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If you have sold or transferred all your shares in **HISENSE 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.

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Hisense **KELON**  **Ronshen**

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信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)

CONTINUING CONNECTED TRANSACTIONS

Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders



A letter from the Board of the Company is set out on pages 5 to 41 of this circular. A letter from the Independent Board Committee is set out on pages 42 to 43 of this circular. A letter from Access Capital Limited containing its advice to the Independent Board Committee and the independent shareholders is set out on pages 44 to 81 of this circular.

A supplemental notice convening the EGM to be held at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the People's Republic of China on 15 February 2008 at 2:00 p.m. is set out on pages 89 to 90 of this circular. Shareholders entitled to attend and vote at the EGM are entitled to appoint one or more persons (whether or not a shareholder of the Company) as their proxy to attend and vote on behalf of themselves. In order to be valid, the form of proxy, together with a duly notarised power of attorney or other document of authority, if any, under which the form is signed must be deposited at the registered office of the Company not later than 24 hours before the time for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

28 January 2008

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DEFINITIONS

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
“Access Capital”	Access Capital Limited, a corporation licensed under the SFO for carrying out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of in respect of the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement
“Acquisition”	the acquisition of the Target Group proposed to be entered into between the Company and Hisense Air-conditioning as referred to in the Company’s announcement dated 29 December 2007, which may or may not proceed
“Associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Co-operation Framework Agreement”	the agreement (業務合作框架協議) entered into between certain Subsidiaries of the Company and certain Subsidiaries of Hisense Group dated 7 January 2008 in connection with the sale and purchase of refrigerators, air-conditioners, raw materials, moulds and the provision of after-sale maintenance, repair and consultation services, electronic communication services and property management services
“Company”	Hisense 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

DEFINITIONS

“Compressors Purchase and Supply Framework Agreement”	the agreement (壓縮機採購供應框架協議) entered into between certain Subsidiaries of the Company and Huayi Compressor, Jiayi Beila or Huayi Jiangzhou dated 7 January 2008 in connection with the purchase and supply of compressors
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the approval of the transactions under the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement at the conference room of the Company’s head office, Shunde District, Foshan City, Guangdong Province, the People’s Republic of China on 15 February 2008 at 2:00 p.m.
“Group”	the Company and the Subsidiaries of the Company
“H Shares”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange
“Hisense Air-conditioning”	Qingdao Hisense Air-Conditioning Co., Ltd (青島海信空調有限公司), a Subsidiary of Hisense Group
“Hisense Beijing”	海信(北京)電器有限公司 (Hisense (Beijing) Electric Company Limited), a company incorporated under the laws of the PRC with limited liability
“Hisense Group”	Hisense Group Company, a limited company incorporated in the PRC
“Hisense Marketing Business”	the assets and business operation of Hisense Marketing for and in relation to the operation of sales and marketing of the white goods products produced by Hisense Shandong, Hisense Zhejiang, Hisense Beijing and its subsidiary, Hisense Nanjing
“Hisense Shandong”	海信(山東)空調有限公司 (Hisense (Shandong) Air-conditioning Company Limited), a company established under the laws of the PRC with limited liability

DEFINITIONS

“Hisense Zhejiang”	海信浙江空調有限公司 (Hisense Zhejiang Air-conditioning Company Limited), a limited liability company incorporated
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huayi Compressor”	Huayi Compressor Company Limited (華意壓縮機股份有限公司), a limited company incorporated in the PRC
“Huayi Jingzhou”	Huayi Compressor (Jingzhou) Co., Ltd (華意壓縮機(荊州)有限公司), a Subsidiary of Huayi Compressor
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren
“Independent Third Parties”	third parties independent of and not connected with the Company and connected persons, as defined in the Listing Rules, of the Company
“Jiaxi Beila”	Jiaxi Beila Compressor Company Limited (加西貝拉壓縮機有限公司), a Subsidiary of Huayi Compressor
“Kelon Mould”	Guangdong Kelon Mould Co., Ltd (廣東科龍模具有限公司), a company incorporated in the PRC on 20 July 1994, an indirect non-wholly owned Subsidiary of the Company
“Latest Practicable Date”	23 January 2008, 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 of Hong Kong Limited
“PRC”	the People’s Republic of China
“RMB”	Renminbi yuan, the lawful currency of the PRC

DEFINITIONS

“Rongshen Plastic”	Shunde Rongsheng Plastic Products Co., Ltd (佛山市順德區容聲塑膠有限公司), a company incorporated in the PRC on 18 October 1991 and which is an indirect non wholly-owned Subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share Reform Proposal”	the share reform proposal of the Company in relation to the conversion of the non-freely transferable Shares into listed Shares, which was approved by the Shareholders eligible to vote thereon on 29 January 2007 and implemented on 29 March 2007. Particulars of the proposal were set out in the announcements of the Company dated 19 and 28 December 2006, 29 January 2007 and 26 March 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)
“Target Group”	55% of the equity interests in Hisense Beijing which in turn holds 60% of the equity interests in Hisense Nanjing, 100% of the equity interests in Hisense Shandong, 51% of the equity interests in Hisense Zhejiang and the Hisense Marketing Business
“White Goods”	the general term by which white-coloured household electrical appliances are commonly known which includes, but is not limited to, air-conditioners and refrigerators
“White Goods Business”	the White Goods business operated by the Target Group
“%”	per cent.

Hisense **KELON**  **Ronshen**

HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信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)

Executive Directors:

Mr. Tang Ye Guo

Mr. Yang Yun Duo

Mr. Wang Shi Lei

Ms. Yu Shu Min

Mr. Lin Lan

Ms. Liu Chun Xin

Registered office:

No. 8 Ronggang Road

Ronggui Street

Shunde District

Foshan City

Guangdong Province

China

Independent non-executive Directors:

Mr. Zhang Sheng Ping

Mr. Lu Qing

Mr. Cheung Yui Kai, Warren

Principal place of business

in Hong Kong:

Room 3104-06

Singga Commercial Centre

No. 148 Connaught Road West

Hong Kong

28 January 2008

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

(A) COMPRESSORS PURCHASE AND SUPPLY FRAMEWORK AGREEMENT

The Board announces that on 7 January 2008, the Company entered into the Compressors Purchase and Supply Framework Agreement with Huayi Compressor, Jiayi Beila and Huayi Jingzhou for a term of one year ending on 31 December 2008 in connection with the purchase of compressors for the purpose of manufacturing household electrical appliances, including but not limited to refrigerators and air-conditioners, by the Group. The Company confirms that the transactions under the Compressors Purchase and Supply Framework Agreement have not been commenced as at the Latest Practicable Date.

(B) BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

The Board announces that on 7 January 2008, the Company entered into the Business Co-operation Framework Agreement with Hisense Group and certain of its Subsidiaries for a term of one year ending on 31 December 2008 in relation to the sale and purchase of refrigerators, air-conditioners, raw materials, moulds and the provision of after-sale maintenance, repair and consultation services, electronic communication services and property management services. The Company confirms that the transactions under the Business Co-operation Framework Agreement have not been commenced as at the Latest Practicable Date.

CONTINUING CONNECTED TRANSACTIONS

Compressors Purchase and Supply Framework Agreement

As at the Latest Practicable Date, Huayi Compressor owns 30% of the equity interest in each of Kelon Mould and Ronshen Plastic, both of which are non wholly-owned Subsidiaries of the Company and therefore, Huayi Compressor is a connected person of the Company according to the Listing Rules. Huayi Compressor holds 51 % of the equity interest of Huayi Jingzhou and 53.78% of the equity interest of Jiayi Beila. Each of Huayi Jingzhou and Jiayi Beila are therefore Associates of Huayi Compressor under the Listing Rules and are connected persons of the Company. Accordingly, the transactions contemplated under the Compressors Purchase and Supply Framework Agreement will constitute continuing connected transactions for the Company under the Listing Rules. As each of the applicable percentage ratios (other than the profit ratio) is more than 2.5%, the continuing connected transactions under the Compressors Purchase and Supply Framework Agreement are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

So far as the Company is aware, Huayi Compressor, Huayi Jingzhou and Jiayi Beila are independent from, not related to, and not otherwise connected with (as defined in the Listing Rules) Hisense Group or its Subsidiaries.

Business Co-operation Framework Agreement

As at the Latest Practicable Date, Hisense Air-conditioning is a substantial shareholder of the Company, holding 24.08% of the issued shares of the Company. Each of Hisense Group and its Subsidiaries are Associates of Hisense Air-Conditioning and therefore, connected persons of the Company. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Listing Rules and should be aggregated for the purpose of Rules 14A.25 to 14A.27 of the Listing Rules. Given that the applicable percentage ratios (other than the profit ratio) for the aggregated amount of the transactions contemplated under the Business Co-operation Framework Agreement is more than 2.5%, the continuing connected transactions under the Business Co-operation Framework Agreement are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with details of the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement, to set out the recommendation of the Independent Board Committee and to set out the letter of advice from Access Capital to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement.

(A) COMPRESSORS PURCHASE AND SUPPLY FRAMEWORK AGREEMENT

Date

7 January 2008

Parties

- (i) The Company (as purchaser); and
- (ii) Huayi Compressor, Jiaxi Beila or Huayi Jinzhou (as supplier).

Term

The Compressors Purchase and Supply Framework Agreement is valid for a term of one year commencing from 1 January 2008 to 31 December 2008, which can be terminated before its expiration by mutual agreement of the parties.

The parties are entitled to terminate the Compressors Purchase and Supply Framework Agreement before its expiration upon mutual agreement or in the event of occurrence of any breaches of the Compressors Purchase and Supply Framework Agreement, which include any non-compliance with the relevant Listing Rules in respect of the connected transactions. In the event of any breaches of any declaration, warranty and undertaking and non-fulfilment of its obligations by any party under the Compressors Purchase and Supply Framework, the other party(ies) is (are) entitled to claim damages and compensation from such party.

Conditions

The continuing connected transactions contemplated under the Compressors Purchase and Supply Framework Agreement are subject to the approval of the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

Purchase of Compressors

Pursuant to the terms of the Compressors Purchase and Supply Framework Agreement, the Company agreed that its relevant Subsidiaries shall purchase on a non-exclusive basis such quantities of compressors as they may require from time to time from each of Huayi Compressor, Huayi Jingzhou or Jiayi Beila (as the case may be) for the purpose of manufacturing household electrical appliances, including but not limited to refrigerators and air-conditioners, by the Group. The transactions contemplated under the Compressors Purchase and Supply Framework Agreement are in the ordinary and usual course of business of the Company.

The parties will enter into individual compressors purchase and supply orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Compressors Purchase and Supply Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiaries of the Company have the right to purchase compressors from suppliers other than Huayi Compressor, Huayi Jingzhou and Jiayi Beila from time to time according to their own needs. The Compressors Purchase and Supply Framework Agreement does not restrict the rights of Huayi Compressor, Huayi Jingzhou or Jiayi Beila (as the case may be) to sell its compressors to any other third parties.

Pricing

Pricing for the purchase of compressors is determined principally by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of compressors from time to time. Such transactions will be conducted in the ordinary and usual course of business of the company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

Payment Term

Payment for the purchase of compressors should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiaries of the Company within 60 days from delivery of the compressors.

Historical Figures

The relevant Subsidiaries of the Company have conducted similar transactions with Huayi Compressor, Huayi Jingzhou and Jiayi Beila in the past (with the cap amount for the year ending 31 December 2007 being RMB336,000,000). Details of the transaction amounts for the ten months ending 31 October 2007 are set out below:

For the ten months ending 31 October 2007

approximately
RMB254,524,400
(unaudited)

LETTER FROM THE BOARD

Maximum Aggregate Annual Caps

The transactions contemplated by the Compressors Purchase and Supply Framework Agreement for the year ending 31 December 2008 are subject to the annual cap set out in the table below:

For the year ending 31 December 2008	RMB581,710,000
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The above annual cap was determined with reference to (a) similar transactions between the relevant Subsidiaries of the Company with each of Huayi Compressor, Huayi Jingzhou and Jiayi Beila in the past; (b) the prevailing market conditions that the demand for electrical appliances in the PRC increases rapidly as a result of its booming economy; and (c) the projected rising level of production of household electrical appliances of the Subsidiaries of the Company including but not limited to refrigerators and air-conditioners for the financial year ending 31 December 2008 as a result of the booming economy of the PRC and the rising demand for electrical appliances, especially in the rural areas of the PRC and the business development plan of the Company to significantly increase the production and sales level of refrigerators and air-conditioners in 2008.

It is currently estimated that the value of the transactions contemplated under the Compressors Purchase and Supply Framework Agreement (i.e., annual cap being RMB581,710,000) will amount to approximately 21% of the total value of the same type of transactions, i.e. the purchase of compressors to be conducted by the Group for the year ending 31 December 2008 (which is estimated to be approximately RMB2,770,000,000). The aggregate value of the same transactions conducted by the Group for the ten months ending 31 October 2007 was approximately RMB1,635,806,581 (unaudited).

The cap amount for the purchase of compressors for the year ending 31 December 2008 is substantially higher than that for the year ending 31 December 2007. The reasons for such an increase are set out as follows:

- (1) As a result of the increase in production capacity of compressors of Huayi Compressor, Huayi Compressor is able to supply more compatible compressors to the relevant Subsidiaries of the Company in 2008. In view of the development plan of the Company to increase the production of refrigerators and air-conditioners by 20% in 2008 and the satisfactory co-operation relationship between Huayi Compressor and the Company and in order to reduce costs of production, the Company plans to increase the purchase of compressors from Huayi Compressor in 2008.

LETTER FROM THE BOARD

- (2) Jiaxi Beila will increase its production capacity of compressors in 2008 and will be able to supply more compatible compressors to the Company. In view of the stable and good quality of the compressors manufactured by Jiaxi Beila and the satisfactory co-operation relationship between Jiaxi Beila and the Company, the Company plans to increase the purchase of compressors from Jiaxi Beila in 2008.
- (3) Further, the Company is very satisfied with the quality and prices of the compressors produced by Huayi Jianzhou, and thus the Company plans to increase the purchase of compressors from Huayi Jianzhou in 2008.

Reasons for and Benefits of the Compressors Purchase and Supply Framework Agreement

The relevant Subsidiaries of the Company are engaged in the manufacture of household electrical appliances, including but not limited to refrigerators and air-conditioners, which requires compressors as a component for its products. After considering a range of factors including the quality, the price and the compatibility of the compressors manufactured by Huayi Compressor, Jiaxi Beila and Huayi Jingzhou with the current facilities used by and the refrigerators and air-conditioners manufactured by the relevant Subsidiaries of the Company, as well as the level of services provided by Huayi Compressor, Jiaxi Beila and Huayi Jingzhou, the Group considers each of Huayi Compressor, Jiaxi Beila and Huayi Jingzhou is in a good position to supply compressors to the Group which is of the view that the compressors supplied by them are of good quality at reasonable prices to the Group. As compressors are necessary components for the production of air-conditioners and refrigerators, the purchase of compressors from Huayi Compressor, Jiaxi Beila and Huayi Jingzhou can help the Group to ensure its competitiveness in its production of air-conditioners and refrigerators.

In light of the above, the Directors are of the view that the terms of the Compressors Purchase and Supply Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(B) BUSINESS CO-OPERATION FRAMEWORK AGREEMENT

Date

7 January 2008

Parties

- (i) The Company; and
- (ii) Hisense Group and certain of its Subsidiaries.

Term

The Business Co-operation Framework Agreement is valid for a term of one year commencing from 1 January 2008 to 31 December 2008, which can be terminated before its expiration by mutual agreement of the parties.

The parties are entitled to terminate the Business Co-operation Framework Agreement before its expiration upon mutual agreement or in the event of occurrence of any breaches of the Business Co-operation Framework Agreement, which include any non-compliance with the relevant Listing Rules in respect of the connected transactions. In the event of any breaches of any declaration, warranty and undertaking and non-fulfilment of its obligations by any party under the Business Co-operation Framework Agreement, the other party(ies) is (are) entitled to claim damages and compensation from such party.

Conditions

The continuing connected transactions contemplated under the Business Co-operation Framework Agreement are subject to the approval of the Independent Shareholders at the EGM.

The transactions under the Business Co-operation Framework Agreement are in the ordinary and usual course of business of the Company and are in connection with the following aspects of business co-operation between the parties:

(1) Sale and Supply of Moulds

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiary of the Company shall manufacture and supply on a non-exclusive basis such quantities of moulds as the relevant Subsidiaries of Hisense Group may require from time to time for the purpose of the manufacture of household electrical appliances, including but not limited to air-conditioners. The relevant parties agreed to enter into individual mould purchase orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiaries of Hisense Group have the right to purchase moulds from suppliers other than the relevant Subsidiary of the Company from time to time according to its own needs. The Business Co-operation Framework Agreement does not restrict the rights of the relevant Subsidiary of the Company to sell its moulds to any other third parties.

Pricing

In response to the invitations to tender from the relevant Subsidiaries of Hisense Group (which are also extended to various Independent Third Parties) from time to time, the relevant Subsidiary of the Company may submit such tenders or bids to manufacture the moulds for such products requested by the relevant Subsidiaries of Hisense Group in their invitations to tender. Pricing for the manufacture of moulds is determined predominantly by the open bidding process. However, the prices offered by the relevant Subsidiary of the Company to the relevant Subsidiaries of Hisense Group for the sale and supply of moulds shall be on terms no more favourable than other third parties.

Payment Term

Payment for the purchase of moulds should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiaries of Hisense Group within 60 days from delivery of the moulds.

Reasons for and Benefits of the Sale and Supply of Moulds

The relevant Subsidiary of the Company is principally engaged in the design and manufacture of large and medium size moulds for household electrical appliances. The relevant Subsidiaries of Hisense Group are principally engaged in the manufacture of household appliances. The manufacture and provision of moulds by the relevant Subsidiary of the Company to the relevant Subsidiaries of Hisense Group therefore form an integral part of the business of the relevant Subsidiary of the Company. The sale of moulds under the Business Co-operation Agreement will facilitate the Company to maintain an important existing relationship with the relevant Subsidiaries of Hisense Group so that they may become stable customers of the Company thereby further expanding the sales of the Company.

