

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)

Specific explanation of Shenzhen Dahua Tiancheng Certified Public Accountants on the use of funds by the controlling shareholders and related parties of Guangdong Kelon Electrical Holdings 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").

Shen Hua (2007) Zhuan Shen Zi No. 149

To the Board of Directors of Guangdong Kelon Electrical Holdings Company Limited:

We have been appointed to carry out the audit of the balance sheet of Guangdong Kelon Electrical Holdings Company Limited (the "Company") and the Group as at 31 December 2006 and the income statement and profit apportionment and the cash flow statement of the Company and the Group for the year in accordance with Independent Auditing Standards for Chinese Certificated Public Accountants and issued a qualified auditor's report which included an explanatory paragraph, document number Shen Hua (2007) Gu Shen Zi No.030 on 20 April 2007.

According to the "Notice of Issues in Relation to the Regulation of Capital Exchange between Listed Companies and Related Parties and External Guarantees made by Listed Companies" (Zheng Jian Fa (2003) No 56) promulgated by the China Securities Regulatory Commission (the "CSRC"), as the registered accountants responsible for auditing the financial statements of the Company in 2006, have issued a specific explanation on the use of funds by the controlling shareholders and the related parties of the Company. Annex I of this specific explanation was issued pursuant to "Memorandum on the Requirements of Information Disclosure No.2 of 2006 (amended version): the Disclosure and Reporting Requirements of the Use of Extraordinary Capital and the Capital Exchange with Related Parties" issued by the Shenzhen Stock Exchange.

The Company is responsible for the preparation and the disclosure of the summary statements and is also responsible for ensuring its accuracy, legality and the completeness. We have reconciled the information provided in the summary statements with the accounting information reviewed in connection with our audit of the Company's financial statements for the year ended 31 December 2006 and the relevant information as stated in the audited accounting reports, and have found no significant discrepancies. Save for the audit procedures on the related party transactions carried out in connection with our audit of the financial statements for the year ended 31 December 2006 we did not carry out additional audit procedures for the information provided in the summary statements.

The Company had a series of related party transactions and abnormal cash inflows and outflows with its former substantial shareholder, namely Guangdong Greencool Enterprise Development Co., Ltd and its related parties (collectively "Greencool Companies"), etc. from October 2001 to July 2005. During this period, the Greencool Companies, through Tianjin Lixin Trading Development Company Limited (天津立信商貿發展有限公司) and other third party companies, had a series of abnormal cash inflows and outflows with the Company. Such transactions and abnormal cash inflows and outflows and suspected misappropriation of funds are in the process of being investigated by relevant authorities. The investigation is still undergoing. Such issues involve the accounts receivable and accounts payable between the Company and the Greencool Companies and the above third party companies as at 31 December 2006. In order to accurately present the financial statement, the Company included the above dealings with the Greencool Companies and third parties into the master statements.

This report has been prepared in accordance with the requirements of CSRC (including its representative organisation) and Shenzhen Stock Exchange, and cannot be used for any other purpose. The certified public accountants and accounting firm who have prepared this report, shall not be responsible for any consequences arising from the inappropriate use of this report.

Suspension of Trading in H Shares

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 until further notice.

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

As at the date of this announcement, the Company's executive directors are Mr. Tang Ye Guo, Mr. Yang Yun Duo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin; 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, 26 April 2007

Annex I Summary of the use of Extraordinary Capital and the Capital Exchange of the other Related Party of the Company.

Non-operating Fund occupation	Names of related parties	Relationship	Account items	Balance at the beginning of the year 2006	Increase during the year 2006 (exclusive of interest)	Interest for the year 2006 (if any)	Repayment during the year 2006	Balance at the end of the year 2006	Reason	Nature
Former controlling shareholder and its subsidiaries	Guangdong Greencool Enterprise Development Company Limited	Former controlling shareholder	Other receivables	1,375.46	-	-	-	1,375.46	Joining fee	Non-operating use
	Greencool Technology Environmental Protection Engineering (Shenzhen) Co.,Ltd	Former subsidiary of the controlling shareholder	Other receivables	3,300.00	-	-	-	3,300.00	Transfer	Non-operating use
	Greencool Technology Deceloment (Shenzhen) Co.,Ltd	Former subsidiary of the controlling shareholder	Other receivables	3,200.00	-	-	-	3,200.00	Transfer	Non-operating use
	Hainan Greencool Environmental Protection Engineering Company Limited	Former subsidiary of the controlling shareholder	Other receivables	1,228.94	-	-	-	1,228.94	Prepayment	Non-operating use
Sub-total	-	-	-	9,104.40	-	-	-	9,104.40	-	-
Controlling shareholder and its subsidiaries	Qingdao Hisense Air- Conditioning Co., Ltd.	Controlling shareholder	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	9,104.40	-	-	-	9,104.40	-	-

