement and the First Supplemental Agency Agreement. The Directors considered that such prepayments from Hisense Agent had improved the Group's liquidity and allowed the Group to normalise its operation considerably. Accordingly, the Directors are of the view that the entering into the Revised Agency Agreement is in the interests of the Company and the Shareholders as a whole.

As mentioned above, the H Shares had been suspended from trading since 16 June 2005 and remained so as at the Latest Practicable Date. It would be unlikely, if not impossible, for the Company to raise fund through equity financing, such as share placement or rights issue. As the Group is operating in difficult financial and trading positions and with the prolonged suspension of trading of the H Shares, we are of the opinion that it would be difficult for the Company to obtain funds on comparable terms to those under the Revised Agency Agreement.

As indicated in the Share Transfer Announcement, upon completion of the Equity Transfer Agreement, Hisense Air-conditioner will become the single largest shareholder of the Company and will hold 262,212,194 domestic legal person shares in the Company (representing approximately 26.43% of the Company's total issued share capital as at the Latest Practicable Date). In view of the possible substantial interest of Hisense Group in the Company, we consider it commercially reasonable and sensible for Hisense Group to provide support to the Group so as to rebuild the Group's market position which has been adversely affected by the suspension of certain production lines of the Group as a result of the CSRC's investigation for alleged breaches of the PRC securities regulations by the Company (which arose from the investigation by the PRC's Public Security Bureau in connection with criminal offences on the Company's former chairman, Mr. Gu Chu Jun, and others who are suspected of having committed economic crimes). Given that Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has demonstrated a good track record in the sales of electrical appliances in the PRC, we consider that it is in the commercial interest of the Company to appoint Hisense Agent (which will become its fellow subsidiary upon completion of the Equity Transfer Agreement) as its sales agent for the entire domestic market in the PRC. Accordingly, we consider that the entering into the Revised Agency Agreement is in the interests of the Company and the Independent Shareholders as a whole.

2. Terms of the Revised Agency Agreement

In accordance with the Sales Agency Agreement and the First Supplemental Agency Agreement, Hisense Agent would purchase certain products from the Company and distribute to various vendors in the PRC during the period from 16 September 2005 to 31 March 2006. Pursuant to the Second Supplemental Agency Agreement, the validity of the Sales Agency Agreement has been extended to 10 May 2006, subject to early termination, extension or variation to be mutually agreed.

The terms of the Revised Agency Agreement have been set out in the Letter from the Board. The Revised Agency Agreement contemplates that Hisense Agent will purchase products from the Company from time to time. In particular, from the date of receipt of the prepayment by the Company under the Sales Agency Agreement, the Company would supply its products to Hisense Agent by delivering them to the warehouses designated by Hisense Agent. Upon delivery of the ordered products to the designated warehouses, the title to the products would pass to Hisense Agent, who will be responsible for collecting the sales proceeds from the relevant customers, and the Group will recognise the sales revenue. In addition, as stated in the Letter from the Board, Hisense Agent has no right to return any unsold goods to the Company, and in the event that Hisense Agent is unable to recover the sales proceeds from the relevant customers, Hisense Agent has no right to claim against the Company.

Pursuant to the Second Supplemental Agency Agreement, it is agreed that the purchases by Hisense Agent from the Company during the period from 16 September 2005 until the expiry of the Revised Agency Agreement will not exceed RMB2,800 million, of which the purchases to be made up to the year-end of 2005 will not exceed RMB800 million. Accordingly, the amount of purchases to be made by Hisense Agent from the Company from 1 January 2006 until the expiry of the Revised Agency Agreement will not exceed RMB2,000 million. The prices at which goods will be sold to Hisense Agent will be equivalent to those 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.

