



**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 relating to the status and progress of the Sales Agency Agreement,  
the First Supplemental Agency Agreement and  
the Second Supplemental Agency Agreement entered into between  
Guangdong Kelon Electrical Holdings Company Limited and  
Qingdao Hisense Marketing Company Limited**

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

Except for Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong, the Company and the remaining directors of the Company confirm that the information disclosed herein is truthful, accurate and complete, and that it contains no false representation, misleading statement or material omission. The management of the Company, namely President Mr. Tang Ye Guo, and Vice President Mr. Xiao Jian Lin, Mr. Lin Lan, Mr. Su Yu Tao and Mr. Shi Yong Chang confirm that the information disclosed herein is truthful, accurate and complete, and that it contains no false representation, misleading statement or material omission.

Reference is made to the Continuing Connected Transaction Announcement of Guangdong Kelon Electrical Holdings Company Limited (the "Company") dated 26 September 2005 (the "Connected Transaction Announcement") relating to the sales agency agreement entered into between the Company and Qingdao Hisense Marketing Company Limited ("Hisense Agent") on 16 September 2005 (the "Sales Agency Agreement") and the first supplemental agency agreement amending the terms of the Sales Agency Agreement on 26 September 2005 ("the First Supplemental Agency Agreement").

Reference is also made to the Second Supplemental Sales Agency Agreement Announcement of the Company dated 4 April 2006 (the "Second Supplemental Agency Agreement Announcement") relating to the second supplemental agency agreement amending the terms of the Sales Agency Agreement and the First Supplemental Agency Agreement on 1 April 2006 (the "Second Supplemental Agency Agreement").

Unless the context provides otherwise, references to the Sales Agency Agreement in this announcement shall mean the Sales Agency Agreement as amended by the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement.

The board of directors of the Company (the "Board") received an internal inspection report on the progress and status of the Sales Agency Agreement (the "Internal Inspection Report") from the management of the Company on 26 May 2006. In accordance with the Internal Inspection Report, the Company disclosed the initial progress and status of the Sales Agency Agreement as follows:

**I. TERMS RELATING TO PREPAYMENTS UNDER THE SALES AGENCY AGREEMENT AND THE PROGRESS THEREOF**

**1. Terms relating to Prepayments under the Sales Agency Agreement**

Terms of the Sales Agency Agreement: Hisense Agent shall make prepayments to the Company in respect of the purchase of products in an amount not exceeding RMB600,000,000, of which RMB300,000,000 shall be paid within ten business days of the execution of the agreement. An amount not exceeding RMB300,000,000 shall be paid by the Company within one month of the first capital contribution, in accordance with the actual capital requirements of the Company after it commences operation, marketing and sales. Under the terms of this agreement, the Company is not required to repay the prepayment made by Hisense Agent in an amount not exceeding RMB600,000,000.

## 2. Progress of the Terms of Prepayments

As shown in the Internal Inspection Report, the details of the prepayments made by Hisense Agent under the Sales Agency Agreement are as follows:

<b>Date of Receipt</b>	<b>Amount In RMB</b>
23 September 2005	4,000,000.00
23 September 2005	13,904,000.00
12 October 2005	30,000,000.00
13 October 2005	100,000,000.00
13 October 2005	50,000,000.00
24 October 2005	72,000,000.00
15 December 2005	31,100,000.00
<b>Total</b>	<b><u>301,004,000.00</u></b>

## II. TERMS RELATING TO THE SALE PRICE UNDER THE SALES AGENCY AGREEMENT AND THE STATUS THEREOF

### 1. Terms relating to the Sale Price under the Sales Agency Agreement

Terms of the Sales Agency Agreement: the price of goods sold by the Company to Hisense Agent shall be equivalent to the price of goods sold by Hisense Agent to the distributors, and such price shall be determined by the Company and the distributors.

