

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should obtain independent professional advice.

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Hisense 海信科龙

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)

(1) PROPOSED APPOINTMENT OF DIRECTOR
(2) CONTINUING CONNECTED TRANSACTIONS
(3) BUSINESS FRAMEWORK AGREEMENTS WITH QINGDAO
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD. AND
HISENSE WHIRLPOOL (ZHEJIANG) ELECTRIC APPLIANCES CO. LTD.

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



A letter from the Board is set out on pages 8 to 59 of this circular. A letter from the Independent Board Committee is set out on pages 60 to 61 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 62 to 122 of this circular.

A notice of the EGM to be held on 16 January 2012 at 2:00 p.m. at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the PRC, a proxy form for use at the EGM and a reply slip have been despatched by the Company on 29 November 2011 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). If you are not able to attend the meeting in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“A Shares”	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange;
“associates”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Beijing Embraco Snowflake Compressor”	Beijing Embraco Snowflake Compressor Company Limited (北京恩布拉科雪花壓縮機有限公司), a limited company incorporated in the PRC, which is held as to 30.82% by Beijing Snowflake Group and 66.92% by 惠而浦海外控股公司 (Whirlpool Overseas Holdings Limited) (being an investment holding company);
“Beijing Snowflake Group”	Beijing Snowflake Electrical Appliance Group Corporation (北京雪花電器集團公司), a limited company incorporated in the PRC and a substantial shareholder which holds 45% of the equity interests in the Company’s non-wholly owned subsidiary Hisense Beijing;
“Board” or “Director(s)”	the board of directors of the Company;
“Business Co-operation Framework Agreement”	the agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 29 November 2011 in relation to the sale and purchase of home electrical appliances, raw materials, equipment, parts and components, supply of moulds, and the provision of various services;
“Caps”	the annual caps for the transactions contemplated under the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Agreement and the Business Co-operation Framework Agreement for the year ending 31 December 2012, being (i) RMB250,000,000 in respect of the transactions contemplated under the Compressors Purchase Framework Agreement; (ii) RMB1,380,000,000 in respect of the transactions contemplated under the Huayi Compressors Purchase Framework Agreement; (iii)

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RMB4,000,000 in respect of the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement; (iv) RMB10,000,000 in respect of the purchase of equipment by the Group from Hisense Group and/or its subsidiaries under the Business Co-operation Framework Agreement; (v) RMB68,030,000 in respect of the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement; (vi) RMB319,220,000 in respect of the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group under the Business Co-operation Framework Agreement; (vii) RMB2,504,000,000 in respect of the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement; (viii) RMB12,000,000 in respect of the supply of equipment by the Group to Hisense Group and/or its subsidiaries under the Business Co-operation Framework Agreement; (ix) RMB267,000,000 in respect of the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement; (x) RMB90,000,000 in respect of the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement; (xi) RMB8,920,000 in respect of the provision of services by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement; and the annual caps for the transactions contemplated under the Financial Services Agreement during the term of the Existing Financial Services Agreement, being (i) RMB350,000,000 in respect of the maximum daily balance of the deposits placed by the Group with Hisense Finance under the Financial Services Agreement; (ii) RMB1.5 billion in respect of the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group under the Financial Services Agreement; (iii) RMB50,000,000 in respect of the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services under the Financial Services Agreement; and (iv) US\$50,000,000 in respect of the annual amount settled or sold by Hisense Finance for the Group under the Financial Services Agreement;

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“CBRC”	中國銀行業監管管理委員會 (China Banking Regulatory Commission);
“Company”	Hisense Kelon Electrical Holdings Company Limited, a company incorporated in the PRC with limited liabilities, whose shares are listed on the main board of the Stock Exchange and the Shenzhen Stock Exchange;
“Compressors Purchase Framework Agreement”	the agreement (壓縮機採購框架協議) entered into between the Company and Beijing Embraco Snowflake Compressor dated 29 November 2011 in connection with the purchase of compressors by the Group from Beijing Embraco Snowflake Compressor and/or its subsidiaries;
“connected person”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“EGM”	the first 2012 extraordinary general meeting of the Company to be held at the conference room of the Company’s head office, Shunde District, Foshan City, Guangdong Province, the PRC on 16 January 2012 at 2:00p.m. for, among other things, the proposed appointment of director, the approval of the Business Co-operation Framework Agreement, the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement, the Financial Services Agreement, the Hitachi Business Framework Agreement, the Whirlpool Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto;
“Existing Business Co-operation Framework Agreement”	the agreement (業務合作框架協議) entered into between the Company, Hisense Electric and Hisense Group dated 3 December 2010 in relation to the sale and purchase of home electrical appliances, raw materials, equipment, parts and components, supply of moulds, and the provision of various services for the period up to 31 December 2011;

