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.

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)

DISCLOSEABLE TRANSACTION

12 April 2007

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

"A Shares"	Domestic ordinary Shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
"Board"	The board of Directors
"Company"	Guangdong Kelon Electrical Holdings Company Limited, a company incorporated in the PRC with limited liability and listed on the main board of the Stock Exchange and Shenzhen Stock Exchange
"Completion Date"	On or before 6 July 2007 between 9:30 a.m. to 5:00 p.m. on a weekday and 9:30 a.m. to 12:30 p.m. on a Saturday, subject to the Purchaser's right of postponement pursuant to the Sale and Purchase Agreement
"Directors"	The directors of the Company
"Group"	The Company and its Subsidiaries
"Hisense Group"	Hisense Group Company, a limited company incorporated in the PRC
"H Shares"	Overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Kelon Electric"	Kelon Electric Appliances Co., Ltd (科龍電器有限公司), a company incorporated in Hong Kong and a wholly owned subsidiary of the Company
"Latest Practicable Date"	10 April 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	The People's Republic of China
"Property"	The whole of 25/F, Harbour Centre, 25 Harbour Road, Hong Kong in Inland Lot No.8392
"Property Disposal"	The disposal of the Property from the Kelon Electric to the Purchaser pursuant to the Sale and Purchase Agreement
"Purchaser"	Getway Limited (佳瑋有限公司), a company incorporated in Hong Kong
"RMB"	Renminbi yuan, the lawful currency of the PRC
"Sale and Purchase Agreement"	The sale and purchase agreement dated 15 March 2007 entered between Kelon Electric and the Purchaser to dispose of the Property
"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
"Shareholder(s)"	Holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary" or "Subsidiaries"	Has the meaning defined in sections 2 and 2B of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong)
"%"	Per cent

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Executive Directors:
Mr. Tang Ye Guo
Ms. Yu Shu Min
Mr. Yang Yun Duo
Mr. Wang Shi Lei
Mr. Lin Lan
Mr. Xiao Jian Lin

Independent non-executive Directors:
Mr. Zhang Sheng Ping
Mr. Lu Qing
Mr. Cheung Yui Kai, Warren

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

12 April 2007

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

The Board is pleased to announce that on 15 March 2007, Kelon Electric, a wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement with the Purchaser in relation to the disposal of the Property to the Purchaser for a consideration of HK$123,295,400.

Since the consideration ratio of the Property Disposal is more than 5% but less than 25% and each of the other applicable percentage ratios as defined in Chapter 14 of the Listing Rules is less than 25%, the Property Disposal constitutes a discloseable transaction of the Company which is subject to the notification and announcement requirements under Rules 14.34 to 14.39 of the Listing Rules.

The purpose of this circular is to provide you with details of the Sale and Purchase Agreement and other information under the Listing Rules.

Date

15 March 2007

Parties

(1) Kelon Electric, as the vendor; and

(2) the Purchaser, as the purchaser.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Purchaser and the ultimate beneficial owner of the Purchaser are third parties independent of the Company and connected parties (as defined in the Listing Rules) of the Company.

Subject of Disposal

Pursuant to the Sale and Purchase Agreement, Kelon Electric has agreed to sell and the Purchaser has agreed to acquire the Property.

Consideration

The consideration for the Property Disposal is HK$123,295,400 and was paid/is payable by the Purchaser in the following manners:

(1) The sum of HK$3,700,000, being initial deposit and part payment of the consideration, was paid by the Purchaser on 14 March 2007 to Kelon Electric's solicitors as stakeholders;

(2) The sum of HK$8,629,540, being further deposit and further part payment of the consideration, was paid by the Purchaser on 15 March 2007; and

(3) The sum of HK$110,965,860, being the balance of the consideration, to be paid by the Purchaser on or before the Completion Date.