### 2. Execution Progress of the Terms relating to the Sales Prices

According to the Internal Inspection Report, Hisense Agent and the Company also entered into Policies in Relation to the Settlement Price between the Company and Qingdao Hisense Marketing Company Limited on 27 September 2005, pursuant to which the parties agreed that the accounting department of the Company shall issue an invoice to Hisense Agent on a monthly basis, based on the quantity of goods ordered by Hisense Agent and in accordance with the wholesale prices offered by respective production divisions, with no gross profit made by Hisense Agent and its subsidiaries in respect of the goods. If gross profit is generated by Hisense Agent, the parties shall analyse the cause and make adjustments to the invoice in the following month. At the beginning of every month, the marketing branch office of the Company and the branch office of Hisense Agent in the corresponding regions shall review the prices of the goods sold in the previous month and confirm by way of signing and sealing.

The Company and the branch office of Hisense Agent reviewed, calculated and confirmed the price differences and policies of Hisense Agent during the period of 1 December to 15 December 2005, and made an advance settlement of a portion of the gross profits incurred in December in the amount of RMB-8,188,813.52.

As at 30 April 2006, the aggregate amount of gross profit to be adjusted by the Company and Hisense Agent was RMB-75,874,349.42. Save for the unrealized gross profits incurred during March 2006 and April 2006, all other gross profit incurred have been settled. As at the date of this announcement, the amount of gross profit which remains to be settled by the Company and Hisense Agent amounts to RMB-34,387,080.84, representing the gross profit of RMB34,387,080.84 payable by the Company to Hisense Agent.

### III. TERMS RELATING TO THE DELIVERY OF GOODS AND PAYMENTS UNDER THE SALES AGENCY AGREEMENT AND THE PROGRESS THEREOF

#### 1. Terms relating to the Delivery of Goods and Payments under the Sales Agency Agreement

Terms of the Sales Agency Agreement: Upon receipt of the prepayments by the Company, the Company will begin to supply goods to Hisense Agent and deliver such products to the warehouses designated by Hisense Agent. Upon delivery of products to the warehouses designated by Hisense Agent, the ownership of such products will be transferred to Hisense Agent. If the value of the sale of goods made by the Company to Hisense Agent exceeds the prepayment actually received by the Company, the parties shall enter into a deed of buying or borrowing on credit of goods and Hisense Agent must pay the Company the value of the sale of goods which is in excess of the prepayments within 60 days.

#### 2. Details on the Execution of Terms relating to the Delivery of Goods and Payments under the Sales Agency Agreement

(1) As shown in the Internal Inspection Report, the details of sales of goods by the Company to Hisense Agent are as follows:

Items	Sales to Hisense Agent, net of tax In RMB
October 2005	183,392,995.64
November 2005	270,132,525.40
December 2005	423,747,614.00
January 2006	360,785,001.00
February 2006	393,575,936.00
March 2006	487,231,303.75
April 2006	376,053,752.00
Estimated revenue of goods delivered but not yet invoiced as of 10 May 2006 ( <i>Note 1</i> )	339,334,960.65
<b>Total (<i>Note 2</i>):</b>	<b><u><u>2,834,254,088.44</u></u></b>

*Note 1:* Based on the detailed estimation of revenue of goods delivered but not yet invoiced as of 10 May 2005.

*Note 2:* The above table summarises the data in respect of the revenue of goods delivered but not yet invoiced, and the revenue in respect of goods ordered by the branches of Hisense Agent from the subsidiaries of the Company was not included as the goods are still being processed.

(2) Details of payments received by the Company from Hisense Agent as shown in the Internal Inspection Report are as follows:

As at 31 December 2005, the Company received an aggregate amount of payments of RMB812,724,143.04 from Hisense Agent; as at 31 March 2006, the Company received an aggregate amount of payments of RMB1,552,440,409.82 from Hisense Agent; as at 10 May 2006, the Company received an aggregate amount of payments of RMB2,257,452,730.87 from Hisense Agent. Prepayments of RMB301,004,000.00 have been included in the calculation of payments mentioned above.

