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KELON 科龙

GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED

廣東科龍電器股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0921)

ANNOUNCEMENT DISCLOSEABLE TRANSACTION

The Board is pleased to announce that on 31 May 2007, the Company entered into the Debt Transfer Agreement with the Purchaser to transfer the Company's rights to the Debt and its rights under the Settlement Agreement for a consideration of RMB142,000,000.

Since the consideration ratio of the debt transfer 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 debt transfer constitutes a discloseable transaction of the Company which is subject to the notification and announcement requirements in accordance with the Listing Rules.

A circular containing, among other things, details of the Debt Transfer Agreement will be despatched to the shareholders of the Company in accordance with the requirements under the Listing Rules as soon as practicable.

THE DEBT TRANSFER AGREEMENT

The Board is pleased to announce that on 31 May 2007, the Company entered into the Debt Transfer Agreement with the Purchaser to transfer the Company's rights to the Debt and its rights under the Settlement Agreement for a consideration of RMB142,000,000.

Date

31 May 2007

Parties

- (1) The Company; and
- (2) 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 Transfer

Pursuant to the Debt Transfer Agreement, the Company has agreed to transfer its rights to the Debt and its rights under the Settlement Agreement to the Purchaser. As a result of the transfer, the Company will not have any rights under the Settlement Agreement.

Consideration

The consideration for the debt transfer is RMB142,000,000 and is payable by the Purchaser within two working days by way of cash from the date of signing the Debt Transfer Agreement. As at the date of this announcement, the Company has received the total sum of the consideration.

On 29 December 2004, the Company entered into the state-owned land use right transfer agreement with Jiegao Investments, a third party independent of the Company and its connected persons (as defined in the Listing Rules), for the transfer of the land use right of a state-owned piece of land which was owned by the Company for a consideration of RMB168,855,132.63, which was repayable by Jiegao Investments in one lump-sum to the Company before 31 December 2004. Both parties have completed the transfer procedures of such land pursuant to the state-owned land use right transfer agreement. However, no payment of the transfer price for the transfer of the such land has been made by Jiegao Investments pursuant to such land use right transfer agreement. The Company has initiated litigation against Jiegao Investments for repayment of such outstanding debt. On 26 December 2006, the Higher People's Court of Guangdong Province of the PRC made a judgment in favour of the Company. Under the judgment, Jiegao Investment has to repay the Company (i) the principal amount of the debt owed by Jiegao Investments to the Company in the sum of RMB168,855,132.63; (ii) the interest incidental thereto, (which is calculated for the period from 31 December 2004 to the date of the repayment of the debt, in accordance with the interest rate for loan with one year maturity of the People's Bank of China); and (iii) the litigation fees in the sum of RMB921,365.48 which is incurred by the Company to claim for the repayment of the debt owed by Jiegao Investments which will have to be repaid by Jiegao Investments under PRC laws and regulations.

As disclosed in the announcement of the Company dated 19 April 2007, the Company entered into the legally binding Settlement Agreement on 18 April 2007 with Jiegao Investments and Ronggui Rural Credit Cooperative of Shunde, which is a financial institution in the PRC and is a third party independent of the Company and its connected persons (as defined in the Listing Rules), in order to set out the agreed settlement arrangement of the Debt (particulars of which are set out in the subsequent section of this announcement). Pursuant to the Settlement Agreement, Jiegao Investments agreed to dispose of the land use right of a piece of the Jiegao Land, with reference to the market price of the land use right of the land located within the same area with a site area of 200 mu disposed by the Company in earlier time. The proceeds from such land disposal will be shared equally by the Company and Ronggui Rural Credit Cooperative of Shunde for the settlement of the Debt and the debts owed to Ronggui Rural Credit Cooperative of Shunde by Jiegao Investments. Under the Settlement Agreement, Jiegao Investments will only pay half of the sales proceeds of the disposal of the Jiegao Land to the Company for the settlement of the Debt.

With reference to the market price of the land use right of the land located within the same area with a site area of 200 mu disposed by the Company, the Company estimates that the sale price of the Jiegao Land will be approximately RMB243,000,000. As such, the Company will be able to share the approximate sum of less than RMB121,000,000 after payment of the relevant taxes pursuant to the Settlement Agreement.

The consideration was determined after arm's length negotiation between the parties after the Company has taken into account the potential sum, i.e. RMB121,000,000, receivable under the Settlement Agreement as set out in the afore-mentioned paragraph and the uncertainty of the timing regarding when such sum is recoverable.

It is the current intention of the Company to use all of the net proceeds from the debt transfer, i.e. about RMB142,000,000, as its operation capital and for the repayment of its bank loans. The actual proportion for the application of which as loans repayment or operation capital will depend on the future business development of the Company.

Major Terms

- (1) It is agreed by the Company and the Purchaser that in the event that any of the party suffers any loss or damage as a result of the breaches of any of the representation, warranty, undertaking or other terms in the Debt Transfer Agreement by the other party, such party shall compensate the other party for the full amount of such loss or damage.
- (2) The debt transfer is without a recourse under the Debt Transfer Agreement.