In accordance with the Sales Agency Agreement and the First Supplemental Agency Agreement, Hisense Agent would advance an aggregate prepayment for purchases of the Company's products not exceeding RMB600 million. As mentioned above, prepayments amounted to a total of approximately RMB301 million had been received by the Company pursuant to the Sales Agency Agreement and the First Supplemental Agency Agreement. It was agreed that the Company would not be required to repay any of the prepayments during the term of the Sales Agency Agreement and interest would be charged to the Company on the basis of the actual amount of the prepayments received by the Company and accrued for the actual number of days outstanding at the interest rate equivalent to the annual interest rates on working capital loans announced by the People's Bank of China from time to time. Given the fact that up to 28 February 2006, the Group had already sold products to Hisense Agent with sales value of approximately RMB1,352 million under the Revised Agency Agreement, such prepayments of RMB301 million have therefore been fully set-off against the value of purchases made by Hisense Agent from the Company. As advised by the Company, the amount of interests accrued on the prepayments will be ascertained and settled upon the expiry of the Revised Agency Agreement.

We note that the annual interest rate on working capital loans announced by the People's Bank of China was approximately 5.58% in about September 2005 when prepayments were made available to the Company by Hisense Agent. As indicated in the Company's 2004 annual report, the Group incurred total finance costs of approximately RMB159.1 million, representing a finance cost of approximately 4.87% per annum based on the Group's average total bank borrowings of approximately RMB3,267.4 million for the year ended 31 December 2004. As further indicated in the Interim Report, the total finance costs incurred by the Group for the six months ended 30 June 2005 amounted to approximately RMB79.5 million, representing a finance cost of approximately 5.46% per annum of its average total bank borrowings of approximately RMB2,910 million for the six months ended 30 June 2005 which is very close to such interest rate as announced by the People's Bank of China for working capital loans. Given that the prepayments made available to the Company were essentially an alternative means of working capital financing by Hisense Group and, under the present critical financial and operating conditions, the Group would unlikely be able to obtain any further financial support from banks or business associates, we consider the interest payable by the Group on the prepayments under the Revised Agency Agreement which was based on the annual interest rate on working capital loans announced by the People's Bank of China from time to time to be fair and reasonable as far as the Independent Shareholders are concerned.

In addition, pursuant to the Revised Agency Agreement, when the value of the Group's sales to Hisense Agent exceeds the aggregate prepayments actually received by the Group during the term of the Revised Agency Agreement, the relevant sales to Hisense Agent will be settled within a period of 60 days. As advised by the Company, the value of sales of products by the Group to Hisense Agent in excess of the prepayments of approximately RMB301 million received by the Group has so far been settled substantially in accordance with the terms of the Revised Agency Agreement.

As regards the credit period of 60 days offered to Hisense Agent, we note from the Company's 2004 annual report that sales are usually settled by cash on delivery for small and new customers and the Group allows a credit period of one year for large and well established customers. Given the value of the proposed sales to Hisense Agent of up to RMB2,800 million during the term of the Revised Agency Agreement and the credit period of one year offered to the Group's large and well-established customers in general, we consider that the proposed credit period of 60 days offered to Hisense Agent is fair and reasonable.

As stated in the Connected Transaction Circular, subject to the assessment of the operational targets (which, subject to further negotiation by the Company and Hisense Agent, were the aggregate value of purchases by Hisense Agent from the Company of RMB500 million and RMB1,400 million for each of the periods ended 31 December 2005 and 31 March 2006, respectively, pursuant to the Sales Agency Agreement and the First Supplemental Agency Agreement), 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 and such agency fees will be paid quarterly. Hisense Agent will not charge any other fees and the Company is responsible for all related sales expenses. The actual agency fees payable by the Company will be subject to deduction of different scale depending on the extent to which the actual sales by Hisense Agent cannot reach the operational targets. As stated in the Letter from the Board, as at the Latest Practicable Date, the Company had not yet paid any agency fees to Hisense Agent pursuant to the Sales Agency Agreement and the First Supplemental Agency Agreement. As the Company and Hisense Agent have amended the duration of the Sales Agency Agreement and the Cap in relation to the Continuing Connected Transaction pursuant to the Second Supplemental Agency Agreement, it is the intention of the Company and Hisense Agent to assess the operational targets by reference to the amount of the Revised Cap and settle all of the agency fees upon the expiry of the Revised Agency Agreement.

As stated above, the prices at which goods will be sold to Hisense Agent will be equivalent to those prices offered by the Company to various distributors and, other than the 1% agency fee at the maximum, Hisense Agent will not receive any other fees from the Company.