(3) Details of payments to Hisense Agent by the distributors of Company as shown in the Internal Inspection Report:

As at 10 May 2006, the distributors of the Company made an aggregate payment of RMB2,107,913,242.52 to Hisense Agent.

Hisense Agent made prepayments of RMB301,004,000.00 from September to December 2005, resulting in total payments in the amount of RMB1,956,448,730.87 as of 10 May 2006; the branch offices of Hisense Agent received an aggregate payment of RMB2,107,913,242.52 from the distributors of the Company as at 10 May 2006, and payments in transit of RMB151,464,511.65 is yet to be received by the Company. Proportions of such payments in transit are as follows:

<b>Items</b>	<b>Amount In RMB</b>
<b>1. Payments made to the Company by Hisense Agent</b>	<b>1,956,448,730.87</b>
<b>2. Accounts receivables of the Company due from Hisense Agent</b>	<b>151,464,511.65</b>
(1) Headquarters of the domestic marketing company of the Company	19,048,516.37
(2) Domestic marketing branch of the Company	28,347,582.61
(3) Payment in transit of the headquarters of the domestic marketing company of the Company	104,068,412.67

#### **IV. TERMS RELATING TO AGENCY FEES AND FEES IN RELATION TO THE WORKING CAPITAL LOAN (資金佔用費) AND THE PROGRESS THEREOF**

##### **1. Terms relating to the Agency Fees and Fees in relation to the Working Capital Loan (資金佔用費)**

Terms of the Sales Agency Agreement: During the effective period of this agreement, Hisense Agent will receive quarterly prepayments from the Company for fees in relation to the working capital loan (資金佔用費), which will be calculated according to the following formula: Fees in Relation to the Working Capital Loan (資金佔用費) = Amounts of Prepayments x Actual Days of Working Capital Loan x Annual Interest Rates on Working Capital Loans Announced by the People's Bank of China ÷ 360; Hisense Agent will receive 1% of the sales revenue as agency fees every quarter, and Hisense Agent shall neither charge any other fees nor undertake any marketing fees.

##### **2. Progress of Terms relating to the Agency Fees and Fees in relation to the Working Capital Loan (資金佔用費)**

Details of the Agency Fees and fees in relation to the working capital loan (資金佔用費) as shown in the Internal Inspection Report are as follows:

<b>Items</b>	<b>Accounts receivables</b>	<b>Revenue (the Company's invoiced value of sales to Hisense Agent, net of tax)</b>	<b>Agency fees (invoiced value of sales to Hisense Agent, net of tax * 1%)</b>	<b>Amount of fees in relation to the working capital loan (資金佔用費) In RMB</b>
As at 31 December 2005	812,724,143.04	877,273,135.04	8,772,731.35	3,409,550.50
As at 10 May 2006	2,257,452,730.87	2,834,254,088.44	28,342,540.89	9,474,781.10

As at the date the Internal Inspection Report, Hisense Agent has not requested the Company to pay the agency fees and fees in relation to the working capital loan (資金佔用費) pursuant to the Sales Agency Agreement, and the Company has not made any payment of agency fees or fees in relation to the working capital loan (資金佔用費). The Board was informed by the management of the Company that in the above formula, the actual number of days of working capital loan commences from the date when the Company receives the prepayment, up until 10 May 2006 (See Section 1 of this announcement for details on prepayments received by the Company).

## **V. RESUMING INDEPENDENT OPERATION OF THE COMPANY'S MARKETING SYSTEM**

According to the Internal Inspection Report, the Company's marketing system has resumed independent operation since 11 May 2006. However, as the accounts are not ready to be cleared and settled during the middle of the month and the Company is still in a transition stage, time will be required for the Company to adjust to the business demands of their customers. To avoid temporary interruption of sales resulting in loss during the peak season, the Company has taken transitional measures to fully resume the marketing system of the Company on 1 June 2006 and have completed the relevant settlements. In the meantime, in order to avoid further connected transactions with Hisense Agent, our marketing system directly deals with and processes settlements with new customers and customers who have not made prepayments to Hisense Agent.

