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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** about this circular, you should obtain independent professional advice.

**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: 00921)**

## **CONTINUING CONNECTED TRANSACTIONS**

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

**Access**   
**Capital**

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A letter from the Board is set out from pages 4 to 46 of this circular. A letter from the Independent Board Committee is set out on pages 47 to 48 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 49 to 97 of this circular.

The Supplemental notice of the EGM will be dispatched to the Shareholders as soon as practicable.

4 March 2009

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	4
<b>Letter from the Independent Board Committee</b> .....	47
<b>Letter from Access Capital</b> .....	49
<b>Appendix I: General Information</b> .....	98

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## DEFINITIONS

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*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 under the SFO, being 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
- “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 12 February 2009 in relation to the sale and purchase of refrigerators, air-conditioners, raw materials, moulds, the sale of freezers, home appliances and parts and components for refrigerators, air-conditioners and freezers and the provision of after-sale maintenance, repair, internet 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
- “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 dated 12 February 2009 in connection with the purchase and supply of compressors

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## DEFINITIONS

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“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 25 March 2009 for the approval of the transactions under the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement
“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 Group”	Hisense Group Company, a limited company incorporated in the PRC
“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
“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 Shareholders”	Shareholders other than those who are required under the Listing Rules to abstain from voting on the resolution to be proposed at the EGM to approve the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement and the transactions contemplated thereunder
“Independent Third Parties”	Third parties independent of and not connected with the Company and its connected persons, as defined in the Listing Rules, of the Company

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## DEFINITIONS

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“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”	2 March 2009, 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
“PRC”	the People’s Republic of China
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Ronshen Plastic”	Shunde Ronshen 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
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares
“Shareholder(s)”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary” or “Subsidiaries”	has the meaning defined in sections 2 and 2B of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong)
“%”	per cent.

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LETTER FROM THE BOARD

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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: 00921)**

*Directors:*

Mr. Tang Ye Guo  
Mr. Zhou Xiao Tian  
Ms. Yu Shu Min  
Mr. Lin Lan  
Ms. Liu Chun Xin  
Mr. Zhang Ming

*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  
Singa Commercial Centre  
No. 148 Connaught Road West  
Hong Kong

4 March 2009

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

**(A) Compressors Purchase and Supply Framework Agreement**

The Board announces that on 12 February 2009, the Company entered into the Compressors Purchase and Supply Framework Agreement with Huayi Compressor for a term of one year ending on 31 December 2009 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.

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## LETTER FROM THE BOARD

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### **(B) Business Co-operation Framework Agreement**

The Board announces that on 12 February 2009, the Company entered into the Business Co-operation Framework Agreement with certain Subsidiaries of Hisense Group for a term of one year ending on 31 December 2009 in relation to the sale and purchase of refrigerators, air-conditioners, raw materials, moulds, the sale of freezers, home appliances and parts and components for refrigerators, air-conditioners and freezers and the provision of after-sale maintenance, repair and consultation services, electronic communication services and property management services.

### **CONTINUING CONNECTED TRANSACTIONS**

#### **Compressors Purchase and Supply Framework Agreement**

As at the Latest Practicable Date, Huayi Compressor is the substantial Shareholder of 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. 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 is 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 25.22% 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.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with details of the Compressors Purchase and Supply Framework Agreement and 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 Business Co-operation Framework Agreement.

### **(A) Compressors Purchase and Supply Framework Agreement**

#### ***Date and Parties***

Date: 12 February 2009

#### ***Parties***

- (i) The Company (as purchaser); and
- (ii) Huayi Compressor (as supplier).

#### ***Term***

The Compressors Purchase and Supply Framework Agreement is valid for a term of one year commencing from 1 January 2009 to 31 December 2009, 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.

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## LETTER FROM THE BOARD

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### *Purchase of Compressors*

Pursuant to the terms of the Compressors Purchase and Supply Framework Agreement, the Company agreed that it and/or its relevant Subsidiaries shall purchase on a non-exclusive basis such quantities of compressors as they may require from time to time from Huayi Compressor and/or its Subsidiaries (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 Company and/or its Subsidiaries have the right to purchase compressors from suppliers other than Huayi Compressor and/or its Subsidiaries from time to time according to their own needs. The Compressors Purchase and Supply Framework Agreement does not restrict the rights of Huayi Compressor and/or its Subsidiaries (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 Company and/or its Subsidiaries within 60 days from delivery of the compressors.

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## LETTER FROM THE BOARD

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### *Historical Figures*

The Company and/or its Subsidiaries have conducted similar transactions with Huayi Compressor and/or its Subsidiaries in the past. Details of such historical transaction amount is set out below:

<b>Annual cap for the purchase of compressors with Huayi Compressor and/or its Subsidiaries for the year ended 31 December 2008</b> <i>(RMB)</i>	<b>Transaction amount for the purchase of compressors with Huayi Compressor and/or its Subsidiaries for the eleven months ended 30 November 2008</b> <i>(RMB)</i>
581,710,000	259,465,000 (unaudited)

### *Maximum Aggregate Annual Caps*

The transactions contemplated by the Compressors Purchase and Supply Framework Agreement for the year ending 31 December 2009 are subject to the annual cap set out in the table below:

For the year ending 31 December 2009	RMB453,658,690 (inclusive of value-added tax)
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The above annual cap was determined with reference to (a) similar transactions between the Company and/or its Subsidiaries with Huayi Compressor and/or its Subsidiaries in the past; (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC; and (c) the business development plan of the Company relating to the production and sales level of refrigerators and air-conditioners in 2009.

The cap amount for the purchase of compressors for the year ending 31 December 2009 is substantially higher than its historical transaction amount for the year ended 31 December 2008. The reasons for such an increase are set out as follows:

- (1) As a result of the adoption of the “Home Appliances Subsidy Policy for Rural Villages (家電下鄉政策)” by the government of the PRC to improve the living standard of rural population through subsidising the purchase of home appliances in certain rural areas, the Company expects that its sale of refrigerators and air-conditioners will increase. Therefore, the Company anticipates its purchase of compressors, which are components of refrigerators and air-conditioners, will also increase in 2009.

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## LETTER FROM THE BOARD

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- (2) In order to improve the competitiveness of the home appliances produced by the Company and lower its costs of production, the Company plans to increase its purchase of compressors from Huayi Compressor and/or its Subsidiaries so that its bargaining power to negotiate the costs of purchasing compressors from Huayi Compressor and/or its Subsidiaries will increase.

### **REASONS FOR AND BENEFITS OF THE COMPRESSORS PURCHASE AND SUPPLY FRAMEWORK AGREEMENT**

The Company and/or its Subsidiaries 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 and/or its Subsidiaries 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 and/or its Subsidiaries, the Group considers that Huayi Compressor and/or its Subsidiaries are in a good position to supply compressors to the Group.

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*

12 February 2009

##### *Parties*

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

##### *Term*

The Business Co-operation Framework Agreement is valid for a term of one year commencing from 1 January 2009 to 31 December 2009, which can be terminated before its expiration by mutual agreement of the parties.

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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### 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 is determined according to the payment terms agreed between the parties as set out in the individual mould purchase orders.

Prior to the delivery of the moulds, if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

### 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.

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## LETTER FROM THE BOARD

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### Historical Figures

The relevant Subsidiary of the Company has conducted similar transactions with the relevant Subsidiaries of Hisense Group in the past. Details of such historical transaction amount is set out below:

<b>Annual cap for the sale and supply of moulds with the relevant Subsidiaries of Hisense Group for the year ended 31 December 2008</b> <i>(RMB)</i>	<b>Transaction amount for the sale and supply of moulds with the relevant Subsidiaries of Hisense Group for the eleven months ended 30 November 2008</b> <i>(RMB)</i>
47,500,000	10,192,000 (unaudited)

### Maximum Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement for the year ending 31 December 2009 regarding the sale and supply of moulds are subject to the annual cap set out below:

For the year ending 31 December 2009	RMB17,000,000 (inclusive of value-added tax)
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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 relating to the demand for electrical appliances in the PRC; and (c) the business plan of the Hisense Group to develop new products in 2009 which may require moulds as components of such products.

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## LETTER FROM THE BOARD

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### (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.

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.

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## LETTER FROM THE BOARD

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

The 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 or its Subsidiary/0.95 (Note)

*Note:* 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.

Prior to the delivery of the air-conditioners, if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

### 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 or its Subsidiaries to the relevant Subsidiary of Hisense Group will increase the sales and revenues of the Group.

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## LETTER FROM THE BOARD

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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 of air-conditioners by the Company or its Subsidiaries to the relevant Subsidiary of Hisense Group can help to lower the fixed costs per unit of product incurred by the Company or 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. Details of such historical transaction amount is set out below:

<b>Annual cap for the sale and supply of air-conditioners with the relevant Subsidiary of Hisense Group for the year ended 31 December 2008</b> <i>(RMB)</i>	<b>Transaction amount for the sale and supply of air-conditioners with the relevant Subsidiary of Hisense Group for the eleven months ended 30 November 2008</b> <i>(RMB)</i>
120,000,000	82,957,000 (unaudited)

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## LETTER FROM THE BOARD

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### Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement for the term of the agreement are subject to the annual cap set out below:

For the year ending 31 December 2009 RMB80,000,000  
(inclusive of value-added tax)

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 2009.