As advised by the management of Hisense Agent, the primary objective of the arrangements under the Revised Agency Agreement is to provide working capital financing to the Group so that it will be able to resume its production and domestic sales activities. The involvement of Hisense Agent as a sales agent of the Group's products aims to help the Group in regaining its bargaining power to deal with its customers which has been lost considerably following the CSRC's investigation for alleged breaches by the Company of the PRC securities regulations (which was due to the investigation by the PRC's Public Security Bureau in connection with criminal offences on the Company's former chairman, Mr. Gu Chu Jun, and others who are suspected of having committed economic crimes) and the prolonged suspension of the Group's operations.

As stated in the Letter from the Board, the 1% agency fee is determined after arm's length negotiation between the Company and Hisense Agent and is considered by Hisense Agent as a nominal amount to compensate its administrative costs to be incurred for the transactions under the Revised Agency Agreement. As advised by the Company, there is no historical transaction between the Group and any independent third parties which is similar or comparable to the transactions contemplated under the Revised Agency Agreement. On the other hand, we are not aware of any public information on agency arrangements or their terms in a similar or comparable industry. Accordingly, we are unable to opine on whether the arrangements or the agency fee payable to Hisense Agent under the Revised Agency Agreement are on normal commercial terms. Nevertheless, we note from the historical financial results of the Group for the past three financial years ended 31 December 2004 that the respective gross profit margin for each of the three financial years was approximately 20.7%, 26.9% and 21.6%. In view of the historical gross profit margin of over 20% for the past few financial years, we do not consider that the proposed 1% agency fee, which will form part of the Group's cost of sales, is excessive or burdensome to the Group.

On the basis that (i) the sales of products by the Company to Hisense Agent are conducted in the ordinary and usual course of business of the Group and at prices that are equivalent to those offered to other independent third party distributors and (ii) Hisense Group, being one of the major electronic companies in the PRC, has the required resources and expertise to assist the Group in rebuilding its market position, we are of the view that the 1% agency fee is fair and reasonable so far as the Independent Shareholders are concerned. On the basis that up to 28 February 2006, the Group had already sold products to Hisense Agent with sales value of approximately RMB1,352 million under the Revised Agency Agreement, we also consider that the primary objective of the Revised Agency Agreement to provide working capital and assistance to the Group so as to resume its production and domestic sales activities has been achieved. Therefore, the entering into the Revised Agency Agreement is in the interests of the Company and the Independent Shareholders as a whole.

3. Rationale for determining the maximum value of the transactions contemplated under the Revised Agency Agreement

Pursuant to Rule 14A.35(2) of the Listing Rules and given the term of the Revised Agency Agreement, the ongoing purchases of products by Hisense Agent from the Company and the payments of agency fee by the company to Hisense Agent during the period from 16 September 2005 until the expiry of the Revised Agency Agreement will be subject to an annual cap for each of the relevant financial years of the Company. As indicated in the Revised Agency Agreement, the maximum value of purchases of products by Hisense Agent from the Company for the periods from 16 September 2005 to 31 December 2005 and from 1 January 2006 until the expiry of the Revised Agency Agreement will not exceed RMB800 million and RMB2,000 million, respectively, and accordingly the maximum value of agency fees payable by the Company to Hisense Agent for the same respective periods will not exceed RMB8 million and RMB20 million. In other words, the maximum values, or "caps", of the transactions contemplated under the Revised Agency Agreement for the relevant financial years will be as follows:

	Maximum value of purchases by Hisense Agent from the Company *(RMB' million)*	**Maximum value of agency fee payable by the Company to Hisense Agent** *(RMB' million)*
Proposed caps:		
Year 2005 (from 16 September 2005 to 31 December 2005)	800	8
Year 2006 (from 1 January 2006 until the expiry of the Revised Agency Agreement)	2,000	20

As noted in the Letter from the Board, the maximum aggregate value of purchases of products during the period from 16 September 2005 to 31 December 2005 (i.e. the 2005 Revised Purchase Cap) was determined by reference to the actual value of the purchases from the Group by Hisense Agent in 2005, whereas the maximum aggregate value of purchases of products during the period from 1 January 2006 until the expiry of the Revised Agency Agreement (i.e. the 2006 Revised Purchase Cap) was arrived at between the Company and Hisense Agent having taken into account the revised level of products expected to be purchased by Hisense Agent from the Company during 1 January 2006 to 10 May 2006.