Kelon Electric has entrusted a professional property sales agency, Centaline Property Agency Limited, which is a third party independent of the Company and its connected persons as defined in the Listing Rules, to dispose of the Property with a minimum price of HK$107,000,000, being the appraised value of the Property appraised by Vigers Appraisal and Consulting Limited, which is a third party independent of the Company and its connected persons as defined in the Listing Rules, on 15 July 2006. The consideration was determined after arm's length negotiations between the parties with reference to the prevailing market value of similar properties in the market in the same area.

INFORMATION OF THE PROPERTY

The Property has a total area of 1,467.86m^2 and is located at the whole of 25/F., Harbour Centre, 25 Harbour Road, Hong Kong. The Property was acquired by the Kelon Electric in 1993 and it is free from any mortgage at present. The residual term of use of the Property is 36 years. The Property is for commercial use and is sold subject to three tenancies expiring on 15 January 2009, 30 November 2009 and 5 April 2008, respectively.

Net Profits in the sum of HK$1,677,349.470 (audited) and HK$1,922,085.21 (unaudited) (both before and after taxation and extraordinary items) were attributable to the Property in the 2005 and 2006 financial years, respectively.

According to the appraisal report of the Property by Vigers Appraisal dated 15 July 2006, the Property has a appraised value of HK$107,000,000. As at 28 February 2007, its net book value was HK$66,884,000. The current market value method was adopted in appraising the Property.

When compared the net book value of the Property as at 28 February 2007, i.e. HK$66,884,000, with the consideration for the Property Disposal, i.e. HK$123,295,400, there is a premium of value of HK$56,411,400. The gains expected to accrue by the Group as a result of the Property Disposal, after taxation and payment of relevant expenses incidental to the Property Disposal, is in the approximate sum of HK$54,000,000.

Part of the Property is considered as investment properties, while part of the Property is considered as self-used properties in the account of the Group. The reason for the difference in value between the valuation amount of the Property as at 15 July 2006 and the net book value of the Property on 28 February 2007 is that different basis was adopted in assessing the two values. The valuation amount of the Property as at 15 July 2006 was assessed with reference to the market value of other similar properties, while the net book value of the Property as at 28 February 2007 was assessed with reference to appropriate accounting principle , i.e. taking into account the historical cost of the Property with deduction of relevant depreciation (regarding the part of the Property which is considered as self-used properties) and other relevant expenses over the years.

REASONS FOR AND BENEFITS OF THE SALE AND PURCHASE AGREEMENT

The Company is principally engaged in the manufacture and sales of refrigerators and air-conditioners. The Property is a non-core asset of the Company. The Property Disposal is an initiative by the Company to dispose of its non-core assets and enhance its assets structure, which will facilitate the optimal utilization of the assets of the Company.

The Company estimates that all of the net proceeds from the Property Disposal, which is in the approximate sum of HK$54,000,000.00, will be used as working capital for the Company's production operation. Since the said sum of HK$54,000,000.00 will only be received by the Company upon completion of the Propery Disposal, the application of such net procceds by the Company in its production operation will be determined by the then production needs and business development of the Company. Since additional working capital and cashflow will be provided for further development of the Company, The Property Disposal will help to further enhance the operating conditions of the Company.

The Directors (including the independent non-executive Directors) consider that the Property Disposal is beneficial to the Company and the Shareholders as a whole and the terms and conditions in the Sale and Purchase Agreement are fair and reasonable.

FINANCIAL IMPACTS ON THE GROUP

Net Assets

It is estimated by the Company that net proceeds in the sum of HK$54,000,000.00 will be received by the Company as a result of the Property Disposal and thus the net assets of the Group will also increase by HK$54,000,000.00 as a result of the Property Disposal. The Property Disposal will pose no effect on the liability of the Group.

Profit

It is estimated by the Company that net proceeds in the sum of HK$54,000,000.00 will be obtained by the Company as a result of the Property Disposal and thus the net profit of the Group will increase by HK$54,000,000.00 as a result of the Property Disposal.

INFORMATION RELATING TO THE COMPANY

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

INFORMATION RELATING TO KELON ELECTRIC

Kelon Electric, a wholly-owned subsidiary of the Company, was incorporated in Hong Kong and is principally engaged in property investment.