### (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.

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## LETTER FROM THE BOARD

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### 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.

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 selling price of individual refrigerator sold by the Company or 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) to be 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 (Note)

*Note:* 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 or its Subsidiaries.

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## LETTER FROM THE BOARD

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### 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.

Prior to the delivery of the refrigerators, if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

### 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 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.

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## LETTER FROM THE BOARD

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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 in the past. Details of such historical transaction amount is set out below:

<b>Annual Cap for the sale and supply of refrigerators with the relevant Subsidiary of Hisense Group for the year ended 31 December 2008</b> <i>(RMB)</i>	<b>Transaction amount for the sale and supply of refrigerators with the relevant Subsidiary of Hisense Group for the eleven months ended 30 November 2008</b> <i>(RMB)</i>
250,000,000	169,557,000 (unaudited)

### 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 2009 are subject to the annual cap set out below:

For the year ending 31 December 2009	RMB387,920,000 (inclusive of value-added tax)
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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 2009.

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## LETTER FROM THE BOARD

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The cap amount for the sale and supply of refrigerators for the year ending 31 December 2009 is substantially higher than its historical transaction amount for the year ended 31 December 2008. The reasons for such an increase is due to the adoption of the “Home Appliances Subsidy Policy for Rural Villages (家電下鄉政策)” by the government of the PRC to improve the living standard of rural population through subsidising the purchase of home appliances in certain rural areas, the Company therefore expects that its sale of refrigerators to the relevant Subsidiary of Hisense Group will increase in 2009.

(4) *Sale and Supply of Raw Materials, Components and Facilities*

Pursuant to the Business Co-operation Framework Agreement, the Company has agreed that the relevant Subsidiaries of the Company shall (i) 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, facilities 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; and (ii) act as the agent of the relevant Subsidiaries of Hisense Group for the purchase of raw materials from other third parties for the production of refrigerators and air-conditioners. 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, components of refrigerators, air-conditioners and televisions and facilities 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 and facilities to any other third parties.

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## LETTER FROM THE BOARD

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### Pricing

- (i) 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.
- (ii) Pricing for the sale and supply of facilities is determined principally by arm's length commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the net book value of such facilities. Such transactions will be conducted on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.
- (iii) Pricing for the sale and supply of raw materials by acting as the agent of the relevant Subsidiaries of Hisense Group 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. The price for such raw materials is agreed as:

Price of raw materials (per tonne) = the cost for the purchase of raw materials by the Company from other third parties (per tonne) + administration fee of RMB50

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

### Payment Term

Payment for the purchase of raw-materials, components and facilities 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, facilities and components.

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## LETTER FROM THE BOARD

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Prior to the delivery of the raw-materials and components and facilities if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

### Reasons for and Benefits of the Sale and Supply of Raw Materials, Components and Facilities

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 circular). 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. The sale and supply of facilities by the relevant Subsidiaries of the Company to the relevant Subsidiaries of Hisense Group can facilitate its production of refrigerators and air-conditioners for its sale to the Company. 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 sale and supply 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 increase the revenues of the Company.

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.

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## LETTER FROM THE BOARD

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### Historical Figures

The relevant Subsidiaries of the Company have conducted similar transactions with the relevant Subsidiaries of Hisense Group in the past. Details of such historical transaction amount is set out below:

<b>Annual cap for the sale and supply of raw materials and components with the relevant Subsidiaries of Hisense Group for the year ended 31 December 2008</b> <i>(RMB)</i>	<b>Transaction amount for the sale and supply of raw materials and components with the relevant Subsidiaries of Hisense Group for the eleven months ended 30 November 2008</b> <i>(RMB)</i>
125,300,000	20,873,000 (unaudited)

### 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 2009 are subject to the annual cap set out below:

For the year ending 31 December 2009	RMB227,600,000 (inclusive of value-added tax)
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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 relating to the demand for electrical appliances, including televisions, air-conditioners and refrigerators, in the PRC.

The cap amount for the sale and supply of raw materials, components and facilities for the year ending 31 December 2009 is substantially higher than its historical transaction amount for the year ended 31 December 2008. The reasons for such an increase are set out as follows:

- (1) As result of the adoption of the “Home Appliances Subsidy Policy for Rural Villages (家電下鄉政策)” by the government of the PRC to improve the living standard of rural population through subsidising the purchase of home appliances in certain rural areas, the Company expects

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## LETTER FROM THE BOARD

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that its purchase of refrigerators and air-conditioners from the relevant Subsidiaries of Hisense Group under the Business Co-operation Framework Agreement will increase in 2009 and therefore the sale of raw materials, components and facilities by the Company to the relevant Subsidiary of Hisense Group to facilitate such production will increase correspondingly.

- (2) Further, as a result of the improvement of quality of the electrical machinery to be produced by the Company in 2009, the Company anticipates that the relevant Subsidiaries of Hisense Group will increase its purchase of electrical machinery from the Company.
  - (3) The Company agreed to act as the agent of the relevant Subsidiaries of Hisense Group for the purchase of raw materials from other third parties for the production of refrigerators and air-conditioners in 2009. However, such transactions were not conducted in 2008.
- (5) *Sale and Supply of Home Appliances and Parts and Components*

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 home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers to the relevant Subsidiary of Hisense Group may require from time to time for export sale purpose.

The relevant parties agreed to enter into individual home appliances 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 home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers 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 home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers to other companies other than the relevant Subsidiary of Hisense Group.

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## LETTER FROM THE BOARD

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### Pricing

- (i) The pricing for the supply of home appliances, including air-conditioners, refrigerators and freezers 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 home appliances, including air-conditioners, refrigerators and freezers from time to time and the gross profit margin for overseas sale of home appliances, including air-conditioners and refrigerators, made by the Company in the past. 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 home appliances to be sold by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group is determined according to the following standard:

The price of home appliances to be sold by the relevant Subsidiary of the Company to the relevant Subsidiary of Hisense Group = the production cost of such home appliances/(1 – the gross profit margin for the sale of such category of home appliances by the Company in 2008)

- (ii) The pricing for the supply of parts and components for air-conditioners, refrigerators and freezers 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 freezers 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 home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers should be made by the relevant Subsidiary of Hisense Group within 60 days from delivery of such home appliances and components.

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## LETTER FROM THE BOARD

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Prior to the delivery of the home appliances and parts and components, if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

### Reasons for and Benefits of the Sale and Supply of Home Appliances and Parts and Components

The sales of home appliances and parts and components to the relevant Subsidiary of Hisense Group for export sale purpose can increase the revenue of the Company, globalize its sales networks and improve its profit margins.

In light of the above, the Directors are of the view that the terms of the sale and supply of home appliances, including air-conditioners and refrigerators, and parts and components 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. Details of such historical transaction amount is set out below:

<b>Annual cap for the sale and supply of Home Appliances and Parts and Components with the relevant Subsidiary of Hisense Group for the year ended 31 December 2008</b> <i>(RMB)</i>	<b>Transaction amount for the sale and supply of Home Appliances and Parts and Components with the relevant Subsidiary of Hisense Group for the eleven months ended 30 November 2008</b> <i>(RMB)</i>
406,500,000	45,923,543 <i>(Note)</i> (unaudited)

*Note:* Such transactions only commenced since about October 2008 as they were only approved by the Independent Shareholders of the Company in the general meeting held on 25 June 2008.

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## LETTER FROM THE BOARD

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### Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the sale and supply of home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers, for the year ending 31 December 2009 are subject to the annual cap set out below:

For the year ending 31 December 2009	RMB346,600,000 (inclusive of value-added tax)
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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 home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers in the overseas market for the year ending 31 December 2009.

#### (6) *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.

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## LETTER FROM THE BOARD

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### 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.

Prior to the provision of the property management, sanitary and security services, if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

### 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.

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, the Directors are of the view that the terms of the provision of property management, sanitary and security services under the Business Co-operation Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Historical Figures

The relevant Subsidiary of the Company has conducted similar transactions with the relevant Subsidiary of Hisense Group in the past. Details of such historical transaction amount is set out below:

<b>Annual cap for the provision of the property management, sanitary and security services with the relevant Subsidiary of Hisense Group for the year ended 31 December 2008</b>	<b>Transaction amount for the provision of the property management, sanitary and security services with the relevant Subsidiary of Hisense Group for the eleven months ended 30 November 2008</b>
<i>(RMB)</i>	<i>(RMB)</i>
500,000	403,000 (unaudited)

### 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 2009 are subject to the annual cap set out below:

For the year ending 31 December 2009 RMB1,880,000  
(inclusive of value-added tax)

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; (b) the prevailing market conditions for the demand of the provision of property management, sanitary and security services; and (c) the anticipated increase in demand for property management, sanitary and security services from the relevant Subsidiaries of Hisense Group due to the satisfactory cooperation relationship between the parties in the past.