In light of the above, the Directors are of the view that the terms of the sale and supply of moulds under the Business Co-operation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant Subsidiary of the Company has conducted similar transactions with the relevant Subsidiaries of Hisense Group in the past (with the cap amount for the year ending 31 December 2007 being RMB18,000,000). Details of the transaction amounts for the ten months ending 31 October 2007 are set out below:

For the ten months ending 31 October 2007	approximately RMB2,900,000 (unaudited)
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Maximum Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement for the year ending 31 December 2008 regarding the sale and supply of moulds are subject to the annual cap set out below:

For the year ending 31 December 2008 RMB 47,500,000

The above annual cap was determined with reference to (a) similar transactions between the relevant Subsidiary of the Company with the relevant Subsidiaries of Hisense Group in the past; (b) the prevailing market conditions that the demand for electrical appliances in the PRC increases rapidly as a result of its booming economy; (c) the projected rising level of production of household electrical appliances of the relevant Subsidiaries of Hisense Group for the year ending 31 December 2008 based on its forecast of the market demand taking into account the steady economic growth of the PRC economy and the rising purchasing power of its citizens; and (d) the intention of the relevant Subsidiary of the Company to increase its sale and supply of moulds to, and further enhance its business co-operation with, the relevant Subsidiaries of Hisense Group in 2008, in view of the confidence and trust the Subsidiaries of Hisense Group have in the quality and compatibility of moulds produced by the relevant Subsidiary of the Company, and the satisfactory co-operation relationship established between them in the past.

The cap amount for the sale and supply of moulds for the year ending 31 December 2008 is higher than that for the year ending 31 December 2007. Apart from the moulds of televisions, the relevant Subsidiary of the Company also possesses strong experiences and good reputation for the production of moulds of “white electrical appliances”, i.e. air-conditioners and refrigerators. In view of the satisfactory co-operation relationship established between the parties in the past, the relevant Subsidiaries of Hisense Group have established confidence and trust in the quality of moulds produced by the relevant Subsidiary of the Company and the services it provides. The relevant Subsidiary of the Company is also confident that it will be able to provide moulds of televisions, air-conditioners and refrigerators of good quality to the relevant Subsidiaries of Hisense Group. According to the understanding of the Company, the relevant Subsidiaries of Hisense Group also plan to increase its production of electrical appliances in 2008 and since moulds are important tools for the production of electrical appliances, the Company therefore estimates that the demand for moulds from the relevant Subsidiaries of Hisense Group will increase in 2008.

Further, in view of the satisfactory co-operation relationship established between the parties in the past, the relevant Subsidiary of the Company will supply and provide moulds to six Subsidiaries of Hisense Group in 2008, while it only supplied and provided moulds to one Subsidiary of Hisense Group in 2007. In addition, it is anticipated that the moulds to be provided in 2008 are of bigger-scale and size and of higher price when compared to those in 2007.

Effect of Acquisition

Upon completion of the Acquisition, the White Goods Businesses of Hisense Group including air conditioners and refrigerators would be operated under the Group, it is therefore expected by the Company that the above continuing connected transactions in relation to the supply of moulds will be reduced, as certain Subsidiaries of Hisense Group will cease to be connected persons of the Company under the Listing Rules upon completion of the Acquisition.

(2) Sale and Supply of Air-Conditioners

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiary of the Company shall manufacture and supply on a non-exclusive basis such quantities of air-conditioners (which models are different from the models of air-conditioners to be purchased by the relevant Subsidiary of the Company from the relevant Subsidiaries of Hisense Group under the Business Co-operation Framework Agreement, the particulars of such models will be set out in the air-conditioners production and supply orders to be entered into between the relevant parties) as the relevant Subsidiary of Hisense Group may require from time to time for its sale to its customers.

The relevant parties agreed to enter into individual air-conditioners production and supply orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiary of Hisense Group has the right to purchase air-conditioners from suppliers other than the relevant Subsidiary of the Company from time to time according to its own needs. The Business Co-operation Framework Agreement does not restrict the rights of the relevant Subsidiary of the Company to sell air-conditioners to any other third parties.

Pricing

The pricing for the supply of air-conditioners is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of the air-conditioners from time to time and the pricing policy of OEM products within the industry. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

LETTER FROM THE BOARD

The prices offered by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group for the sale and supply of air-conditioners shall be on terms no more favourable than other third parties.

The price of individual air-conditioner sold by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group is determined according to the following standard:

The unit selling price of individual air-conditioner sold by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group should not be less than the aggregate of (1) production cost for individual air-conditioner; (2) management fee; and (3) after-sale service fee.

After considering the above pricing standard, the price of individual air-conditioner agreed by both parties, is:

The price of air-conditioner (specific model) sold by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group = production cost of the air-conditioner (specific model) of the Company/its Subsidiaries/0.95*

* This figure is arrived at after considering the relevant percentage level of the management fee and after-sales service fee to be received by the relevant Subsidiary of the Company and the market price of air-conditioners

The relevant Subsidiary of Hisense Group is responsible for the collection of the air-conditioners from the relevant Subsidiary of the Company.

Payment Term

Payment for the purchase of air-conditioners should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiary of Hisense Group within 60 days from delivery of the air-conditioners.

Reasons for and Benefits of the Sale and Supply of Air-Conditioners

The relevant Subsidiary of the Company is principally engaged in the design and manufacture of air-conditioners. The relevant Subsidiary of Hisense Group is principally engaged in the production and sales of air-conditioners. Pursuant to the Business Co-operation Framework Agreement, the relevant Subsidiary of the Company shall manufacture and supply air-conditioners to the relevant Subsidiary of Hisense Group for its sale to its customers. The manufacture and provision of air-conditioners by the Company/its Subsidiaries to the relevant Subsidiary of Hisense Group will increase the sales and revenues of the Group.

The competition in the air-conditioners' market in the PRC is very keen at present with substantial increase in raw materials prices, the production and supply

LETTER FROM THE BOARD

of air-conditioners by the Company/its Subsidiaries to the relevant Subsidiary of Hisense Group can help to lower the fixed costs per unit of product incurred by the Company/its Subsidiaries for the production of air-conditioners. Since the relevant Subsidiary of the Company possesses excess production capacity for air-conditioners and fixed costs (e.g. depreciation of machinery and rent) will be incurred by the relevant Subsidiary of the Company for the production of air-conditioners in any event, the production of air-conditioners for the relevant Subsidiary of Hisense Group can help to make the best use of the idle machinery and lower the fixed costs per unit of product incurred by the relevant Subsidiary of the Company as a result of the increase in production level and thus reducing the per-unit costs of production of air-conditioners by the relevant Subsidiary of the Company. Therefore, the competitiveness of the products of the Company will increase.

Further, since the Company has no means to access the sales channel of Hisense Group and in view of the above-mentioned benefits of selling and supplying air-conditioners to the relevant Subsidiary of Hisense Group, the Company intends to enter into the Business Co-operation Agreement.

In light of the above, the Directors are of the view that the terms of the sale and supply of air-conditioners under the Business Co-operation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant Subsidiary of the Company has conducted similar transactions with the relevant Subsidiary of Hisense Group in the past (with the cap amount for the year ending 31 December 2007 being RMB580,000,000). Details of the transaction amounts for the ten months ending 31 October 2007 are set out below:

For the ten months ending 31 October 2007	approximately RMB115,300,000 (unaudited)
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Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the sale and supply of air-conditioners for the year ending 31 December 2008 are subject to the annual cap set out below:

For the year ending 31 December 2008	RMB 120,000,000
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The above annual cap was determined with reference to (a) similar transactions between the relevant Subsidiary of the Company with the relevant Subsidiary of Hisense Group in the past; (b) the prevailing market conditions about the demand for

electrical appliances, including air-conditioners, in the PRC; and (c) the projected level of production and sale of air-conditioners of the relevant Subsidiary of Hisense Group for the year ending 31 December 2008.

Effect of Acquisition

Upon completion of the Acquisition, the White Goods Businesses of Hisense Group including air conditioners and refrigerators would be operated under the Group, it is therefore expected by the Company that the above continuing connected transactions in relation to the supply of air-conditioners will no longer constitute continuing connected transactions of the Company under the Listing Rules, as the relevant Subsidiary of Hisense Group will cease to be connected person of the Company under the Listing Rules upon completion of the Acquisition.

(3) Sale and Supply of Refrigerators

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiary of the Company shall manufacture and supply on a non-exclusive basis such quantities of refrigerators (which models are different from the models of refrigerators to be purchased by the relevant Subsidiary of the Company from the relevant Subsidiaries of Hisense Group under the Business Co-operation Framework Agreement, the particulars of such models will be set out in the refrigerators production and supply orders to be entered into between the relevant parties) as the relevant Subsidiary of Hisense Group may require from time to time for its sale to its customers. The relevant parties agreed to enter into individual refrigerators production and supply orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiary of Hisense Group has the right to purchase refrigerators from suppliers other than the relevant Subsidiary of the Company from time to time according to its own needs. The relevant Subsidiary of the Company also has the right to supply and sell refrigerators to other companies other than the relevant Subsidiary of Hisense Group.

Pricing

The pricing for the supply of refrigerators is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of the refrigerators from time to time and the price fixing policy of OEM products within the industry. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

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The prices offered by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group for the sale and supply of refrigerators shall be on terms no more favourable than other third parties.

The price of individual refrigerator sold by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group is determined according to the following standard:

The unit selling price of individual refrigerator sold by the Company/its Subsidiaries to the relevant Subsidiary of Hisense Group should not be less than the aggregate of (1) production cost for individual refrigerator, (2) management fee, and (3) after-sale service fee.

After considering the above pricing standard, the price of individual refrigerator agreed by both parties, is:

The price of refrigerator (specific model) sold by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group = production cost of the refrigerator (specific model) of the relevant Subsidiary of the Company/0.93*

* This figure is arrived at after considering the relevant percentage level of the management fee and after-sale service fee to be received by the relevant Subsidiary of the Company and the market price of refrigerators

The relevant Subsidiary of Hisense Group is responsible for the collection of the refrigerators from the Company/its Subsidiaries.

Payment Term

Payment for the purchase of refrigerators should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiary of Hisense Group within 60 days from delivery of the refrigerators.

Reasons for and Benefits of the Sale and Supply of Refrigerators

The relevant Subsidiary of the Company is principally engaged in the design and manufacture of refrigerators. The relevant Subsidiary of Hisense Group is principally engaged in the production, research and sales of household appliances and electronic products and the provision of related services. Pursuant to the Business Co-operation Framework Agreement, the relevant Subsidiary of the Company shall manufacture and supply refrigerators to the relevant Subsidiary of Hisense Group for its sale to its customers. The manufacture and provision of refrigerators by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group will increase the sales and revenues of the Group.

The competition in the refrigerators' market in the PRC is very keen at present with substantial increase in raw materials prices, the production and supply of

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refrigerators by the Subsidiary of the Company to the relevant Subsidiary of Hisense Group can help to lower the fixed costs per unit of product incurred by the relevant Subsidiary of the Company for the production of refrigerators. The relevant Subsidiary of the Company possesses excess production capacity for refrigerators and fixed costs (e.g. depreciation of machinery and rent) will be incurred by the relevant Subsidiary of the Company for the production of refrigerators in any event, the production of refrigerators for the relevant Subsidiary of Hisense Group can help to make the best use of the idle machinery and lower the fixed costs per unit of product incurred by the relevant Subsidiary of the Company as a result of the increase in production level and thus reducing the per-unit costs of production of refrigerators by the relevant Subsidiary of the Company. Therefore, the competitiveness of the products of the Company will increase.

Further, since the Company has no means to access the sales channel of Hisense Group and in view of the above-mentioned benefits of selling and supplying refrigerators to the relevant Subsidiary of Hisense Group, the Company intends to enter into the Business Co-operation Agreement.

In light of the above, the Directors are of the view that the terms of the sale and supply of refrigerators under the Business Co-operation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant Subsidiary of the Company has conducted similar transactions with the relevant Subsidiary of Hisense Group for the year ending 31 December 2007 (with the cap amount for the year ending 31 December 2007 being RMB212,500,000). Details of the transaction amount is set out below:

For the ten months ending 31 October 2007	approximately RMB87,600,000 (unaudited)
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Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the sale and supply of refrigerators for the year ending 31 December 2008 are subject to the annual cap set out below:

For the year ending 31 December 2008	RMB100,000,000
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The above annual cap was determined with reference to (a) the similar transactions between the relevant Subsidiary of the Company with the relevant Subsidiary of Hisense Group in the past; (b) the prevailing market conditions about

the demand for electrical appliances, including refrigerators, in the PRC; and (c) the projected level of production and sale of refrigerators of the relevant Subsidiary of Hisense Group for the year ending 31 December 2008.

Effect of Acquisition

Upon completion of the Acquisition, the White Goods Businesses of Hisense Group including air conditioners and refrigerators would be operated under the Group, it is therefore expected by the Company that the above continuing connected transactions in relation to the supply of refrigerators will no longer constitute continuing connected transactions of the Company under the Listing Rules, as the relevant Subsidiary of Hisense Group will cease to be connected person of the Company under the Listing Rules upon completion of the Acquisition.

(4) Sale and Supply of Raw Materials and Components

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiaries of the Company shall manufacture and supply on a non-exclusive basis such quantities of raw materials (including “white board materials”, “black board materials” and compressors) and components of refrigerators and air-conditioners (which models and nature are different from the models and nature of raw materials of components of refrigerators and air-conditioners to be purchased by the relevant Subsidiaries of the Company from the relevant Subsidiaries of Hisense Group under the Business Co-operation Framework Agreement, the particulars of such models will be set out in the raw-materials production and supply orders to be entered into between the relevant parties) and components of televisions and electrical machinery (which are components of air-conditioners) as the relevant Subsidiaries of Hisense Group may require from time to time for the purpose of the manufacture of refrigerators and air-conditioners, for sale to the Company pursuant to the Business Co-operation Framework Agreement (which will be elaborated in subsequent section of this circular) and for the purpose of the manufacture of televisions. The relevant parties agreed to enter into individual raw materials production and supply orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiaries of Hisense Group have the right to purchase raw materials and components of refrigerators, air-conditioners and televisions from suppliers other than the relevant Subsidiaries of the Company from time to time according to its own needs. The Business Co-operation Framework Agreement does not restrict the rights of the relevant Subsidiaries of the Company to sell raw materials and components of refrigerators, air-conditioners and televisions to any other third parties.

Pricing

Pricing for the sale and supply of raw materials and components is determined principally by arm’s length commercial negotiation between the parties according to

the principles of fairness and reasonableness with reference to the market price of raw materials and components of refrigerators, air-conditioners and televisions from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

The prices offered by the relevant Subsidiaries of the Company to the relevant Subsidiaries of Hisense Group for the sale and supply of raw materials and components shall be on terms no more favourable than other third parties.

Payment Term

Payment for the purchase of raw-materials and components should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiaries of Hisense Group within 60 days from delivery of the raw materials and components.

Reasons for and Benefits of the Sale and Supply of Raw Materials and Components

The relevant Subsidiaries of the Company are principally engaged in the design and manufacture of refrigerators and air-conditioners and components parts of electrical appliances. The relevant Subsidiaries of Hisense Group are principally engaged in the production and sales of household appliances and electronic products.

Pursuant to the Business Co-operation Framework Agreement, the relevant Subsidiaries of Hisense Group shall manufacture and supply refrigerators and air-conditioners to the Company (which will be elaborated in subsequent section of the announcement). In such circumstances, the relevant Subsidiaries of Hisense Group shall purchase compatible refrigerators' and air-conditioners' components for the production of refrigerators and air-conditioners for its sale to the Company. The provision of refrigerators' and air-conditioners components by the relevant Subsidiaries of the Company to the relevant Subsidiaries of Hisense Group facilitates the Company to distribute and sell its products. Further, the Company considers that the relevant subsidiaries of Hisense Group are reliable business co-operation partners and such co-operation is beneficial to the business of the Company. The purchase of raw materials and components between the parties under the Business Co-operation Framework Agreement is in compliance with the relevant laws and regulations of the PRC. They will not jeopardise the interest of the Group and the Shareholders and will not affect the independence of the Group.

Further, the provision of raw materials and components parts of televisions to the relevant Subsidiaries of Hisense Group can help to increase the sales of the Group and thus increasing the revenues of the Company.

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In light of the above, the Directors are of the view that the terms of the sale and supply of raw materials and components of refrigerators, air-conditioners and televisions under the Business Co-operation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant Subsidiaries of the Company have conducted similar transactions with the relevant Subsidiaries of Hisense Group in the past (with the cap amount for the year ending 31 December 2007 being RMB35,000,000). Details of the transaction amounts for the ten months ending 31 October 2007 are set out below:

For the ten months ending 31 October 2007	approximately RMB17,700,000 (unaudited)
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Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the sale and supply of raw materials and components for the year ending 31 December 2008 are subject to the annual cap set out below:

For the year ending 31 December 2008	RMB 92,100,000
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The above annual cap was determined with reference to (a) similar transactions between the relevant Subsidiaries of the Company with the relevant Subsidiaries of Hisense Group in the past; and (b) the prevailing market conditions that the demand for electrical appliances, including televisions, air-conditioners and refrigerators, in the PRC increases rapidly in view of its booming economy, steady economic growth of the PRC economy and rising purchasing power of its citizens.

The cap amount for the sale and supply of raw materials and components of televisions, refrigerators and air-conditioners for the year ending 31 December 2008 is higher than that for the year ending 31 December 2007 as it is anticipated that the relevant Subsidiaries of Hisense Group will start to purchase components of televisions and electrical machinery (which are components of air-conditioners) from the relevant Subsidiaries of the Company in 2008, the sum of which is estimated to be approximately RMB4,000,000 and RMB60,000,000, respectively (based on the production plan of the relevant Subsidiaries of Hisense Group). No such transactions were conducted by the parties in the past.

Effect of Acquisition

Upon completion of the Acquisition, the White Goods Businesses of Hisense Group including air conditioners and refrigerators would be operated under the Group, it is therefore expected by the Company that the continuing connected

transactions relating to the supply of raw materials will be reduced, as certain Subsidiaries of Hisense Group will cease to be connected persons of the Company under the Listing Rules upon completion of the Acquisition.