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“Existing Compressors Purchase and Supply Framework Agreement”	the agreement (壓縮機採購供應框架協議) entered into between the Company and Huayi Compressor dated 3 December 2010 in connection with the purchase of compressors by the Group from Huayi Compressor and/or its subsidiaries for the period up to 31 December 2011;
“Existing Compressors Purchase Framework Agreement”	the agreement (壓縮機採購框架協議) entered into between the Company and Beijing Embraco Snowflake Compressor dated 3 December 2010 in connection with the purchase of compressors by the Group from Beijing Embraco Snowflake Compressor and/or its subsidiaries for the period up to 31 December 2011;
“Existing Financial Services Agreement”	the agreement dated 6 November 2009 entered into between the Company and Hisense Finance in connection with the provision of financial services by Hisense Finance to the Group for the period up to 14 January 2012;
“Financial Services Agreement”	the agreement (金融服務協議) entered into between the Company and Hisense Finance dated 29 November 2011 in connection with the provision of financial services by Hisense Finance to the Group;
“Group”	the Company and its subsidiaries;
“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 Company Limited (青島海信空調有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Hisense Group;
“Hisense Beijing”	海信(北京)電器有限公司 (Hisense (Beijing) Electric Company Limited), a limited company incorporated in the PRC and a non-wholly owned subsidiary of the Company;

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“Hisense Electric”	Hisense Electric Co., Ltd. (青島海信電器股份有限公司), a company incorporated in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange;
“Hisense Finance”	Hisense Finance Co., Ltd (海信集團財務有限公司), a limited company incorporated in the PRC and a subsidiary of Hisense Group;
“Hisense Group”	Hisense Company Limited (海信集團有限公司), a company incorporated in the PRC with limited liability;
“Hisense HK”	Hisense (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of Hisense Group;
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (青島海信日立空調系統有限公司), a company incorporated in the PRC with limited liability;
“Hisense Whirlpool”	Hisense Whirlpool (Zhejiang) Electric Appliances Co. Ltd. (海信惠而浦(浙江)電器有限公司), a company incorporated in the PRC with limited liability;
“Hitachi Business Framework Agreement”	the agreement (業務框架協議) entered into between the Company and Hisense Hitachi dated 29 November 2011 in relation to the sale of home electrical appliances, sale and purchase of raw materials, parts and components and supply of moulds;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Huayi Compressor”	Huayi Compressor Company Limited (華意壓縮機股份有限公司) (stock code: 000404), a limited company incorporated in the PRC and whose A shares are listed on the Shenzhen Stock Exchange;

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“Huayi Compressors Purchase Framework Agreement”	the agreement (壓縮機採購供應框架協議) entered into between the Company and Huayi Compressor dated 29 November 2011 in connection with the purchase of compressors by the Group from Huayi Compressor and/or its subsidiaries;
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Zhang Sheng Ping, Mr. Wang Xinyu and Mr. Wang Ai Guo;
“Independent Financial Adviser”	Investec Capital Asia Limited, a corporation licensed under the SFO for carrying on 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 Framework Agreement, the Huayi Compressors Purchase Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto;
“Independent Shareholders”	(i) in respect of the Compressors Purchase Framework Agreement, Shareholders other than Beijing Embraco Snowflake Compressor and its associates, (ii) in respect of the Huayi Compressors Purchase Framework Agreement, Shareholders other than Huayi Compressor and its associates, (iii) in respect of the Business Co-operation Framework Agreement, Shareholders other than Hisense Group, Hisense Electric and their respective associates and (iv) in respect of the Financial Services Agreement, Shareholders other than Hisense Finance and its associates;

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“Latest Practicable Date”	23 December 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“PRC”	the People’s Republic of China, which for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares;
“Shareholder(s)”	holder(s) of the Shares;
“Shenzhen Listing Rules”	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (深圳證券交易所上市規則);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Whirlpool Business Framework Agreement”	the agreement (業務框架協議) entered into between the Company and Hisense Whirlpool dated 29 November 2011 in relation to the sale and purchase of home electrical appliances, raw materials, equipment, parts and components, supply of moulds and provision of services;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“US\$”	United States dollars, the lawful currency of the United States of America;
“RMB”	Renminbi, the lawful currency of the PRC; and
“%”	per cent.

