

# 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)

## ANNOUNCEMENT ON THE GUARANTEES IN FAVOUR OF EXTERNAL PARTIES ISSUED BY GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED

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

### I. SUMMARY OF THE GUARANTEES

Based on the capital requirements for the production and operation of Guangdong Kelon Electrical Holdings Company Limited (the "Company") and its subsidiaries, the Company proposed to provide guarantees in the amount of RMB1.512 billion for each of its subsidiaries in 2006; the subsidiaries of the Company proposed to provide guarantees in the amount of RMB1.2998 billion for the Company in 2006; and the consolidated subsidiaries of the Company proposed to provide mutual guarantees in the amount of RMB115.20 million to one another in 2006. The particulars of the abovementioned guarantees are set forth as follows:

#### (1) The particulars of the amount of guarantees provided by the Company for its subsidiaries

Number	Name of Subsidiary Guaranteed	Percentage of Shareholding (%)		Amount of Guarantee (RMB'0,000)
		Direct	Indirect	
1	Guangdong Kelon Refrigerator Ltd.	70	30	50,000
2	Guangdong Kelon Air-Conditioner Co., Ltd.	60	-	37,000
3	Guangdong Kelon Fittings Co., Ltd.	70	30	4,000
4	Guangdong Kelon Refrigerator Co., Ltd.	44	56	2,000
5	Chengdu Kelon Refrigerator Co., Ltd.	45	25	8,000
6	Yingkou Kelon Refrigerator Co., Ltd.	42	36.79	12,200
7	Yangzhou Kelon Electrical Company Limited	30	70	10,000
8	Jiangxi Kelon Industrial Development Co., Ltd.	60	40	12,000
9	Wuhu Ecan Motors Company Limited	40	40	3,000
10	Jilin Kelon Electric Co., Ltd.	90	10	3,000
11	Xi'an Kelon Cooling Co., Ltd.	60	-	10,000
Total				151,200

The amount of guarantees stated above can be used on a revolving basis during the year (from 1 January 2006 to 31 December 2006) from the date of approval at the general meeting of the Company (that is, the Company can provide guarantee facilities up to the above stated amount of guarantees for each subsidiary in accordance with the above allocation at any time during the year).

The proposed resolution in respect of providing guarantees for subsidiaries has been resolved and approved at the 7th meeting of the sixth board of directors of the Company (the "Board"). 9 of the 9 directors attended the meeting and approved the resolution, with 9 affirmative votes.

Pursuant to the requirements of the "Notice on the Regulation of External Guarantees of Listed Companies" (Zheng Jian Fa (2005) No.120) issued by the CSRC, any guarantees provided for external parties with an aggregate amount exceeding 50% of the latest audited net assets of the corporate guarantor shall be subject to shareholders' approval at the general meeting of the guarantor.

As the aggregate amount of the total guarantees currently provided by the Company for external parties has already exceeded 50% of the Company's latest audited net assets, the resolution in respect of the amount of guarantees proposed to be provided by the Company for its subsidiaries shall be considered and approved at the general meeting of the Company.

During the period from 1 January 2006 to 30 September 2006, the aggregate amount of guarantees provided by the Company for its subsidiaries was RMB218.501 million, the particulars of which are set forth as follows:

<b>Number</b>	<b>Name of Subsidiary Guaranteed</b>	<b>Cumulative Amount (RMB'0,000)</b>
1	Guangdong Kelon Refrigerator Ltd	15,928.72
2	Guangdong Kelon Fittings Co., Ltd.	3,273.67
3	Chengdu Kelon Refrigerator Co., Ltd	2,590
4	Guangdong Kelon Refrigerator Co., Ltd.	57.71
Total		21,850.1

**(2) The particulars of the amount of guarantees provided for the Company by its subsidiaries**

<b>Number</b>	<b>Name of the Subsidiaries Providing Guarantees</b>	<b>Amount of Guarantee (RMB'0,000)</b>
1	Guangdong Kelon Fittings Co., Ltd. and Yangzhou Kelon Electrical Company Limited (joint guarantee)	55,000*
2	Guangdong Kelon Development Co.,Ltd.	10,480
3	Guangdong Kelon Refrigerator Ltd.	22,000
4	Guangdong Kelon Refrigerator Ltd. and Guangdong Kelon Refrigerator Co., Ltd. (joint guarantee)	15,000
5	Pearl River Electric Refrigerator Company Limited	6,000
6	Guangdong Kelon Fittings Co., Ltd.	2,000
7	Guangdong Kelon Refrigerator Co., Ltd	2,000
8	Chengdu Kelon Refrigerator Co., Ltd	17,500
Total		129,980

\*Note: The guarantee amount of RMB550,000,000 listed under Number 1 of the above table includes the mutual guarantees among the consolidated subsidiaries of the Company listed under Number 2 of the table in subparagraph (3). Therefore, the amount of RMB650,820,000 listed under Number 2 of the table in subparagraph (3) is not included in the cumulative amount of mutual guarantees among the consolidated subsidiaries of the Company in the table in subparagraph (3).

The amount of guarantees stated above can be used on a revolving basis during the year (from 1 January 2006 to 31 December 2006) from the date of shareholders' approval at the general meeting of the Company's respective subsidiaries (that is, the Company's subsidiaries can provide guarantee facilities up to the above stated amount of guarantees for the Company in accordance with the above allocation at any time during the year).

The resolution in respect of the amount of guarantees proposed to be provided by the subsidiaries for the Company has been approved at the respective general meetings of the subsidiaries. In compliance with the requirements of "Notice on the Regulation of External Guarantees of Listed Companies" (Zheng Jian Fa (2005) No.120) issued by the CSRC, the Company shall disclose the relevant information after the resolution has been approved at the general meetings of the respective subsidiaries.

During the period from 1 January 2006 to 30 September 2006, the aggregate amount of guarantees provided for the Company by its subsidiaries was RMB688,154,500, the particulars of which are set forth as follows:

<b>Number</b>	<b>Name of Subsidiaries Providing Guarantees for the Company</b>	<b>Cumulative Amount (RMB'0,000)</b>
1	Guangdong Kelon Refrigerator Ltd.	9,078.35
2	Guangdong Kelon Refrigerator Ltd., and Guangdong Kelon Refrigerator Co., Ltd. (joint guarantee)	8,000
3	Guangdong Kelon Fittings Co., Ltd. and Yangzhou Kelon Electrical Company Limited (joint guarantee)	51,737.1
Total		68,815.45

**(3) The amount of mutual guarantees provided among the consolidated subsidiaries of the Company**

<b>Number</b>	<b>Name of the Subsidiaries Providing Guarantees</b>	<b>Amount of Guarantee (RMB'0,000)</b>
1	Guangdong Kelon Development Co., Ltd. for Guangdong Kelon Refrigerator Ltd.	11,520
2	Guangdong Kelon Fittings Co., Ltd. and Yangzhou Kelon Electrical Company Limited (joint guarantee) for Guangdong Kelon Refrigerator Ltd., Guangdong Kelon Air-Conditioner Co., Ltd., Guangdong Kelon Refrigerator Co., Ltd., Guangdong Kelon Fittings Co., Ltd. and Shunde Wangao Import and Export Company Limited.	6,508.2*
Total		11,520

\*Note: The amount of RMB65,082,000 stated under Number 2 of the table above was included in the amount of RMB550,000,000 stated under Number 1 of the table in subparagraph (2) above.

The amount of guarantees stated above can be used on a revolving basis during the year (from 1 January 2006 to 31 December 2006) from the date of approval at the respective board meetings of the Company's subsidiaries providing the guarantees (that is, the Company's subsidiaries can provide guarantee facilities up to the above stated amount of guarantees for each of the above subsidiaries in accordance with the above allocation at any time during the year).

The resolution in respect the guarantee proposed to be provided by the Company for Guangdong Kelon Refrigerator Ltd. was passed at the board meeting of the Company. In compliance with the requirements of the "Notice on the Regulation of External Guarantees of Listed Companies" (Zheng Jian Fa (2005) No.120) issued by the CSRC, the Company shall disclose the relevant information after the passing of the resolution.

During the period from 1 January 2006 to 30 September 2006, the total amount of mutual guarantees provided among the subsidiaries of the Company was RMB4,326,650,000, the particulars of which are set forth as follows:

Number	Name of the Subsidiaries Providing Guarantees	Amount of Guarantees (RMB'0,000)
1	Guangdong Kelon Fittings Co., Ltd. and Yangzhou Kelon Electrical Company Limited (joint guarantee) for Guangdong Kelon Refrigerator Ltd.	4,262.98
2	Guangdong Kelon Fittings Co., Ltd. and Yangzhou Kelon Electrical Company Limited (joint guarantee) for Guangdong Kelon Fittings Co., Ltd.	63.67
Total		4,326.65

#### (4) Other Guarantees

- Guangdong Kelon Air-Conditioner Co., Ltd., a subsidiary of the Company, has entered into a Cooperation Agreement with Shunde Ronggui Rural Credit Cooperative on 24 January 2006 to provide a guarantee for the Company's circulating fund credit of RMB80 million.

The above guarantee is effective from the date of the loan agreement to the date on which all outstanding balances under the loan agreement have been settled. The guarantee is secured by a charge on compressors of the guarantor.

As at 30 September 2006, the value of the said compressors amounted to RMB8,617,500, securing borrowings in the amount of RMB6,894,000.

- Guangdong Kelon Air-Conditioner Co., Ltd., a subsidiary of the Company, entered into the Maximum Guaranteed Amount Borrowing Contract with Shunde Ronggui Countryside Credit Cooperative on 24 January 2006, for the provision of guarantees in respect of the Company's circulating funds credit of RMB80 million.

The guarantee is effective from the effective date of the loan agreement up to two years after the expiry of the said agreement, and the Company and Guangdong Kelon Air-Conditioner Co., Ltd. are jointly and severally liable under the guarantee.

As at 30 September 2006, the balance under the said contract covered by the aforesaid guarantee amounted to RMB77,343,000.

3. Guangdong Kelon Air-Conditioner Co., Ltd., a subsidiary of the Company, entered into the Maximum Guaranteed Amount Loan Contract on 10 March 2005 with Bank of China (Foshan Branch and Shunde Ronggui Sub-branch) for the provision of guarantee in respect of the loans arising from each of the individual credit facility agreements (with the maximum amount equal to RMB309,340,000) entered into during the period from 8 March 2004 to 30 September 2008 by the Company, Guangdong Kelon Refrigerator Ltd., Guangdong Kelon Air-Conditioner Co., Ltd., Guangdong Kelon Refrigerator Co., Ltd., Guangdong Kelon Fittings Company Limited and Shunde Wangao Import & Export Co., Ltd.

The guarantee is secured by real-estate mortgage.

As at 30 September 2006, the balance under the loan agreement between the Company and Bank of China (Foshan Branch and Shunde Ronggui Sub-branch) amounted to RMB534,616,100.

4. Guangdong Kelon Air-Conditioner Co., Ltd., a subsidiary of the Company, entered into Maximum Guaranteed Amount Contract on 22 March 2005 with Guangdong Development Bank Company Limited, for the provision of guarantee in respect of the comprehensive credit facility of US\$8 million granted to the Company.

The valid period of the aforesaid guarantee is effective for two years from the date of maturity of debts incurred in the agreed course of business during the period from 22 March 2005 to 22 March 2006. The Company and Guangdong Kelon Air-Conditioner Co., Ltd. are jointly and severally liable under the guarantee.

As at 30 September 2006, the balance under the facility covered by the aforesaid guarantee has been fully settled.

5. Guarantee is provided by Foshan Shunde Yunlong Consultancy Services Company Limited (佛山市順德區運龍諮詢服務有限公司) in respect of the loans in the amount of RMB39,900,000, RMB39,800,000 and RMB32,100,000 respectively for which the Company and its subsidiaries, namely Guangdong Kelon Refrigerator Ltd. and Guangdong Kelon Fittings Company Limited have applied for from Shanghai Pudong Development Bank, Shenzhen Branch.

The aforesaid guarantees are for debts incurred on each of the individual credit facility during the period from 3 March 2006 to 3 September 2006, for which the guarantor and the debtors are jointly and severally liable.

## II. INFORMATION RELATING TO THE DEBTORS UNDER THE GUARANTEES

1. Guangdong Kelon Refrigerator Ltd., a wholly-owned subsidiary of the Company with a registered capital of US\$26,800,000. Registered address: No. 8, Ronggang Road, Ronggui, Shunde District, Foshan City. Legal Representative: Tang Ye Guo. Scope of Business: manufacturing and trading of refrigerators and parts. As at 31 December 2005, it had audited total assets of RMB2,062,689,709.86, total liability of RMB1,791,297,452.92, net assets of RMB271,392,256.94, a gearing ratio of 86.84% and net profit of RMB-279,211,061.06. The amount of guarantee provided by the Company represents 60.09% of the Company's audited net assets.
2. Guangdong Kelon Air-Conditioner Co., Ltd., a subsidiary of the Company with a registered capital of US\$36,150,000. Registered address: No. 2, Qiaodong Road, Ronggui, Shunde District, Foshan City. Legal Representative: Tang Ye Guo. Scope of Business: manufacturing and trading of air-conditioner and household electrical appliances and provision of after-sales services. As at 31 December 2005, it had audited total assets of RMB1,679,323,195.26, total liability of RMB2,124,377,026.13, net assets of RMB-445,053,830.86, a gearing ratio of 126.50% and net profit of RMB-265,082,867.31. The amount of guarantee provided by the Company represents 44.46% of the Company's audited net assets.
3. Guangdong Kelon Fittings Co., Ltd., a wholly-owned subsidiary of the Company with a registered capital of US\$5,620,000. Registered address: No. 7, Ronggang Road, Ronggui, Shunde District, Foshan City. Legal Representative: Su Yu Tao. Scope of Business: manufacturing and trading of metal (other than gold and silver products), plastic products, moulds, semi-conductor mini refrigerators, electric water boilers, electric fans, electric cookers, fume exhausters, air refresheners, ventilator fans, humidity reducers, disinfectant cabinets, dryer boxes, water heaters, car canteens, tools for car, car refrigerators, vacuums, antennas, satellite antenna fittings (installation service excluded), pots, gas stoves, cabinets, kitchenware, handheld saws and barbecue stoves, etc.. As at 31 December 2005, it had audited total assets of RMB456,029,795.09, total liability of RMB440,205,867.44, net assets of RMB15,823,927.64, a gearing ratio of 96.53% and net profit of RMB-82,673,164.23. The amount of guarantee provided by the Company represents 4.81% of the Company's audited net assets.
4. Guangdong Kelon Refrigerator Co., Ltd., a wholly-owned subsidiary of the Company with a registered capital of RMB237,000,000. Registered address: No. 46, Wenfeng North Road, Ronggui Rongli, Shunde District, Foshan City. Legal Representative: Su Yu Tao. Scope of Business: manufacturing and trading of small-sized commercial refrigeration containers, refrigerators and parts, secondary medical cool-treating, low-temperature appliances and apparatus, and provision of after-sales repair and maintenance services. As at 31 December 2005, it had audited total assets of RMB279,453,012.07, total liability of RMB220,537,679.64, net assets of RMB58,915,332.43, a gearing ratio of 78.92% and recorded a net profit of RMB-86,775,673.63. The amount of guarantee provided by the Company represents 2.40% of the Company's audited net assets.
5. Chengdu Kelon Refrigerator Co., Ltd., a subsidiary of the Company with a registered capital of RMB200,000,000. Registered address: Shuangqiaozi, Chengdu City. Legal Representative: Tang Ye Guo. Scope of Business: manufacturing and selling household refrigerators and parts, and provision of after-sales services. As at 31 December 2005, it had audited total assets of RMB371,292,571.79, total liability of RMB233,876,601.79, net assets of RMB137,415,970, a gearing ratio of 62.99% and net profit of RMB-46,930,271.75. The amount of guarantee provided by the Company represents 9.61% of the Company's audited net assets.

6. Yingkou Kelon Refrigerator Co., Ltd., a subsidiary of the Company with a registered capital of RMB200,000,000. Registered address: No. 2, Shifu Road, Zhanqian District, Yingkou City. Legal Representative: Tang Ye Guo. Scope of business: manufacturing household refrigerators and parts. As at 31 December 2005, it had audited total assets of RMB375,790,072.12, total liability of RMB239,792,534.61, net assets of RMB135,997,537.51, a gearing ratio of 63.81% and net profit of RMB-45,471,817.26. The amount of guarantee provided by the Company represents 14.66% of the Company's audited net assets.
7. Yangzhou Kelon Electrical Company Limited, a wholly-owned subsidiary of the Company with a registered capital of US\$29,800,000 (Paid-in capital: US\$8,980,000). Registered address: Yangzhou Economic Development Zone (East of Zhenxin Road, South of the second Horizontal Boulevard). Legal Representative: Su Yu Tao. Scope of business: manufacturing and selling energy-saving and environmentally friendly refrigerators and other energy-saving cooling appliances; designing and developing of energy-saving and environmentally friendly refrigerators and other energy-saving cooling appliances; developing, implementing and promoting new technology, materials, craftsmanship and methods. As at 31 December 2005, it had audited total assets of RMB322,597,177.24, total liability of RMB350,682,063.20, net assets of RMB-28,084,885.96, a gearing ratio of 108.71% and net profit of RMB-105,232,436.73. The amount of guarantee provided by the Company represents 12.02% of the Company's audited net assets.
8. Jiangxi Kelon Industrial Development Co., Ltd., a wholly-owned subsidiary of the Company with a registered capital of US\$29,800,000. Registered address: Shuanggang Boulevard, Nanchang Economic Development Zone. Legal Representative: Su Yu Tao. Scope of business: developing, manufacturing and selling household and commercial refrigerators, air conditioners, freezers, small electrical home appliances and parts; project investments, the business of "processing and compensation trades"; the study of Freon-free cooling technology; manufacturing equipments and parts for Freon replacement, Freon-free cooling, environmentally friendly and energy-saving technology; and the provision of technologies, information, consultation and services and transportation (with permit) (within the scope permitted by the State policies) to projects. As at 31 December 2005, it had audited total assets of RMB585,856,599.28, total liability of RMB465,768,196.66, net assets of RMB120,088,402.62, a gearing ratio of 79.50% and net profit of RMB-199,654,286.26. The amount of guarantee provided by the Company represents 14.42% of the Company's audited net assets.
9. Wuhu Ecan Motors Company Limited, a subsidiary of the Company with a registered capital of US\$7,210,000. Registered address: Wuhu Economic Development Zone. Legal Representative: Wang Jiu Cun. Scope of business: manufacturing and selling motor starters and brushless DC motors, mini AC motors and electrical appliances. As at 31 December 2005, it had audited total assets of RMB78,684,450.77, total liability of RMB63,449,427.74, net assets of RMB15,235,023.03, a gearing ratio of 80.64% and net profit of RMB-13,004,147.27. The amount of guarantee provided by the Company represents 3.61% of the Company's audited net assets.

10. Jilin Kelon Electric Co., Ltd., a wholly-owned subsidiary of the Company with a registered capital of RMB200,000,000. Registered address: No. 8, 5/F, Block A, Venture Park, Hi-Tech Zone, Jilin City. Legal Representative: Su Yu Tao. Scope of business: developing, selling and manufacturing refrigerators, air-conditioners, freezers and electrical appliances; domestic sale and export of products and provision of after-sales services; transportation of its own products (excluding controlled and license items as specified by the State), sale of raw materials and semi-finished refrigerators. As at 31 December 2005, it had audited total assets of RMB245,959,555.26, total liability of RMB144,554,660.83, net assets of RMB101,404,894.43, a gearing ratio of 58.77% and net profit of RMB-66,717,290.49. The amount of guarantee provided by the Company represents 3.61% of the absolute value of the Company's audited net assets.
11. Xi'an Kelon Cooling Co., Ltd., a subsidiary of the Company with a registered capital of RMB202,000,000. Registered address: No.67, Second Keji Road, Gaoxin District, Xian. Legal Representative: Su Yu Tao. Scope of business: research, development, design and manufacture of Freon-free refrigerators, freezers and cooling compressor products; sale of products and provision of after-sales services; research, development and manufacturing new cooling compressor products according to market needs. As at 31 December 2005, it had audited total assets of RMB236,941,003.72, total liability of RMB148,143,312.82, net assets of RMB88,797,690.9, a gearing ratio of 62.52% and net profit of RMB-66,103,732.86. The amount of guarantee provided by the Company represents 12.02% of the Company's audited net assets.

### **III. PRINCIPAL CONTENT OF GUARANTEE AGREEMENTS**

Among the aforesaid guarantees, no agreements have been entered into except those entered into within the period from 1 January 2006 to 30 September 2006. Details of the unsigned guarantee agreements will be determined through negotiations between the guarantors (the Company or its subsidiaries) and the corresponding banks. The following is a summary of the executed guarantee agreements:

#### **1. Principal Content of the guarantee contracts**

- (1) The Company entered into a guarantee contract with Shanghai Pudong Development Bank Shenzhen Branch to secure a short-term loan of RMB39,800,000 for Guangdong Kelon Refrigerator Ltd..
- (2) The Company entered into a guarantee contract with Shanghai Pudong Development Bank Shenzhen Branch to secure a short-term loan of RMB32,100,000 for Guangdong Kelon Fittings Ltd..
- (3) The Company entered into a guarantee contract with Industrial Bank Shenzhen High-Tech Industrial Park Sub-branch to secure circulating funds credit of RMB49,400,000 for Guangdong Kelon Refrigerator Ltd..
- (4) The Company entered into a maximum amount guarantee contract with China Everbright Bank Chengdu Yushuang Road Sub-branch to secure a comprehensive credit facility of RMB25,990,000 for Chengdu Kelon Refrigerator Co., Ltd..

- (5) The Company entered into a maximum amount guarantee contract with Bank of China Foshan Branch and Bank of China Foshan Shunde Ronggui Sub-branch to secure the debts under various master contracts entered into between 31 October 2004 and 31 December 2006 by Guangdong Kelon Refrigerator Ltd., Guangdong Kelon Air-Conditioner Co., Ltd., Guangdong Kelon Refrigerator Co., Ltd., Guangdong Kelon Fittings Co., Ltd. and Foshan Shunde Wangao Import and Export Company Limited, with a maximum amount of RMB150,000,000.

The above guarantees is valid from the effective dates of the loan agreements to two years after the expiration dates of the loan agreements, for which the Company and the debtors are jointly and severally liable.

- (6) The Company entered into a maximum amount guarantee contract with Huaxia Bank Company Limited Guangzhou Branch to secure an agreed business of RMB80,000,000 for Guangdong Kelon Refrigerator Ltd..

The above guarantee is valid for a term of two years, commencing from the effective date of the loan agreements arising in the agreed course of business undertaken during the period from 1 March 2005 to 30 June 2006, to the expiration date of the loan agreements, for which the Company and Guangdong Kelon Refrigerator Ltd. are jointly and severally liable.

- (7) The Company entered into a maximum amount guarantee contract with Guangdong Development Bank Company Limited to secure a comprehensive credit facility of US\$8,000,000 for Guangdong Kelon Refrigerator Ltd. and Guangdong Kelon Air-Conditioner Co., Ltd..

The above guarantee is valid for a term of two years commencing from the expiry of the debts incurred in the agreed course of business undertaken during the period from 22 March 2005 to 22 March 2006, for which the Company, Guangdong Kelon Refrigerator Ltd. and Guangdong Kelon Air-Conditioner Co., Ltd. are jointly and severally liable.

- (8) Guangdong Kelon Refrigerator Ltd. entered into a guarantee contract with Shanghai Pudong Development Bank Shenzhen Branch to secure a short-term loan of RMB39,900,000 for the Company.

The above guarantee is valid from the effective date of the loan agreement until two years after their expiry, for which the Company and Guangdong Kelon Refrigerator Ltd. are jointly and severally liable.

- (9) Guangdong Kelon Refrigerator Ltd. entered into a maximum amount guarantee contract with Guangdong Development Bank Company Limited to secure a comprehensive credit facility of US\$8,000,000 for the Company.

The above guarantee is valid for a term of two years commencing from the maturity of debts incurred in the agreed course of business undertaken during the period from 22 March 2005 to 22 March 2006, for which the Company and Guangdong Kelon Refrigerator Ltd. are jointly and severally liable.

- (10) Guangdong Kelon Refrigerator Ltd. and Guangdong Kelon Refrigerator Co., Ltd. signed a Maximum Guaranteed Amount Loan Contract with Shunde Ronggui Rural Credit Cooperative for the provision of guarantee in respect of circulating funds credit of RMB80 million granted to the Company.

The effective period of the above guarantee is from the date of the loan agreement to two years after the expiry of the loan agreement, and the guarantee is in the form of joint and several liabilities, secured by a real estate mortgage.

- (11) Guangdong Kelon Refrigerator Co., Ltd. signed a Maximum Guaranteed Amount Loan Contract with China Construction Bank Foshan Shunde Sub-branch for the provision of a guarantee for the Company with a maximum amount of RMB300 million.

The effective period of the above guarantee is from the date of each loan agreement within the period from 19 November 2004 to 18 November 2006 to two years after the expiry of such agreements, and the Company and Guangdong Kelon Refrigerator Co., Ltd. are jointly and severally liable under the guarantee.

## **2. Main content of pledge contracts**

- (1) The Company signed a Maximum Pledge Amount Contract with Shanghai Pudong Development Bank Shenzhen Branch for the provision of guarantee in respect of bank loans not exceeding RMB115 million granted to the Company, Guangdong Kelon Refrigerator Ltd. and Guangdong Kelon Fittings Co., Ltd..

The effective period of the above guarantee shall expire upon the full repayment of the debts guaranteed under this contract arising from the specific commercial contracts entered into between Shanghai Pudong Development Bank Shenzhen Branch and the Company within the period from 6 September 2004 to 6 September 2006. The guarantee was secured with an equity pledge.

- (2) Guangdong Kelon Refrigerator Ltd. and Guangdong Kelon Refrigerator Co.,Ltd. signed a Cooperative Agreement with Shunde Ronggui Rural Credit Cooperative for the provision of guarantee in respect of a circulating funds credit of RMB80 million granted to the Company.

The above guarantee is valid from the effective date of the loan contract until the date of full repayment of all debts under such contract, and the guarantee was secured by a pledge over compressors.

## **3 Main content of security contracts**

- (1) The Company signed a Security Contract with Industrial Bank Shenzhen High-Tech Industrial Park Sub-branch for the provision of guarantee in respect of circulating funds credit of RMB49.4 million granted to Guangdong Kelon Refrigerator Ltd..

The above guarantee is valid from the effective date of the loan contract to the date of the full repayment of all debts under such loan contract, and the guarantee was secured by a charge over machinery.

- (2) The Company signed a Maximum Mortgage Amount Contract with Huaxia Bank Company Limited Guangzhou Branch for the provision of guarantee in respect of a banker's acceptance bill of RMB40 million issued to Guangdong Kelon Refrigerator Ltd..

The above guarantee shall be effective upon the execution of the specific commercial contracts under guarantee during the period from 1 January 2005 to 31 December 2006, and the guarantee is secured with a charge over inventory mortgage.

- (3) The Company signed a Maximum Mortgage Amount Contract with Bank of China Foshan Branch and Bank of China Foshan Shunde Ronggui Sub-branch for the provision of guarantee in respect of the debts with a maximum amount equivalent to RMB429.9 million under various individual credit facility agreements executed by the Company, Guangdong Kelon Refrigerator Ltd., Guangdong Kelon Air-Conditioner Co., Ltd., Guangdong Kelon Refrigerator Co., Ltd., Guangdong Kelon Fittings Co., Ltd., and Shunde Wangao Import and Export Co., Ltd. during the period from 8 March 2004 to 30 September 2008.

The above guarantee shall be effective upon the full repayment of all debts under various individual credit facility agreements executed during the period from 8 March 2004 to 30 September 2008, and the guarantee is secured by real estate mortgage.

- (4) Guangdong Kelon Fittings Co., Ltd. and Yangzhou Kelon Electrical Co., Ltd. entered into a Maximum Mortgage Amount Contract with Bank of China Foshan Branch and Bank of China Foshan Shunde Ronggui Sub-branch respectively for the provision of guarantee with a respective maximum amount equivalent to RMB54.44 million and RMB204.14 million in respect of debts incurred under various individual credit facility agreements executed by the Company, Ltd., Guangdong Kelon Refrigerator Ltd., Guangdong Kelon Air-Conditioner Co., Ltd., Guangdong Kelon Refrigerator Co., Ltd., Guangdong Kelon Fittings Co., Ltd., and Shunde Wangao Import and Export Co., Ltd. in the respective periods from 8 March 2004 to 30 September 2008 and from 15 October 2004 to 15 October 2008.

The above guarantee shall be effective upon the full repayment of the debts under the various individual credit facility agreements executed in the respective periods from 8 March 2004 to 30 September 2008 and from 15 October 2004 to 15 October 2008, and the guarantee is secured by a real estate mortgage.

#### **IV. OPINIONS OF THE BOARD**

Given the production and operational status of the Company and its subsidiaries, the above anticipated guarantees are for the benefit of the Company and its subsidiaries as they allow the Company and its subsidiaries to obtain the required working capital for business development and positive growth, in the interests of the Company and its subsidiaries as a whole.

#### **V. CUMULATIVE AMOUNT OF EXTERNAL GUARANTEES AND OVERDUE GUARANTEES**

As at 30 September 2006, the cumulative amount of external guarantees of the Company and its subsidiaries was RMB1,263,978,000, of which RMB319,473,800 was overdue.

## **VI. DOCUMENTS AVAILABLE FOR INSPECTION**

1. Resolutions of the Board
2. Relevant information, such as business registration licenses of respective debtors

### **Trading in H Shares of the Company**

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

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

*As at the date of this announcement, 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 independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren.*

Foshan City, Guangdong, the PRC, 16 October 2006

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