(5) Provision of Property Management Service

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiary of the Company shall provide property management, sanitary and security services to the factories or offices of the relevant Subsidiary of Hisense Group. The parties agreed to enter into individual service provision orders setting out specific terms for the provision of property management, sanitary and security services including fees, scope of the services, payment terms and schedules, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiary of Hisense Group has the right to engage from time to time according to its own needs other service providers to provide property management, sanitary and security services to its factories and offices other than the relevant Subsidiary of the Company. The Business Co-operation Framework Agreement also does not restrict the rights of the relevant Subsidiary of the Company to provide property management, sanitary and security services to any other third parties.

Pricing

The fees payable by the relevant Subsidiary of Hisense Group to the relevant Subsidiary of the Company for the provision of property management, sanitary and security services is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of property management, sanitary and security services from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to Independent Third Parties.

Payment Term

The fees for the provision of property management, sanitary and security services will be calculated on a monthly basis and such monthly fee should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiary of Hisense Group within 15 days from the next following month.

Reasons for and Benefits of the Engagement for the Service Provision

The relevant Subsidiary of the Company is principally engaged in the provision of property management, sanitary and security services to offices and factories. The relevant Subsidiary of Hisense Group is principally engaged in production and sales of electrical appliances.

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The Company considers that since the provision of the property management, sanitary and security services to the relevant Subsidiary of Hisense Group can increase the revenues of the Company, it will be in the interests of the Company and the Shareholders as a whole. Further, the terms relating to the provision of property management, sanitary and security services under the Business Co-operation Framework Agreement are normal commercial terms as they are finalized only after taking into account the market prices and industry terms and conditions for the provision of such services, the Company considers that such terms are fair and reasonable.

Historical Figures

The relevant Subsidiary of the Company did not conduct any similar transactions with the relevant Subsidiary of Hisense Group for the year ending 31 December 2007 or in the past.

Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the provision of property management, sanitary and security services for the year ending 31 December 2008 are subject to the annual cap set out below:

For the year ending 31 December 2008	RMB 500,000
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The above annual cap is determined with reference to the services fees incurred in similar transactions between the relevant Subsidiary of the Company with Independent Third Parties in the past.

Effect of the Acquisition

It is expected by the Company that the amount of the continuing connected transactions relating to the provision of property management, sanitary and security services will remain unchanged upon completion of the Acquisition.

(6) Purchase of Air-Conditioners

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiary of the Company shall purchase from the relevant Subsidiaries of Hisense Group on a non-exclusive basis such quantities of air-conditioners (which models are different from the models of air-conditioners to be sold by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group under the Business Co-operation Framework Agreement, the particulars of such models will be set out in the air-conditioners production and purchase orders to be entered into between the relevant parties) as the relevant Subsidiary of the Company may require from

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time to time to facilitate its sale. The parties agreed to enter into individual air-conditioners production and purchase orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiary of the Company has the right to purchase air-conditioners from suppliers other than the relevant Subsidiaries of Hisense Group from time to time according to its own needs. The Business Co-operation Framework Agreement does not restrict the rights of the relevant Subsidiaries of Hisense Group to sell air-conditioners to any other third parties.

Pricing

The pricing for the purchase of air-conditioners is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price of the air-conditioners from time to time and the Group's knowledge of pricing policy of OEM products within the industry. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

The price of individual air-conditioners sold by the relevant Subsidiaries of Hisense Group to the relevant Subsidiary of the Company is determined according to the following standard:

The purchase price of individual air-conditioner purchased by the relevant Subsidiary of the Company from the relevant Subsidiaries of Hisense Group should be less than or equal to the aggregate of (1) production cost for individual air-conditioner produced by the relevant Subsidiary of the Company, (2) management fee, and (3) transportation costs for individual air-conditioner (from Shunde to the locations of the relevant Subsidiaries of Hisense Group)

After considering the above pricing standard, the price of individual air-conditioners agreed by both parties is:

The price of air-conditioner (specific model) sold by the relevant Subsidiaries of Hisense Group to the relevant Subsidiary of Company = production cost of the air-conditioner (specific model) of the Subsidiaries of the Company/0.95*

* This figure is arrived at after considering the relevant percentage level of the production costs, transportation costs and management fee to be incurred if the air-conditioners are produced by the relevant Subsidiary of the Company and the market price of air-conditioners

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The relevant Subsidiary of the Company is responsible for the collection of the air-conditioners from the relevant Subsidiaries of Hisense Group.

Payment Term

Payment for the purchase of air-conditioners should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiary of the Company within 60 days from the delivery of the air-conditioners.

Reasons for and Benefits of the Purchase of Air-Conditioners

The relevant Subsidiary of the Company is principally engaged in the manufacture and sales of air-conditioners. The relevant Subsidiaries of Hisense Group are principally engaged in the production of air-conditioners and the production and sales of other household electrical appliances.

Taking into account a range of factors including the reduction in transportation costs, the improvement in competitiveness, the quality and the price of the air-conditioners manufactured by the relevant Subsidiaries of Hisense Group, as well as the level of services provided by the relevant Subsidiaries of Hisense Group, the Company considers that the purchase of air-conditioners under the Business Co-operation Framework Agreement will improve the competitiveness of the air-conditioners of the relevant Subsidiary of the Company and the Company's responsiveness to demand for the air-conditioners as a result of change of weather in the PRC and thus facilitating the Group's air-conditioners sales so as to assist the Company to further develop its business.

The pricing for the purchase of air-conditioners by the Company from the relevant Subsidiaries of Hisense Group will be substantially the same as the aggregate costs of production of air-conditioners by the relevant Subsidiary of the Company in Shunde, Guangdong and costs of transportation of the same for sale to the relevant locations of the relevant Subsidiaries of Hisense Group. The purchase of air-conditioners from the relevant Subsidiaries of Hisense Group will reduce the time of transportation between Shunde, Guangdong to the location of the production plants of the relevant Subsidiaries of Hisense Group as the products purchased will be delivered directly from the relevant production plants of Hisense Group, instead of the Group's production base in Shunde, to the relevant market, which may therefore improve the Group's responsiveness to market changes and prevent loss of market share to its competitors.

A reduction in the transportation distance of air-conditioners will also reduce probable damages to the cooling products during transportation.

In light of the above, the Directors are of the view that the terms for the purchase of air-conditioners under the Business co-operation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant Subsidiary of the Company has conducted similar transactions with the relevant Subsidiaries of Hisense Group in the past (with the cap amount for the year ending 31 December 2007 being RMB607,500,000). Details of the transaction amounts for the ten months ending 31 October 2007 is set out below:

For the ten months ending 31 October 2007	approximately RMB496,300,000 (unaudited)
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Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the purchase of air-conditioners for the year ending 31 December 2008 are subject to the annual cap set out below:

For the year ending 31 December 2008	RMB 620,000,000
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The above annual cap was determined with reference to (a) similar transactions between the relevant Subsidiary of the Company with the relevant Subsidiaries of Hisense Group in the past; (b) the prevailing market conditions about the demand for electrical appliances, including air-conditioners, in the PRC; and (c) the projected rising level of production and sale of air-conditioners of the relevant Subsidiary of the Company for the year ending 31 December 2008, i.e., to increase the production of air-conditioners by 20% in 2008, in view of the booming economy of the PRC which the relevant Subsidiary of the Company has to increase the purchase of air-conditioners from the relevant Subsidiaries of Hisense Group to cope with such anticipated rising market demand for air-conditioners.

Effect of Acquisition

Upon completion of the Acquisition, the White Goods Businesses of Hisense Group including air conditioners and refrigerators would be operated under the Group, it is therefore expected by the Company that the above continuing connected transactions in relation to the purchase of air-conditioners will no longer constitute continuing connected transactions of the Company under the Listing Rules, as the relevant Subsidiaries of Hisense Group will cease to be connected persons of the Company under the Listing Rules upon completion of the Acquisition.

(7) Purchase of Refrigerators

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiary of the Company shall purchase from the relevant Subsidiaries of Hisense Group on a non-exclusive basis such quantities of refrigerators (which models are different from the models of refrigerators to be sold by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group under the Business Co-operation Framework Agreement, the particulars of such models will be set out in the refrigerators production and purchase orders to be entered into between the relevant parties) as the relevant Subsidiary of the Company may require from time to time to facilitate its sale. The parties agreed to enter into individual refrigerators production and purchase orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiary of the Company has the right to purchase refrigerators from suppliers other than the relevant Subsidiaries of Hisense Group from time to time according to its own needs. The Business Co-operation Framework Agreement also does not restrict the rights of the relevant Subsidiaries of Hisense Group to sell refrigerators to any other third parties.

Pricing

The pricing for the purchase of refrigerators is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price of the refrigerators from time to time and the Group's knowledge of pricing policy of OEM products within the industry. Such transactions will be conducted in the ordinary and usual course of business of the company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

The price of individual refrigerators sold by the relevant Subsidiaries of Hisense Group to the relevant Subsidiary of the Company is determined according to the following standard:

The purchase price of individual refrigerators purchased by the relevant Subsidiary of the Company from the relevant Subsidiaries of Hisense Group should be less than or equal to the aggregate of (1) production cost for individual refrigerator produced by the relevant Subsidiary of the Company, (2) management fee, and (3) transportation costs for individual refrigerator (from Shunde to the locations of the relevant Subsidiaries of Hisense Group)

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After considering the above pricing standard, the price of individual refrigerator agreed by both parties is:

The price of refrigerator (specific model) sold by the relevant Subsidiaries of Hisense Group to the relevant Subsidiary of the Company = production cost of the refrigerator (specific model) of the relevant Subsidiary of the Company/0.93*

* This figure is arrived at after considering the relevant percentage level of the production costs, transportation costs and management fee to be incurred if the refrigerators are produced by the relevant Subsidiary of the Company and the market price of refrigerators

The relevant Subsidiary of the Company is responsible for the collection of the refrigerators from the relevant Subsidiaries of Hisense Group.

Payment Term

Payment for the fees for purchase of refrigerators should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiary of the Company within 60 days from the delivery of the refrigerators.

Reasons for and Benefits of the Purchase of Refrigerators

The relevant Subsidiary of Company is principally engaged in the manufacture and sales of refrigerators. The relevant Subsidiaries of Hisense Group are principally engaged in the production of refrigerators and the production and sales of other household electrical appliances.

Taking into account a range of factors including the reduction in transportation costs, the improvement in competitiveness, the quality and the price of the refrigerators manufactured by the relevant Subsidiaries of Hisense Group, as well as the level of services provided by the relevant Subsidiaries of Hisense Group, the relevant Subsidiary of Company considers that the purchase of refrigerators under the Business Co-operation Framework Agreement will improve the competitiveness of the refrigerators of the relevant Subsidiary of the Company and the Company's responsiveness to demand for the refrigerators as a result of change of weather in the PRC and thus facilitating the Group's refrigerators' sales so as to assist the relevant Subsidiary of the Company to further develop its business.

The pricing for the purchase of refrigerators by the relevant Subsidiary of the Company from the relevant Subsidiaries of Hisense Group will be substantially the same as the aggregate costs of production of refrigerators by the relevant Subsidiary of the Company in Shunde, Guangdong and the costs of transportation of the same for sale to the relevant locations of the relevant Subsidiaries of Hisense Group.

The purchase of refrigerators from the subsidiaries of Hisense Group will therefore reduce the transportation time between Shunde and other locations of the

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production plants of Hisense Group as the products purchased will be delivered directly from the relevant production plants of Hisense Group, instead of the Group's production base in Shunde, to the relevant market, which may therefore improve the Group's responsiveness to market changes and prevent loss of market share to its competitors. A reduction in the transportation distance of refrigerators will also reduce wear and tear to the cooling products during transportation. In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders) are of the view that the terms for the purchase of refrigerators under the Business co-operation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant Subsidiary of the Company has conducted similar transactions with the relevant Subsidiaries of Hisense Group for the year ending 31 December 2007 (with the cap amount for the year ending 31 December 2007 being RMB270,000,000). Details of the transaction amounts are set out below:

For the ten months ending 31 October 2007	approximately RMB114,000,000 (unaudited)
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Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the sale and supply of refrigerators for the year ending 31 December 2008 are subject to the annual cap set out below:

For the year ending 31 December 2008	RMB 210,000,000
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The above annual cap was determined with reference to (a) similar transactions between the relevant Subsidiary of the Company with the relevant Subsidiaries of Hisense Group in the past; (b) the prevailing market conditions about the demand for electrical appliances, including refrigerators, in the PRC; and (c) the projected level of production and sale of refrigerators of the relevant Subsidiary of the Company for the year ending 31 December 2008, i.e., to increase the production of refrigerators by 20% in 2008, in view of the booming economy of PRC which the relevant Subsidiary of the Company has to increase the purchase of refrigerators from the relevant Subsidiaries of Hisense Group to cope with such anticipated rising market demand for refrigerators.

The cap amount for the purchase of refrigerators for the year ending 31 December 2008 is higher than that for the year ended 31 December 2007, as it is the intention of the relevant Subsidiary of the Company to increase its purchases of

refrigerators from, and further enhance its business co-operation with, the relevant Subsidiaries of Hisense Group, in view of the confidence and trust the relevant Subsidiary of the Company has in the quality and timely delivery of the refrigerators produced and the services provided by the relevant Subsidiaries of Hisense Group, and the satisfactory co-operation relationship established between the parties in the past.

Effect of Acquisition

Upon completion of the Acquisition, the White Goods Businesses of Hisense Group including air conditioners and refrigerators would be operated under the Group, it is therefore expected by the Company that the above continuing connected transactions in relation to the purchase of refrigerators will no longer constitute continuing connected transactions of the Company under the Listing Rules, as the relevant Subsidiaries of Hisense Group will cease to be connected persons of the Company under the Listing Rules upon completion of the Acquisition.

(8) Purchase of Raw Materials, Components and Moulds

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiaries of the Company shall purchase from the relevant Subsidiaries of Hisense Group on a non-exclusive basis such quantities of raw materials (including “white board materials”, “black board materials” and compressors), moulds and refrigerators’ and air-conditioners’ components (which models and nature are different from the models and nature of moulds, raw materials of refrigerators’ and air-conditioners’ components to be purchased by the relevant Subsidiaries of Hisense Group from the relevant Subsidiaries of the Company under the Business Co-operation Framework Agreement, the particulars of such models will be set out in the raw-materials purchase and supply orders to be entered into between the relevant parties) as the relevant Subsidiaries of the Company may require from time to time for the purpose of the manufacture of air-conditioners and refrigerators, for sale to the relevant Subsidiaries of Hisense Group pursuant to the Business Co-operation Framework Agreement (which are set out in previous sections of this circular). The parties agreed to enter into individual raw materials purchase and supply orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiaries of the Company have the right to purchase moulds, raw materials and refrigerators’ and air-conditioners’ components from suppliers other than the relevant Subsidiaries of Hisense Group from time to time according to its own needs. The Business Co-operation Framework Agreement does not restrict the rights of the relevant Subsidiaries of Hisense Group to sell its moulds, raw materials and refrigerators’ and air-conditioners’ components to any other third parties.

Pricing

Pricing for the purchase of raw materials and refrigerators' and air-conditioners' components is determined principally by arm's length commercial negotiation between the relevant Subsidiaries of the Company and the relevant Subsidiaries of Hisense Group according to the principles of fairness and reasonableness with reference to the market price of raw materials and components of refrigerators and air-conditioners from time to time.

In response to the invitations to tender from the relevant Subsidiaries of the Company (which are also extended to various Independent Third Parties) from time to time, the Subsidiaries of Hisense Group may submit such tenders or bids to manufacture the moulds for such products requested by the relevant Subsidiaries of the Company in their invitations to tender. Pricing for the manufacture of moulds is determined predominantly by the open bidding process.

The above transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

Payment Term

Payment for the fees for the purchase of raw materials, components and moulds should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiaries of the Company within 60 days from the delivery of the raw materials, components and moulds.

Reasons for and Benefits of the Purchase of Raw Materials Components and Moulds

The relevant Subsidiaries of the Company are principally engaged in the design and manufacture of air-conditioners and refrigerators. The relevant Subsidiaries of Hisense Group are principally engaged in the manufacture of electrical appliances, including air-conditioners.

Pursuant to the Business Co-operation Framework Agreement, the relevant Subsidiaries of the Company shall manufacture and supply refrigerators and air-conditioners to the Subsidiaries of Hisense Group (which were set out in previous parts of the circular). In such circumstances, the relevant Subsidiaries of the Company shall purchase compatible moulds, raw materials and refrigerators' and air-conditioners' components for the production of refrigerators and air-conditioners for its sale to the relevant Subsidiaries of Hisense Group.

LETTER FROM THE BOARD

The purchase of raw materials, moulds and components by the relevant Subsidiaries of the Company from the relevant Subsidiaries of Hisense Group will improve the control of reserve fund by the relevant Subsidiaries of the Company and reduce purchase costs, and at the same time, can reduce the limitation of the bottleneck in the production of upstream raw materials during peak season, achieving full utilisation of resources.

In light of the above, the Directors are of the view that the terms of the purchase of moulds, raw materials and components of refrigerators and air-conditioners under the Business Co-operation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant Subsidiaries of the Company have conducted similar transactions with the relevant Subsidiaries of Hisense Group in the past (with the cap amount for the year ending 31 December 2007 being RMB55,000,000). Details of the transaction amounts for the ten months ending 31 October 2007 are set out below:

For the ten months ending 31 October 2007	approximately RMB3,230,000 (unaudited)
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Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the purchase of raw materials, components and moulds for the year ending 31 December 2008 are subject to the annual cap set out below:

For the year ending 31 December 2008	RMB46,100,000
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The above annual cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances, including air-conditioners and refrigerators, in the PRC; and (b) the projected rising level of sale and production of air-conditioners and refrigerators by the relevant Subsidiaries of the Company to the relevant Subsidiaries of Hisense Group for the year ending 31 December 2008 and in turn the relevant Subsidiaries of the Company have to increase their purchases of raw-materials, moulds and components from the relevant Subsidiaries of Hisense Group to enable such production and sale.

The cap amount for the purchase of raw materials, components and moulds for the year ending 31 December 2008 is higher than that for the year ending 31 December 2007 as it is anticipated that the relevant Subsidiaries of Company will increase their purchases of raw materials, components and moulds from the relevant Subsidiaries of Hisense Group for the year ending 31 December 2008 in view of the satisfactory co-operation relationship established between the parties in the past. While the relevant Subsidiaries of Company only purchased raw materials from two Subsidiaries of Hisense Group in 2007, they plan to purchase raw materials, components and moulds from eight Subsidiaries of Hisense Group in 2008.