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## LETTER FROM THE BOARD

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(7) *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 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:

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## LETTER FROM THE BOARD

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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 (Note)

*Note:* 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.

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.

Prior to the delivery of the air-conditioners, if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

### 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.

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## LETTER FROM THE BOARD

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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 and responsiveness of the air-conditioners of the relevant Subsidiary of the Company 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 relevant Subsidiaries of Hisense Group, improving the responsiveness of the Company to changes in the market conditions as well as changes in climate and thus preventing 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 Subsidiary of Hisense Group in the past. Details of such historical transaction amount is set out below:

<b>Annual cap for the purchase of air-conditioners from the relevant Subsidiary of Hisense Group for the year ended 31 December 2008</b> <i>(RMB)</i>	<b>Transaction amount for the purchase of air-conditioners from the relevant Subsidiary of Hisense Group for the eleven months ended 30 November 2008</b> <i>(RMB)</i>
960,000,000	598,742,000 (unaudited)

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## LETTER FROM THE BOARD

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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 2009 are subject to the annual cap set out below:

For the year ending 31 December 2009 RMB480,000,000  
(inclusive of value-added tax)

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 level of production and sale of air-conditioners of the relevant Subsidiary of the Company for the year ending 31 December 2009.

(8) *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.

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## LETTER FROM THE BOARD

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### 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)

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 (Note)

*Note:* 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.

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## LETTER FROM THE BOARD

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Prior to the delivery of the refrigerators, if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

### 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 and responsiveness of the refrigerators of the Company for its sales 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 relevant Subsidiaries of Hisense Group will reduce the time of transportation between Shunde, Guangdong and the location of the relevant Subsidiaries of Hisense Group, improving the responsiveness of the Company to changes in the market and preventing 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 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.

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## LETTER FROM THE BOARD

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### Historical Figures

The relevant Subsidiary of the Company has conducted similar transactions with the relevant Subsidiary of Hisense Group in the past. Details of such historical transaction amount is set out below:

<b>Annual cap for the purchase of refrigerators from the relevant Subsidiary of Hisense Group for the year ended 31 December 2008</b> <i>(RMB)</i>	<b>Transaction amounts for the purchase of refrigerators from the relevant Subsidiary of Hisense Group for the eleven months ended 30 November 2008</b> <i>(RMB)</i>
365,000,000	304,054,000 (unaudited)

### Maximum Aggregate Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement regarding the purchase of refrigerators for the year ending 31 December 2009 are subject to the annual cap set out below:

For the year ending 31 December 2009 RMB400,000,000

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 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 2009.

The cap amount for the purchase of refrigerators for the year ending 31 December 2009 is higher than its historical transaction amount for the year ended 31 December 2008, 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. Further, as a result of the adoption of the “Home Appliances Subsidy Policy for Rural Villages

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## LETTER FROM THE BOARD

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(家電下鄉政策)” by the government of the PRC to improve the living standard of rural population through subsidising the purchase of home appliances in certain rural areas, the Company therefore expects that its sale of refrigerators will increase in 2009 so that it plans to increase its purchase of refrigerators from the relevant Subsidiary of Hisense Group to cope with such expected increase in sale.

(9) *Purchase of Raw Materials, Components and Facilities*

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), facilities, and refrigerators’ and air-conditioners’ components (which models and nature are different from the models and nature of facilities, 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 facilities, 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 facilities, raw materials and refrigerators’ and air-conditioners’ components to any other third parties.

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## LETTER FROM THE BOARD

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### Pricing

- (i) 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.
- (ii) Pricing for the purchase of facilities is determined principally by arm's length commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the net book value of such facilities. Such transactions will be conducted 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 facilities 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 facilities.

Prior to the delivery of the raw materials, components and facilities, if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

### Reasons for and Benefits of the Purchase of Raw Materials, Components and Facilities

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.

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## LETTER FROM THE BOARD

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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 raw materials, facilities and refrigerators' and air-conditioners' components for the production of refrigerators and air-conditioners for its sale to the relevant Subsidiaries of Hisense Group.

The purchase of raw materials components and facilities 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. The purchase of facilities by the relevant Subsidiaries of the Company from the relevant Subsidiaries of Hisense Group can facilitate the Company's production of refrigerators and air-conditioners for its sale to the relevant Subsidiaries of Hisense Group.

In light of the above, the Directors are of the view that the terms of the purchase of raw materials, facilities 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 Subsidiary of the Company has conducted similar transactions with the relevant Subsidiary of Hisense Group in the past. Details of such historical transaction amount is set out below:

**Annual Cap for the purchase of raw materials and components of refrigerators and air-conditioners from the relevant Subsidiary of Hisense Group for the year ended 31 December 2008**

*(RMB)*

46,100,000

**Transaction amount for the purchase of raw materials and components of refrigerators and air-conditioners from the relevant Subsidiary of Hisense Group for the eleven months ended 30 November 2008**

*(RMB)*

5,565,000  
(unaudited)

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## LETTER FROM THE BOARD

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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 facilities for the year ending 31 December 2009 are subject to the annual cap set out below:

For the year ending 31 December 2009 RMB59,840,000

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 refrigerators by the relevant Subsidiaries of the Company to the relevant Subsidiaries of Hisense Group for the year ending 31 December 2009 and in turn the relevant Subsidiaries of the Company have to increase their purchases of raw-materials facilities 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 facilities for the year ending 31 December 2009 is higher than its historical transaction amount for the year ended 31 December 2008 as the Company anticipates that the relevant Subsidiaries of Company will increase their purchases of raw materials, components and facilities from the relevant Subsidiaries of Hisense Group for the year ending 31 December 2009 in view of the satisfactory co-operation relationship established between the parties in the past. Further, as a result of the adoption of the “Home Appliances Subsidy Policy for Rural Villages (家電下鄉政策)” by the government of the PRC to improve the living standard of rural population through subsidising the purchase of home appliances in certain rural areas, the Company expects that its sale of refrigerators and air-conditioners will increase. Therefore, the Company anticipates its purchase of raw materials, components and facilities, which are components of refrigerators and air-conditioners, from the relevant Subsidiaries of Hisense Group will also increase in 2009.

#### *(10) 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

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## LETTER FROM THE BOARD

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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.

Prior to the provision of services, if either party has made any prepayment to the other party, the receiving party shall pay the interest thereon accrued during the term of such prepayment based on the prevailing lending rate published by the People's Bank of China.

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## LETTER FROM THE BOARD

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### 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.

In light of the above, the Directors 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 Subsidiary of Hisense Group in the past. Details of such historical transaction amount is set out below:

<b>Annual cap for the provision of services by the relevant Subsidiary of Hisense Group for the year ended 31 December 2008</b> <i>(RMB)</i>	<b>Transaction amount for the provision of services by the relevant Subsidiary of Hisense Group for the eleven months ended 30 November 2008</b> <i>(RMB)</i>
42,000,000	7,738,531 (unaudited)

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## LETTER FROM THE BOARD

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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 2009 are subject to the annual cap set out below:

For the year ending 31 December 2009	RMB22,500,000 (inclusive of value-added tax)
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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 level of production and sale of electrical appliances of the relevant Subsidiary of the Company for the year ending 31 December 2009.

The cap amount for the provision of services for the year ending 31 December 2009 is substantially higher than its historical transaction amount for the year ended 31 December 2008. The reason for such an increase is due to the adoption of the “Home Appliances Subsidy Policy for Rural Villages (家電下鄉政策)” by the government of the PRC to improve the living standard of rural population through subsidising the purchase of home appliances in certain rural areas, the Company therefore expects that its sale of electrical appliances will increase in 2009. In the circumstances, the Company plans to increase its engagement of the relevant Subsidiary of Hisense Group to provide after-sale maintenance, repair and consultation services to the customers of the Group to cope with such expected increase in sale.

### 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. Liu Ti Bin. 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.

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## LETTER FROM THE BOARD

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### 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.

### LISTING RULES IMPLICATIONS

#### **Compressors Purchase and Supply Framework Agreement**

As at the Latest Practicable Date, Huayi Compressor is a substantial Shareholder of 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. 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 is 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 25.22 % 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)

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## LETTER FROM THE BOARD

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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.

### 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 will be dispatched to the Shareholders as soon as practicable.

Pursuant to Rule 13.39(4) of the Listing Rules, the votes of Independent Shareholders taken at the EGM for the approval of the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement and the transactions contemplated thereunder must be taken on poll.

Since Hisense Air-Conditioning is a Shareholder of the Company holding 25.22% of the issued share capital of the Company, it and its Associates have to be abstained from voting in relation to the approval of the Business Co-operation Framework Agreement and the transactions contemplated thereunder.

In accordance with article 8.28 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

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## LETTER FROM THE BOARD

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(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 47 to 48 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 49 to 97 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.