As at the date of this announcement, the Board was informed by the management that as more time is required by the parties to settle and clear relevant accounts, the settlement and clearance of relevant accounts are still being processed.

## **VI. OPINIONS OF THE BOARD, INDEPENDENT NON-EXECUTIVE DIRECTORS AND MANAGEMENT OF THE COMPANY ON THE PROGRESS OF THE SALES AGENCY AGREEMENT**

### **1. The Board's opinion on the progress of the Sales Agency Agreement**

The Board has carefully reviewed the Internal Inspection Report, and the Board has not found any detriment to the interests of the Company due to the execution of the Sales Agency Agreement pursuant to the Internal Inspection Report. However, in accordance with the Internal Inspection Report, the Board would like to draw the investors' attention to the following:

- (1) The Internal Inspection Report was prepared by the Company internally, and it has not been audited by any intermediaries. The Board has engaged Shenzhen Nan-fang Minhe Certified Public Accountants to audit the progress of the Sales Agency Agreement. As at the date hereof, the audit of the progress of the Sales Agency Agreement has not completed. The Board will make appropriate disclosure on the results of the audit in a timely manner.
- (2) The Board is of the view that in the course of progress of the Sales Agency Agreement, Hisense Agent has failed to settle RMB300,000,000 within ten business days of signing the agreement. As stated in the Report Relating to the Commercial Arrangements in respect of the Progress of the Sales Agency Agreement and its Supplemental Agreements entered into between the Company and Qingdao Hisense Marketing Company Limited provided by Shenzhen Dahua Tiancheng Certified Public Accountants on 1 January 2006: the accounting department of the Company has provided us with relevant information such as accounts and receipts. Based on our review of such information, the prepayments and payments by Hisense Agent that have been received by the Company as at 31 December 2005 can be summarised as follows:

Date of Receipt	Amount and Method of Receipt		(In RMB) Receipt No.
	Cash	Bank acceptances	
2005/09/23		4,000,000.00	0001418
2005/09/23		13,904,000.00	0001419
2005/10/10		4,684,131.69	0001421
2005/10/12	30,000,000.00		0001423
2005/10/13	100,000,000.00		0001424
2005/10/13	50,000,000.00		0001425
2005/10/24	72,000,000.00		0001426
2005/10/24		26,366,462.80	0001422
2005/11/17		50,600,106.72	0001458
2005/11/24		50,512,619.00	0001459
2005/12/02		30,045,548.40	0001460
2005/12/05		69,539,392.46	0001461
2005/12/05	31,100,000.00		0001462
2005/12/15	10,000,000.00		0001465
2005/12/19		40,116,327.07	0001471
2005/12/20	30,000,000.00		0001470
2005/12/20	10,000,000.00		0001469
2005/12/21		40,390,691.47	0001472
2005/12/30	50,000,000.00		0001474
2005/12/30		99,464,863.43	0001476
Total	<u>383,100,000.00</u>	<u>429,624,143.04</u>	

*Notes:*

1. The cash payments mentioned above were made by Hisense Agent.
2. The bank acceptances mentioned above have all been endorsed by Hisense Agent for the Company. Save for the bank acceptances of RMB17,904,000 received on 23 September 2005, Hisense Agent endorsed for the customers of the Company before endorsing for the Company.

Save for the terms relating to prepayments under the Sales Agency Agreement, Hisense Agent has complied with the terms of the Sales Agency Agreement.