Effect of Acquisition

Upon completion of the Acquisition, the White Goods Businesses of Hisense Group including air conditioners and refrigerators would be operated under the Group, it is therefore expected by the Company that the above continuing connected transactions in relation to the purchase of raw materials, components and moulds will be reduced, as certain Subsidiaries of Hisense Group will cease to be connected persons of the Company under the Listing Rules upon completion of the Acquisition.

(9) Provision of Services

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiary of the Company shall engage Hisense Group and its relevant Subsidiaries for the provision of after-sale maintenance, repair and consultation services to the customers of the Group in part of the PRC who have purchased electrical appliances from the Group and the provision and maintenance of electronic communication services (e.g., web-conferences services) to the Company. The parties agreed to enter into individual service provision orders setting out specific terms for the provision of services including fees, scope of the services, payment terms and schedules, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The relevant Subsidiary of the Company has the right to engage from time to time according to its own needs other service providers to provide after-sale maintenance, repair and consultation services to the customers of the Group and the provision and maintenance of electronic communication services to the Company, other than Hisense Group and its relevant Subsidiaries. The Business Co-operation Framework Agreement also does not restrict the rights of the relevant Subsidiaries of Hisense Group to provide such services to any other third parties.

Pricing

The fees payable by the relevant Subsidiary of the Company for the provision of after-sale maintenance, repair and consultation services to the customers of the Group in the Regions and the provision and maintenance of electronic communication services to the Company is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of such services from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

Payment Term

The fees for the provision of services will be calculated on a monthly basis and such monthly fee should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiary of the Company within 15 days from the next following month.

Reasons for and Benefits of the Engagement for the Services Provision

The relevant Subsidiary of the Company is principally engaged in the manufacture and sales of refrigerators and air-conditioners. The relevant Subsidiaries of Hisense Group are principally engaged in the provision of after-sale maintenance, repair and consultation services and the provision and maintenance of electronic communication services.

At present, the Company does not have its own repair, maintenance and consultation services team to provide after-sale maintenance, repair and consultation services to its customers and as such, it has to engage third party service providers for the provision of the after-sale maintenance, repair and consultation services to its customers, including customers in the Regions. Even though the Company will continue to engage other third parties service providers for the provision of such services to its customers, the engagement of Hisense Group and its relevant Subsidiaries for the provision of after-sale maintenance, repair and maintenance services can help the relevant Subsidiary of the Company to reduce reliance on a single service provider, foster its control on its services network, enhance its supervision on the maintenance and repair service teams and enable the Company to make long term planning on maintenance services provision. Further, the relevant Subsidiaries of Hisense Group possess the expertise and experience for the provision and maintenance of electronic communication services which can enable the Company to carry out its daily operation smoothly.

LETTER FROM THE BOARD

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders) are of the view that the terms of the services engagement under the Business Co-operation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant Subsidiary of the Company has conducted similar transactions with the relevant Subsidiaries of Hisense Group for the year ending 31 December 2007 (with the cap amount for the year ending 31 December 2007 being RMB10,000,000). Details of the transaction amounts are set out below:

For the ten months ending 31 October 2007	approximately RMB1,760,000 (unaudited)
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Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the service provision for the year ending 31 December 2008 are subject to the annual cap set out below:

For the year ending 31 December 2008	RMB42,000,000
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The above annual cap was determined with reference to (a) similar transactions between the relevant Subsidiary of the Company with the relevant Subsidiaries of Hisense Group in the past; (b) the projected rising level of production and sale of electrical appliances of the relevant Subsidiary of the Company for the year ending 31 December 2008 and as such it is anticipated that the demand for after-sale maintenance, repair and consultation services from the customers of the Group will also increase.

Effect of Acquisition

Since the above-mentioned relevant Subsidiaries of the Hisense Group will not become Subsidiaries of the Company upon completion of the Acquisition and will continue to be connected persons of the Company under the Listing Rules, it is therefore expected by the Company that the amount of the continuing connected transactions relating to the provision of the above services will remain unchanged upon completion of the Acquisition.

LETTER FROM THE BOARD

INFORMATION RELATING TO THE COMPANY

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

INFORMATION RELATING TO HUAYI COMPRESSOR

Huayi Compressor was incorporated in the PRC on 13 June 1996 with a registered capital of RMB324,581,200. Its authorised representative is Mr. Yu Xiao Bing. Its registered address is 28 Xinchang Road East, Jingdezhen City, Jiangxi Province, the PRC. It is principally engaged in the production and sales of fluorine-free compressors, refrigerators and related accessories, the processing of refrigerating equipment with imported materials and imported samples, the assembly of refrigerating equipment with imported parts, trade of refrigerating equipment, the processing and sales of hardware accessories, and export trading business.

INFORMATION ON JIAXI BEILA

Jiayi Beila was incorporated in the PRC on 22 May 2002 with limited liability and is a non wholly-owned Subsidiary of Huayi Compressor. It has a registered capital of RMB240,000,000. Its authorised representative is Mr. Fu Nian Ping. Its registered address is 40 Baile Road, Wangdian Town, Jiaying City, the PRC. It is principally engaged in the design, production and sales of compressors for household electrical appliances and their accessories, and the provision of after-sales maintenance and repair services.

INFORMATION ON HUAYI JINGZHOU

Huayi Jingzhou was incorporated in the PRC on 5 February 2001 with limited liability and is a non wholly-owned Subsidiary of Huayi Compressor. It has a registered capital of US\$640,000. Its authorised representative is Mr. Fu Nian Ping. Its registered address is East main road the west, development zone, Jingzhou City. It is principally engaged in the production and sales of fluorine-free compressors and related products and small household appliances, the research and development of new products, the export of self-produced products and technologies, the import of raw materials, instruments and meters, machinery and equipment, spare parts and technologies required for the manufacture of its products, and the processing of imported materials and the business of “three types of processing plus compensation trade”.

LETTER FROM THE BOARD

INFORMATION ON HISENSE GROUP

Hisense Group Limited was incorporated in the PRC in 1979 with limited liability. It has a registered capital of RMB806,170,000. Its authorised representative is Zhou Hou Jian. Its registered address is 17 Donghai W Rd., Qingdao City. It is principally engaged in trust operation of state-owned assets; and the manufacturing and sale of TV set, DVD/VCD player, hi-fi set, broadcasting and television equipment, air-conditioner, electronic computer, telephone set, communications product, network product and electronic products; the development of software; sale and after-sale services, technological development and consultancy, self-managed import & export trade with the items verified by the Ministry of Foreign Trade and Economic Co-operation (“MOFTEC”), Sino-foreign economic and technical co-operation with the items verified by MOFTEC.

CONTINUING CONNECTED TRANSACTIONS

The Compressors Purchase and Supply Framework Agreement

As at the Latest Practicable Date, Huayi Compressor owns 30% of the equity interest in each of Kelon Mould and Ronshen Plastic, both of which are non wholly-owned Subsidiaries of the Company and therefore, Huayi Compressor is a connected person of the Company according to the Listing Rules. Huayi Compressor holds 51% of the equity interest of Huayi Jingzhou and 53.78% of the equity interest of Jiayi Beila. Each of Huayi Jingzhou and Jiayi Beila are therefore Associates of Huayi Compressor under the Listing Rules and are connected persons of the Company. Accordingly, the transactions contemplated under the Compressors Purchase and Supply Framework Agreement will constitute continuing connected transactions for the Company under the Listing Rules. As each of the applicable percentage ratios (other than the profit ratio) is more than 2.5%, the continuing connected transactions under the Compressors Purchase and Supply Framework Agreement are subject to reporting, announcement and independent shareholders’ approval requirements under Rule 14A.35 of the Listing Rules.

So far as the Company is aware, Huayi Compressor, Huayi Jingzhou and Jiayi Beila are independent from, not related to, and not otherwise connected with (as defined in the Listing Rules) Hisense Group or its Subsidiaries.

Business Co-operation Framework Agreement

As at the Latest Practicable Date, Hisense Air-conditioning is a substantial shareholder of the Company, holding 24.08% of the issued shares of the Company. Each of Hisense Group and its Subsidiaries are Associates of Hisense Air-Conditioning and therefore connected persons of the Company. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Listing Rules and should be aggregated for the purpose of Rules 14A.25 to 14A.27 of the Listing Rules since the relevant Subsidiaries of Hisense Group are connected or otherwise associated with each other. Given that the applicable percentage ratios (other than the profit

LETTER FROM THE BOARD

ratio) for the aggregated amount of the transactions contemplated under the Business Co-operation Framework Agreement is more than 2.5%, the continuing connected transactions under the Business Co-operation Framework Agreement are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

Since the relevant Subsidiaries of Hisense Group are connected or otherwise associated with each other, the transactions contemplated under the Business Co-operation Framework Agreement are aggregated for the purpose of Rules 14A.25 to 14A.27 of the Listing Rules and are subject to independent shareholders' approval.

The Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement are not inter-conditional on each other.

SUSPENSION OF TRADING IN THE H SHARES

At the request of the Company, trading in the H Shares of the Company was suspended from 28 April 2005 to 10 May 2005, and has remained suspended since 10:00 a.m. on 16 June 2005, initially following various press releases regarding the investigation by the China Securities and Regulatory Commission on Greencool Technology Holdings Limited in connection with the possible misappropriation of funds of the Company. Greencool Technology Holdings Limited was then an indirect shareholder of the Company controlled by Mr. Gu Chu Jun, who was the then executive director and chairman of the Company and the controlling shareholder of Guangdong Greencool Enterprise Development Company Limited, the then single largest shareholder of the Company.

The Company is currently reviewing the relevant documents in relation to the suspension of H Shares, the events leading to such suspension and the actions taken by the Company and will submit a resumption proposal to the Stock Exchange as soon as practicable.

EGM

The Company will convene the EGM, among other things, to

- (i) consider and approve the Compressors Purchase and Supply Framework Agreement and the continuing connected transactions contemplated thereunder; and
- (ii) consider and approve the Business Co-operation Framework Agreement and the continuing connected transactions contemplated thereunder.

A supplemental notice convening the EGM is set out on pages 89 to 90 of this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, the votes of independent shareholders taken at the EGM must be taken on poll.

LETTER FROM THE BOARD

Each of Huayi Compressor, Jiayi Beila and Huayi Jingzhou and their respective associates is required under the Listing Rules to abstain from voting in relation to the continuing connected transactions under the Compressors Purchase and Supply Framework Agreement and so far as the Company is aware, none of them holds any Shares of the Company. Should Huayi Compressor, Jiayi Beila or Huayi Jingzhou or their respective associates become interested as registered or beneficial owner(s) of the Shares of the Company from the date of this announcement to the date of the extraordinary general meeting of the Company, they would have to be abstained from voting in the continuing connected transactions entered between the relevant Subsidiaries of the Company and Huayi Compressor, Jiayi Beila and Huayi Jingzhou.

Since Hisense Air-Conditioning is a Shareholder of the Company holding 24.08% of the issued share capital of the Company, it and its associates have to be abstained from voting in relation to the continuing connected transactions entered between the Subsidiaries of the Companies and the Subsidiaries of Hisense Group under the Business Co-operation Framework Agreement.

POLL PROCEDURE

The voting in the EGM by the independent shareholders for the approval of (i) the Compressors Purchase and Supply Framework Agreement and the continuing connected transactions contemplated thereunder; and (ii) the Business Co-operation Framework Agreement and the continuing connected transactions contemplated thereunder will be taken by poll.

In accordance with article 8.27 of the articles of association of the Company, a poll may be demanded in any general meeting of the Company by:

- (A) the chairman of the meeting; or
- (B) at least two Shareholders with voting rights or their representative; or
- (C) individual or a group of Shareholders (including their representatives) holding 10% or more of the voting rights present in that general meeting.

RECOMMENDATION

Your attention is drawn to the advice of the Independent Board Committee set out in its letter on pages 42 to 43 of this circular which contains its recommendation to the independent shareholders on the terms of the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement.

Your attention is also drawn to the letter of advice from Access Capital, which are set out on pages 44 to 81 in this circular, to the Independent Board Committee and the independent shareholders in respect of the terms of and the annual caps for the continuing connected transactions contemplated under the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement.

LETTER FROM THE BOARD

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
Hisense Kelon Electrical Holdings Company Limited
Tang Ye Guo
Chairman



HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信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)

28 January 2008

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to Shareholders dated 28 January 2008 (the “Circular”) of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the entering into of the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement constitute continuing connected transactions for the Company and is thus subject to the approval of the independent shareholders at the EGM.

We have been appointed by the Board to consider the terms of the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement and to advise the independent shareholders in connection with the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement as to whether, in our opinion, their terms and their respective annual caps are fair and reasonable so far as the independent shareholders are concerned. Access Capital has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from Access Capital as set out in this circular. Having considered the principal factors and reasons considered by, and the advice of Access Capital as set out in its letter of advice, we consider that the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement are on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

We also consider that the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement and their respective annual caps are fair and reasonable so far as the independent shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the independent shareholders to vote in favour of the ordinary resolution to approve the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Zhang Sheng Ping

Lu Qing

Cheung Yui Kai, Warren

Independent non-executive Directors

Hisense Kelon Electrical Holdings Company Limited

LETTER FROM ACCESS CAPITAL LIMITED

Set out below is the text of the letter of advice from Access Capital Limited to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this Circular.



ACCESS
CAPITAL

Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

28 January 2008

*To the Independent Board Committee and the Independent Shareholders of
Hisense Kelon Electrical Holdings Company Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement (collectively the “Framework Agreements”), details of which are set out in the circular to the Shareholders dated 28 January 2008 (the “Circular”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreements. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 7 January 2008, the Board announced that the Company entered into the Framework Agreements respectively with Huayi Compressor, its subsidiaries and the subsidiaries of Hisense Group on 7 January 2008 (details of the Framework Agreements are stated in the section headed “Terms of the Framework Agreements” below).

As at the date of the Framework Agreements and the Latest Practicable Date, Huayi Compressor held 30% equity interest in Kelon Mould and Rongsheng Plastic (both of which are non-wholly owned subsidiaries of the Company). Jiaxi Beila and Huayi Jingzhou are non-wholly owned subsidiaries of Huayi Compressor. Accordingly, each of Huayi Compressor, Jiaxi Beila and Huayi Jingzhou is a connected person of the Company and the transactions contemplated under the Compressors Purchase and Supply Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM ACCESS CAPITAL LIMITED

Since the relevant percentage ratios as represented by the estimated amount of purchases of compressors for the year ending 31 December 2008 under the Compressors Purchase and Supply Framework Agreement exceed 2.5% and the annual consideration is more than HK\$10,000,000, the continuing connected transactions under the Compressors Purchase and Supply Framework Agreement are subject to the reporting, announcement and independent shareholders' approval requirements in accordance with Rule 14A.35 of the Listing Rules.

As at the date of the Framework Agreements and the Latest Practicable Date, Hisense Air-conditioning, being a substantial shareholder of the Company holding approximately 24.08% interest in the Company, is a connected person of the Company under the Listing Rules. As Hisense Air-conditioning is a non-wholly owned subsidiary of Hisense Group, Hisense Group and its subsidiaries are associates of Hisense Air-conditioning and each of them is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Business Co-operation Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since the relevant percentage ratios as represented by the aggregate estimated amount of the transactions contemplated under the Business Co-operation Framework Agreement for the year ending 31 December 2008 exceed 2.5% and the annual aggregate consideration is more than HK\$10,000,000, the continuing connected transactions under the Business Co-operation Framework Agreement are also subject to the reporting, announcement and independent shareholders' approval requirements in accordance with Rule 14A.35 of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the transactions contemplated under the Framework Agreements are in the interests of the Company and the Shareholders as a whole, and whether the terms of the Framework Agreements including the proposed annual caps are fair and reasonable. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the transactions contemplated under each of the Framework Agreements are in the interests of the Company and the Shareholders as a whole; (ii) whether or not the respective terms of the Framework Agreements, including the maximum value of the transactions contemplated thereunder, are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve each of the Framework Agreements and the transactions contemplated thereunder at the EGM.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Framework Agreements, we have taken into consideration the following principal factors:

I. Background information and reasons for the Framework Agreements

1. Information on the Group

The Company was incorporated in the PRC on 16 December 1992 and, together with its subsidiaries, is principally engaged in the manufacture and sale of refrigerators and air-conditioners. As stated in the Company's annual report for the year ended 31 December 2006 (the "2006 Annual Report") and interim report for the six months ended 30 June 2007 (the "2007 Interim Report"), the Group's operations were carried out in the PRC and almost all of the production facilities of the Group were located in the PRC. For each of the year ended 31 December 2006 and the six months ended 30 June 2007, approximately 69.5% and 58.7%, respectively, of the Group's turnover was derived from the PRC market (including Hong Kong) with the rest derived from European, American and other overseas markets.

LETTER FROM ACCESS CAPITAL LIMITED

Set out below is a summary of the Group's operating results and financial position extracted from the 2006 Annual Report and the 2007 Interim Report:

	For the year ended 31 December		For the six months ended 30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited and restated)	(Audited)	(Unaudited)
Turnover			
– Sales of refrigerators	2,542,839	3,327,896	2,286,915
– Sales of air-conditioners	3,600,489	2,533,360	2,192,929
– Sales of freezers	261,113	231,972	157,912
– Sales of product components	573,931	471,029	216,225
	6,978,372	6,564,257	4,853,981
Gross profit	160,598	1,089,472	831,430
Other income and gains	73,328	409,305	203,287
Distribution costs	(1,517,946)	(869,207)	(648,747)
Administrative expenses	(1,495,596)	(391,749)	(229,567)
Other operating expenses	(815,931)	(56,815)	(11,411)
(Loss)/profit from operations	(3,595,520)	181,006	144,992
(Loss)/profit for the year/period	(3,790,636)	48,478	96,592
			As at
	As at 31 December		30 June
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited and restated)	(Audited)	(Unaudited)
Non-current assets	2,547,460	2,226,501	2,022,907
Non-current assets held for sale	–	–	49,767
Current assets	2,935,939	2,430,901	3,088,444
Current liabilities	(6,252,654)	5,382,881	5,880,237
Non-current liabilities	(30,818)	(13,594)	–
Net current liabilities	(3,316,715)	(2,951,980)	(2,791,793)
Total net liabilities	(800,073)	(739,073)	(719,119)

We have noted from the Company's annual report for 2005 (the "2005 Annual Report") that the Company's auditors, BDO McCabe Lo Limited, (the "Auditors") had expressed a qualified opinion on the financial statements of the Company for the year ended 31 December 2005 arising from the limitation of audit scope. In particular, the Auditors opined that the financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 except for any adjustments that might be required with respect to the limitation in audit scope on the consolidated financial statements of a subsidiary of the Company, the carrying amount of the property, plant and equipment and revaluation reserve, the opening balance of inventories, the validity and recoverability of unreconciled receivables and the validity and completeness of unreconciled payables, the existence and recoverability of a receivable arising from the sale of an interest in leasehold land under operating lease, the validity, the appropriateness of the impairment amount and the recoverability of the receivables due from the previous controlling shareholder of the Company (namely Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise")) and its affiliates, all material related party transactions and the appropriateness, completeness and accuracy of the prior year restatements. Because of the significance of the possible effects of the limitation in scope in respect of reliable evidence outside the control of the Directors on the aforesaid matters, the Auditors were unable to form an opinion as to whether the financial statements give a true and fair view of the Group's loss and cash flows for the year ended 31 December 2005.