INFORMATION RELATING TO THE PURCHASER

The Purchaser was incorporated in Hong Kong and is principally engaged in property investment.

DISCLOSEABLE AND CONNECTED TRANSACTIONS

Since the consideration ratio of the Property Disposal is more than 5% but less than 25 % and each of the other applicable percentage ratios as defined in Chapter 14 of the Listing Rules is less than 25%, the Property Disposal constitutes a discloseable transaction of the Company which is subject to the notification and announcement requirements under Rules 14.34 to 14.39 of the Listing Rules.

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 until further notice.

ADDITIONAL INFORMATION

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
Tang Ye Guo
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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 in this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors, supervisors and chief executive of the Company

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company had interests and short positions in the Shares, underlying Shares and/or debentures (as the case may be) of the Company or any its associated corporations (within the meaning 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 any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up, 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.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

Interests of Substantial Shareholders

Interests in the Company

As at the Latest Practicable Date, so far as the Directors are aware, each of the following persons, not being a Director, supervisor or chief executive of the Company, had an interest in the Shares which falls to be disclosed to the Company and the Stock Exchange 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
Qingdao Hisense Air-Conditioning Co., Ltd	Domestic legal person Shares	238,872,074	70.68%	24.08%
Shunde Economic Consultancy Company	Domestic legal person Shares	68,666,667	20.32%	6.92%
Shenyin Wanguo Securities (H.K.) Limited	H Shares	55,091,000	11.99%	5.55%
The Hong Kong & Shanghai Banking Corporation Limited	H Shares	51,363,925	11.15%	5.17%
Bank of China (Hong Kong) Limited	H Shares	49,067,000	10.68%	4.95%
Guotai Junan Securities (Hong Kong) Limited	H Shares	40,920,000	8.90%	4.12%
HSBC Nominees (Hong Kong) Limited	H Shares	40,106,904	8.73%	4.04%
First Shanghai Securities Limited	H Shares	25,860,000	5.63%	2.61%

Interests in other members of the Group

As at Latest Practicable Date, so far as the Directors are aware, the following persons, not being a Director, supervisor or chief executive of the Company, 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 any other members of the Group:

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	Huayi Compressor Company Limited	30%
Foshan Shunde Rongsheng Plastic Products Co., Ltd	Huayi 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	32.69%
	A-share public shareholders	49.04%
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%
Beijing Hengsheng Xin Chuang Technology Company	Foshan City Shunde District Yun Long Enquiry Service Company Limited	11%
Guangdong Kelon Weili Electrical Appliances Company Limited	Zhongshan City Buisha Province Shunzhun Limited Company	20%

Save as disclosed above, as at the Latest Practicable Date, there was no other person (other than a Director, supervisor or chief executive of the Company or a member of the Group), who had an interest or short position in the Shares or underlying Shares 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 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 any other member of the Group.

3. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors, proposed directors, supervisors or proposed supervisors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up.

5. COMPETING INTEREST

As at the Latest Practicable Date, the following directors of the Company or their respective associates have interests in the following businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group pursuant to the Listing Rules:

Name of Director	Name of entity which business is considered to compete or likely compete with the business of the Group	Description of business of the entity which is considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Mr. Tang Ye Guo	The Subsidiaries of Hisense Group	Production of air-conditioning/ electrical products	Director

Name of Director	Name of entity which business is considered to compete or likely compete with the business of the Group	Description of business of the entity which is considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Ms. Yu Shu Min	The Subsidiaries of Hisense Group	Production of air-conditioning/ electrical products	Director and/or senior management
Mr. Yang Yung Duo	Hisense Group	Production of air-conditioning/ electrical products	Senior Managment
Mr. Wang Shi Lei	Hisense Group	Production of air-conditioning/ electrical products	Senior Managment
Mr. Lin Lan	Hisense Group	Production of air-conditioning/ electrical products	Senior Management
Mr. Xiao Jian Lin	Hisense Group or its Subsidiaries	Production of air-conditioning/ electrical products	Director

