



香港交易所

THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

29 March 2005

The Listing Committee of The Stock Exchange of Hong Kong Limited

CENSURES

**Mr Pan Ning (Resigned on 26 June 1999),
Mr Wang Guo Duan (Resigned on 18 June 2001),
Mr Chen Ding Bang (Resigned on 18 June 2001),
Mr Chen Fu Xing (Resigned on 26 June 1999),
Mr Cai Shier (Resigned on 23 December 2001),
Mr Chen Tong Xing (Resigned on 18 June 2001) and
Mr Liang Yuan Ying (Resigned on 18 June 2001)
of Guangdong Kelon Electrical Holdings Company Limited (the “Company”)
for breaching the Declaration and Undertaking with regard to Directors
given by each of them to the Exchange in the form set out
in Appendix 5H to the Exchange Listing Rules (the “Director’s Undertaking”)**

At a disciplinary hearing held on 25 January 2005, the Listing Committee conducted a hearing into possible breaches by, among others, the former executive directors of the Company, namely, Mr Pan Ning, Mr Wang Guo Duan, Mr Chen Ding Bang, Mr Chen Fu Xing, Mr Cai Shier, Mr Chen Tong Xing and Mr Liang Yuan Ying (collectively, the “Former Executive Directors”) of the Exchange Listing Rules and the Director’s Undertakings.

Relevant Transactions

In its announcement dated 13 March 2002, the Company disclosed, among other things, the following connected transactions among the Company and its subsidiaries (“Group”) and Guangdong Kelon (Rongsheng) Group Company Limited (“GKG”), the single largest shareholder of the Company at the material time and GKG’s subsidiary:

Transaction 1 - Current Account Balance with GKG

Between 1997 and 2001, the Group and GKG respectively borrowed money through each other’s banking facilities and repaid the outstanding borrowings and interest indirectly through each other.

Transaction 2 - Settlement of operating expenses

Between 1997 and 2001, GKG and the Group respectively imported raw materials and exported goods on each other’s behalf and as a result they had each settled their operating expenses on each other’s behalf including the price of goods, transportation expenses, loading and unloading expenses and warehouse rentals.

Transaction 3 - Payment to Guangdong Sanyo Electric Kelon Refrigerator Company Limited (“Sanyo Kelon”) on behalf of GKG

Between September and November 2001, the Company made various payments on behalf of GKG totalling RMB101,370,000 to Sanyo Kelon (a company in which the Company had a 44 per cent interest at the time of the payments) at the request of GKG for goods purchased by GKG.

Transaction 4 - GKG’s share of the “Kelon” and “Rongsheng” brand advertising costs

On 5 December 2000, GKG entered into an agreement with the Company to reimburse part of the costs paid by the Group in 1999 and 2000 for advertising the “Kelon” and “Rongsheng” brands, which were owned by GKG and which GKG licensed the Company to use for the Group’s business. As at the date of the agreement, the amount reimbursed by GKG was RMB328,240,000.

Transaction 5 - Provision of and payment under a guarantee provided by Guangdong Kelon Air-Conditioner Company Limited (“Kelon Air-Con”) to GKG

On separate occasions in May and June 2001, Kelon Air-Con, a 60 per cent owned subsidiary of the Company, provided a guarantee of up to RMB230,000,000 in favour of a bank for loans granted to GKG. In October or November 2001, GKG applied for an extension of loan facility of RMB100,000,000 and Kelon Air-Con extended its guarantee to that extent.

Transaction 6 - The Group’s purchase from Huao Electrical Company Limited (“Huao Electrical”)

Huao Electrical was an associate of GKG and in turn a connected person of the Company. The Group purchased certain materials from Huao Electrical at market price and sold certain spare parts to it. The transactions were connected transactions under the Exchange Listing Rules. As at 14 December 2001, the value of purchase from Huao Electrical was approximately RMB219,029,000, equivalent to approximately 5.4 per cent of the Company’s relevant net tangible assets.

Relevant Provisions of the Exchange Listing Rules

The Company was required under the then Rules 14.26, 14.26(6)(a) and 14.29 of the Exchange Listing Rules to obtain prior shareholders’ approval, notify the Exchange of the transactions and despatch a circular in relation to the above transactions. The Company admitted breaching the relevant Exchange Listing Rules.

As at 14 December 2001, the aggregate sum due from GKG to the Company under Transactions 1 to 5 and interest accrued thereon was RMB1,260 million, which was equivalent to 32 per cent of the Company’s relevant net tangible assets. The Company was required under paragraph 3.2.1 of the then Practice Note 19 to make disclosure as soon as practicable if the advance to an entity exceeded 25 per cent of the issuer’s net assets; and (ii) paragraph 2(1) of the then Listing Agreement to keep the Exchange and its shareholders informed as soon as reasonably practicable of any information relating to the group which, among other things, was necessary to enable them and the public to appraise the position of the group. The disclosure under the then Practice Note 19 enabled the investing public to appraise the maximum exposure of the Company in respect of GKG. The Company admitted breaching the relevant Exchange Listing Rules.

The Division alleged that each of the Former Executive Directors had breached their Director's Undertakings to comply to the best of their ability with the Exchange Listing Rules and to use their best endeavours to cause the Company to so comply.

Conclusion of the Listing Committee

The Listing Committee concluded as follows:

1. there were breaches of: (i) the then Rules 14.26(6)(a) and 14.29 of the Exchange Listing Rules in relation to Transactions 1 and 2 from 1997 to 2001; (ii) the then Rules 14.26(6)(a) and 14.29 of the Exchange Listing Rules in relation to Transactions 3 and 5 in 2001; (iii) the then Rules 14.26 and 14.29 of the Exchange Listing Rules in relation to Transaction 4 in 2000; (iv) the then Rules 14.26 and 14.29 of the Exchange Listing Rules in relation to Transaction 6 in 2001; and (v) paragraph 2(1) the then Listing Agreement and the then Practice Note 19 of the Exchange Listing Rules.
2. Each of the Former Executive Directors breached his Director's Undertaking.

The Listing Committee decided to impose a **public censure** on each of the Former Executive Directors for their respective breaches of the Director's Undertakings.

For the avoidance of doubt, the connected transactions took place when the Former Executive Directors were in office. None of the current directors were in office at the relevant time. The Exchange confirms that this public censure applies only to the Former Executive Directors and not to the Company or any other past or present members of the Board of Directors of the Company.

Head of Listing, Richard Williams, commented: "The Exchange views the repeated failure to disclose and obtain prior independent shareholder approval very seriously. The connected transactions were with the former controlling shareholder. Each of the Former Executive Directors was at that time also a director of that former controlling shareholder (except one who, although not a director, was a member of senior management). The financial assistance, guarantees and other connected transactions involved very large sums, occurred over a number of years, were not on commercial terms and increased in value at a time when the former controlling shareholder was in financial trouble. These transactions prejudiced the interests of minority shareholders, who were not given information about the transactions on a timely basis nor were independent shareholders invited to approve the transactions before they were effected. There are limited sanctions the Exchange can take, at this time, against the individuals who were knowingly concerned in the multiple breaches highlighted in this case. They have all resigned from the Company. However the Exchange will take the conduct of the Former Executive Directors in this matter into account in the event that they seek in the future to be directors of an issuer listed or applying to be listed on our market."