- (3) According to the Internal Inspection Report, as at 10 May 2006, the sales revenue paid by the Company to Hisense Agent (i.e. the Company's invoiced value of sales to Hisense Agent, net of tax) amounted to RMB2,834,254,088.44. The branch office of Hisense Agent received an amount of RMB2,107,913,242.52 from the distributors of the Company, and Hisense Agent made a payment of RMB1,956,448,730.87 to the Company. Payment in transit of RMB151,464,511.65 is yet to be received by the Company. As at the date of this announcement, the Board was informed by the management of the Company that such shortfall was attributable to: (1) the value of the goods sold by Hisense Agent which have not become payable; and (2) goods which have already been sold by the Company to Hisense Agent which have not been subsequently sold by the Hisense Agent.
- (4) According to the Internal Inspection Report, as at 10 May 2006, funds in transit of RMB151,464,511.65 was yet to be received by the Company. As at the date hereof, the Board was informed by the management of the Company that such amount has been fully received by the Company.
- (5) According to the Internal Inspection Report, the estimated value of goods sold by the Company to Hisense Agent for the period of 1 May 2006 to 10 May 2006 was RMB339,334,960.65. As at the date of the announcement, the Board was informed by the management of the Company that during the period of 1 May 2006 to 10 May 2006, the actual value of goods sold by the Company to Hisense Agent was RMB355,553,785.52. In view of the adjustments mentioned above, as at 10 May 2006, the value of goods sold by the Company to Hisense Agent amounted to RMB2,850,472,913.31, and the agency fees payable by the Company to Hisense Agent shall be RMB28,504,729.14.

**2. The Opinion of Independent Non-executive Directors of the Company on the Progress of the Sales Agency Agreement**

The two independent non-executive directors of the Company agree with the opinions of the Board in relation to the progress of the Sales Agency Agreement and the Board's reminding note to the investors.

**3. The Opinion of the Management of the Company on the progress of the Sales Agency Agreement**

The management of the Company is of the view that the progress of the Sales Agency Agreement have enabled the Company to obtain the funds necessary for the production and the marketing activities of the Company. It has also improved the image and the confidence of distributors towards the Company, enhanced the collection of trade receivables and capital utilisation, thus enabling a smooth supply and sales process. The Sales Agency Agreement is essential for the continuation of the Company's operations during the transitional period and also safeguards the interests of the Company. The management of the Company is of the view that, save for the terms relating to the prepayments under the Sales Agency Agreement, Hisense Agent has complied with the terms of the Sales Agency Agreement.

**Trading in the A shares of the Company**

As the Company is unable to publish the annual report of the Company for the financial year ended 31 December 2005 (the "Annual Report") and the quarterly report of the Company for the three months ended 31 March 2006 (the "First Quarterly Report") on or before 30 April 2006 as required by the relevant law and regulations in the PRC, trading in the A shares of the Company on the Shenzhen Stock Exchange was suspended from 8 May 2006 until the Annual Report and the First Quarterly Report have been published.

If the Company is unable to publish the Annual Report and the First Quarterly Report by 30 June 2006, trading in the A shares of the Company will resume on 3 July 2006 and the procedures in relation to a warning of risk of delisting will be implemented in respect of the A shares of the Company.

**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 pending the release of an announcement in relation to price sensitive information. Subject to the publication of the annual results of the Company for the financial year ended 31 December 2005 and further announcements 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 the H shares of the Company will remain suspended until further notice.

By order of the Board of  
**Guangdong Kelon Electrical Holdings Company Limited**  
**Liu Cong Meng**  
*Vice Chairman*

*As at the date of this announcement, the Company's executive directors are Mr. Gu Chu Jun, Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Yan You Song, Mr. Zhang Hong and Mr. Fang Zhi Guo; and the independent non-executive directors are Mr. Li Kung Man and Mr. Xu Xiao Lu.*

*As disclosed in the Company's previous announcements, Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong had been formally arrested by the Foshan City Police. None of them can be contacted as at the date hereof. As such, Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong do not accept responsibility for the contents of this announcement.*

Foshan City, Guangdong, the PRC, 15 June 2006

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