

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)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting of Guangdong Kelon Electrical Holdings Company Limited (the "Company") will be held at the conference room on the Company's head office, Shunde District, Foshan City, Guangdong Province, the People's Republic of China (the "PRC") on 5 December 2006 at 9:30 a.m. to review and, if thought fit, pass the following resolutions:

ORDINARY RESOLUTIONS

- (1) To consider and approve the report of the directors of the Company for the year ended 2005;
- (2) To consider and approve the report of the supervisory committee of the Company for the year ended 2005;
- (3) To consider and approve the annual report of the Company for the year ended 2005;
- (4) To consider and approve the profit distribution budget of the Company for the year ended 2005;
- (5) To reappoint Shenzhen Dahua Tiancheng Certified Public Accountants and BDO McCable Lo Limited as the local and foreign auditors respectively for the ensuing year and authorize the board of directors of the Company (the "Board") to fix their remuneration;
- (6) To consider and approve the proposal relating to the retrospective adjustment to the figures at the beginning of the year and provisions for impairment of inventories, fixed assets, construction in progress, intangible assets, impairment of long-term investment and provisions for bad debts;
- (7) Regarding the continuing connected transactions entered between the relevant subsidiaries of the Company and Huayi Compressor, Jiayi Beila or Huayi Jingzhou, including (capitalised terms used in this resolution have the same meanings as those defined in the announcement of the Company dated 18 September 2006):
 - (i) To consider and approve Compressors Purchase and Supply Framework Agreement I dated 15 September 2006 entered into between Kelon Freezer and Huayi Compressor and the continuing connected transactions contemplated thereunder;
 - (ii) To consider and approve Compressors Purchase and Supply Framework Agreement II dated 15 September 2006 entered into between Kelon Freezer and Jiayi Beila and the continuing connected transactions contemplated thereunder;
 - (iii) To consider and approve Compressors Purchase and Supply Framework Agreement III dated 15 September 2006 entered into between Kelon Freezer and Huayi Jingzhou and the continuing connected transactions contemplated thereunder;

- (iv) To consider and approve Compressors Purchase and Supply Framework Agreement IV dated 15 September 2006 entered into between Yingkou Kelon and Jiaxi Beila and the continuing connected transactions contemplated thereunder;
 - (v) To consider and approve Compressors Purchase and Supply Framework Agreement V dated 15 September 2006 entered into between Jilin Kelon and Jiaxi Beila and the continuing connected transactions contemplated thereunder;
 - (vi) To consider and approve Compressors Purchase and Supply Framework Agreement VI dated 15 September 2006 entered into between Hangzhou Kelon and Huayi Compressor and the continuing connected transactions contemplated thereunder;
 - (vii) To consider and approve Compressors Purchase and Supply Framework Agreement VII dated 15 September 2006 entered into between Hangzhou Kelon and Jiaxi Beila and the continuing connected transactions contemplated thereunder;
 - (viii) To consider and approve Compressors Purchase and Supply Framework Agreement VIII dated 15 September 2006 entered into between Chengdu Kelon and Jiaxi Beila and the continuing connected transactions contemplated thereunder;
 - (ix) To consider and approve Compressors Purchase and Supply Framework Agreement IX dated 15 September 2006 entered into between Chengdu Kelon and Huayi Compressor and the continuing connected transactions contemplated thereunder;
 - (x) To consider and approve Compressors Purchase and Supply Framework Agreement X dated 15 September 2006 entered into between Kelon Refrigerator and Huayi Compressor and the continuing connected transactions contemplated thereunder;
 - (xi) To consider and approve Compressors Purchase and Supply Framework Agreement XI dated 15 September 2006 entered into between Jilin Kelon and Huayi Compressor and the continuing connected transactions contemplated thereunder;
 - (xii) To consider and approve Compressors Purchase and Supply Framework Agreement XII dated 15 September 2006 entered into between Yingkou Kelon and Huayi Compressor and the continuing connected transactions contemplated thereunder;
 - (xiii) To consider and ratify the continuing connected transactions in relation to the purchase of compressors entered into between the relevant subsidiaries of the Company and Huayi Compressor, Jiaxi Beila or Huayi Jingzhou since January 2005 up to the date of the annual general meeting (capitalised terms used in this resolution have the same meanings as those defined in the announcement of the Company dated 18 September 2006);
- (8) Regarding the continuing connected transactions entered between the relevant subsidiaries of the Company and subsidiaries of Hisense Group, including (capitalised terms used in this resolution have the same meanings as those defined in the announcement of the Company dated 18 September 2006):
- (i) To consider and approve Mould Purchase Framework Agreement dated 15 September 2006 entered into between Kelon Mould and Hisense Air-Conditioning and the continuing connected transactions contemplated thereunder;

- (ii) To consider and approve Raw Materials Purchase and Supply Framework Agreement dated 15 September 2006 entered into between Kelon Air-Conditioner and Hisense Zhejiang and the continuing connected transactions contemplated thereunder;
 - (iii) To consider and approve Air-Conditioners Production and Purchase Framework Agreement dated 15 September 2006 entered into between Kelon Air-Conditioner and Hisense Zhejiang and the continuing connected transactions contemplated thereunder;
 - (iv) To consider and approve Air-Conditioners Production and Supply Framework Agreement dated 15 September 2006 entered into between Kelon Air-Conditioner and Hisense Marketing and the continuing connected transactions contemplated thereunder;
 - (v) To consider and ratify the continuing connected transactions in relation to the purchase of electrical appliances, the purchase of compressors, the supply of moulds, the purchase and supply of air-conditioners and the supply of raw-materials entered into between the subsidiaries of the Company and the subsidiaries of Hisense Group since October 2005 up to the date of the annual general meeting (capitalised terms used in this resolution have the same meanings as those defined in the announcement of the Company dated 18 September 2006);
- (9) To consider and approve the emoluments to be received by Mr. Tang Ye Guo as chairman of the Board;
- (10) To consider and approve the removal and appointment of supervisors representing the shareholders of the Company, including:
- (i) To consider and approve the removal of Mr. Zeng Jun Hung as the supervisor representing the shareholders of the Company;
 - (ii) To consider and approve the appointment of Mr. Guo Qingcun as the supervisor representing the shareholders of the Company;
 - (iii) To consider and approve the appointment of Mr. Zhou Zhaoli as the supervisor representing the shareholders of the Company;
- (11) To consider and approve the proposed amendments to the “Rules of Procedures for the Meetings of the Supervisory Committee of the Company”;
- (12) To consider and approve the proposed amendments to the “Rules of Procedures for the Meetings of the Board of Directors of the Company”;
- (13) To consider and approve the proposed amendments to the “Rules of Procedures for the General Meetings of the Company”;
- (14) To consider and approve the grant of guarantees in the total sum of RMB1.512 billion to the subsidiaries of the Company for the year 2006;

SPECIAL RESOLUTIONS

- (15) To consider and approve the proposed amendments to the articles of associations of the Company set out in the appendix.

SUSPENSION OF TRADING IN THE H SHARES

At the request of the Company, trading in the H shares was suspended with effect from 10:00 a.m. on 16 June 2005 pending the release of an announcement in relation to price sensitive information. Subject to the further announcements in relation to, amongst others, the financial, production and trading position of the Group, and the satisfaction by the Stock Exchange of Hong Kong Limited of the adequacy of the internal control measures of the Company, trading in the H Shares will remain suspended until further notice.

By Order of the Board of
Guangdong Kelon Electrical Holdings Company Limited
Tang Ye Guo
Chairman

Foshan City, Guangdong, the PRC, 16 October 2006 2006

As at the date of this circular, the Company's executive directors are Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Su Yu Tao, Mr. Xiao Jian Lin, Mr. Lin Lan and Mr. Zhang Ming; and the Company's independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren.

Notes:

- (1) For details of resolutions numbered (1) to (6), please refer to the announcements of the Company published in "China Securities Journal", "Securities Times", "Hong Kong Commercial Daily" and "China Daily" on 14 August 2006. For details of resolutions numbered (7) to (9), please refer to the announcements of the Company published in "China Securities Journal", "Securities Times", "Hong Kong Commercial Daily" and "China Daily" on 19 September 2006. For details of resolutions numbered (10) to (15), please refer to the announcements of the Company published in "China Securities Journal", "Securities Times", "Hong Kong Commercial Daily" and "China Daily" on 16 October 2006 and the accompanying circular dated 16 October 2006.
- (2) H shares shareholders intending to attend the annual general meeting shall give written reply slip, as attached, to the Company, which shall be lodged at the registered office of the Company on or before 15 November 2006. To qualify for attendance at the annual general meeting, all H shares shareholders transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Hong Kong Registrars Limited of Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on 3 November 2006 for registration.
- (3) Shareholders entitled to attend and vote at the annual general meeting are entitled to appoint one or more persons (whether or not a shareholder of the Company) as their proxy to attend and vote on behalf of themselves.
- (4) In order to be valid, the form of proxy, together with a duly notarised power of attorney or other document of authority, if any, under which the form is signed must be deposited at the Company's Branch Share Registrar in Hong Kong, Hong Kong Registrars Limited of Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 24 hours before the time for holding the annual general meeting.

APPENDIX

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The proposed amendments to the articles of association of the Company are set out as follows:

1. Article 3.9 to be amended as:

Article 3.9

The Company may increase its capital according to its operating and development needs in accordance with the relevant laws and regulations and upon the passing of resolutions by shareholders at a general meeting. Such increase in capital may be by way of:

- (1) a public offering of shares;
- (2) a non-public offering of shares;
- (3) offering bonus shares to existing shareholders;
- (4) conversion of statutory surplus reserve into share capital;
- (5) such other means permitted by the relevant laws and regulations and the CSRC.

Subject to approval in accordance with the provisions of the Articles of Association, increase of capital and issuance of new shares by the Company shall be conducted in accordance with the procedures provided for in the relevant laws and administrative regulations of the country.

2. Article 3.12 to be amended as:

Article 3.12

Shares in the Company held by the promoters shall not be transferred within 1 year of the Company's establishment. Shares which were issued prior to the public offering shall not be transferred within 1 year of the date the shares were first listed on the stock exchange.

Directors, supervisors, managers and other senior management executives shall regularly notify the Company of their shareholdings in the Company and any changes thereof during their term of office, and they shall not transfer an aggregate of more than 25% of their shareholdings in any one year during their term of office.

After termination of employment with the Company, they shall not transfer any of their shares in the Company within 6 months following such termination.

3. Article 4.4 to be amended as:

Article 4.4

The Company may acquire the outstanding shares in the Company in accordance with the provisions of the relevant laws, administrative regulations and the Articles of Association in the following circumstances:

cancellation of shares for the purpose of reduction of the Company's registered capital;

mergers with other companies holding the share certificates of the Company;

- (i) granting of shares to the employees of the Company as reward;
- (ii) shareholders dissenting to the resolutions passed in a general meeting approving the;
- (iii) Company's merger or demerger and demanding the Company to acquire their shares;
- (iv) other circumstances as permitted by the relevant laws and administrative regulations.

4. Article 4.5 to be amended as:

Article 4.5

The Company may repurchase shares in the Company in any one of the following ways:

- (1) by offer;
- (2) trading by centralized bidding on the stock exchange;
- (3) by agreement;
- (4) such other means as permitted by regulators.

5. Article 6.6 to be amended as:

Article 6.6

The Company shall enter into share safekeeping agreements with the securities registrar to regularly monitor the information and changes in shareholdings (including capital contribution) of substantial shareholders, in order to ascertain the shareholding structure of the Company in a timely manner. Shareholders are subject to the rights and obligations of the class of shares held by them. Shareholders holding the same class of shares are subject to the same rights and obligations.

6. Article 7.5 to be amended to include the following:

If shareholders holding more than 5% of the voting shares of the Company pledge their shares, they should notify the Company in writing on the day such pledge is given.

7. Article 8.2 (2) to be amended as:

(2) to elect and remove directors and supervisors who are shareholders' representatives and decide on matters relating to the remuneration of directors and supervisors;

Article 8.2 (13) of the Articles of Association be amended as:

(13) to consider the proposed resolutions by shareholders holding 3% or more of the total number of voting shares of the Company;

8. Article 8.3 to be added to the amended Article 8.2

Article 8.3

The external guarantees proposed to be provided by the Company shall be considered and approved by shareholders in a general meeting if:

- (1) the total amount of guarantees to be provided by the Company and its controlling subsidiaries to external parties equals to or exceeds 50% of the net assets value of the Company in its latest audited financial statement;
- (2) the total amount of guarantees to be provided by the Company equals to or exceeds 30% of the total assets value of the Company in its latest audited financial statements;
- (3) the external party's assets to debt ratio exceeds 70%;
- (4) a single guarantee which amount exceeds 10% of the net assets value of the Company in its latest audited financial statements; (5) the guarantee is to be provided to shareholders, persons with controlling interest or their related parties.

Original Article 8.3 is renumbered as Article 8.4 accordingly.

9. The first paragraph of Article 8.4 to be amended as:

Article 8.5

Shareholders' meetings are categorised into annual general meetings and extraordinary general meetings. Annual general meetings are held once a year, and shall be convened within 6 months of the end of the previous financial year.

10. Article 8.5 to be amended as:

Article 8.6

Shareholders individually or in aggregate holding over 3% of the total number of voting shares of the Company are entitled to propose new resolutions to the Company.

Original Article 8.6 is renumbered as Article 8.7 accordingly.

11. Article 8.7 to be amended as:

Article 8.8

The board of directors shall act in the best interests of the Company and its shareholders and comply with Article 8.7 herein in considering proposed resolutions at general meetings.

Original Articles 8.8 to 8.9 are renumbered as Articles 8.9 to 8.10 accordingly.

12. Article 8.10 to be amended as:

Article 8.11

The board of directors, the supervisory committee and shareholders individually or in aggregate holding over 3% of the total number of voting shares of the Company are entitled to propose new resolutions to the Company.

Shareholders either individually or in aggregate holding over 3% of the total number of voting shares may submit their proposed resolutions in writing to the convener 10 days prior to the general meeting. The convener shall issue a supplementary notice of meeting to announce the contents of the proposed resolutions within the prescribed time.

Save and except for the abovementioned circumstances, the convener shall make no changes to the proposed resolutions stated in the notice of meeting or add any new proposed resolution after the notice of meeting has been issued.

Where the substantial shareholder proposes a new resolution on profit distribution, the proposed resolution shall be submitted to the board of directors at least 10 days prior to the date of the annual general meeting for announcement by the board. If the proposed resolution is submitted less than 10 days prior to the annual general meeting, the substantial shareholder shall not propose such resolution at the said annual general meeting.

Where the annual general meeting permits online voting, any proposed resolution shall be submitted to the board at least 10 days prior to the annual general meeting for announcement by the board. Resolutions proposed at the meeting or other proposed resolutions which have not been announced shall not be considered at the meeting.

Where amendments are made to proposed resolutions prior to the general meeting or new proposed resolutions are added prior to the general meeting, the Company shall give supplemental notice of the meeting within the prescribed time to disclose the contents of the amendments to the proposed resolutions, and in the case where new proposed resolutions are added, the name, shareholding of the shareholder and the contents of the new proposed resolutions.

Where proposed resolutions are cancelled prior to the general meeting, the Company shall give notice of such cancellation at least 5 trading days prior to the general meeting to disclose the specific reasons for such cancellation.

Original Article 8.12 is renumbered as Article 8.13 accordingly.

13. Article 8.13 to be amended as:

Article 8.14

Notice of general meetings shall be sent to foreign shareholders, regardless of whether the shareholder is entitled to vote at the meeting, by hand or by pre-paid post. The address for service shall be the shareholder's address on the register of members. For domestic shareholders, notice of general meetings may also be given in the form of a public notice.

Original Articles 8.14 to 8.24 are renumbered as Articles 8.15 to 8.25 accordingly.

14. The first paragraph of Article 8.25 to be amended:

Article 8.26

Save and except for voting by attending the general meeting, the board has the discretion to provide shareholders with an alternative means of voting using an online voting platform. However, where matters set out in Article 8.36 herein are considered in the general meeting, an online voting platform shall be provided to shareholders.

Original Articles 8.26 to 8.31 are renumbered as Articles 8.27 to 8.32 accordingly.

15. Article 8.32 to be renumbered as Article 8.33, and the second paragraph thereof to be amended as:

Where a general meeting is held to consider the matters set out in Article 8.37 herein and the approval of public shareholders by separate voting is required, the total number of voting rights and the poll results of the public shareholders shall be calculated separately.

16. New Article 8.34 to be added after the amended Article 8.33:

Article 8.34

Shareholders at the general meeting shall cast their votes in favour of or against proposed resolutions, or abstain from voting.

Voting forms which are uncompleted, wrongly completed, completed with illegible writing or not casted are deemed as void and the shareholders to whom such vote forms belong shall be deemed to have abstained from voting.

Original Articles 8.33 to 8.36 are renumbered as Articles 8.35 to 8.38 accordingly.

17. Article 8.37 to be amended as:

Article 8.39

General meetings shall be convened by the chairman of the board of directors, who shall preside as chairman of the meeting. If the chairman of the board is unable to attend the meeting for any reason, the chairman may designate a director of the Company to convene and preside at the meeting as chairman on his behalf. If a chairman has not been designated, shareholders present at the meeting may elect a person to act as chairman. If for any reason the shareholders are unable to elect a chairman, the shareholder with the greatest number of voting shares present at the meeting whether in person or by proxy shall act as chairman.

Original Articles 8.38 to 8.42 are renumbered as Articles 8.40 to 8.44 accordingly.

18. Article 8.43 to be renumbered as Article 8.45, and the last paragraph thereof be amended as:

Where the Company convenes a general meeting to consider matters stated in Article 8.37 herein, the announcement of the resolution shall set out the number of public shareholders who voted, the total number of shares held by such public shareholders, their percentage of shareholding in proportion to the total number of shares held by public shareholders, their poll results, and the shareholdings of the 10 public shareholders with the most voting shares and their poll results.

11. Original Articles 8.44 to 8.45 are renumbered as Articles 8.46 to 8.47 accordingly.

19. The following to be added to the first paragraph of Article 10.9:

Save and except for the above circumstances, resignation of a director shall take effect at the time the resignation notice is served on the board of directors.

20. Article 10.19 to be amended as:

Article 10.19

The chairman of the board of directors shall convene a meeting of the board of directors at least four times per year. Written notice of the meeting shall be given to all directors 14 days prior to the date of the meeting. An extraordinary board meeting may be convened if the chairman of the board considers necessary.

21. Article 10.20 to be amended as:

Article 10.20

The chairman of the board of directors shall convene an extraordinary meeting of the board of directors within 10 days of receiving the following proposed resolutions from:

- (1) more than one-third of the directors of the Company;
- (2) the supervisory committee;
- (3) the general manager;
- (4) shareholders with aggregate voting rights greater than 10%.

Written notice for an extraordinary meeting of the board of directors shall be given to all directors at least 10 days prior to the meeting.

In the event the chairman of the board of directors is unable to convene an extraordinary meeting as required under this Article, the chairman shall designate another director of the Company to convene the meeting on his behalf. Should the chairman, without reason, fail to convene an extraordinary meeting as required under this Article and fail to designate a person to convene such a meeting, the extraordinary meeting may be convened by a director elected by a majority of the directors.

22. Article 12.2 to be amended as:

Article 12.2

The Company shall not appoint a person as general manager of the Company if any of the circumstances specified in sections 147 and 149 of the Company Law apply to that person, or if the person is designated by the CSRC as a person who may not enter into the market (and such designation has not been discharged).

23. Article 13.2 to be amended as:

Article 13.2

The supervisory committee shall comprise of at least 3 supervisors. The exact number of the supervisory committee shall be determined by shareholders at a general meeting. One of the supervisors shall act as the chairman of the supervisory committee. In the event that the chairman is unable to perform his duties or does not perform his duties, another supervisor may be elected by a majority of supervisors as chairman to convene a meeting of the supervisory committee. The appointment and removal of the chairman of the supervisory committee shall be made by a resolution passed by two-thirds or more supervisors. The term of office for supervisors shall be three years and the supervisors shall be eligible for re-election.

If supervisors are not re-elected before the expiry of their terms or resignations of supervisors lead to the number of supervisors to fall below that of the required minimum, the current supervisors shall continue to perform their duties according to the law, administrative regulations and the Articles of Association until re-election or until new supervisors are elected.

24. Article 13.5 to be amended as:

Article 13.5

Directors, managers and other senior management executives of the Company shall not be appointed as supervisors.

25. Article 14.1 (10) to be amended as:

(10) a person under any of the circumstances specified in sections 147 and 149 of the Company Law, or designated by the Securities Regulatory Commission as a person who may not enter into the market (and such designation has not been discharged), or has within the past 2 years been announced as an unsuitable person by the stock exchange on which the Company's shares are listed.

26. Article 15.8 to be amended as:

Article 15.8

The Company shall issue its financial reports 4 times each financial year. The Company shall issue its interim financial report within 2 months of the end of the first six-month period of each financial year and its annual financial report within 4 months after the end of each financial year. The Company shall dispatch its quarterly financial reports to the local authority appointed by the CSRC and stock exchange within 1 month of the end of the first three-month period and nine-month period of each financial year.

27. The following content to be added to Article 25.3

“Independent Non-executive Director”	“Independent Non-executive Director” as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited shall have the same meaning as “Independent Director” as defined under the Company Law of the PRC.
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“Executive Director”	means Directors other than Independent Non-executive Directors.
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The definition of Secretary to the Board be amended as:

“Secretary to the Board”	The company secretary and secretary to the Board appointed by the Board.
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“Please also refer to the published version of this announcement in China Daily”