LETTER FROM THE BOARD

Hisense 海信科龙

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)

Executive Directors:

Mr. Tang Ye Guo

Mr. Ren Li Ren

Ms. Yu Shu Min

Mr. Lin Lan

Ms. Xiao Jian Lin

Registered Office:

No. 8 Ronggang Road

Ronggui Street

Shunde District

Foshan City

Guangdong Province

The PRC

Independent non-executive Directors:

Mr. Zhang Sheng Ping

Mr. Wang Xinyu

Mr. Wang Ai Guo

Principal place of business

in Hong Kong:

Room 3101-05

Singga Commercial Centre,

No. 148 Connaught Road West,

Hong Kong

28 December 2011

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED APPOINTMENT OF DIRECTOR
(2) CONTINUING CONNECTED TRANSACTIONS
(3) BUSINESS FRAMEWORK AGREEMENTS WITH QINGDAO
HISENSE HITACHI AIR-CONDITIONING SYSTEMS CO., LTD. AND
HISENSE WHIRLPOOL (ZHEJIANG) ELECTRIC APPLIANCES CO. LTD.**

BACKGROUND

As disclosed in the announcement of the Company dated 27 October 2011, the Board has nominated Mr. Gan Yong He as a Director candidate for the seventh session of the Board, subject to the approval of the appointment by the Shareholders at the EGM by way of ordinary resolution.

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Reference is also made to:

- (a) the announcement and circular of the Company dated 6 November 2009 and 26 November 2009 in relation to, inter alia, the Existing Financial Services Agreement;
- (b) the announcement of the Company dated 3 December 2010 in relation to, inter alia, the Existing Compressors Purchase Framework Agreement, Existing Compressors Purchase and Supply Framework Agreement and Existing Business Co-operation Framework Agreement; and
- (c) the circular of the Company dated 31 December 2010 in relation to, inter alia, the Existing Compressors Purchase Framework Agreement, the Existing Compressors Purchase and Supply Framework Agreement and Existing Business Co-operation Framework Agreement.

As disclosed in the announcement of the Company dated 29 November 2011, the Existing Compressors Purchase Framework Agreement, Existing Compressors Purchase and Supply Framework Agreement and Existing Business Co-operation Framework Agreement will expire on 31 December 2011 and the Existing Finance Services Agreement will expire on 14 January 2012 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. In view of the above and to modify the scope of the transactions between certain parties, on 29 November 2011, the following agreements were entered into by the Company:

- (a) the Compressors Purchase Framework Agreement;
- (b) the Huayi Compressors Purchase Framework Agreement;
- (c) the Business Co-operation Framework Agreement; and
- (d) the Financial Services Agreement.

In addition, on 29 November 2011, the Company has also entered into the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement with Hisense Hitachi and Hisense Whirlpool respectively. The transactions contemplated under the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement constitute ordinary connected transactions under the Shenzhen Listing Rules and are subject to the approval at the EGM.

LETTER FROM THE BOARD

The purpose of this circular is to:

- (a) provide you with details of the proposed appointment of Mr. Gan Yong He as Director;
- (b) provide you with further information on the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement and the Caps in relation thereto;
- (c) provide you with further information on the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement and the annual caps in relation thereto;
- (d) set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in relation to the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement; and
- (e) set out the recommendation from the Independent Board Committee in relation to the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement.

I. PROPOSED APPOINTMENT OF DIRECTOR

Proposed Appointment of Directors

As disclosed in the announcement of the Company dated 27 October 2011, the Board has nominated Mr. Gan Yong He as a Director candidate for the seventh session of the Board, subject to the approval of the appointment by the Shareholders at the EGM by way of ordinary resolution. If Mr. Gan Yong He is elected, the term of office will expire at the end of the seventh session of the Board.

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The biographical details of Mr. Gan Yong He are set out below:

Mr. Gan Yong He, aged 43, holds a master's degree in business administration. He was previously the head of manufacturing quality department and head of central quality department of Anhui Boxihua Household Electric Appliance Co., Ltd., and the quality manager and quality director of Electrolux (China) Home Appliances Co., Ltd. He has been the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. since June 2008, and has served as the deputy president of the Company since 27 June 2011.

As a participant of the first A Share share option incentive scheme of the Company, Mr. