

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 significant litigation

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

Guangdong Kelon Electrical Holdings Company Limited (the “Company”) and the board of directors of the Company (the “Board”) are jointly responsible for the truth, accuracy and completeness of the information disclosed herein and warrant no false or misleading representation or significant omission herein.

Jiangxi Kelon Industrial Development Co., Ltd. (“Jiangxi Kelon”) and Yangzhou Kelon Electrical Company Limited (“Yangzhou Kelon”), both subsidiaries of the Company, initiated legal actions in Foshan Intermediate People’s Court in Guangdong and the details are as follows:

I. Basic information of the significant litigation

The relationship between the relevant subsidiaries and the Company

- (1) 60% of the equity interest of Jiangxi Kelon is held by the Company, with the remaining 40% equity interest being held by Kelon Development Company Limited (Hong Kong), a subsidiary of the Company.
- (2) 40% of the equity interest of Yangzhou Kelon is held by the Company, with another 30% equity interest being held by Kelon Development Company Limited (Hong Kong), a subsidiary of the Company.

- (I) The case initiated by Jiangxi Kelon against Guangdong Greencool Enterprise Development Company Limited (“Greencool Enterprise”), Gu Chujun, Jiangxi Keda Plastic Technology Company Limited (“Jiangxi Keda”), Greencool Procurement (Shenzhen) Co., Ltd. (“Greencool Procurement”) for damaging the interest of the Company

Jiangxi Kelon, a subsidiary of the Company, received a letter of acceptance from Foshan Intermediate People’s Court on 25 October 2006 (document number: (2006) Fo Zhong Fa Min Er Chu Zi number 154) relating to the litigation initiated by Jiangxi Kelon (Plaintiff) against Greencool Enterprise (First Defendant), Gu Chujun (Second Defendant), Jiangxi Keda (Third Defendant) and Greencool Procurement (Fourth Defendant) for damaging the interest of the Company. The case was accepted by Foshan Intermediate People’s Court on 25 October 2006.

1. Basic background of the parties

Plaintiff: Jiangxi Kelon, Legal Representative: Peng Zhiguang, chairman

First Defendant: Greencool Enterprise, Legal Representative: Gu Chujun, chairman

Second Defendant: Gu Chujun

Third Defendant: Jiangxi Keda, Legal Representative: Jin Min, executive director

Fourth Defendant: Greencool Procurement, Legal Representative: Gu Chujun, chairman

2. The cause of action

Other disputes damaging the interest of the Company.

3. General background of the case

For the purpose of taking possession of Jiangxi Kelon's fund, Gu Chujun and some Greencool companies made the Plaintiff transfer a total sum of RMB13 million to Jiangxi Keda on 20 May 2005 and thereafter made Jiangxi Keda transfer such fund immediately to Greencool Procurement. The four defendants failed to return such fund to the Plaintiff as at the date hereof. The transfer of such fund from the Plaintiff to Greencool Procurement was not substantiated by any genuine transaction and such transfer of fund is an encroachment of the Plaintiff's fund by the controlling shareholder and its associated companies through Jiangxi Keda.

4. The claim of the action

(1) The repayment of RMB13 million encroached by the four defendants to the plaintiff;

(2) All the expenses of the action be paid by the four defendants.

(II) The case initiated by Yangzhou Kelon against Greencool Enterprise, Gu Chujun, Yangzhou Greencool Venture Capital Company Limited ("Yangzhou Greencool") for damaging the interest of the Company

Yangzhou Kelon, a subsidiary of the Company, received a notice of acceptance from Foshan Intermediate People's Court on 25 October 2006 (document number: (2006) Fo Zhong Fa Min Er Chu Zi number 153) with respect to the litigation initiated by Yangzhou Kelon (Plaintiff) against Greencool Enterprise (First Defendant), Gu Chujun (Second Defendant) and Yangzhou Greencool (Third Defendant) for damaging the interest of the Company. The case was accepted by Foshan Intermediate People's Court on 25 October 2006.

1. Background of the parties

Plaintiff: Yangzhou Kelon, Legal Representative: Su Yutao, chairman

First Defendant: Greencool Enterprise, Legal Representative: Gu Chujun, chairman

Second Defendant: Gu Chujun

Third Defendant: Yangzhou Greencool, Legal Representative: Gu Chujun, chairman

2. The cause of action

Other disputes damaging the interest of the Company.

3. General background of the case

During early 2004, Gu Chujun, on behalf of the Company, entered into negotiation with the Management Committee of Yangzhou Economic Development Zone ("Economic Development Zone") with respect to the production of "Twin Door Freezer" (also named as "Huge Freezer") in the Economic Development Zone and requested the Management Committee of the Economic Development Zone to grant RMB40 million to the investor. The Management Committee of the Economic Development Zone agreed to such request. In early April 2004, Gu Chujun requested the payment of RMB40 million from the Management Committee of the Economic Development Zone. On 26 April 2004, under the collective decision of the Management Committee of the Economic Development Zone, it is determined that the payment could not be made on the ground that the Huge Freezer project has not been registered, however, for the purpose of attracting investment, it is also agreed that the

“Prepaid Land Acquisition Costs”, in the total sum of RMB40 million, paid by the investor would be returned to the investor by the Management Committee by way of “Scientific Development Encouragement Fund”.

Under the manipulation of Gu Chujun, on 30 April 2004, the Company remitted a total sum of RMB40 million to the Plaintiff. On the same day, the fund was then remitted by the Plaintiff to the account of Budget Management Section under the Finance Department of Economic Development Zone and under which a “receipt of settlement by the administrative unit of Jiangsu Province” was issued for the amount of RMB40 million paid for “Prepaid Land Acquisition Costs”. On the same day, the Finance Department of Economic Development Zone paid a total of RMB40 million from the same account to Yangzhou Greencool, a company owned by Gu Chujun, in the name of “Development Encouragement Fund”. Such fund, in the form of “Development Encouragement Fund”, was paid to Yangzhou Greencool, instead of the Plaintiff. This was because Gu Chujun had deliberately misrepresented to the Management Committee of the Economic Development Zone, which was in need of attracting substantial investment, with respect to the relationship between the Company and Greencool.

4. The claim of the action

- (1) The three defendants should jointly return the encroached sum of RMB40 million to the Plaintiff;
- (2) All the expenses of the action be paid by the three defendants.

II. Brief review on the existence of any other undisclosed litigation

As at the date hereof, the Company (including its subsidiaries) does not have any disclosable but not yet disclosed litigation or arbitration.

III. The possible impact of the above litigations on the Company’s profit for the period or any subsequent periods

The Company has made “Special Provision for Bad Debts” for 50% of the amount involved in each case in 2005. The Company is not able to ascertain the recoverability of the subject amount and hence it is not able to determine the impact of the above litigations on the Company’s profit for the period.

IV. Documents available for inspection

1. The litigation documents for the litigation of Jiangxi Kelon against Greencool Enterprise, Gu Chujun, Jiangxi Keda and Greencool Procurement for damaging the interest of the Company;
2. The litigation documents for the litigation of Yangzhou Kelon against Greencool Enterprise, Gu Chujun and Yangzhou Greencool for damaging the interest of the Company;
3. The letter of acceptance from Foshan Intermediate People’s Court (document number: (2006) Fo Zhong Fa Min Er Chu Zi number 154);
4. The letter of acceptance from Foshan Intermediate People’s Court (document number: (2006) Fo Zhong Fa Min Er Chu Zi number 153).

SUSPENSION OF TRADING OF H SHARES

At the request of the Company, trading in the 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 further announcements in relation to, amongst others, the financial, production and trading position of the Company, and the Stock Exchange's satisfaction with the stability of the Company's internal control measures, trading in the 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 Company's independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren.

Foshan City, Guangdong, the PRC, 31 October 2006

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