We have noted from the 2006 Annual Report that the Auditors had also expressed a qualified opinion on the financial statements of the Company and its subsidiaries for the year ended 31 December 2006 arising from limitation of audit scope. In particular, due to the limitation of information available on and the irregularity of a series of activities/transactions entered into by Greencool Enterprise, its affiliates and/or companies suspected to be connected with the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"), during the period from October 2001 to July 2005 including but not limited to unauthorised use of the Group's funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices, the Auditors were unable to satisfy themselves concerning the validity of the aforesaid transactions and the appropriateness of the accumulated impairment and the recoverability of the carrying amounts of the receivables and payables due from/to the suspected companies at approximately RMB286 million (net of an accumulated impairment loss of RMB364 million) and RMB132 million, respectively, as at 31 December 2006. Any adjustments found to be necessary would affect the net liabilities of the Group as at 31 December 2006 and the profit for the year then ended. Except for the effects of such adjustments (if any), the Auditors opined that the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended.

For further details of the Auditors' opinion on the Company's financial statements for the years ended 31 December 2005 and 2006, Shareholders are advised to read the 2005 Annual Report and the 2006 Annual Report respectively.

For the year ended 31 December 2006, the Group recorded an audited turnover of approximately RMB6,564.3 million (representing a slight decrease of approximately 6% from the turnover of approximately RMB6,978.4 million for the preceding year) and a net profit of approximately RMB48.5 million. As compared to the substantial amount of the net loss of approximately RMB3,790.6 million for the year 2005, the positive financial results for the year 2006 represents a significant turnaround of the Group's financial performance. As explained in the 2006 Annual Report and advised by the Company, such turnaround was mainly due to the fact that (i) the costs and expenses incurred by the Company were significantly lower than the preceding year as a result of the gradual implementation and adoption of various costs control measures during 2006 and the substantial improvement in gross profit margin; (ii) the Company received subsidies from the PRC Government for technological upgrade and innovation in the sum of RMB70 million during the year; and (iii) there were revenues from the disposal of idle assets by the Company.

As noted from the 2005 Annual Report, the substantial net loss of approximately RMB3,790.6 million was mainly due to (i) concurrent recognition of substantial bad debts, substantial accrued expenses, defective inventories, excessive non-performing investments, idle assets, economic disputes and potential losses arising from the previous management of the Company during the year; (ii) the suspension in nearly all of the Group's production activities during the period from May to September 2005 (which was the peak season for the production and sale of refrigerators and air-conditioners in the financial year) as a result of the adverse impact on the confidence of the financial institutions, suppliers and customers on the Company caused by the incident of the investigation by the China Securities and Regulatory Commission (the "CSRC") on the Group for alleged breaches of the securities laws and regulations in the PRC since 5 April 2005 as a result of the formal investigation by the PRC's Public Security Bureau in connection with economic crimes suspected to be committed by Mr. Gu, a former executive Director and a former vice president and other former senior management officers responsible for the finance of the Group; and (iii) lower gross profit margin due to the sales of older models by the Group as it could not manufacture or introduce new product models to the market during the suspension in production activities.

We have noted from the 2006 Annual Report that despite the adverse impact of the incident of investigation as briefly discussed above, the Group was able to improve gradually its production and sales activities with the profit margin of products and the liquidity of assets being further enhanced during 2006 and as at the end of the financial year, the Company has resumed normal business operations in all aspects.

For the six months ended 30 June 2007, the Group recorded an unaudited turnover of approximately RMB4,854.0 million, representing an significant increase of approximately 35.4% from the turnover of approximately RMB3,586.2 million for the corresponding period in 2006. For the six months ended 30 June 2007, the Group recorded an unaudited profit from operations of approximately RMB145.0 million and a net profit of approximately RMB96.6 million, which also represents a substantial improvement over the profit from operations of approximately RMB48.7 million and a net loss of approximately RMB37.6 million for the six months ended 30 June 2006.

As noted in the 2007 Interim Report, despite the increase in domestic sales of air-conditioners as compared with the same period of the previous year, its growth fell below the average growth of the whole industry and the Company remained a significant distance behind its major competitors due to the insufficiency of purchase and production at the beginning of the year, which left the Company unable to stock sufficient supply for channel distribution during March and April of 2007, being the peak season for sales. As regarding the refrigerator market, the Company was aggressively exploring the overseas markets and established closer strategic relationship with its major customers and increased its investment in advertising during the six months ended 30 June 2007. However, as a result of the labour shortage all over the country in the beginning of the year and the difficulties encountered by the Company in recruiting staff, the Company failed to enhance its production capacity efficiently to fill the stock, therefore failing to accomplish the targeted sales volume of its refrigerators.

Furthermore, there were challenges to the domestic refrigerator market as a result of the sudden emergence of a large number of small-scale refrigerator manufacturers. Despite the significant growth in export sales of the Group's refrigerators, the gross profit margin decreased as such sales mainly consisted of small-volume refrigerators with low sales prices. As a result of the increase in the price of major raw materials for refrigerators and the appreciation of RMB, the gross profit margin for refrigerator export business had remained low.

As set out in the 2007 Interim Report, the management of the Company considered that the rise in the revenues from the principal operation and the net profit of the Company during the six months ended 30 June 2007 was mainly due to the overall growth of the domestic economy and the industry as well as the numerous measures adopted by the Company during the period to improve the operational effectiveness, which facilitated the Company to achieve a better performance. Nevertheless, the Company is generally still in a recovery stage. As a number of historical problems have brought numerous difficulties to the Company, the Company still failed to achieve its targets during the six months period.

As at 30 June 2007, the Group had unaudited current assets of approximately RMB3,088.4 million and unaudited current liabilities of approximately RMB5,880.2 million, representing net current liabilities of approximately RMB2,791.8 million. As at 30 June 2007, the Group had outstanding bank loans of approximately RMB1,194 million of which approximately RMB176 million were overdue as at 30 June 2007. As mentioned in the 2007 Interim Report, the Group was in the process of negotiating with certain banks to restructure the amounts due to them and the Company's management confirmed that most of the Group's bankers have expressed their intention to reschedule the overdue bank borrowings and/or renew/grant the credit facilities to the Group. As at 30 June 2007, the unaudited total net liabilities of the Group amounted to approximately RMB719.1 million.

2. *Information on Huayi Compressor*

As mentioned above, Huayi Compressor held 30% equity interest in Kelon Mould and Rongsheng Plastic (both of which are non-wholly owned subsidiaries of the Company) as at the date of the Framework Agreements and Jiayi Beila and Huayi Jingzhou are non-wholly owned subsidiaries of Huayi Compressor. Accordingly, each of Huayi Compressor, Jiayi Beila and Huayi Jingzhou is a connected person of the Company. Huayi Compressor has been listed on the Shenzhen Stock Exchange of the PRC since 1996 and is located in Jingdezhen City, Jiangxi Province, the PRC. Based on the information available from the website of Huayi Compressor, Huayi Compressor is one of the major fluorine-free compressor producers in the PRC. As disclosed in the annual report of Huayi Compressor for the year ended 31 December 2006, its largest shareholder was Huayi Electrical Appliance General Company (“景德鎮華意電器總公司”), a PRC national enterprise holding approximately 32.69% of the issued share capital of Huayi Compressor as at 31 December 2006. We also note that the Company held approximately 18.26% of the issued share capital of Huayi Compressor as at 31 December 2006 and was the second largest shareholder. Set out below is the consolidated financial information of Huayi Compressor for each of the three years ended 31 December 2006 which is extracted from its 2005 and 2006 annual reports.

	For the year ended 31 December		
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)
Turnover	977,323	1,268,646	1,742,097
Net (loss) profit	6,670	(142,743)	7,007
Net assets as at year end	531,233	388,495	393,378

As indicated above, Huayi Compressor reported an average annual compound growth of approximately 33.5% for its turnover from 2004 to 2006. As stated in its annual report for 2006, Huayi Compressor had business turnover of approximately RMB1,742.1 million which was generated from the sales of about 8.96 million units of compressors. As disclosed in the annual report of Huayi Compressor for 2006, the sales volume of Huayi Compressor accounted for approximately 20% of China's total sales of refrigerator compressors for 2006 and Huayi Compressor was the largest producer of refrigerator compressors in the PRC for 2006 in terms of sales volume. As at 31 December 2006, Huayi Compressor had audited net assets of approximately RMB393.4 million.

3. *Information on Hisense Group*

Based on the information available from the website of Hisense Group, Hisense Group is one of the major electronic companies in the PRC. Hisense Group is headquartered in Qingdao, the PRC and has operational presence in every major continent and sells its products to more than 100 countries worldwide. Its major product lines include televisions, set-top boxes, mobile phones, air-conditioning systems and

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refrigerators. In addition, we note that Hisense Electric Co., Ltd. (“Hisense Electric”), of which Hisense Group was beneficially interested in approximately 48.4% of the issued share capital as at the Latest Practicable Date, has been listed on the Shanghai Stock Exchange of the PRC since 1997. The following financial results of Hisense Electric for each of the three years ended 31 December 2006 are extracted from its 2005 and 2006 annual reports.

	For the year ended 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)
Turnover	7,500,208	10,163,432	11,824,706
Net profit	58,424	102,400	125,092
Net assets as at year end	2,408,199	2,480,111	2,650,602

As indicated above, Hisense Electric reported an average annual compound growth of approximately 25.6% and approximately 46.3% for its turnover and net profit, respectively, from 2004 to 2006. As stated in its latest annual report for the year ended 31 December 2006, the turnover of Hisense Electric mainly represented sales of televisions and refrigerators and approximately 81.7% of its turnover was generated from domestic sales in the PRC. As at 31 December 2006, Hisense Electric had audited net assets of approximately RMB2,650.6 million. In view of the favourable historical financial performance of Hisense Electric for the past few years and its strong financial position as at 31 December 2006, we consider that it has demonstrated a good track record and is one of the major electronic companies in the PRC.

4. *Reasons for the Framework Agreements*

a. *Compressors Purchase and Supply Framework Agreement*

Under the Compressors Purchase and Supply Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Compressors Purchaser and Supply Framework Agreement) may purchase compressors from Huayi Compressor, Jiayi Beila or Huayi Jingzhou (as the case may be) on a non-exclusive basis for the purpose of the manufacture of household electrical appliances, including but not limited to refrigerators and air-conditioners, for a term of one year commencing from 1 January 2008 to 31 December 2008.

As stated in the Letter from the Board, the Company and its relevant subsidiaries are engaged in the manufacture of household electrical appliances, including but not limited to refrigerators and air-conditioners, and require compressors as a component for their products. After considering various factors including the quality, the price and the compatibility of the compressors

manufactured by Huayi Compressor, Huayi Jingzhou and Jiayi Beila (collectively, the “Huayi Group”) with the current production facilities of the relevant subsidiaries of the Company and the refrigerators and air-conditioners produced by them, as well as the level of services provided by the Huayi Group, the Group considers that the Huayi Group is in a good position to supply compressors to the relevant subsidiaries of the Company. Accordingly, the Directors consider that the Compressors Purchase and Supply Framework Agreement is in the interests of the Company and the Shareholders as a whole and the transactions contemplated under the Compressors Purchase and Supply Framework Agreement are in the ordinary and usual course of business of the Company.

We understand from the Company that the Group has been purchasing compressors from the Huayi Group since 2001 and the Company was very satisfied with the quality and prices of the compressors produced by the Huayi Group. In view of the fact that the manufacture and sale of refrigerators and air-conditioners is one of the principal businesses of the Group and compressors are essential components of refrigerators and air-conditioners, it is reasonable for the Group to purchase compressors as part of the components for the manufacture of its products from time to time in its ordinary course of business. As mentioned above, Huayi Compressor is one of the major producers of compressors in the PRC and was the largest producer of refrigerator compressors in the PRC for 2006 in terms of sales volume. Furthermore, the Huayi Group has been one of the major suppliers of compressors of the Group. On this basis, we consider that the Huayi Group has the relevant experience and expertise in the manufacture of compressors. Accordingly, we are of the view that the entering into of the Compressors Purchase and Supply Framework Agreement for the purpose of sourcing compressors from the Huayi Group is in the interests of the Company and the Shareholders as a whole and the transactions contemplated under the Compressors Purchase and Supply Framework Agreement are in the ordinary and usual course of business of the Company.

b. The Business Co-operation Framework Agreement

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may enter into certain transactions with the relevant subsidiaries of Hisense Group in respect of the sale and supply of moulds, air-conditioners, refrigerators, raw materials and components, the purchase of air-conditioners, refrigerators, raw materials, components and moulds, and the provision of property management services and after-sales maintenance, repair and consultation services (particulars and terms of each category of the aforesaid transactions are discussed in the section headed “Terms of the Framework Agreements” below).

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As noted in the Letter from the Board, the competition in the white goods market in the PRC is very keen at present with substantial increase in raw materials prices, and the sale of the white goods such as air-conditioners and refrigerators is often affected by weather and the peak sales seasons of such products are very short. As such, transportation time is always an important consideration for the white goods producers such as the Company and Hisense Group. The Board believes that the production plants of the Group and Hisense Group can supplement each other in terms of their locations since most of their plants are located at different regions of the PRC. In particular, the sale of refrigerators and air-conditioners by the Group to the relevant subsidiaries of Hisense Group under the Business Co-operation Framework Agreement can achieve the following benefits to the Company:

- (i) making best use of the idling production capacity of the Group as well as increasing the sales and revenues of the Company; and
- (ii) lowering the fixed costs per unit of products (i.e. depreciation of machinery and rent) incurred by the Group for the production of air-conditioners and refrigerators as a result of the increase in production level, which will enhance the competitiveness of the Group's products.

On the other hand, the purchase of refrigerators and air-conditioners by the Group from the relevant subsidiaries of Hisense Group under the Business Co-operation Framework Agreement can achieve the following benefits to the Company:

- (i) reducing the time of transportation between Shunde, Guangdong and the location of the relevant Subsidiaries of Hisense Group, which can improve the responsiveness of the Group to changes in the market and prevent loss of market share to its competitors; and
- (ii) reducing wear and tear to the relevant products during transportation as a result of the reduction in the transportation time, which may reduce the costs to the Group.

Given the aforesaid benefits, the Company is of the view that the transactions contemplated under the Business Co-operation Framework Agreement in relation to the purchases and sales of air-conditioners and refrigerators are in the interests of the Company and the Shareholders as a whole.

Given the similar principal activities between the Group and Hisense Group which include the design and manufacture of household electrical appliances including air-conditioners and refrigerators and the provision of related services and the substantial interest of Hisense Group in the Company, we consider that the business arrangements under the Business Co-operation Framework Agreement serve essentially to assist the Group in resuming its operations for the manufacture and sales of air-conditioners and refrigerators.

As discussed in the section headed “Information on the Group” above, the CSRC’s investigation on the Company for alleged breaches of the securities laws and regulations in the PRC as announced in May 2005 had adversely affected the confidence of the financial institutions, suppliers and customers on the Company. The Group had also experienced difficulties in renewal and origination of banking facilities and the lack of working capital significantly disturbed the Group’s relationship with its suppliers and sales agents. As a result, the Group missed the peak season for production and sales of refrigerators and air-conditioners in the financial year 2005 and recorded a significant loss. For the financial year 2006 and the six months ended 30 June 2007, the Group had been able to improve gradually its production and sales activities with overall profitable results recorded for the relevant periods. Nevertheless, as noted in the 2007 Interim Report, while the Group had managed to improve its revenues and operational effectiveness in light of the favourable growth of the PRC economy as well as the household appliances industry, the Company is generally still in a recovery stage and the Company still failed to achieve its targets during the six months period as a result of a number the historical problems.

In view of the substantial interest of Hisense Group in the Company, we consider it commercially reasonable and sensible for Hisense Group to assist the Group in rebuilding its market position which has been adversely affected by the CSRC’s investigation. Given that Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has demonstrated a good track record in the sales of electrical appliances in the PRC, we are of the view that it is in the commercial interest of the Company to enter into the Business Co-operation Framework Agreement as Hisense Group and its subsidiaries have the relevant expertise in the domestic electrical appliances market in the PRC as well as strong financial resources and are therefore able to assist the Group in rebuilding its market position.

In addition, certain transactions contemplated under the Business Co-operation Framework Agreement such as the sales of moulds, air-conditioners, refrigerators, raw materials and components and the provision of property management services by the Group to the relevant subsidiaries of Hisense Group, when take place, will be recognised by the Group as its sales or other income, and the overall revenue of the Group will therefore be increased as a result of such transactions. As stated in the Letter from the Board, the sale and supply of moulds under the Business Co-operation Framework Agreement will facilitate the Company to maintain an important relationship with the relevant subsidiaries of Hisense Group so that they may become stable customers of the Company thereby further expanding the sales of the Company. As regards the sale and supply of air-conditioners and refrigerators under the Business Co-operation Framework Agreement, since the relevant subsidiaries currently possess excess production capacity for air-conditioners and refrigerators and they will incur fixed costs such as depreciation of machinery and rent regardless of the production level, the sale and supply of air-conditioners and

refrigerators to the subsidiaries of Hisense Group can help to utilise their otherwise idling capacity as well as reduce the products' per-unit fixed costs as a result of the increase in the production level. The competitiveness of the Group's products in terms of costing may therefore increase.