As noted in the Letter from the Board, the aggregate value of purchases of products by Hisense Agent from the Company up to 31 December 2005 amounted to approximately RMB727 million. On the basis of such actual value of purchases conducted between the Company and Hisense Agent during the period from 16 September 2005 to 31 December 2005, we are of the view that the 2005 Revised Purchase Cap of RMB800 million for the financial year ended 31 December 2005 has been arrived at on a fair and reasonable basis.

On the other hand, as disclosed in the Letter from the Board, the aggregate value of purchases of products by Hisense Agent from the Company up to 28 February 2006 amounted to approximately RMB1,352 million. In other words, the aggregate value of purchases of products by Hisense Agent from the Company from 1 January 2006 to 28 February 2006 was approximately RMB625 million (i.e. RMB1,352 million – RMB727 million). Given the 2006 Revised Purchase Cap of RMB2,000 million, it is expected that the aggregate value of purchases of products by Hisense Agent from the Company during the period from 1 March 2006 to 10 May 2006 will amount to approximately RMB1,375 million (i.e. RMB2,000 million – RMB625 million).

As noted in the Company's annual reports, the turnover of the Group in respect of domestic sales in the PRC amounted to approximately RMB4,563.9 million, RMB3,922.9 million and RMB4,977.5 million for each of the three financial years ended 31 December 2004, respectively, representing an average annual turnover of approximately RMB4,511.4 million. In view of this, we consider that the proposed maximum value of purchases of products of RMB2,800 million for the period from 16 September 2005 to 10 May 2006 (i.e. approximately eight months), representing approximately 62% of the Group's average annual turnover in respect of domestic sales in the PRC for the past three financial years, is not excessive and has been determined by the Company and Hisense Agent on a reasonable basis.

As mentioned above, the primary objective of the arrangements under the Revised Agency Agreement is to assist the Company so as to resume the production and domestic sales activities, and to rebuild the Company's market position which has been adversely affected by the suspension of certain production lines of the Group as a result of the CSRC's investigation for alleged breaches of the PRC securities regulations by the Company (which arose from the investigation by the PRC's Public Security Bureau in connection with criminal offences on the Company's former chairman, Mr. Gu Chu Jun, and others who are suspected of having committed economic crimes).

Given the fact that (i) the proposed maximum value of purchases of products by Hisense Agent from the Company for each of the relevant periods has been largely arrived at based on the actual transactions already conducted between them; (ii) the proposed maximum value of purchases of products of RMB2,800 million for the whole term of the Revised Agency Agreement does not appear to be excessive as compared to the average historical sales value of the Group for the past three financial years ended 31 December 2004; and (iii) the 1% agency fee is the maximum amount payable by the Company to compensate the administrative costs of Hisense Agent to be incurred for the transactions under the Revised Agency Agreement and Hisense Agent will not charge any other fees for acting as the sales agent of the Company, we consider that the proposed maximum value of the purchases and the agency fees for the relevant periods as set out above are reasonably stated. Accordingly, we consider that the 2005 Revised Purchase Cap of RMB800 million and the 2005 Revised Agency Fees Cap of RMB8 million for the period from 16 September 2005 to 31 December 2005, and the 2006 Revised Purchase Cap of RMB2,000 million and the 2006 Revised Agency Fees Cap of RMB20 million for the period from 1 January 2006 until the expiry of the Revised Agency Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the above principal factors and reasons, in particular, the following:

(i) the financial and trading positions of the Group following the severe disruption as a result of the CSRC's investigation;

(ii) the purchases of the Company's products by Hisense Agent have been conducted in the ordinary and usual course of business of the Group and the prices at which goods have been sold to Hisense Agent are equivalent to those prices offered by the Company to various distributors;

(iii) the interest and agency fee payable to Hisense Agent under the Revised Agency Agreement are fair and reasonable given the Group's critical financial and trading conditions;

(iv) the value of, and the basis for determining, the caps under the Revised Agency Agreement are reasonable, details of which are set out in the section headed "Rationale for determining the maximum value of the transactions contemplated under the Revised Agency Agreement"; and

(v) on the basis that up to 28 February 2006, purchases in the total amount of RMB1,352 million had been made by Hisense Agent from the Company, the primary objective of the Revised Agency Agreement to provide working capital and assistance to the Group so as to resume its production and domestic sales activities has therefore been achieved.