### ADDITIONAL INFORMATION

Your attention is drawn to the general information of the Group as well as other information contained in the appendices to this circular before considering whether to vote for or against the resolution to be proposed at the EGM for approving the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement as set out in the supplemental notice of the EGM.

Yours faithfully,  
By Order of the Board of  
**Hisense Kelon Electrical Holdings Company Limited**  
**Tang Ye Guo**  
*Chairman*

**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: 00921)**

4 March 2009

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular issued by the Company to Shareholders dated 4 March 2009 (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 the Compressors Purchase and Supply Framework Agreement and the Business Co-operation Framework Agreement and the Business Co-operation Framework Agreement constitutes 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, its terms and its annual cap 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 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 the annual cap for the transactions set out thereunder are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions 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**

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## LETTER FROM ACCESS CAPITAL

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*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.*



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

4 March 2009

*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 4 March 2009 (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 12 February 2009, the Board announced that the Company entered into the Framework Agreements respectively with Huayi Compressor and certain Subsidiaries of Hisense Group on the same day (details of the Framework Agreements are stated in the section headed “Terms of the Framework Agreements” below).

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## LETTER FROM ACCESS CAPITAL

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As at the date of the Framework Agreements and the Latest Practicable Date, Huayi Compressor is the substantial shareholder of 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. 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.

As at the date of the Framework Agreements and the Latest Practicable Date, Hisense Air-conditioning is a substantial shareholder of the Company, holding approximately 25.22% 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 are 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.

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 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.

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## LETTER FROM ACCESS CAPITAL

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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.

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## LETTER FROM ACCESS CAPITAL

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### 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 2007 (the "2007 Annual Report") and interim report for the six months ended 30 June 2008 (the "2008 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 2007 and the six months ended 30 June 2008, approximately 61.0% and 63.4%, 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.

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## LETTER FROM ACCESS CAPITAL

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Set out below is a summary of the Group's operating results and financial position extracted from the 2007 Annual Report and the 2008 Interim Report:—

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>		<b>six months</b>
	<b>2006</b>	<b>2007</b>	<b>ended</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<b>30 June</b>
	(Audited and restated)	(Audited)	<b>2008</b>
			<i>RMB'000</i>
			(Unaudited)
Turnover			
— Sales of refrigerators	3,327,896	4,324,808	2,321,288
— Sales of air-conditioners	2,533,360	3,214,875	2,199,985
— Sales of freezers	231,972	324,821	276,516
— Sales of product components	471,029	455,456	249,131
	<u>6,564,257</u>	<u>8,319,960</u>	<u>5,046,920</u>
Gross profit	1,089,472	1,377,171	867,781
Other income and gains	409,305	570,905	107,154
Distribution costs	(869,207)	(1,126,269)	(646,108)
Administrative expenses	(390,978)	(397,500)	(209,938)
Other operating expenses	(56,815)	(133,500)	(5,955)
Profit from operations	181,777	290,807	112,934
Profit for the year/period	49,249	203,657	62,625

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**LETTER FROM ACCESS CAPITAL**

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	<b>As at 31 December</b>		<b>As at</b>
	<b>2006</b>	<b>2007</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited and restated)	(Audited)	(Unaudited)
Non-current assets	2,237,643	1,990,117	1,979,900
Non-current assets held for sale	—	20,369	—
Current assets	2,430,901	2,404,085	2,890,084
Current liabilities	(5,382,881)	(5,044,345)	(5,430,458)
Non-current liabilities	(13,594)	—	—
Net current liabilities	(2,951,980)	(2,640,260)	(2,540,374)
Total net liabilities	(727,931)	(629,774)	(560,474)

We have noted from the Company's annual report for 2006 (the "2006 Annual Report") that the Company's auditors (the "Auditors"), BDO McCabe Lo Limited, had 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 Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), which is the previous controlling shareholder of the Company, its affiliates and/or companies suspected to be connected with Mr. Gu Chu Jun ("Mr. Gu"), who is a former executive Director and the former chairman of the Company, 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

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## LETTER FROM ACCESS CAPITAL

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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 the year ended 31 December 2006, the Group recorded a turnover of approximately RMB6,564.3 million and a net profit of approximately RMB49.2 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, 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 in the 2006 Annual Report, despite 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 and other former senior management officers responsible for the finance of the Group, 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.

As for the year ended 31 December 2007, 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 Mr. Gu during the period from October 2001 to July 2005 and 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 as mentioned in the 2006 Annual Report, the Auditors had also expressed a qualified opinion on the financial statements of the Company and its Subsidiaries for the year ended 31 December 2007 arising from limitation of audit scope.

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## LETTER FROM ACCESS CAPITAL

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For the year ended 31 December 2007, the Group recorded a turnover of approximately RMB8,320.0 million, representing an increase of approximately 26.7% from the preceding year's turnover of approximately RMB6,564.3 million. For the same period, the Group recorded a net profit of approximately RMB203.7 million, which represents a significant improvement over the net profit of approximately RMB49.2 million for the financial year 2006. As explained in the 2007 Annual Report and further advised by the Company, while 2007 had been a challenging year for PRC home appliance manufacturers there were significant increase in the prices of energy and raw materials around the world; worsening of financing environment under stringent domestic credit and increased financing costs; continued rapid appreciation of RMB; and increased costs of sea freight and non-tariff barriers, the improvement in the Group's profitability was mainly attributable to the overall growth of the PRC economy and the industry, increase in idle assets disposal and revitalised revenues, as well as to the operation quality enhancement measures adopted by the Company during the year.

Nevertheless, as set out in the 2007 Annual Report, despite the considerable improvement as compared to the previous years, the growth of the revenues for the Group's air-conditioner business was still below the planned objectives and economies of scale was not achieved. In addition, as the Company aimed at enhancing its brand image and reputation, it had significantly increased the advertising and brand promotion expenses during the year, which resulting in the increase in sales expense exceeded the increase in revenues. Some production bases of the Group were still out of production and in a state of sustained loss due to the prolonged suspension in the past. In summary, 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 financial year 2007.

For the six months ended 30 June 2008, while the Group's unaudited turnover of approximately RMB5,046.9 million represents a slight increase of approximately 4.0% from the unaudited turnover of approximately RMB4,854.0 million for the corresponding period in 2007, its unaudited profit from operations of approximately RMB112.9 million represents a substantial decrease of approximately 22.1% from the unaudited profit from operations of approximately RMB145.0 million for the corresponding period in 2007. For the six months ended 30 June 2008, the Group recorded an unaudited net profit of approximately RMB62.6 million, representing a decrease of approximately 32.2% from the unaudited net profit of approximately RMB96.6 million for the six months ended 30 June 2007. As noted in the 2008 Interim Report, the decrease in the operating profit and net profit for the six months ended 30 June 2008 as compared to the corresponding period in 2007 was mainly due to the fact that the other income

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## LETTER FROM ACCESS CAPITAL

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and gains recorded by the Group for the six months ended 30 June 2008 were approximately RMB107.2 million, which amounted to only about half of the other income and gains of approximately RMB203.3 million recorded by the Group for the corresponding period in 2007.

As set out in the 2008 Interim Report, during the six months ended 30 June 2008, the macro-economic environment became more challenging to domestic enterprises in view of continued appreciation of Renminbi and the increasing capital pressure and climbing financing costs resulting from the contractionary monetary policy adopted by the PRC Government to tame inflation. Against the background of shuttling energy and raw materials prices, consumer price index and producer price index remained obstinately high, and the market of refrigerating products, particularly the air-conditioner sector, was subject to unprecedented challenges, posting a significant year-on-year downturn for the industry. During the first half of 2008, the business conditions for enterprises both in the domestic market and the international market grew bleak. Under the influence of the aforesaid factors, the Company has experienced significantly higher operating pressure as compared to the previous reporting period.

As at 30 June 2008, the Group had unaudited total current assets of approximately RMB2,890.1 million and unaudited total current liabilities of approximately RMB5,430.5 million, representing net current liabilities of approximately RMB2,540.4 million. As at 30 June 2008, the Group had outstanding bank loans of approximately RMB969.9 million and its unaudited total net liabilities amounted to approximately RMB560.5 million.

For further details of the Auditors' opinion on the Company's financial statements and its latest financial position, Shareholders are advised to read the respective annual reports and interim report.

### **2. *Information on Huayi Compressor***

As mentioned above, Huayi Compressor is the substantial shareholder of 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 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 2007, its largest shareholder was 四川長虹電器股份有限公司 (“Sichuan Changhong Electric Company Limited”), a PRC national enterprise holding approximately

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## LETTER FROM ACCESS CAPITAL

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29.92% of the issued share capital of Huayi Compressor as at 31 December 2007. We also note that the Company held approximately 18.26% of the issued share capital of Huayi Compressor as at 31 December 2007 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 2007 which is extracted from its 2007 annual report.