INFORMATION OF THE DEBT

In view of the judgment dated 26 December 2006 made by the Higher People's Court of Guangdong Province of the PRC (which is set out in the previous section of this announcement), the Debt under the Debt Transfer Agreement comprises (i) the principal amount of the debt owed by Jiegao Investments to the Company in the sum of RMB168,855,132.63; (ii) the interest incidental thereto, which is approximately RMB23,640,000 as at the date of this announcement (which is calculated for the period from 31 December 2004 to the date of this announcement, in accordance with the interest rate for loan with one year maturity of the People's Bank of China); and (iii) the litigation fees in the sum of RMB921,365.48 which is incurred by the Company to claim for the repayment of the debt owed by Jiegao Investments which will have to be repaid by Jiegao Investments under PRC laws and regulations.

Taking into account the afore-mentioned, the aggregate amount of the Debt will be approximately 193,416,498.11.

The Debt is treated as receivables in the gross sum of RMB168,855,132.63 in the audited accounts of the Company for the years ended 31 December 2005 and 31 December 2006, respectively.

Provision in the sum of RMB84,427,566.32 was made to the Debts in the audited accounts of the Company for the years ended 31 December 2005 and 31 December 2006. Such amount of the provision was provided for individually based on the Company's assessment of the financial situation of Jiegao Investments.

The audited net book value of the Debt (after taking into account the provision) is therefore in the sum of RMB84,427,566.32 in the audited accounts of the Company as at 31 December 2005 and 31 December 2006. No net profit was incurred by the Debt for the for the years ended 31 December 2005 and 31 December 2006, respectively.

After comparing the consideration for the debt transfer with the audited net book value of the Debt as at 31 December 2006, the Company is expected to obtain a gain of approximately RMB57,000,000 for the debt transfer for the year ended 31 December 2007.

REASONS FOR AND BENEFITS OF THE DEBT TRANSFER AGREEMENT

As disclosed in the previous section headed “Consideration”, since the consideration under the Debt Transfer Agreement is more than RMB121,000,000 and the debt transfer can accelerate the debt collection process and provide further immediate operating capital to the Company to support its production activities for the imminent peak production and sales season and in view of the static development of the disposal of the Jiegao Land in which the concrete disposal date cannot be assessed, the Directors (including the independent non-executive Directors) considers that the debt transfer is beneficial to the Company and the Shareholders as a whole and the terms and conditions in the Debt Transfer Agreement are fair and reasonable.

INFORMATION RELATING TO THE COMPANY

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

INFORMATION RELATING TO THE PURCHASER

The Purchaser was incorporated in the PRC on 23 October 2003 and is principally engaged in conducting investment to the industrial district of Shunde.

DISCLOSEABLE TRANSACTION

Since the consideration ratio of the debt transfer under the Debt Transfer Agreement 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 debt transfer constitutes a discloseable transaction of the Company which is subject to the notification and announcement requirements in accordance with the Listing Rules.

A circular containing, among other things, details of the Debt Transfer Agreement will be despatched to the shareholders of the Company in accordance with the requirements under the Listing Rules as soon as practicable.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“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
“Debt”	The Debt comprises (i) the principal amount of the debt owed by Jiegao Investments to the Company in the sum of RMB168,855,132.63; (ii) the interest incidental thereto, which is approximately RMB23,640,000 as at the date of this announcement (which is calculated for the period from 31 December 2004 to the date of this announcement); and (iii) the litigation fees in the sum of RMB921,365.48. Please refer to the section headed “INFORMATION OF THE DEBT” for details.

“Debt Transfer Agreement”	The debt transfer agreement dated 31 May 2007 entered between the Company and the Purchaser to transfer the Company’s rights to the Debt and its rights under the Settlement Agreement
“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
“Jiegao Investments”	佛山市順德區捷高投資有限公司(Foshan Shunde Jiegao Investments Company Limited)
“Jiegao Land”	A piece of land owned by Jiegao Investments and located at the east of Wai Huan Lu, Rong Gui, Shunde District, Foshan City with a site area of 254,629.69 sq.m.
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“Purchaser”	佛山市順德區順融投資有限公司(Foshan Shunde Shunyun Investments Company Limited), a company incorporated in the PRC on 23 October 2003
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Settlement Agreement”	The settlement agreement dated 18 April 2007 entered between the Company, Ronggui Rural Credit Cooperative of Shunde and Jiegao Investments regarding the settlement arrangement for the debts owed by Jiegao Investments to the Company and Ronggui Rural Credit Cooperative of Shunde, details of which are set out in the announcement of the Company dated 19 April 2007
“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.

Suspension of Trading in the H shares of the Company

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 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 directors are Mr. Tang Ye Guo, Mr. Yang Yun Duo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Xiao Jian Lin and Mr. Lin Lan; 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, 12 June 2007

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