As regards those transactions contemplated under the Business Co-operation Framework Agreement in relation to the purchase of air-conditioners, refrigerators, raw materials, components and moulds by the Group from the relevant subsidiaries of Hisense Group, they are expected to reduce the Group's transportation costs or purchase costs and hence improve the competitiveness and responsiveness of the Group's products in the market. In particular, it has been agreed between the relevant parties that the pricing for the purchase of air-conditioners or refrigerators (as the case may be) by the Group from the subsidiaries of Hisense Group will be substantially the same as the aggregate of the production costs of air-conditioners or refrigerators (as the case may be) by the Group in Shunde, Guangdong and the transportation costs to the relevant locations of the subsidiaries of Hisense Group.

Given the fact that demand for refrigerators and air-conditioners in the market is sometime affected by the weather conditions the change of which is often unpredictable and sudden, it may be strategically important for the Group to have additional production bases located outside its existing base in Shunde (i.e. the southern part of the PRC) in the event that there is an unexpected increase in the demand for refrigerators or air-conditioners in other regions of the PRC and the Group has to respond to such demand in a timely manner in order not to lose its market share to competitors. The relevant subsidiaries of Hisense Group currently have production bases in Beijing, Nanjiang, Shangdong and Zhejiang, (i.e. the northern and eastern part of the PRC). The purchase of air-conditioners and refrigerators from the subsidiaries of Hisense Group will therefore reduce the transportation time between Shunde and other locations of the production plants of Hisense Group as the products purchased will be delivered directly from the relevant production plants of Hisense Group, instead of the Group's production base in Shunde, to the relevant market, which may therefore improve the Group's responsiveness to market changes and prevent loss of market share to its competitors. Furthermore, the reduction in the transportation distance will also reduce wear and tear to the products during transportation.

As regards the procurement of after-sales maintenance, repair and consultation services by the Group from the relevant subsidiaries of Hisense Group under the Business Co-operation Framework Agreement, we understand from the management of the Company that the Group presently does not have its own repair and maintenance services team to provide after-sales services to its customers. Therefore, the Group has to engage outside service providers for the provision of after-sales services to its customers. Accordingly, we concur with the Company's view that the engagement of the relevant subsidiaries of Hisense Group to handle the after-sales services for the Group will help reduce the Group's reliance on any single service provider.

Based on the nature of the transactions to be contemplated under the Business Co-operation Framework Agreement and the benefits expected to be brought by such transactions as discussed above, we consider that the transactions to be contemplated under the Business Co-operation Framework Agreement will be conducted in the ordinary and usual course of business of the Company and we concur with the view of the Company that the entering into of the Business Co-operation Framework Agreement is in the interests of the Company and the Shareholders as a whole.

II. Terms of the Framework Agreements

1. *The Compressors Purchase and Supply Framework Agreement*

Pursuant to the Compressors Purchase and Supply Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Compressors Purchaser and Supply Framework Agreement) may purchase on a non-exclusive basis such quantities of compressors as it may require from time to time from each of Huayi Compressor, Jiayi Beila or Huayi Jingzhou (as the case may be) for the purpose of the manufacture of household electrical appliances, including but not limited to refrigerators and air-conditioners, by the Group for a term of one year commencing from 1 January 2008 to 31 December 2008 (which can be terminated before its expiration by mutual agreement of the parties or in the event of any breaches of the agreement). Individual compressors purchase and supply orders setting out specific terms including the price, payment terms and schedules, technological services and terms of delivery will be entered into between the relevant contracting parties and such terms must be consistent with the principles and the terms of the Compressors Purchase and Supply Framework Agreement, including the pricing, operation and trading policies set out therein.

The purchase price will be determined principally by arm's length commercial negotiations between the contracting parties according to the principle of fairness and reasonableness with reference to the market price of compressors from time to time. The purchase of compressors will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties. Payment for the purchase of compressors should be made by telegraphic transfer or bank-issued bills by the Company or its relevant subsidiaries (as the case may be) within 60 days from the delivery of the compressors.

The Compressors Purchase and Supply Framework Agreement will not restrict the Company from purchasing compressors from suppliers other than the Huayi Group, nor will it restrict the Huayi Group from supplying their compressors to any other third parties.

On the basis that (i) the purchase of compressors will be conducted in the ordinary and usual course of business of the Company and (ii) the terms (including the price, payment terms, technological services and terms of delivery) of the compressors purchase and supply orders entered into between the Company (or its subsidiaries) and each of Huayi Compressor, Jiayi Beila or Huayi Jingzhou (as the case may be) will be consistent with those of the Compressors Purchase and Supply Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market and will not be less favourable to the Group than those available from Independent Third Party, we are of the view that the terms of the Compressors Purchase and Supply Framework Agreement are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

2. *The Business Co-operation Framework Agreement*

The Business Co-operation Framework Agreement is valid for a term of one year commencing from 1 January 2008 to 31 December 2008 (which can be terminated before its expiration by mutual agreement of the parties or in the event of any breaches of the agreement) and covers the following aspects of business co-operation between the Group and the relevant subsidiaries of Hisense Group:

a. Sale and supply of moulds

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may manufacture and supply on a non-exclusive basis such quantities of moulds as the relevant subsidiaries of Hisense Group may require from time to time for the manufacture of household electrical appliances, including but not limited to air-conditioners. Individual mould purchase orders setting out specific terms including the price, payment terms and schedules, technological services and terms of delivery will be entered into by the relevant contracting parties and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

Pursuant to the Business Co-operation Framework Agreement, the market price for the manufacture of moulds is determined predominantly by open tender invited by the relevant subsidiaries of Hisense Group. Payment for the purchase of moulds should be made by telegraphic transfer or bank-issued bills by the relevant subsidiaries of Hisense Group within 60 days from the delivery of the moulds. The Company may from time to time submit tenders or bids to manufacture the moulds for such products as requested by the relevant subsidiaries of Hisense Group in their invitations to tender (which are also extended to various Independent Third Parties).

The Business Co-operation Framework Agreement will not restrict the relevant subsidiaries of Hisense Group from purchasing moulds from suppliers other than the Company, nor will it restrict the Company from supplying its moulds to any other third parties.

In view of the pricing for the manufacture of moulds that will be determined by open tendering process, which is a transparent pricing mechanism, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of moulds by the relevant subsidiary of the Company to the relevant subsidiaries of Hisense Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

b. Sale and supply of air-conditioners

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may manufacture and supply on a non-exclusive basis such quantities of air-conditioners as the relevant subsidiary of Hisense Group may require from time to time for its sales to customers. The Company and the relevant subsidiary of Hisense Group have also agreed to enter into individual air-conditioners production and supply orders setting out specific terms including the price, payment terms and schedules, technological services and terms of delivery, and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

The purchase price of the air-conditioners supplied by the Company to the relevant subsidiary of Hisense Group will be determined principally by arm's length commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of the air-conditioners from time to time and the pricing policy of OEM products within the industry. The sale of air-conditioners by the Company will be conducted in the ordinary and usual course of its business, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties. Payment for the purchase of air-conditioners should be made by telegraphic transfer or bank-issued bills by the relevant subsidiary of Hisense Group within 60 days from the delivery of the air-conditioners. The relevant subsidiary of Hisense Group is responsible for the collection of the air-conditioners from the Company.

In addition, the parties to the Business Co-operation Framework Agreement have agreed that the price of air-conditioner of a specific model sold by the Company to the relevant subsidiary of Hisense Group will equal the production cost of such specific model of the Company (or its subsidiaries) divided by 0.95. As stated in the Business Co-operation Framework Agreement, such formula is determined by the relevant parties on the principle that the unit sale price of the air-conditioner to be sold by the Company to the relevant subsidiary of Hisense Group shall not be lower than the aggregate of the production cost, management fee and after-sales service fee for each such air-conditioner. In arriving at the formula, the relevant parties have taken into account the relevant percentage level of the

management fee and after-sales service fee of the Company and have made reference to the market prices of air-conditioners. In this connection, we have reviewed the management accounts of the relevant subsidiaries of the Company and noted that the aggregate of the related management fees and after-sales service fees in relation to the production of air-conditioners represented, on average, about 5% of the total production costs of the air-conditioners.

As stated in the Letter from the Board, the air-conditioners to be sold by the Company to the relevant subsidiary of Hisense Group under the Business Co-operation Framework Agreement are of different models from the air-conditioners manufactured and supplied by the relevant subsidiaries of Hisense Group to the Company (particulars of the purchases of air-conditioners by the Company from the relevant subsidiaries of Hisense Group are discussed below). The Business Co-operation Framework Agreement will not restrict the relevant subsidiary of Hisense Group from purchasing air-conditioners from suppliers other than the Company, nor will it restrict the Company from selling its air-conditioners to any other third parties.

On the basis that (i) the sale and supply of air-conditioners by the Company (or its subsidiaries) to the relevant subsidiary of Hisense Group will increase the revenue of the Group as well as utilise its resources so as to facilitate the Group to resume normal business operations; (ii) such sales will be conducted in the ordinary and usual course of business of the Company and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties; and (iii) the unit sale price of the air-conditioner will not be lower than the aggregate of the production cost, management fee and after-sales service fee for each such air-conditioner as incurred by the Company, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of air-conditioners by the Company (or its subsidiaries) to the relevant subsidiary of Hisense Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

c. Sale and supply of refrigerators

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may manufacture and supply on a non-exclusive basis such quantities of refrigerators as the relevant subsidiary of Hisense Group may require from time to time for its sales to customers. The Company and the relevant subsidiary of Hisense Group have also agreed to enter into individual refrigerators production and supply orders setting out specific terms including the price, payment terms and schedules, technological services and terms of delivery, and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement, including the pricing, operation and trading policies set out therein.

LETTER FROM ACCESS CAPITAL LIMITED

The purchase price of the refrigerators supplied by the Company to the relevant subsidiary of Hisense Group will be determined principally by arm's length commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of the refrigerators from time to time and the price fixing policy of OEM products within the industry. The sale of refrigerators by the Company will be conducted in the ordinary and usual course of its business, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties. Payment for the purchase of refrigerators should be made by telegraphic transfer or bank-issued bills by the relevant subsidiary of Hisense Group within 60 days from the delivery of the refrigerators. The relevant subsidiary of Hisense Group is responsible for the collection of the refrigerators from the Company.

In addition, the relevant parties have agreed that the price of refrigerator of a specific model sold by the Company to the relevant subsidiaries of Hisense Group will equal the production cost of such specific model of the Company (or its subsidiaries) divided by 0.93. As stated in the Business Co-operation Framework Agreement, such formula is determined by the relevant parties on the principle that the unit sale price of the refrigerator to be sold by the Company to the relevant subsidiary of Hisense Group shall not be lower than the aggregate of the production cost, management fee and after-sales service fee for each such refrigerator. In arriving at the formula, the relevant parties have taken into account the relevant percentage level of the management fee and after-sales service fee of the Company and have made reference to the market prices of refrigerators. In this connection, we have reviewed the management accounts of the relevant subsidiaries of the Company and noted that the aggregate of the related management fees and after-sales service fees in relation to the production of refrigerators represented, on average, about 7% of the total production costs of the refrigerators.

As stated in the Letter from the Board, the refrigerators to be sold by the Company to the relevant subsidiary of Hisense Group under the Business Co-operation Framework Agreement are of different models from the refrigerators manufactured and supplied by the relevant subsidiaries of Hisense Group to the Company (particulars of the purchase of refrigerators by the Company from subsidiaries of Hisense Group are discussed below). The Business Co-operation Framework Agreement will not restrict the relevant subsidiary of Hisense Group from purchasing refrigerators from suppliers other than the Company, nor will it restrict the Company from selling its refrigerators to any other third parties.

On the basis that (i) the sale and supply of refrigerators by the Company to the relevant subsidiary of Hisense Group will increase the revenue of the Group as well as utilise its resources so as to facilitate the Group to resume normal business operations; (ii) such sales will be conducted in the ordinary and usual course of business of the Company and on terms not less favourable to the Company than

terms available to or from (as appropriate) Independent Third Parties; and (iii) the unit sale price of the refrigerator to be sold by the Company to the relevant subsidiary of Hisense Group will not be lower than the aggregate of the production cost, management fee and after-sales service fee for each such refrigerator as produced by the Company (or its subsidiaries), we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of refrigerators by the Company to the relevant subsidiary of Hisense Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

d. Sale and supply of raw materials and components

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may manufacture and supply on a non-exclusive basis such quantities of (i) raw materials and components of air-conditioners and refrigerators as the relevant subsidiaries of Hisense Group may require from time to time for the purpose of the manufacture of air-conditioners and refrigerators for sale to the Company (particulars of the purchases of air-conditioners and refrigerators by the Company from subsidiaries of Hisense Group under the Business Co-operation Framework Agreement are discussed below) and (ii) components of television (including electrical machinery) as the relevant subsidiaries of Hisense Group may require from time to time for the purpose of the manufacture of televisions.

Individual raw materials production and supply orders setting out specific terms including the price, payment terms and schedules, technological services and terms of delivery will be entered into by the relevant contracting parties from time to time and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement including the pricing, operation and trading policies set out therein. The purchase price of the raw materials and components supplied by the Company to the relevant subsidiaries of Hisense Group will be determined principally by arm's length commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of the raw materials and components of air-conditioners, refrigerators and televisions from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties. Payment for the purchase of raw-materials and components should be made by telegraphic transfer or bank-issued bills by the relevant subsidiaries of Hisense Group within 60 days from the delivery of the raw materials and components

Under the Business Co-operation Framework Agreement, the raw materials and components of air-conditioners and refrigerators to be sold by the relevant subsidiaries of the Company to the relevant subsidiaries of Hisense Group include

those compatible components utilised for the manufacture of the air-conditioners and refrigerators which are to be sold to the Company. As stated in the Letter from the Board, the models and nature of such raw materials and components of air-conditioners and refrigerators to be sold to the subsidiaries of Hisense Group are different from those raw materials and components proposed to be purchased from the subsidiaries of Hisense Group (particulars of the purchase of raw materials and components of air-conditioners and refrigerators by the Company from subsidiaries of Hisense Group under the Business Co-operation Framework Agreement are discussed below). The Business Co-operation Framework Agreement will not restrict the relevant subsidiaries of Hisense Group from purchasing raw materials or components of air-conditioners, refrigerators and televisions from suppliers other than the Company, nor will it restrict the Company from selling its raw materials or components of air-conditioners, refrigerators and televisions to any other third parties.

On the basis that the terms (including the price, payment terms, technological services and terms of delivery) of the raw materials production and supply orders entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness and on terms not less favourable to the Company than those available to or from (as appropriate) Independent Third Parties, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of raw materials and components by the relevant subsidiaries of the Company to the relevant subsidiaries of Hisense Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

e. Provision of property management services

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may provide property management, sanitary and security services to the factories and offices of the relevant subsidiaries of Hisense Group. The contracting parties have also agreed to enter into individual service provision orders setting out specific terms for the provision of property management, sanitary and security services including scope of the services, fees and payment terms and schedules, and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

The fees payable by the relevant subsidiaries of Hisense Group for the provision of property management, sanitary and security services will be determined principally by arm's length commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price for the provision of such services from time to time. Such transactions

will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties. The fees for the provision of property management, sanitary and security services will be calculated on a monthly basis and such monthly fee should be made by telegraphic transfer or bank-issued bills by the relevant subsidiary of Hisense Group within 15 days from the next following month. The Business Co-operation Framework Agreement will not restrict the relevant subsidiaries of Hisense Group from engaging other services providers to provide such property management, sanitary and security services, nor will it restrict the Company from providing its services to any other third parties.

On the basis that the terms (including the fees and payment terms) of the service provision orders to be entered into between the contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price for the provision of such services from time to time, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the provision of property management, sanitary and security services by the relevant subsidiary of the Company to subsidiaries of Hisense Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

f. Purchase of air-conditioners

Under the Business Co-operation Framework Agreement, the relevant subsidiaries of Hisense Group have agreed to manufacture and supply on a non-exclusive basis such quantities of air-conditioners as the Company (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may require from time to time for its sale to customers. The contracting parties have also agreed to enter into individual air-conditioners production and purchase orders setting out specific terms including the price, payment terms and schedules, technological services and terms of delivery, and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement including the pricing, operation and trading policies set out therein.

The purchase price of the air-conditioners supplied by the relevant subsidiaries of Hisense Group to the Company will be determined principally by arm's length commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of air-conditioners from time to time and the pricing policy of OEM products within the industry. In particular, as set out in the Business Co-operation Framework Agreement, the purchase price of air-conditioners shall not be higher than the total sum of production costs, management expenses and transportation costs of air-conditioners

as produced by the Company in Shunde, Guangdong or its other production base. In this connection, the relevant parties have agreed that the price of air-conditioner of a specific model sold by the relevant subsidiaries of Hisense Group to the Company will equal the production cost of such specific model of the Company divided by 0.95. In arriving at the formula, the relevant parties have taken into account the relevant percentage level of the production costs and management expenses of the Company and have made reference to the market prices of air-conditioners.

Effectively, the purchase price of air-conditioners by the Group from the relevant subsidiaries of Hisense Group is more or less the same as the total sum of production costs and transportation costs of air-conditioners as produced by the Group in Shunde, Guangdong and transporting the same for sale in the regions of relevant production bases of Hisense Group (i.e., Beijing, Nanjing, Shandong and Zhejiang). In addition, the Group can save management fees and after-sales service fees, which is equivalent to approximately 5% of the total production costs of air-conditioners of the Group, as a result of its purchase of air-conditioners from the relevant subsidiaries of Hisense Group. Accordingly, the formula for the pricing of the air-conditioner sold by Hisense Group to the Group under Business Co-operation Framework Agreement has been determined by dividing the relevant production cost of the air-conditioner of the Group by 0.95 (i.e. 1 – 5%). As mentioned above, we have reviewed the management accounts of the relevant subsidiaries of the Company and noted that the aggregate of the related management fees and after-sales service fees in relation to the production of air-conditioners represented, on average, about 5% of the total production costs of the air-conditioners.