Based on the above, we are of the opinion that the Revised Agency Agreement is in the interests of the Company and the Shareholders as a whole, the transactions contemplated under the Revised Agency Agreement are in the ordinary and usual course of the business of the Group and the terms of which including the proposed Revised Cap are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the ordinary resolution to ratify the transactions contemplated under the Revised Agency Agreement at the EGM.

Yours faithfully,
For and on behalf of
AMS Corporate Finance Limited
Jinny Mok
Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. Save and except for Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong who have been formally arrested by the Foshan City Police and cannot be contacted as at the Latest Practicable Date, the Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS

(a) Directors' interests and short position

(i) As at the Latest Practicable Date, the interests and short positions of the Directors, chief executive and supervisors of the Company in the Shares, underlying Shares and debentures of the Company were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), required pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Interests in the Company

Name	Position	Type of interest	Number of issued ordinary Shares held	Proportion to the relevant class of issued share capital of the Company	Proportion to the total issued share capital of the Company
Gu Chu Jun *(i)*	Director	Corporate	262,212,194 Legal Person Shares	77.60%	26.43%
Gu Chu Jun *(ii)*	Director	Corporate	3,830,000 H Shares	0.83%	0.39%
He Si	Supervisor	Personal/Family	50,000 A Shares	0.03%	0.005%

Notes:

(i) As at the Latest Practicable Date, Guangdong Greencool was interested in 262,212,194 Legal Person Shares in the Company, representing approximately 26.43% of the total issued share capital of the Company as at the Latest Practicable Date. Mr. Gu Chu Jun directly owns 60% of the total investment in Guangdong Greencool. Accordingly, for the purposes of the SFO, Mr. Gu Chu Jun is deemed interested in such Shares through his interests in Guangdong Greencool.

(ii) Mr. Gu Chu Jun is the controlling shareholder of Greencool Technology Holdings Limited (a company listed on the Stock Exchange Growth Enterprise Market). Mr. Gu Chu Jun is interested in approximately 63.6% of the share capital of Greencool Technology Holdings Limited. Two subsidiaries of Greencool Technology Holdings Limited are together interested in 3,830,000 H Shares of the Company, representing approximately 0.39% of the issued share capital of the Company. Accordingly, for the purposes of the SFO, Mr. Gu Chu Jun is deemed interested in such H Shares through his interests in Greencool Technology Holdings Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), which were required pursuant to section 352 of the SFO to be entered into the register referred to therein or, which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(ii) Save as Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong who had been formally arrested by the Foshan City Police and cannot be contacted as at the Latest Practicable Date, none of the other Directors or proposed Directors has any direct or indirect interest in any assets which have since 31 December 2004 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(iii) Save as Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong who had been formally arrested by the Foshan City Police and cannot be contacted as at the Latest Practicable Date, none of the other Directors is materially interested in any contract or arrangement entered into by the Company subsisting at the date of this circular which is significant in relation to the business of the Group.

(b) Interests of Substantial Shareholders

Interests in the Company

As at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as is known to the Directors or the chief executive of the Company, the following person (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Class of Shares	Number of issued ordinary shares held	Proportion to the relevant class of issued share capital of the Company	Proportion to the total issued share capital of the Company
Guangdong Greencool Enterprise Development Company Limited *(Note)*	Legal Person Shares	262,212,194	77.60%	26.43%
Shunde Economic Consultancy Company	Legal Person Shares	68,666,667	20.32%	6.92%
Shenyin Wanguo Securities (H.K.) Limited	H Shares	54,851,000	11.93%	5.53%
The Hongkong and Shanghai Banking Corporation Ltd.	H Shares	51,092,925	11.12%	5.15%
Bank of China (Hong Kong) Limited	H Shares	49,132,000	10.69%	4.95%
Guotai Junan Securities (Hong Kong) Limited	H Shares	40,965,000	8.91%	4.13%
HSBC Nominees (Hong Kong) Limited	H Shares	40,106,904	8.73%	4.04%
First Shanghai Securities Limited	H Shares	25,868,000	5.63%	2.61%