	<b>For the year ended 31 December</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)
Turnover	1,327,446	1,827,659	2,662,555
Net (loss) profit	(123,133)	58,813	87,322
Total assets as at year end	1,806,972	2,098,668	2,409,717

As indicated above, Huayi Compressor reported an average annual compound growth of approximately 26.1% for its turnover from 2005 to 2007. As stated in its annual report for 2007, Huayi Compressor had a business segment turnover of approximately RMB2,504.9 million which was generated from the sales of about 12.3 million units of compressors. As disclosed in the annual report of Huayi Compressor for 2007, the sales volume of Huayi Compressor accounted for approximately 26% of China's total sales of refrigerator compressors for 2007 and Huayi Compressor was the largest producer of refrigerator compressors in the PRC for 2007 in terms of sales volume, the sixth year in a row. As at 31 December 2007, Huayi Compressor had audited net assets of approximately RMB616.8 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. 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"),

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## LETTER FROM ACCESS CAPITAL

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Sino-foreign economic and technical co-operation with the items verified by MOFTEC. Hisense Air-conditioning, a Subsidiaries of Hisense Group, is a substantial shareholder of the Company, holding approximately 25.22% of the issued shares of the Company. In addition, we note that Hisense Electric Co., Ltd. (“Hisense Electric”), of which Hisense Group was beneficially interested in approximately 48.40% 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 2007 are extracted from its 2007 annual report.

	<b>For the year ended 31 December</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)
Turnover	11,799,673	13,775,240	14,838,636
Net profit	155,343	193,769	290,628
Total assets as at year end	5,545,101	5,484,265	6,280,811

As indicated above, Hisense Electric reported an average annual compound growth of approximately 12.1% for its turnover from 2005 to 2007. As stated in its latest annual report for the year ended 31 December 2007, the turnover of Hisense Electric mainly represented sales of televisions and refrigerators and approximately 70.9% of its turnover was generated from domestic sales in the PRC. As at 31 December 2007, Hisense Electric had audited net assets of approximately RMB2,811.8 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 2007, 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 agreed that it and/or its relevant Subsidiaries shall purchase on a non-exclusive basis such quantities of compressors as they may require from time to time from Huayi Compressor and/or its Subsidiaries (as the case may be) for the purpose of manufacturing household electrical

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## LETTER FROM ACCESS CAPITAL

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

As stated in the Letter from the Board, the Company and/or its Subsidiaries 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 and/or its Subsidiaries 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 and/or its Subsidiaries, the Group considers that Huayi Compressor and/or its Subsidiaries are in a good position to supply compressors to the Group.

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

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## LETTER FROM ACCESS CAPITAL

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Compressor is one of the major producers of compressors in the PRC and was the largest producer of refrigerator compressors in the PRC for 2007 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 purchase of moulds, air-conditioners, refrigerators, raw materials, components and facilities, home appliances and parts and components and the provision of property management service and after-sale 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).

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

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## LETTER FROM ACCESS CAPITAL

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- (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.

In light of the financial turmoil that began in August 2007, the PRC's economy has seen slowing growth in the second half of 2008. In terms of growth by quarters, it was up 10.6% for the first quarter, 10.1% growth for the second, 9.0% for the third and 6.8% for the fourth. As stated from the Company's announcement dated 15 January 2009 in relation to the results forecast, the Company's financial results for the financial year ended 2008 are expected to deteriorate from the management's estimates. As a result of the decrease in the international market demand, the scale of the export

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## LETTER FROM ACCESS CAPITAL

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declined and as a result of the macro-economic downturn, the scale of sales and the gross profit margin of the Company for 2008 are unable to reach their respective targets.

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 maintaining its business conditions which has been adversely affected by the global economic downturn. 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 maintaining its business conditions.

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.

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## LETTER FROM ACCESS CAPITAL

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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 facilities 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*

The Compressors Purchase and Supply Framework Agreement is valid for a term of one year commencing from 1 January 2009 to 31 December 2009 (which can be terminated before its expiration by mutual agreement of the parties or in the event of any breaches of the agreement), pursuant to which the Company agreed that it and/or its relevant Subsidiaries shall purchase on a non-exclusive basis such quantities of compressors as they may require from time to time from Huayi Compressor and/or its Subsidiaries (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 Company and/or its Subsidiaries have the right to purchase compressors from suppliers other than Huayi Compressor and/or its Subsidiaries from time to time according to their own needs. The Compressors Purchase and Supply Framework Agreement does not restrict the rights of Huayi Compressor and/or its Subsidiaries (as the case may be) to sell its compressors to any other third parties.

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 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.

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 (and/or its Subsidiaries) and Huayi Compressor (and/or its Subsidiaries) 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 2009 to 31 December 2009 (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

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## LETTER FROM ACCESS CAPITAL

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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 is determined according to the payment terms agreed between the parties as set out in the individual mould purchase orders. The Group 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 Group, nor will it restrict the Group 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 Group 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 Subsidiaries of Hisense Group may require from time to time for their sales to customers. The relevant contracting parties will 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.

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## LETTER FROM ACCESS CAPITAL

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The purchase price of the air-conditioners supplied by the Group 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 air-conditioners from time to time and the pricing policy of OEM products within the industry. The sale of air-conditioners by the Group will be conducted in the ordinary and usual course of its business, 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 air-conditioners 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 air-conditioners. The relevant Subsidiaries of Hisense Group will be responsible for the collection of the air-conditioners from the Group.

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 Group to the relevant Subsidiaries of Hisense Group will equal the production cost of such specific model of the Group 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 Group to the relevant Subsidiaries 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 Group 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 Group to the relevant Subsidiaries 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 Group (particulars of the purchases of air-conditioners by the Group from the relevant Subsidiaries of Hisense Group are discussed below). The Business Co-operation Framework Agreement will not restrict the relevant Subsidiaries of Hisense Group

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## LETTER FROM ACCESS CAPITAL

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from purchasing air-conditioners from suppliers other than the Group, nor will it restrict the Group from selling its air-conditioners to any other third parties.

On the basis that (i) the sale and supply of air-conditioners by the Group to the relevant Subsidiaries of Hisense Group will increase the revenue of the Group as well as utilise its resources so as to facilitate the Group to maintain normal business operations; (ii) such sales will be conducted in the ordinary and usual course of business of the Group and on terms not less favourable to the Group 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 Group, 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 Group 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.

*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 Subsidiaries of Hisense Group may require from time to time for its sales to customers. The relevant contracting parties will 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.

The purchase price of the refrigerators supplied by the Group 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 refrigerators from time to time and the price fixing policy of OEM products within the industry. The sale of refrigerators by the Group will be conducted in the ordinary and usual course of its business, on normal commercial terms and on terms not less favourable

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## LETTER FROM ACCESS CAPITAL

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to the Group 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 Subsidiaries of Hisense Group within 60 days from the delivery of the refrigerators. The relevant Subsidiaries of Hisense Group will be responsible for the collection of the refrigerators from the Group.

In addition, the relevant parties have agreed that the price of refrigerator of a specific model sold by the Group to the relevant Subsidiaries of Hisense Group will equal the production cost of such specific model of the Group 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 Group to the relevant Subsidiaries 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 Group 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 Group to the relevant Subsidiaries 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 Group (particulars of the purchase of refrigerators by the Group from Subsidiaries of Hisense Group are discussed below). The Business Co-operation Framework Agreement will not restrict the relevant Subsidiaries of Hisense Group from purchasing refrigerators from suppliers other than the Group, nor will it restrict the Group from selling its refrigerators to any other third parties.

On the basis that (i) the sale and supply of refrigerators by the Group to the relevant Subsidiaries 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 Group and on terms not less favourable to the Group than terms available to or from (as appropriate)

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## LETTER FROM ACCESS CAPITAL

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Independent Third Parties; and (iii) the unit sale price of the refrigerator to be sold by the Group to the relevant Subsidiaries 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 Group, 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 Group 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.

*d. Sale and supply of raw materials, components and facilities*

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 raw materials, components of refrigerators and air-conditioners and components of televisions, facilities and electrical machinery 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). In addition, the Company has also agreed to act as the agent of the relevant Subsidiaries of Hisense Group for the purchase of raw materials from other third parties for the production of air-conditioners and refrigerators.

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.

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

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## LETTER FROM ACCESS CAPITAL

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

Pricing for the sale and supply of facilities is determined principally by arm's length commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the net book value of such facilities. Such transactions will be conducted on normal commercial terms and on terms not less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties.

Pricing for the sale and supply of raw materials by acting as the agent of the relevant Subsidiaries of Hisense Group 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. The price for such raw materials is agreed as:—

Price of raw materials (per tonne) = the cost for the purchase of raw materials by the Group from other third parties (per tonne) + administration fee of RMB50.

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

Payment for the purchase of raw-materials, components and facilities 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 Group 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 Group. The sale and supply of facilities by the Group to the relevant Subsidiaries of Hisense Group will facilitate them in the production of those air-conditioners and refrigerators to be sold to the Group. As stated in the Letter from the Board, the models and nature of such raw materials and components of air-conditioners and

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## LETTER FROM ACCESS CAPITAL

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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 Group 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, components or facilities of air-conditioners, refrigerators and televisions from suppliers other than the Group, nor will it restrict the Group from selling its raw materials, components or facilities of air-conditioners, refrigerators and televisions to any other third parties.