The purchase of air-conditioners by the Company will be conducted in the ordinary and usual course of its business, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties. Payment for the purchase of air-conditioners should be made by telegraphic transfer or bank-issued bills by the Company or its relevant subsidiary (as the case may be) within 60 days from the delivery of the air-conditioners. The Company is responsible for the collection of the air-conditioners from the relevant subsidiaries of Hisense Group. The Business Co-operation Framework Agreement will not restrict the Company from purchasing air-conditioners from suppliers other than the subsidiaries of Hisense Group, nor will it restrict the subsidiaries of Hisense Group from selling their air-conditioners to any other third parties.

On the basis that (i) the purchase of air-conditioners by the Company will be conducted in the ordinary and usual course of its business and the terms (including the price, payment terms, technological services and terms of delivery) of the air-conditioners production and purchase orders entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price and not less

favourable to the Company than terms available to or from (as appropriate) Independent Third Parties; (ii) the price of the air-conditioners purchased by the Company from the relevant subsidiaries of Hisense Group will not be higher than the total sum of production costs, management expenses and transportation costs of air-conditioners that will otherwise be incurred by the Company if such air-conditioners are produced by itself; and (iii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Company with the flexibility without any commitment on the purchase quantity from the relevant subsidiaries of Hisense Group, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the purchase of air-conditioners by the Company are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

g. Purchase of refrigerators

Under the Business Co-operation Framework Agreement, the relevant subsidiaries of Hisense Group have agreed to manufacture and supply on a non-exclusive basis such quantities of refrigerators as the Company (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may require from time to time for its sale to customers. The contracting parties have also agreed to enter into individual refrigerator production and purchase orders setting out specific terms including the price, payment terms and schedules, technological services and terms of delivery, and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement including the pricing, operation and trading policies set out therein.

The purchase price of the refrigerators supplied by the relevant subsidiaries of Hisense Group to the Company will be determined principally by arm's length commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of refrigerators from time to time and the pricing policy of OEM products within the industry. In particular, as set out in the Business Co-operation Framework Agreement, the purchase price of refrigerators shall not be higher than the total sum of production costs, management expenses and transportation costs of refrigerators as produced by the Company in Shunde, Guangdong or its other production base. In this connection, the relevant parties have agreed that the price of refrigerator of a specific model sold by the relevant subsidiaries of Hisense Group to the Company will equal the production cost of such specific model of the Company divided by 0.93. In arriving at the formula, the relevant parties have taken into account the relevant percentage level of the production costs and management expenses of the Company and have made reference to the market prices of refrigerators.

Effectively, the purchase price of refrigerators by the Group from the relevant subsidiaries of Hisense Group is more or less the same as the total sum of production costs and transportation costs of refrigerators as produced by the Group in Shunde,

Guangdong and transporting the same for sale in the regions of relevant production bases of Hisense Group (i.e., Beijing, Nanjing, Shandong and Zhejiang). In addition, the Group can save management fees and after-sales service fees, which is equivalent to approximately 7% of the total production costs of refrigerators of the Group, as a result of its purchase of refrigerators from the relevant subsidiaries of Hisense Group. Accordingly, the formula for the pricing of the refrigerators sold by Hisense Group to the Group under Business Co-operation Framework Agreement has been determined by dividing the relevant production cost of the refrigerators of the Group by 0.93 (i.e. $1 - 7\%$). As mentioned above, we have reviewed the management accounts of the relevant subsidiaries of the Company and noted that the aggregate of the related management fees and after-sales service fees in relation to the production of refrigerators represented, on average, about 7% of the total production costs of the refrigerators.

The purchase of refrigerators by the Company will be conducted in the ordinary and usual course of its business, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties. Payment for the purchase of refrigerators should be made by telegraphic transfer or bank-issued bills by the Company or its relevant subsidiary (as the case may be) within 60 days from the delivery of the refrigerators. The Company is responsible for the collection of the refrigerators from the relevant subsidiaries of Hisense Group. The Business Co-operation Framework Agreement will not restrict the Company from purchasing refrigerators from other suppliers apart from the subsidiaries of Hisense Group, nor will it restrict the subsidiaries of Hisense Group from selling their refrigerators to any other third parties.

On the basis that (i) the purchase of refrigerators by the Company will be conducted in the ordinary and usual course of its business and the terms (including the price, payment terms, technological services and terms of delivery) of the refrigerators production and purchase orders entered into between the relevant contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price and not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties; (ii) the price of the refrigerators purchased by the Company from the relevant subsidiaries of Hisense Group will not be higher than the total sum of production costs, management expenses and transportation costs of refrigerators that will otherwise be incurred by the Company if the relevant refrigerators are produced by itself; and (iii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Company with the flexibility without any commitment on the purchase quantity from the relevant subsidiaries of Hisense Group, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the purchase of refrigerators by the Company are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

h. Purchase of raw materials, components and moulds

Under the Business Co-operation Framework Agreement, the relevant subsidiaries of Hisense Group have agreed to supply on a non-exclusive basis such quantities of raw materials, components and moulds as the Company (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may require from time to time for its manufacture of those air-conditioners and refrigerators which are to be sold to the relevant subsidiaries of Hisense Group under the Business Co-operation Framework Agreement. The contracting parties have also agreed to enter into individual raw materials purchase and supply orders setting out specific terms including the price, payment terms and schedules, technological services and terms of delivery, and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement including the pricing, operation and trading policies set out therein.

The purchase price of the raw materials and components supplied by the relevant subsidiaries of Hisense Group to the Company will be determined principally by arm's length commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of raw materials and components from time to time, whereas the purchase price of moulds manufactured by the relevant subsidiaries of Hisense Group to the Company will be determined predominantly by open tender invited by the Company. The relevant subsidiaries of Hisense Group may from time to time submit tenders or bids to manufacture the moulds for such products as requested by the Company in its invitations to tender (which are also extended to various Independent Third Parties).

The purchase of raw materials, components and moulds by the Company will be conducted in the ordinary and usual course of its business, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties. Payment for the purchase of raw materials, components or moulds should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiaries of the Company within 60 days from the delivery of the raw materials, components and moulds. The Business Co-operation Framework Agreement will not restrict the Company from purchasing raw materials, components or moulds from suppliers other than the subsidiaries of Hisense Group, nor will it restrict the subsidiaries of Hisense Group from selling their raw materials, components or moulds to any other third parties.

On the basis that (i) the purchase of raw materials and components and moulds refrigerators by the Company will be conducted in the ordinary and usual course of its business and the terms (including the price, payment terms, technological services and terms of delivery) of the raw materials purchase and supply orders entered into between the relevant contracting parties will be consistent with those of

the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price or, in the case of the purchase of moulds, by open tendering process which is a transparent pricing mechanism, and will not be less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties and (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Company with the flexibility without any commitment on the purchase quantity from the relevant subsidiaries of Hisense Group, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the purchase of raw materials, components and moulds by the Company are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

i. Provision of services

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may engage Hisense Group and its relevant subsidiaries for the provision of after-sale maintenance, repair and consultation services to the customers of the Group in part of the PRC who have purchased electrical appliances from the Group and the provision and maintenance of electronic communication services (e.g., web-conferences services) to the Company. The contracting parties have also agreed to enter into individual service provision orders setting out specific terms for the provision of the services including scope of services, fees, payment terms and schedules, and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

The fees payable by the Company to the relevant subsidiaries of Hisense Group for the provision of the after-sales maintenance, repair and consultation services will be determined principally by arm's length commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price for the provision of such services from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties. The fees for the provision of the after-sales maintenance, repair and consultation services will be calculated on a monthly basis and such monthly fee should be made by telegraphic transfer or bank-issued bills by the Company or its relevant subsidiary (as the case may be) within 15 days from the next following month. The Business Co-operation Framework Agreement will not restrict the Company from engaging services providers other than the subsidiaries of Hisense Group, nor will it restrict the subsidiaries of Hisense Group from providing their services to any other third parties.

On the basis that (i) the terms (including the fees, payment terms, and scope of the after-sales maintenance, repair and consultation services) of the service provision orders to be entered into between the contracting parties will be consistent with those of the Business Co-operation Framework Agreement and will be determined in accordance with the principle of fairness and reasonableness with reference to the market price for the provision of such services from time to time and will not be less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties and (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Company with the flexibility without any commitment on the amount of services to be provided by the relevant subsidiaries of Hisense Group, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the provision of services are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

In summary, for each category of transactions to be contemplated under the Business Co-operation Framework Agreement, it is a term of the Business Co-operation Framework Agreement that individual sale or purchase orders (as the case may be) setting out specific terms including the price, payment terms and schedules, technological services and terms of delivery will be entered into between the relevant contracting parties and such terms must be consistent with the principles and the terms of the Business Co-operation Framework Agreement. Accordingly, although the transactions under the Business Co-operation Framework Agreement have not yet taken place, there is assurance that any individual sale or purchase orders to be entered into by the Group in the future will be determined in accordance with the principle of fairness and reasonableness with reference to the market and will not be less favourable to the Group than those available to or from (as appropriate) Independent Third Party, including the pricing, operation and trading policies set out therein. As such, we consider the aforesaid term of the Business Co-operation Framework Agreement to be the most important factor in ensuring the fairness and reasonableness of the relevant transactions.

LETTER FROM ACCESS CAPITAL LIMITED

III. Rationale for determining the maximum value of the transactions to be contemplated under the Framework Agreements

Pursuant to Rule 14A.35(2) of the Listing Rules, the transactions to be contemplated under the Framework Agreements during the year commencing from 1 January 2008 to 31 December 2008 will be subject to an annual cap for the financial year ending 31 December 2008 of the Company. The proposed maximum aggregate values, or “caps”, of the transactions contemplated under the Framework Agreements for the year ending 31 December 2008 and the unaudited value of similar transactions between the relevant parties for the ten months ended 31 October 2007 are summarised below:

	Proposed caps for the year ending 31 December 2008 (RMB)	Unaudited value of the similar transactions between the relevant parties for the ten months ended 31 October 2007 (RMB)	Increase/ (decrease) of the proposed caps as compared to the estimated annualised value of the similar transactions for the year 2007 based on their unaudited value for the ten months ended 31 October 2007 (%)
The Compressors Purchase and Supply Framework Agreement			
Maximum aggregate value of purchases of compressors:	581,710,000	254,524,400	90.5
The Business Co-operation Framework Agreement			
Maximum aggregate value of sale and supply of moulds:	47,500,000	2,900,000	1,264.9
Maximum aggregate value of sale and supply of air-conditioners:	120,000,000	115,300,000	(13.3)
Maximum aggregate value of sale and supply of refrigerators:	100,000,000	87,600,000	(4.9)
Maximum aggregate value of sale and supply of raw materials and components:	92,100,000	17,700,000	333.6
Maximum aggregate value of provision of property management services:	500,000	–	N/A
Maximum aggregate value of purchase of air-conditioners:	620,000,000	496,300,000	4.1
Maximum aggregate value of purchase of refrigerators:	210,000,000	114,000,000	53.5
Maximum aggregate value of purchase of raw materials, components and moulds:	46,100,000	3,230,000	1,089.4
Maximum aggregate value of provision of services:	42,000,000	1,760,000	1,888.6

LETTER FROM ACCESS CAPITAL LIMITED

The basis for the proposed maximum value for each category of transactions contemplated under the Framework Agreements is set out in the letter from the Board. The table below summaries the basis for each category of the transactions:

Category	Basis for the proposed annual cap
Purchases of compressors	(i) similar transactions between the subsidiaries of the Company with each of Huayi Compressor, Huayi Jingzhou and Jiayi Beila in the past; (ii) the prevailing market conditions that the demand for electrical appliances in the PRC increases rapidly as a result of its booming economy; and (iii) the projected rising level of production of household electrical appliances of the subsidiaries of the Company, including but not limited to air-conditioners and refrigerators, for the financial year ending 31 December 2008 as a result of the booming economy of the PRC and the rising demand for electrical appliances, especially in the rural areas of the PRC and the business development plan of the Company to significantly increase the production and sales level of air-conditioners and refrigerators in 2008
Sale and supply of moulds	(i) similar transactions between the relevant subsidiary of the Company and the relevant subsidiaries of Hisense Group in the past; (ii) the prevailing market conditions that the demand for electrical appliances in the PRC increases rapidly as a result of its booming economy; and (iii) the projected rising level of production of household electrical appliances of the relevant subsidiaries of Hisense Group based on its forecast of the market demand for the financial year ending 2008 which has taken into account the steady growth of the PRC economy and increasing purchasing power of its citizens; and (iv) the intention of the relevant subsidiary of the Company to increase its sale and supply of moulds to, and to further enhance the business co-operation with, the relevant subsidiaries of Hisense Group in 2008 as a result of the satisfactory co-operation relationship established between the parties in the past and the quality and compatibility of the moulds manufactured by the relevant subsidiary of the Company

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Sale and supply of air-conditioners	(i) similar transactions between the relevant subsidiary of the Company and the relevant subsidiary of Hisense Group in the past; (ii) the prevailing market conditions about the demand for electrical appliances, including air-conditioners, in the PRC; and (iii) the projected level of production and sale of air-conditioners of the relevant subsidiary of Hisense Group for the financial year ending 2008
Sale and supply of refrigerators	(i) similar transactions between the relevant subsidiary of the Company and the relevant subsidiary of Hisense Group in the past; (ii) the prevailing market conditions about the demand for electrical appliances, including refrigerators, in the PRC; and (ii) the projected level of production and sale of refrigerators of the relevant subsidiary of Hisense Group for the financial year ending 2008
Sale and supply of raw materials and components	(i) similar transactions between the relevant subsidiaries of the Company and the relevant subsidiaries of Hisense Group in the past and (ii) the prevailing market conditions that the demand for electrical appliances, including televisions, air-conditioners and refrigerators, in the PRC increases rapidly as a result of its booming economy, steady growth of the PRC economy and rising purchasing power of its citizens
Provision of property management, sanitary and security services	the services fees incurred in similar transactions between the relevant subsidiary of the Company and the Independent Third Parties in the past
Purchase of air-conditioners	(i) similar transactions between the relevant subsidiary of the Company and the relevant subsidiaries of Hisense Group in the past; (ii) the prevailing market conditions about the demand for electrical appliances, including air-conditioners, in the PRC; and (iii) the projected rising level of production and sale of air-conditioners of the relevant subsidiary of the Company for the financial year ending 2008

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Purchase of refrigerators	(i) similar transactions between the relevant subsidiary of the Company and the relevant subsidiaries of Hisense Group in the past; (ii) the prevailing market conditions about the demand for electrical appliances, including refrigerators, in the PRC; and (iii) the projected rising level of production and sale of refrigerators of the relevant subsidiary of the Company for the financial year ending 2008
Purchase of raw materials, components and moulds	(i) the prevailing market conditions about the demand for electrical appliances, including air-conditioners and refrigerators, in the PRC and (ii) the projected rising level of sale and production of air-conditioners and refrigerators of the relevant subsidiaries of the Company to the relevant subsidiaries of Hisense Group for the financial year ending 2008
Provision of services	(i) similar transactions between the relevant subsidiary of the Company and the relevant subsidiaries of Hisense Group in the past and (ii) the anticipated increase in the demand for the after-sale maintenance, repair and consultation services as a result of the projected rising level of production and sale of electrical appliances of the relevant subsidiary of the Company for the financial year ending 2008

In respect of the basis for the proposed annual caps under the Framework Agreements as set out in the above table, we note that the majority of the annual caps have been arrived at on the basis of (i) similar transactions between the relevant subsidiaries of the Company and the relevant subsidiaries of Hisense Group in the past and (ii) the prevailing market conditions that the demand for electrical appliances in the PRC increases rapidly as a result of the increasing purchasing power of its citizens and the steady growth of the PRC economy. First of all, regarding the relevant transactions in the past, we have reviewed certain historical similar transactions conducted between the relevant subsidiaries of the Company and the relevant subsidiaries of Hisense Group as well as those between the relevant subsidiaries of the Company and the Independent Third Parties, and we have found that the terms of the relevant transactions between the subsidiaries of the Company and the relevant subsidiaries of Hisense Group were not less favourable to the terms of those transactions conducted between the relevant subsidiaries of the Company and the Independent Third Parties. As indicated from above, in those cases where there were similar transactions conducted between the relevant parties in 2007, certain proposed annual caps represent a significant increase over the unaudited value of such transactions for the ten-month period in 2007. For instance, the proposed annual cap of RMB581.7 million for the purchase of compressors for the year ending 31 December 2008 represents an increase of approximately 90.5% over the estimated annualised value of such transactions for the year 2007 on the basis of their unaudited value of approximately RMB254.5 million for the ten months ended 31 October 2007.

LETTER FROM ACCESS CAPITAL LIMITED

As set out in the Letter from the Board, due to the expected increase in the production capacity of both Huayi Compressor and Jiayi Beila in 2008 as well as the stable good quality of their compressors, the Company expects to purchase more compressors from each of them in the coming financial year. In particular, having considered its business development plan to significantly increase the production and sales level of refrigerators and air-conditioners in 2008, the Group currently estimates that the value of its purchase of compressors from Huayi Compressor in 2008 will amount to approximately 21% of the total value of purchase of compressors of approximately RMB2,770 million to be conducted by the Group for the year ending 31 December 2008.

Based on the information from the Company, the following table sets out the aggregate value of purchase of compressors by the Group for each of the two financial years ended 31 December 2006 and the ten months ended 31 October 2007.

Year	Total approximate value of the transactions relating to purchase of compressors by the Group <i>(in RMB' million)</i>
2005	970.5
2006	1,233.0
From 1 January 2007 to 31 October 2007	1,536.0

As indicated from the above table, the aggregate value of the Group's purchase of compressors increased significantly in recent years and grew from approximately RMB970.5 million for the year 2005 to approximately RMB1,536.0 million for the ten months ended 31 October 2007, which, on the assumption that the total estimated purchase of compressors for the year 2007 would amount to approximately RMB1,943.2 on an annualised basis, represents a compound annual growth rate at approximately 41.5%.