Note: As at the Latest Practicable Date, Guangdong Greencool was interested in 262,212,194 Legal Person Shares in the Company, representing approximately 26.43% of the total issued share capital of the Company as at the Latest Practicable Date. Mr. Gu Chu Jun directly owns 60% of the total investment in Guangdong Greencool. Accordingly, for the purposes of the SFO, Mr. Gu Chu Jun is deemed interested in such Shares through his interests in Guangdong Greencool.

As at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, the following parties who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group other than the Company:

Interests in other members of the Group other than the Company

Other members of the Group	**Shareholders holding 10% or more in other members of the Group**	**Percentage shareholding of shareholders in other members of the Group**
Guangdong Kelon Air-Conditioner Co., Ltd.	Weishi Investments Company Limited	40%
Guangdong Kelon Mould Co., Ltd.	Hua Yi Compressor Company Limited	30%
Foshan Shunde Rongsheng Plastic Products Co., Ltd.	Hua Yi Compressor Company Limited	30%
Guangdong Huaao Electrical Electronics Co., Ltd.	Foshan City Shunde District Yun Long Enquiry Service Company Limited	30%
Chengdu Kelon Refrigerator Co., Ltd.	Chengdu Generator Factory	30%
Yingkou Kelon Refrigerator Co., Ltd.	Yingkou Yingleng (Group) Bankruptcy Liquidation Team	14.74%
Hangzhou Kelon Electrical Company Limited	Hangzhou Xiling Group Company Limited	30%
Xi'an Kelon Cooling Co., Ltd.	Xi'an Gaoke (Group) Company Limited	29.05%
Jiangxi Kelon Combine Electrical Appliances Co., Ltd.	Jiangxi Fadasi Domestic Electrical Appliances Company Limited	45%
Kaifeng Kelon Air-Conditioner Co., Ltd.	Kaifeng Economic Technique Development (Group) Company	30%

Other members of the Group	Shareholders holding 10% or more in other members of the Group	Percentage shareholding of shareholders in other members of the Group
Huayi Compressor Company Limited	Huayi Electrical Appliances Company Limited	40.67%
	A-Share public Shareholders	30.61%
Chongqing Kelon Rongsheng Refrigerator Sales Co., Ltd.	Chongqing Shang She Group	24%
	Chongqing Huaqing Commerce Company	24%
	Chongqing Department Building	24%
Guangzhou Antaida Logistic Co., Ltd.	Guangzhou Zhongyuan International Freight Forwarding Company Limited	30%
	China Far Ocean Network Company Limited	25%
	Wuxi Small Swan Holdings Company Limited	20%
Wuhu Yingjia Electrical Machinery Co., Ltd	Heavenly King Incorporated	20%

Save as disclosed above, the Directors and the chief executive of the Company are not aware that there are any other persons (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, or in any option, in respect of such capital.

COMPETING INTERESTS

As at the Latest Practicable Date, Mr. Gu Chu Jun, through Guangdong Greencool, indirectly holds 82,852,683 domestic legal person shares of Hefei Meiling Co., Ltd ("Hefei Meiling"), representing 20.03% of the total issued share capital of Hefei Meiling (the "Hefei Meiling Shares"). Hefei Meiling is principally engaged in the research, manufacturing, and sales of various types of household refrigerators, freezers, and low temperature medical refrigerators (the "Hefei Meiling Business"). In this respect, Mr. Gu Chu Jun is regarded to be interested in a competing business of the Group.

As at the Latest Practicable Date, the Company has not entered into any non-compete undertaking with Mr. Gu Chu Jun. The Company believes that there is no significant overlap between the respective businesses of the Company and Hefei Meiling, for the following reasons:

(i) the Company is principally engaged in the research, manufacturing and sales of refrigerators and air-conditioners, which can be distinguished from the Hefei Meiling Business. As far as the Company is aware, the only potential overlapping business of the Company and Hefei Meiling is the refrigerators market in the PRC; and

(ii) even if there is any overlap in the refrigerator business of the Company and Hefei Meiling in the PRC, such business can be further distinguished in terms of the levels of technology used in the manufacture of their respective products, the style of their respective products and their respective target market segments in the PRC.