The relevant Subsidiary of the Company has conducted similar transactions in the past. We have reviewed the transactions between the Subsidiary of the Company with the relevant Subsidiary of Hisense Group and with Independent Third Parties. We note that the terms (including the price, payment terms, technological services and terms of delivery) under the agreements with the relevant Subsidiary of Hisense Group are similar to those with Independent Third Parties and no less favourable to the Company than terms available to Independent Third Parties.

On the basis that i) 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 Group than those available to or from (as appropriate) Independent Third Parties and ii) the relevant Subsidiary of the Company has conducted similar transactions under the same terms in the past, 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, components and facilities by the Group 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.

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## LETTER FROM ACCESS CAPITAL

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*e. Sale and supply of home appliances and parts and components*

Under the Business Co-operation Framework Agreement, the Company has agreed that the Group shall manufacture and supply on a non-exclusive basis such quantities of home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers to the relevant Subsidiaries of Hisense Group may require from time to time for export sale purpose.

The relevant contracting parties will enter into individual home appliances 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 home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers from suppliers other than the Group from time to time according to its own needs. The Group also has the right to supply and sell home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers to other companies other than the relevant Subsidiaries of Hisense Group.

The pricing for the supply of home appliances, including air-conditioners, refrigerators and freezers 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 home appliances, including air-conditioners, refrigerators and freezers from time to time and the gross profit margin for overseas sale of home appliances, including air-conditioners and refrigerators, made by the Group in the past. Such transactions will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms not less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties.

The price of home appliances to be sold by the Group to the relevant Subsidiary of Hisense Group is determined according to the following standard:

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## LETTER FROM ACCESS CAPITAL

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The price of home appliances to be sold by the Group to the relevant Subsidiary of Hisense Group = the production cost of such home appliances / (1 – the gross profit margin for the sale of such category of home appliances by the Group in 2008).

The pricing for the supply of parts and components for air-conditioners, refrigerators and freezers is determined principally by arm's length commercial negotiation between the contracting 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 freezers from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Group, 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 home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers should be made by the relevant Subsidiary of Hisense Group within 60 days from delivery of such home appliances and components.

We have discussed with the management of the Company about the pricing formula in connection with the gross profit margin on the sales of the relevant products and reviewed such average gross profit margin for 2008. In effect, the presence of the pricing formula will ensure that the return on the sales of the similar products to the Independent Third Parties in 2008, which we consider to be fair and reasonable.

The relevant Subsidiary of the Company has conducted similar transactions in the past. We have reviewed the transactions between the Subsidiary of the Company with the relevant Subsidiary of Hisense Group and with Independent Third Parties. We note that the terms (including pricing, payment, delivery terms and technological services) under the agreements with the relevant Subsidiary of Hisense Group are similar to those with Independent Third Parties and no less favourable to the Company than terms available to Independent Third Parties.

On the basis that i) the terms (including the price, payment terms, technological services and terms of delivery) of the home appliances 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

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## LETTER FROM ACCESS CAPITAL

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principle of fairness and reasonableness and on terms not less favourable to the Group than those available to or from (as appropriate) Independent Third Parties and ii) the relevant Subsidiary of the Company has conducted similar transactions under the same terms in the past, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of home appliances and parts and components by the Group 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.

*f. 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 Group, on normal commercial terms and on terms not less favourable to the Group 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 Subsidiaries 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 Group from providing its services to any other third parties.

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## LETTER FROM ACCESS CAPITAL

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The relevant Subsidiary of the Company has conducted similar transactions in the past. We have reviewed the transactions between the Subsidiary of the Company with the relevant Subsidiary of Hisense Group and with Independent Third Parties. We note that the terms (including the fees and payment terms) under the agreements with the relevant Subsidiary of Hisense Group are similar to those with Independent Third Parties and no less favourable to the Company than terms available from Independent Third Parties.

On the basis that i) 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 and ii) the relevant Subsidiary of the Company has conducted similar transactions under the same terms in the past, 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 Group 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.

*g. 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 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 air-conditioners from time to time and the pricing

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## LETTER FROM ACCESS CAPITAL

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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 Group 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 Group will equal the production cost of such specific model of the Group 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 Group 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 Group will be conducted in the ordinary and usual course of its business, 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 air-conditioners 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 air-conditioners. The Group is responsible for the collection of the air-conditioners from the relevant Subsidiaries of

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## LETTER FROM ACCESS CAPITAL

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Hisense Group. The Business Co-operation Framework Agreement will not restrict the Group 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 Group 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 Group than terms available to or from (as appropriate) Independent Third Parties; (ii) the price of the air-conditioners purchased by the Group 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 Group if such air-conditioners are produced by itself; and (iii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group 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 Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*h. 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.

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## LETTER FROM ACCESS CAPITAL

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The purchase price of the refrigerators supplied by the relevant Subsidiaries of Hisense Group to the 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 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 Group 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 Group will equal the production cost of such specific model of the Group 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 Group 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 Group will be conducted in the ordinary and usual course of its business, 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 refrigerators should be made by telegraphic transfer or bank-issued bills by the Company or its relevant Subsidiaries (as the case may be) within 60

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## LETTER FROM ACCESS CAPITAL

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days from the delivery of the refrigerators. The Group 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 Group 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 Group 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 Group than terms available to or from (as appropriate) Independent Third Parties; (ii) the price of the refrigerators purchased by the Group 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 Group if the relevant refrigerators are produced by itself; and (iii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group 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 Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*i. Purchase of raw materials, components and facilities*

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, facilities, air-conditioners' and refrigerators' components 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

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## LETTER FROM ACCESS CAPITAL

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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.

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.

Pricing for the purchase of facilities is determined principally by arm's length commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the net book value of such facilities. Such transactions will be conducted 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 facilities should be made by telegraphic transfer or bank-issued bills by the Company or its relevant Subsidiaries within 60 days from the delivery of the raw materials, components and facilities. The Business Co-operation Framework Agreement will not restrict the Group from purchasing raw materials, components or facilities 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 facilities to any other third parties.

The relevant Subsidiary of the Company has conducted similar transactions in the past. We have reviewed the transactions between the Subsidiary of the Company with the relevant Subsidiary of Hisense Group and with Independent Third Parties. We note that the terms (including the price, payment terms, technological services and terms of delivery) under the agreements with the relevant Subsidiary of Hisense Group are similar to those with Independent Third Parties and no less favourable to the Company than terms available from Independent Third Parties.

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## LETTER FROM ACCESS CAPITAL

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On the basis that (i) the purchase of raw materials, components and facilities by the Group 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 and will not be less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties, (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the purchase quantity from the relevant Subsidiaries of Hisense Group and iii) the relevant Subsidiary of the Company has conducted similar transactions under the same terms in the past, 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 facilities by the Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

*j. 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.

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## LETTER FROM ACCESS CAPITAL

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Such transactions will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and on terms not less favourable to the Group 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 Subsidiaries (as the case may be) within 15 days from the next following month. The Business Co-operation Framework Agreement will not restrict the Group 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.

The relevant Subsidiary of the Company has conducted similar transactions in the past. We have reviewed the transactions between the Subsidiary of the Company with the relevant Subsidiary of Hisense Group and with Independent Third Parties. We note that the terms (including the fees, payment terms, and scope of the after-sales maintenance, repair and consultation services) under the agreements with the relevant Subsidiary of Hisense Group are similar to those with Independent Third Parties and no less favourable to the Company than terms available from Independent 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 Group than terms available to or from (as appropriate) Independent Third Parties, (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the amount of services to be provided by the relevant Subsidiaries of Hisense Group and (iii) the relevant Subsidiary of the Company has conducted similar transactions under the same terms in the past, 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.

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## LETTER FROM ACCESS CAPITAL

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

Pursuant to Rule 14A.35(2) of the Listing Rules, the transactions contemplated under each of the Framework Agreements during the year commencing from 1 January 2009 to 31 December 2009 will be subject to an annual cap for the financial year ending 31 December 2009 of the Company. The proposed maximum aggregate values, or “caps”, of the transactions contemplated under the Framework Agreements for the year ending 31 December 2009 and the unaudited value of similar transactions between the relevant parties in 2008 are summarised below:—

	Proposed caps for the year ending 31 December 2009 <i>(RMB)</i>	Unaudited value of the similar transactions between the relevant parties for the eleven months ended 30 November 2008 <i>(RMB)</i>	Increase/(decrease) of the proposed caps as compared to the estimated annualised value of the similar transactions for the year 2008 based on their unaudited value for the eleven months ended 30 November 2008 <i>(%)</i>
<b>The Compressors Purchase and Supply Framework Agreement</b>			
Maximum aggregate value of purchases of compressors:	453,658,690	259,465,000	60.3
<b>The Business Co-operation Framework Agreement</b>			
Maximum aggregate value of sale and supply of moulds:	17,000,000	10,192,000	52.9
Maximum aggregate value of sale and supply of air-conditioners:	80,000,000	82,957,000	(11.6)
Maximum aggregate value of sale and supply of refrigerators:	387,920,000	169,557,000	109.7
Maximum aggregate value of sale and supply of raw materials, components and facilities:	227,600,000	20,873,000	899.5
Maximum aggregate value of sale and supply of home appliances and parts and components:	346,600,000	45,923,543	591.8

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**LETTER FROM ACCESS CAPITAL**

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	<b>Proposed caps for the year ending 31 December 2009 <i>(RMB)</i></b>	<b>Unaudited value of the similar transactions between the relevant parties for the eleven months ended 30 November 2008 <i>(RMB)</i></b>	<b>Increase/(decrease) of the proposed caps as compared to the estimated annualised value of the similar transactions for the year 2008 based on their unaudited value for the eleven months ended 30 November 2008 <i>(%)</i></b>
Maximum aggregate value of provision of property management services:	1,880,000	403,000	327.6
Maximum aggregate value of purchase of air-conditioners:	480,000,000	598,742,000	(26.5)
Maximum aggregate value of purchase of refrigerators:	400,000,000	304,054,000	20.6
Maximum aggregate value of purchase of raw materials, components and facilities:	59,840,000	5,565,000	885.7
Maximum aggregate value of provision of services:	22,500,000	7,738,531	166.5

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## LETTER FROM ACCESS CAPITAL

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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:

<b>Category</b>	<b>Basis for the proposed annual cap</b>
Purchases of compressors	(i) similar transactions between the Company and/or its Subsidiaries with Huayi Compressor and/or its Subsidiaries in the past; (ii) the prevailing market conditions relating to the demand for electrical appliances in the PRC ; and (iii) the business development plan of the Company relating to the production and sales level of refrigerators and air-conditioners in 2009
Sale and supply of moulds	(i) similar transactions between the relevant Subsidiary of the Company with the relevant Subsidiaries of Hisense Group in the past; (ii) the prevailing market conditions relating to the demand for electrical appliances in the PRC; and (iii) the business plan of Hisense Group to develop new products in 2009 which may require moulds as components of such products
Sale and supply of air-conditioners	(i) similar transactions between the relevant Subsidiaries 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 level of production and sale of air-conditioners of the relevant Subsidiaries of Hisense Group for the financial year ending 2009
Sale and supply of refrigerators	(i) the similar transactions between the relevant Subsidiary of the Company with 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 (iii) the projected level of production and sale of refrigerators of the relevant Subsidiary of Hisense Group for the year ending 31 December 2009

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## LETTER FROM ACCESS CAPITAL

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<b>Category</b>	<b>Basis for the proposed annual cap</b>
Sale and supply of raw materials, components and facilities	(i) similar transactions between the relevant Subsidiaries of the Company with the relevant Subsidiaries of Hisense Group in the past and (ii) the prevailing market conditions relating to the demand for electrical appliances, including televisions, air-conditioners and refrigerators, in the PRC
Sale and supply of home appliances and parts and components	(i) similar transactions between the relevant Subsidiary of the Company with the relevant Subsidiary of Hisense Group in the past; and (ii) the prevailing market conditions about the demand for home appliances, including air-conditioners, refrigerators and freezers, and parts and components for air-conditioners, refrigerators and freezers in the overseas market for the year ending 31 December 2009
Provision of property management services	(i) similar transactions between the relevant Subsidiaries of the Company with the relevant Subsidiaries of Hisense Group in the past; (ii) the prevailing market conditions for the demand of the provision of property management, sanitary and security services; and (iii) the anticipated increase in demand for property management, sanitary and security services from the relevant Subsidiaries of Hisense Group due to the satisfactory cooperation relationship between the parties in the past
Purchase of air-conditioners	(i) similar transactions between the relevant Subsidiaries 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 level of production and sale of air-conditioners of the relevant Subsidiaries of the Company for the financial year ending 2009

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## LETTER FROM ACCESS CAPITAL

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<b>Category</b>	<b>Basis for the proposed annual cap</b>
Purchase of refrigerators	(i) similar transactions between the relevant Subsidiaries 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 level of production and sale of refrigerators of the relevant Subsidiaries of the Company for the financial year ending 2009
Purchase of raw materials, components and facilities	(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 refrigerators by the relevant Subsidiaries of the Company to the relevant Subsidiaries of Hisense Group for the year ending 31 December 2009 and in turn the relevant Subsidiaries of the Company have to increase their purchases of raw-materials, components and facilities from the relevant Subsidiaries of Hisense Group to enable such production and sale
Provision of services	(i) similar transactions between the relevant Subsidiary of the Company with the relevant Subsidiaries of Hisense Group in the past and (ii) the projected level of production and sale of electrical appliances of the relevant Subsidiary of the Company for the year ending 31 December 2009

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 relating to the demand for electrical appliances in the PRC for the financial year ending 2009. 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

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## LETTER FROM ACCESS CAPITAL

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above, certain proposed annual caps such as those for the purchase of compressors; sale and supply of refrigerators, raw materials, components and facilities, home appliances and parts and components; provision of property management services; purchase of raw materials, components and facilities; and the provision of services represent a significant increase over the unaudited value of the similar transactions conducted between the relevant parties for the eleven-month period in 2008. For instance, the proposed annual cap of RMB453.7 million for the purchase of compressors for the year ending 31 December 2009 represents an increase of approximately 60.3% over the estimated annualised value of such transactions for the year 2008 on the basis of their unaudited value of approximately RMB259.5 million for the eleven months ended 30 November 2008.

As set out in the Letter from the Board, due to the stable good quality of the compressors produced by Huayi Compressor, the Company expects to purchase more compressors from it in the coming financial year. In particular, the Group expects that the total value of purchase of compressors for the year ending 31 December 2009 will increase as a result of its business development plan to significantly increase the production and sales level of refrigerators and air-conditioners in 2009.

Based on the information from the Company, the following table sets out the aggregate approximate value of purchase of compressors by the Group for each of the three financial years ended 31 December 2008.

<b>Year</b>	<b>Total approximate amount of the transactions relating to purchase of compressors by the Group</b> <i>(in RMB' million)</i>
2006	1,233.0
2007	1,712.8
2008	1,511.3

As indicated from the above table, the aggregate annual value of the Group's purchase of compressors increased significantly in 2007 from approximately RMB1,233.0 million to RMB1,712.8 million, representing an increase of approximately 38.9%. However, for the year 2008, such purchase dropped by approximately 11.8% to approximately RMB1,511.3 million, which, as explained by the management of the Company, was due to the slowdown of the PRC economy in the late 2008 as well as the decrease in the international market demand caused by the financial turmoil.

Based on the average annual value of approximately RMB1,485.7 million of the Group's purchase of compressors for 2006, 2007 and 2008, the proposed annual cap for the Group's purchase of compressors from Huayi Compressor of approximately RMB453.7 million for the year ending 31 December 2009 would represent approximately 30.5%

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## LETTER FROM ACCESS CAPITAL

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of such average annual value of the aggregate purchase of compressors by the Group. As mentioned above, Huayi Compressor, which was ranked as the largest producer of refrigerator compressors in the PRC for 2007 in terms of sales volume, is one of the major fluorine-free compressor producers in the PRC and its sales volume accounted for approximately 26% of China's total sales of refrigerator compressors for 2007. Given that the Company's estimated purchase of compressors from Huayi Compressor for the year ending 31 December 2009 would amount to about 30% of its average historical aggregate purchases of compressors for the last three years, we do not consider the relevant proposed annual cap of approximately RMB453.7 million to be excessive. Accordingly, we are of the view that that the proposed annual cap of approximately RMB453.7 million for the financial year ending 31 December 2009 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 2009 which represents an increase of about 52.9% over the estimated annualised value of such transactions for 2008, we understand from the management of the Company that as Hisense Group plans to develop more products in 2009 which will therefore require more moulds as components, Hisense Group intends to purchase more moulds from the Company. In general, the Group will be benefited from the sales of moulds to Hisense Group as such transactions will increase the Group's revenue, we are of the view that it is of the commercial interest for the Company to maximise the value of such transactions. As such, we are also of the view that the proposed annual cap of RMB17 million for the sale and supply of moulds by the Group to the Subsidiaries of Hisense Group for the year ending 31 December 2009 is not excessive and has been prepared on a fair and reasonable basis.

As regards the proposed annual cap for the sale and supply of air-conditioners and purchase of air-conditioners and refrigerators, we notice that the increase or decrease of the proposed caps as compared to the estimated annualised value of such transactions for 2008 range from -26.5% to 20.6% which do not differ significantly from the transactions conducted for the previous year. It should be noted that the Business Co-operation Framework Agreement will not restrict the relevant Subsidiaries of Hisense Group from purchasing products from suppliers other than the Group, nor will it restrict the Group from selling its products to any other third parties. Therefore, the amount of purchases or sales to or from the relevant Subsidiaries of Hisense Group do not reflect the Company's projection of total purchases or sales of the relevant product. In order to determine the fairness and reasonableness of the proposed caps, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual caps, 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

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## LETTER FROM ACCESS CAPITAL

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are satisfied that the calculation of the proposed annual caps has been conducted on a fair and reasonable basis and consider the proposed caps for the subject items are not excessive or unreasonable.

As regards the proposed annual cap for the provision of property management services which represents an increase of about 327.6% over the estimated annualised value of such transactions for 2008, we understand from the company that 2008 was the first year the Company and the relevant Subsidiary of Hisense Group entered into the transaction. Hence, the relevant Subsidiary of Hisense Group only appointed the Company to provide property management service to certain of its properties. As the relevant Subsidiary of Hisense Group is satisfied with the quality of such services the Company provided, it is expected to increase the number of properties for the Company to provide property management service for. We are also of the view that the proposed cap's significant increase over the estimated annualised value of the similar transactions for the year 2008 was only because of the low base value of RMB403,000. Accordingly, we consider that the proposed cap for the provision of property management service is fair and reasonable.

As regards the significant increase in the other proposed annual caps in relation to the sale and supply of refrigerators, raw materials, components and facilities, home appliances and parts and components as well as the purchase of raw materials, components and facilities and the provision of services for the year ending 2009, 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 in light of the Home Appliances Subsidy Policy for Rural Villages (家電下鄉政策) (the "Subsidy Policy"), 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

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## LETTER FROM ACCESS CAPITAL

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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 ending 31 December 2009 has been prepared by the Company after due and careful consideration and on a fair and reasonable basis.

As regards the impact of the Subsidy Policy on the demand for electrical appliances in the PRC in the future, we note that pursuant to the Subsidy Policy, the PRC government would provide a 13% subsidy to farmers who bought designated brands of color TV sets, refrigerators and mobile phones in the three agricultural provinces of Shandong, Henan, and Sichuan. On 1 February 2009, the PRC government expanded the Subsidy Policy nationwide to benefit all rural people and added four more products: motorcycles, personal computers, water heaters and air-conditioners. According to Xinhua News, with the effects of the global financial crisis spreading throughout the world, the government is looking to tap domestic consumption, especially in unexploited rural markets.

China has more than 50,000 townships and the number of rural households accounts for 68 percent of the total families. According to Mr. Fu Ziyang, Vice Minister of Commerce of the PRC, the household appliance purchase subsidy program could help stimulate rural consumption amounting to 920 billion yuan, drive up growth of retail sales of consumer goods in rural areas by 2.5 percentage points, and realise household appliance sales of 480 million units.

According to the China Statistical Abstract 2008 (中國統計摘要2008) 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 1.32 billion at the year end of 2007 with an average annual compound growth rate of approximately 0.6% over the years from 2000 to 2007. 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 RMB7,806.1 billion to RMB25,148.1 billion from 1997 till 2007, representing over twofold increase since 1997.

In addition, according to the China Statistical Abstract 2008, the per capita annual disposable income of the PRC's urban households grew from approximately RMB5,160 to RMB13,786 from 1997 till 2007 (representing an average annual compound growth rate of approximately 10.3%), whereas the per capita annual disposable income of the PRC's rural households grew from approximately RMB2,090 to RMB4,140 during the same period (representing an average annual compound growth rate of approximately 7.1%). 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%.

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## LETTER FROM ACCESS CAPITAL

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In particular, according to the China Statistical Yearbook 2007, the total number of air-conditioners and refrigerators produced in China in 2006 was estimated to be approximately 68.5 million and 35.3 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 2007, the per capita floor space of residential buildings in the PRC's urban areas grew from approximately 17.0 square metres to 27.1 square metres from 1996 till 2006 (representing an average annual compound growth rate of approximately 4.8%), whereas that in the rural areas grew from approximately 21.7 square metres to 30.7 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 RMB498 from 1995 till 2006, representing an average annual compound growth rate of approximately 6.0%.

As mentioned above, the Company is of the view that the demand for electrical appliances in the PRC will rise in the future as a result of the Subsidy Policy. In this connection, we also note that the year 2009 is within 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 has eliminated 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 a continuing increase in the income level of the PRC's rural households and the expansion of the Subsidy Policy nationwide on 1 February 2009 to benefit all rural people for their consumption on electrical appliances, the demand for electrical appliances in the PRC, in particular the rural area, will be substantial.

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## LETTER FROM ACCESS CAPITAL

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According to the China Statistical Abstract 2008, it has been estimated that, on average, every 100 rural households in China only owned approximately 26.1 refrigerators and 8.5 air-conditioners in 2007, whereas every 100 urban households in China owned approximately 95 refrigerators and 95.1 air-conditioners. In addition, according to the announcement from the National Bureau of Statistics of China, the per capita cash income of rural residents reached RMB4,761 in 2008, representing a year-on-year increase of 15.0 percent, and a real growth of 8.0 percent after deducting price factors. In view of the existing consumption level of refrigerators and air-conditioners by the PRC's rural households and the continuing growth of cash income of 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, and the PRC government's plan to promote domestic consumption in order to boost the economy of the PRC as well as the nationwide adoption of the Subsidy Policy, 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 2009 in certain cases represent a significant increase over the historical unaudited value of the similar transactions between the relevant parties in 2008, it should be noted that (i) the transaction value between the relevant parties in 2008 was significantly lower than initially planned because of the abrupt shift of global economic climate in the second half of 2008 as triggered by the U.S. sub-prime crisis; (ii) 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; (iii) 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 (iv) 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.

#### 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 2009 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 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.
- (ii) 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 maintaining its business conditions.
- (iii) The transactions contemplated under the Framework Agreements will increase the sales of the Group, so it is in the interest of the Group to enter into such agreements.

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## LETTER FROM ACCESS CAPITAL

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- (iv) 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.
- (v) 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 contemplated under the Framework Agreements”.

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 resolution to approve each of the Framework Agreements at the EGM.

Yours faithfully,  
For and on behalf of  
**Access Capital Limited**  
**Alexander Tai**  
*Principal 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. All the Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, 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 2007, 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 2007, 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:

<b>Name</b>	<b>Class of Shares</b>	<b>Number of issued ordinary Shares held</b>	<b>Proportion to the Relevant class of issued share capital of the Company</b>	<b>Proportion to the total issued share capital of the Company</b>
Hisense Air-conditioning	A Shares	250,173,722	46.99 %	25.22%
China Finance Asset Management Corporation 中國華融資產管理公司	A Shares	63,923,804	21.43%	6.44%

### *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:

<b>Other members of Group</b>	<b>Shareholders holding 10% or more in other members of the Group</b>	<b>Percentage shareholding of shareholders in other members of the Group</b>
Guangdong Kelon Air-Conditioner Co., Ltd	Weishi Investments Company Limited	40%
Guangdong Kelon Mould Co., Ltd	Hua Yi Compressor Company Limited	29.89%

<b>Other members of Group</b>	<b>Shareholders holding 10% or more in other members of the Group</b>	<b>Percentage shareholding of shareholders in other members of the Group</b>
Foshan City Shunde District Rongsheng Plastic Co., Ltd	Hua Yi Compressor Company Limited	29.95%
Guangdong Huaao Electrical Electronics Co., Ltd.	Foshan City Shunde District Yun Long Enquiry Service Company Limited	30%
Hisense Ronshen (Yingkou) Refrigerator Co., Ltd.	Yingkou Yingleng (Group) Bankruptcy Liquidation Team	14.74%
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 (江西發達思家電有限公司)	45%
Hua Yi Compressor Company Limited	Sichuan Changhong Electric Holdings 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%

<b>Other members of Group</b>	<b>Shareholders holding 10% or more in other members of the Group</b>	<b>Percentage shareholding of shareholders in other members of the Group</b>
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 Fusha Town Shunchang Industry Limited Company (中山市阜沙鎮順暢工業有限公司)	20%

Save as disclosed above, as at the Latest Practicable Date and so far as is known to the Directors or chief executive of the Company, 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. COMPETING BUSINESS

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:

<b>Name of Director</b>	<b>Name of entity which business is considered to compete or likely compete with the business of the Kelon Group</b>	<b>Description of business of the entity which is considered to compete or likely to compete with the business of the Kelon Group</b>	<b>Nature of interest of the Director in the entity</b>
Mr. Tang Ye Guo	Hisense Group or its Subsidiaries	Production of air-conditioning/ electrical products	Director
Ms. Yu Shu Min	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 of electrical products	Director
Mr. Zhang Ming	The Subsidiaries of Hisense Group	Production of air-conditioning/ electrical products	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.

**5. NO MATERIAL ADVERSE CHANGE**

At the Latest Practicable Date, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 December 2007 (being the date to which the latest published audited financial statements of the Group were made up).

**6. EXPERT**

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

<b>Name</b>	<b>Qualifications</b>
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 2007, 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 during normal business hours from the date of this circular up and including 30 March 2009:

- (a) the letter from Access Capital;
- (b) the Compressors Purchase and Supply Framework Agreement; and
- (c) the Business Co-operation Framework Agreement.