As mentioned above, the Company currently estimated that the total value of purchase of compressors to be conducted by the Group for the year ending 31 December 2008 would be approximately RMB2,770 million. Given the compound annual growth rate at approximately 41.5% of the Group's purchase of compressors in the recent financial years as calculated above, the total value of purchase of compressors for the year 2008 would amount to approximately RMB2,749.6 million. In this connection, we are of the view that the Company's current estimation of the total value of its purchase of compressors of approximately RMB2,770 million for the year ending 31 December 2008 reasonably reflects the growth trend of the transactions. Given that the proposed annual cap for the Group's purchase of compressors from

Huayi Compressor in 2008 has been arrived at based on the Company's estimation of its total value of purchase of compressors to be conducted by the Group for the year 2008, we are also of the view that proposed annual cap of approximately RMB581.7 million for the financial year ending 31 December 2008 under the Compressors Purchase and Supply Framework Agreement has been arrived at on a fair and reasonable basis.

As regards the proposed annual cap for the sale and supply of moulds by the relevant subsidiary of the Company to the relevant subsidiaries of Hisense Group for 2008 which represents an increase of about 1,264.9% over the estimated annualised value of such transactions for 2007, we understand from the management of the Company that such significant increase is mainly due to the business plan of the Company to increase its supply of moulds to six subsidiaries of Hisense Group, instead of to only one subsidiary of Hisense Group in 2006. Given the significant increase in the number of the subsidiaries of Hisense Group to be supplied by the Group, we do not consider the proposed annual cap for the sale and supply of moulds by the relevant subsidiary of the Company for the year ending 31 December 2008 to be excessive.

As regards the significant increase in the other proposed annual caps in relation to the sale and supply of raw materials and components as well as the purchase of raw materials, components and moulds for the year ending 2008, we have discussed with the management of the Company and note that such proposed annual caps have been largely arrived at on the basis of the Company's estimation of the prevailing market conditions about the demand for electrical appliances in the PRC in the future which have taken into account the increasing purchasing power of the PRC citizens and the steady growth of the PRC economy (which is essentially the major consideration taken into account by the relevant parties in the determination of the majority of the annual caps as discussed above). In this connection, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual caps under the Framework Agreements, have carried out a review on the worksheets prepared by the management of the Company for calculation of the relevant annual caps including the review of the quantities and the unit prices of the subject items. Based on the result of our review, we are satisfied that the calculation of the proposed annual caps has been conducted on a fair and reasonable basis.

On the other hand, as regards the overall fairness and reasonableness of the Company's estimation of the market condition about the demand for electrical appliances, we have discussed with the management of the Company about the underlying assumptions as well as the projection of the relevant variables such as sales target and product market price. Based on our review of the relevant information provided by the Company as well as our consideration of certain independent and public statistics relating to the PRC economy (i.e. the official statistical data published by the Chinese government as set out below) which are relevant to the household appliances business in general, we are satisfied that such estimation of the market condition about the demand for electrical appliances for the financial year 2008 has been prepared by the Company after due and careful consideration and on a fair and reasonable basis.

LETTER FROM ACCESS CAPITAL LIMITED

According to the China Statistical Yearbook 2006 (中國統計年鑑2006) compiled by the National Bureau of Statistics of China (中華人民共和國國家統計局), the total population in China amounted to 1.31 billion at the year end of 2005 with an average annual compound growth rate of approximately 0.8% over the years from 1995 to 2005. With a population of over 1.3 billion, China represents a huge consumer market with enormous potential by its sheer size alone. On the other hand, China's gross domestic product ("GDP") has grown from approximately RMB6,079.4 billion to RMB18,308.5 billion from 1995 till 2005, representing a threefold increase since 1995. Based on the information published by Asian Development Bank ("ADB") on 17 September 2007, the GDP growth of China reached 11.5% in the first half of 2007 and ADB forecasted that the GDP of China would achieve an annual growth of 11.2% and 10.8% for 2007 and 2008, respectively.

In addition, according to the China Statistical Yearbook 2006, the per capita annual disposable income of the PRC's urban households grew from approximately RMB4,283 to RMB10,493 from 1995 till 2005 (representing an average annual compound growth rate of approximately 11%), whereas the per capita annual net income of the PRC's rural households grew from approximately RMB1,578 to RMB3,255 during the same period (representing an average annual compound growth rate of approximately 7.5%). With household income increasing, consumer spending is expected to rise. Based on the information published on the website of the National Bureau of Statistics of China, the total retail sales of household appliances and video appliances in the PRC grew from approximately RMB83.2 billion to RMB161.3 billion from 2001 till 2005, representing an average annual compound growth rate of approximately 18.0%. In particular, the total number of air-conditioners and refrigerators produced in China in 2005 was estimated to be approximately 67.6 million and 29.9 million, respectively, as compared to 23.3 million air-conditioners and 13.5 million refrigerators produced in 2001. As China has been experiencing continuous and steady economic growth over the years and with rising household income and spending power and improving living standard in China, we believe that the demand for household electrical appliances in China market remains strong.

Greater home ownership levels and increasing floor space of residential buildings in the urban and rural areas of the PRC in recent years have also generated higher demand for and spending on household electrical appliances. In particular, according to the China Statistical Yearbook 2006, the per capita floor space of residential buildings in the PRC's urban areas grew from approximately 16.3 square metres to 26.1 square metres from 1995 till 2005 (representing an average annual compound growth rate of approximately 4.8%), whereas that in the rural areas grew from approximately 21.0 square metres to 29.7 square metres during the same period (representing an average annual compound growth rate of approximately 3.5%). On the other hand, we note from the relevant statistics on the total living expenditure of the PRC's urban households that one of the major spending areas was on household facilities, articles and services, and that the per capita annual consumption on household facilities, articles and services of the PRC's urban households increased from approximately RMB263 to RMB447 from 1995 till 2005, representing an average annual compound growth rate of approximately 5.5%.

As mentioned above, the Company is of the view that there will be rising demand for electrical appliances in the PRC, especially in the rural areas. In this connection, we note that the year 2007 is the second year of the 11th Five-Year Program for Economic and Social Development (2006-2010) promulgated by the National People's Congress of the PRC. In general, the goal of the 11th Five-Year Program is to promote a more balanced, equitable, and sustainable growth of the PRC's economy through strategies directed at boosting private consumption, and promoting income equality, rural development, and environmental protection. In particular, rural development is one of the main emphases of the Chinese Government and it pledges to raise the income level of the rural households and promote public services in the countryside. In addition to abolishing the agricultural tax in 2006, the Chinese Government will eliminate all tuition and miscellaneous fees for nine years of compulsory education in rural areas of China in 2007. With the expectation that there will be an increase in the income level of the PRC's rural households, their spending power is likely to increase in the future.

According to the China Statistical Yearbook 2006, it has been estimated that, on average, every 100 rural households in China only owned approximately 20.1 refrigerators and 6.4 air-conditioners in 2005, whereas every 100 urban households in China owned approximately 90.7 refrigerators and 80.7 air-conditioners. In view of the existing consumption level of refrigerators and air-conditioners by the PRC's rural households, we are of the view that the demand for household appliances, especially refrigerators and air-conditioners, of the rural households in China can be enormous and the consumer market for these households has a great potential.

With a population of 1.31 billion and an expected continuous and steady economic growth in the future as well as rising household income and spending power and improving living standard, China represents a huge consumer market with enormous potential. Accordingly, we are generally of the view that the demand for household electrical appliances in China market is promising. While the proposed annual caps under the Framework Agreements for the year ending 2008 in certain cases represent a significant increase over the historical unaudited value of the similar transactions between the relevant parties, it should be noted that (i) the proposed transactions contemplated under the Framework Agreements will continue to be conducted in the ordinary and usual course of business of the Company and on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties; (ii) it is generally in the interest of the Company to maximise the value of the sales transactions contemplated under the Framework Agreements so as to increase the Company's revenue; and (iii) the non-exclusive arrangement under the Framework Agreements provides the Company with the flexibility without any commitment on the actual transaction values. Accordingly, we are of the view that the entering into of the Framework Agreements is in the interests of the Company and the Shareholders as a whole and the proposed annual caps under the Framework Agreements have been arrived at on a fair and reasonable basis.

As set out in the Company's announcement of 31 December 2007, the Company proposes to acquire from Hisense Air-conditioning certain equity interests and assets in relation to the existing manufacture and sale of air-conditioners and refrigerators (i.e. the white goods business) of Hisense Group. We understand from the management of the Company that upon the completion of the aforesaid acquisition, certain existing subsidiaries of Hisense Group, namely Hisense Beijing, Hisense Shandong and Hisense Zhejiang, will become subsidiaries of the Company and certain proposed transactions to be contemplated under the Business Co-operation Framework Agreement in relation to the sale and purchase of moulds, air-conditioners and refrigerators between the aforesaid subsidiaries of Hisense Group and the Group will cease to constitute continuing connected transactions of the Company under the Listing Rules. Nevertheless, the completion of the Acquisition is conditional on, among other things, the approval by the Independent Shareholders and there is no assurance as to whether or when the Acquisition will complete. Accordingly, the aforesaid proposed annual caps under the Business Co-operation Framework Agreement have been arrived at based on the expected value of the relevant transactions for the whole financial year 2008, which we consider to be an appropriate basis for the proposes of ensuring compliance with Rule 14A.35(2) of the Listing Rules given the uncertainty in the completion of the Acquisition.

As stated in the Letter from the Board, the transactions contemplated under the Framework Agreements have not been commenced as at the Latest Practicable Date.

IV. Conditions of the annual caps under the Framework Agreements

There are certain conditions of the annual cap pursuant to the Listing Rules, in particular, the restriction of the value of the transactions contemplated under the Framework Agreements by way of the annual cap for relevant financial year ending 31 December 2008 and the annual review by the independent non-executive Directors of the terms of such transactions and the relevant annual caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. Also, pursuant to the Listing Rules, each year the auditors of the Company must provide a letter to the Board confirming, among other things, that the transactions contemplated under the Framework Agreements are conducted in accordance with the terms of the relevant Framework Agreements and that the relevant annual caps not being exceeded. In addition, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual caps not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the transactions to be contemplated under the Framework Agreements and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the above principal factors and reasons, in particular, the following:

- (i) The financial and trading positions of the Group have been hampered following the severe disruption to its operations as a result of the CSRC's investigation, details of which are set out in the section headed "Background information and reasons for the Framework Agreements".
- (ii) The manufacture and sale of air-conditioners and refrigerators is one of the principal businesses of the Group and compressors are essential components of air-conditioners and refrigerators. Huayi Compressor is one of the major producers of compressors in the PRC and has the relevant experience and expertise in the manufacture of compressors. It is therefore in the commercial interest of the Company to enter into the Compressors Purchase and Supply Framework Agreement with the Huayi Group.
- (iii) Hisense Group, together with its subsidiaries, is currently one of the major electronic companies in the PRC and has the relevant expertise in the domestic electric appliances market in the PRC as well as strong financial resources. Accordingly, Hisense Group is in a good position to assist the Group in rebuilding its market position.
- (iv) Certain transactions contemplated under the Business Co-operation Framework Agreement will increase the sales of the Group, so it is in the interest of the Group to enter into such agreement.
- (v) The terms (including the price, payment terms and schedules, technological services and terms of delivery) of the formal orders entered into by the Group pursuant to the Framework Agreements will be determined in accordance with the principle of fairness and reasonableness with reference to the market price, and the proposed transactions contemplated under the Framework Agreements will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties. In addition, all the transactions contemplated under the Framework Agreements are to be conducted on a non-exclusive basis, so the Framework Agreements will not restrict the Company from engaging in the similar transactions with other parties.
- (vi) The value of, and the basis for determining, the annual caps under the Framework Agreements are fair and reasonable, details of which are set out in the section headed "Rationale for determining the maximum value of the transactions to be contemplated under the Framework Agreements".

LETTER FROM ACCESS CAPITAL LIMITED

Based on the above, we are of the opinion that each of the Framework Agreements is in the interests of the Company and the Shareholders as a whole, the transactions to be contemplated under the Framework Agreements are in the ordinary and usual course of business of the Company, on normal commercial terms and in the interests of the Company and the Shareholder as a whole. We are also of the opinion that the terms of the Framework Agreements, including the proposed annual caps, are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the ordinary resolutions to approve each of the Framework Agreements at the EGM.

Yours faithfully,
For and on behalf of
Access Capital Limited
Alexander Tai
Executive Director

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 2006, 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 2006, 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	A Shares	244,100,981 (long position) <i>(Note 1)</i>	45.85%	24.61%
		9,275,050 (short position) <i>(Note 2)</i>	1.83%	0.98%
Shunde Economic Consultancy Company	A Shares	68,666,667 (long position)	12.90%	6.92%

Notes:

- (1) Pursuant to the Share Reform Proposal, Hisense Air-conditioning agreed to pay in advance, on behalf of Shunde Economic Consultancy Company and Foshan City Shunde Dongheng information Consulting Service Company Limited, 4,742,863 and 486,044 Shares to eligible A Shareholders for their participation in the share reform. Pursuant to the Share Reform Proposal, Shunde Economic Consultancy Company and Foshan City Shunde Dongheng information Consulting Service Company Limited must repay such borrowed shares to Hisense Air-conditioning or otherwise obtain its consent before the shares held by Shunde Economic Consultancy Company and Foshan City Shunde Dongheng information Consulting Service Company Limited can be listed and transferred.
- (2) Pursuant to the Share Reform Proposal, Hisense Air-conditioning has undertaken to make a donation of 9,725,050 A Shares under certain circumstances, including the circumstance where the acquisition under the Acquisition cannot be completed by 28 March 2008.

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	Hua Yi Compressor Company Limited	30%
Foshan Shunde Rongsheng Plastic Products Co., Ltd	Hua Yi Compressor Company Limited	30%
Guangdong Huaao Electrical Electronics Co., Ltd.	Foshan City Shunde District Yun Long Enquiry Service Company Limited	30%
Hisense Ronshen (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
Hua Yi Compressor Company Limited	Sichuan Hanghong Electric Co., Ltd	29.92%
	A-Share public shareholders	49.05%
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%
Sichuan Rongsheng Kelon Refrigerator Sales Co., Ltd.	Xu Wei Ru	24%
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 Fuisha Province Shunhang Industry 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 2006, 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	Hisense Group or its Subsidiaries	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	Hisense Group or its Subsidiaries	Production of air-conditioning/ electrical products	Director and/or senior management
Mr. Yang Yun Duo	Hisense Group or its Subsidiaries	Production of air-conditioning/ electrical products	Director and/or senior management
Mr. Wang Shi Lei	Hisense Group or its Subsidiaries	Production of air-conditioning/ electrical products	Director and/or senior management
Mr. Lin Lan	Hisense Group or its Subsidiaries	Production of air-conditioning/ electrical products	Director and/or senior management
Ms. Liu Chun Xin	The Subsidiaries of Hisense Group	Sales and marketing operations of home appliances	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. EXPERT

- (a) The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

Name	Qualifications
Access Capital	a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO

- (b) Access Capital does not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Access Capital does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Company were made up.
- (d) Access Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (e) The letter and recommendation given by Access Capital are given as of the date of this circular for incorporation herein.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at Room 3104-06, Singa Commercial Centre, No. 148 Connaught Road West Hong Kong from 9:30 a.m. to 6:00 p.m. on any weekday (except public holiday) from the date of this circular up to and including 10 February 2008:

- (a) Compressors Purchase and Supply Framework Agreement; and
- (b) Business Co-operation Framework Agreement.



HISENSE KELON ELECTRICAL HOLDINGS COMPANY LIMITED

海信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)

SUPPLEMENTAL NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Hisense Kelon Electrical Holdings Company Limited (the “Company”) received a written request from Qingdao Hisense Air-Conditioning Co., Ltd, which holds 238,872,094 domestic shares of the Company, being approximately 24.08% of the total issued shares capital of the Company, on 25 January 2008 requesting that additional resolutions (specified as ordinary resolutions 6 to 9 below) shall be tabled before the forthcoming extraordinary general meeting (the “EGM”) of the Company for shareholders’ consideration and approval.

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the EGM of the Company will be held as originally scheduled at the conference room of the Company’s head office, Shunde District, Foshan City, Guangdong Province, the People’s Republic of China (the “PRC”) on 15 February 2008 at 2:00 p.m. to review and, if thought fit, pass the following resolutions in addition to the resolutions set out in the previous notice of the EGM dated 28 December 2008:

ORDINARY RESOLUTIONS

6. To consider and approve the loan guarantees to be provided by the Company in the total sum up to RMB1.451 billion to the subsidiaries of the Company in respect of the grant of general credit facilities for the year ended 2008 (Note 2).
7. To consider and approve the loan guarantees to be provided by the Company in the total sum up to RMB0.442 billion to the distributors of the Company for the year ended 2008 (Note 2).
8. To consider and approve the Business Co-operation Framework Agreement dated 7 January 2008 entered into between the Company, Hisense Group Company and certain of its subsidiaries and the continuing connected transactions contemplated thereunder.
9. To consider and approve the Compressors Purchase and Supply Framework Agreement dated 7 January 2008 entered into between the Company, Huayi Compressor Company Limited and its relevant subsidiaries and the continuing connected transactions contemplated thereunder.

SUSPENSION OF TRADING IN THE H SHARES

At the request of the Company, trading in the H Shares of the Company was suspended from 28 April 2005 to 10 May 2005, and has remained suspended since 10:00 a.m. on 16 June 2005, initially following various press releases regarding the investigation by the China Securities and Regulatory Commission on Greencool Technology Holdings Limited in connection with the possible misappropriation of funds of the Company. Greencool Technology Holdings Limited was then an indirect shareholder of the Company controlled by Mr. Gu Chu Jun, who was the then executive director and chairman of the Company and the controlling shareholder of Guangdong Greencool Enterprise Development Company Limited, the then single largest shareholder of the Company.

The Company is currently reviewing the relevant documents in relation to the suspension of H Shares, the events leading to such suspension and the actions taken by the Company and will submit a resumption proposal to the Stock Exchange as soon as practicable.

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

Foshan City, Guangdong, the PRC, 28 January 2008

As at the date of this circular, 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 Ms. Liu Chun Xin; and the Company's independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren.

Notes:

- (1) Apart from adding the above four resolutions, all other matters relating to the EGM shall remain unchanged. Please refer to the notice dated 31 December 2007 published on the websites of The Stock Exchange of Hong Kong Limited and the Company respectively for details.
- (2) For details of resolution numbered 6 to 7, please refer to the announcement dated 7 January 2008 published on the websites of The Stock Exchange of Hong Kong Limited and the Company respectively.