Furthermore, on 10 November 2005, Hefei Meiling announced in the PRC that Sichuan Changhong Electric Co., Ltd ("Sichuan Changhong") and Guangdong Greencool have entered into an equity transfer agreement (the "Sichuan Changhong Agreement"), pursuant to which Guangdong Greencool agreed to transfer the Hefei Meiling Shares to Sichuan Changhong. Upon completion of the Sichuan Changhong Agreement, the Company believes that there will no longer be any issues concerning competing business between Hefei Meiling and the Company as a result of Hefei Meiling and the Company being controlled, directly or indirectly, by the same person.

Save as disclosed above, none of the directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

SERVICE CONTRACTS

None of the Directors has entered into or is proposing to enter into a service contract with any member of the Group which may not be expiring or determinable within one year without payment of compensation (other than statutory compensation).

MATERIAL CHANGE

Save and except for, among others, (i) the profit warning dated 26 April 2005; (ii) the formal investigation of the Company by the China Securities Regulatory Commission for alleged breaches of securities laws and regulations in the PRC; (iii) the suspension of trading in H shares of the Company since 16 June 2005; (iv) the suspension of part of the Company's production of refrigerators and air conditioners from May to August 2005; (v) the profit warning dated 13 July 2005; (vi) the foreclosure by the Intermediate People's Court of the Shenzhen City of 262,212,194 legal person shares of the Company held by Guangdong Greencool from 28 July 2005 to 27 July 2006; (vii) the resumption of operations of the Company's principal production lines since 20 August 2005; (viii) the retrospective adjustments made to the 2003 and 2004 financial statements due to the excessive sum of revenue recognised in 2004 and the omission of recording trade receivables and payables in 2003; (ix) the material litigations and arbitrations involving the Company; (x) the Company's former chairman Mr. Gu Chu Jun, the Company's executive directors Mr. Yan You Song and Mr. Zhang Hong, and other members of the Company's management being arrested for alleged economic crime on 2 September 2005; (xi) the change in senior management on 16 September 2005; (xii) the foreclosure by the Intermediate People's Court of Foshan City of Guangdong Province of 262,212,194 legal person shares of the Company held by Guangdong Greencool and all the bonus shares, placement shares and bonus dividends and other interests thereof; (xiii) the profit warning dated 28 October 2005, as disclosed in the Company's announcements since 26 April 2005; (xiv) the resignation of independent non-executive Director Mr. Chan Pei Cheong, Andy on 23 January 2006; (xv) the completion of the investigation on the material cash flows incurred by the Group during the period between 1 October 2001 and 31 July 2005 which are inconsistent with or are irrelevant to the business of the Company (the "Investigation") and the issuance of the report regarding the results of the Investigation by KPMG on 13 January 2006; and (xvi) the material litigations and arbitrations initiated by the Company against, among others, Gu Chu Jun, Guangdong Greencool and the companies directly or indirectly controlled by Gu Chu Jun and/or Guangdong Greencool, the Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004 (being the date to which the latest published audited financial statements of the Company were made up).

EXPERT

(a) The following is the qualification of AMS Corporate Finance Limited which has given its opinion or advice which is contained in this circular:

Name	Qualification
AMS Corporate Finance Limited	a corporation licensed under the SFO to conduct types 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO

(b) AMS Corporate Finance Limited does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) AMS Corporate Finance Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

(d) AMS Corporate Finance Limited does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2004, the date to which the latest published audited financial statements of the Company were made up.

(e) The letter and recommendation given by AMS Corporate Finance Limited are given as of the date of this circular for incorporation herein.

MISCELLANEOUS

The English version of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at Room 2502-2505, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including 15 May 2006:

(a) the Sales Agency Agreement;

(b) the First Supplemental Agency Agreement; and

(c) the Second Supplemental Agency Agreement.