Other related parties and other subsidiaries	Chengdu Xinxing Electrical Appliance Holdings Company Limited	Subsidiaries of minority shareholders of fellow subsidiaries	Other receivables	3,400.00	-	-	-	3,400.00	Loan	Non-operating use
	Qingdao Hisense Marketing Company Limited	Subsidiaries of the same Company,	Receivables	20,434.92	8,593.39	-	28,984.69	43.62	Loan	Non-operating use
			Other receivables	-	10.35	-	-	10.35		
	Hisense Nanjing	Subsidiaries of the same Company	Prepayment	-	73.05	-	-	73.05	Sales receipt	
	Hisense Zhejiang	Subsidiaries of minority shareholders of fellow subsidiaries	Receivables	-	59.03	-	-	59.03	Sales receipt	
	Shunde Yunlong Consultancy Service Company Limited	Minority shareholders of fellow subsidiaries	Other receivables	468.58	-	-	16.00	452.58	Advancement	Non-operating use
Sub-total	-	-	-	24,303.51	8,735.82	-	29,000.69	4,038.63	-	-
Specified third parties*	Hefei Weixi Electrical Appliance Company	Specified third parties*	Trade receivables	1,822.96	-	-	-	1,822.96	Sales receipt	Non-operating use
			Other receivables	46.52	-	-	-	46.52	Sales receipt	
	Wuhan Changrong Electrical Appliance Company Limited	Specified third parties*	Trade receivables	2,046.04	-	-	-	2,046.04	Sales receipt	
			Other receivables	2,000.00	-	-	-	2,000.00	Transfer	
	Jiangxi Kesheng Industry and Trading Company Limited	Specified third parties*	Other receivables	2,746.27	-	-	-	2,746.27	Prepayment	
	Zhongshan Dongyue Electrical Company	Specified third parties*	Other receivables	1,267.83	-	-	1,267.83	-	Materials fee	
	Jinnan San Ai Fu Petrochemical Co.,Ltd***	Specified third parties*	Other receivables	12,149.65	-	-	-	12,149.65	Prepayment	
	Tianjin Xiangrun Commercial Co.,Ltd***	Specified third parties*	Other receivables	9,690.53	-	-	-	9,690.53	Prepayment	
	Tianjin Lixin Trading Development Company Limited***	Specified third parties*	Other receivables	8,960.03	-	-	-	8,960.03	Prepayment	
	Jiangxi Keda Plastic Technology Company Limited	Specified third parties*	Other receivables	1,300.02	-	-	-	1,300.02	Transfer	
	Zhuhai City Longjia Refrigerant Facilities	Specified third parties*	Other receivables	2,860.00	-	-	-	2,860.00	Materials fee	
	Beijing De Heng Solicitors	Specified third parties*	Other receivables	400.00	-	-	-	400.00	Service fee	
	Yangzhou Economic Development Zone Finance Bureau**	Specified third parties*	Other receivables	4,000.00	-	-	-	4,000.00	Land fee	
	Shangqiu Bing Xiong Freezing Facilities Company Limited	Specified third parties*	Other receivables	5,803.00	-	-	-	5,803.00	Land and facilities fee	
	Zhuhai Defa	Specified third parties*	Other receivables	2,140.00	-	-	-	2,140.00	Materials fee	
Sub-total	-	-	-	57,232.85	-	-	1,267.83	55,965.02	-	-
Total	-	-	-	90,640.76	8,735.82	-	30,268.52	69,108.05	-	-

* Note: Specified third party is the abbreviation of the abovementioned companies through which abnormal cashflow between the Greencool Companies controlled by the former beneficial controller and the Company were incurred.

** The payables of RMB 40 million to Yangzhou Economic Development Zone Finance Bureau is, indeed, an amount embezzled, not an amount used for acquiring a piece of land.

*** The actual purchase price of the refrigerants is substantially lower than the contract price, The balance of the amount, after deducting the actual price, was embezzled.

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