As at the Latest Practicable Date, save as disclosed above, none of the directors of the Company or their respective associates has interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, the following litigation or claims of material importance are pending or threatened against the Company and its subsidiaries:

No.	Name of case	Plaintiff	Claim Amount *(RMB)*	Particulars	Status
1.	Claims against the Company initiated by Zhejiang Hangxiao Ganggou Holdings Company Limited ("Zhejiang Hangxiao") in relation to a construction contract	Zhejiang Hangxiao	19,853,000	The plaintiff alleged that it had undertaken the construction works of the Company's plain warehouse factories No. 1 and No. 2 pursuant to a construction contract with the Company and the Company defaulted in payment of RMB1,193,000 in construction fees. The plaintiff sued the Company for payment of RMB1,193,000 in construction fees and RMB17,660,000 in default penalties and the cost of legal proceedings. The proceedings was resumed in March 2007 in the Court of Fosan. Hangxiao Company Limited has amended the claim for construction fees to RMB1,170,000.	The Company is undergoing the litigation process in the intermediate people's court in Fosan City, the PRC.

No.	Name of case	Plaintiff	Claim Amount *(RMB)*	Particulars	Status
2.	Claims against Jiangxi Kelon and the Company initiated by China Construction Bank Corporation Nanchang Changbei Branch in relation to the loan contract and guarantee contract	China Construction Bank Corporation Nanchang Changbei Branch	69,550,000.00	China Construction Bank Corporation Nanchang Changbei Branch applied to the court for pre-trial security order on the basis of dispute over the loan contract and guarantee contract. The claim involved was in the sum of RMB140,000,000.00. On 5 August, the High Court of Jiangxi Province ordered to freeze Jiangxi Kelon's 80% shareholdings in Shangqiu Kelon. During the freezing period, such shareholdings shall not be pledged or transferred without the court's prior consent. After various negotiations between the parties, Jiangxi Kelon has repaid approximately RMB70,450,000 to the Plaintiff.	The Company is undergoing the litigation process in the higher people's court in Jiangxi.
3.	Claims against Jiangxi Kelon and Kaifeng Kelon Air-Conditioner Co., Ltd. ("Kaifeng Kelon") by Kaifeng Economic Technology Development (Group) Company in relation to joint venture contract	Henan Province Kaifeng Economic Technology Development (Group) Company	27,160,000.00	The plaintiff applied for a pre-trial security order from the court to seize properties worth of RMB18,000,000 of Jiangxi Kelon and Kaifeng Kelon. During the proceedings, the plaintiff applied for a security order from the court. The court decided to seize the properties of Kaifeng Kelon and Jiangxi Kelon in the sum of RMB9,160,000.00.	The Company is undergoing the litigation process in the intermediate people's court in Kaifeng, Henan.

No.	Name of case	Plaintiff	Claim Amount *(RMB)*	Particulars	Status
4.	Claims initiated by CNA/MC Appliance Corporation against the Company and Kelon International Incorporation	Can International Inc./MC Appliance Corporation	US$13,750,715.19	The plaintiff alleged that it had entered into a contract with the defendant on 29 December 2003 to purchase 108,108 units of MCBR1000W refrigerators, that the defendant failed to perform its obligations as set out in the contract on a timely basis and that the goods delivered were defective.	The Company is undergoing the litigation process in district court in the States. It is expected that the litigation process will be lengthy.
5.	Claim initiated against the Company and Jilin Kelon Electrical Company Limited by Jilin Commercial Bank	Jilin Commercial Bank (Jiangbei Branch)	18,057,915	The plaintiff sued for repayment of principal of loan and interest.	The Company is undergoing the litigation process in the intermediate people's court in Jilin.

7. MISCELLANEOUS

(1) The company secretary and qualified accountant of the Company is Mr. Dai Zu Mian. Mr. Dai is a member of the Association of Chartered Certified Accountants in the United Kingdom and is a certified public accountant in the PRC.

(2) The English text of this circular shall prevail over its Chinese text.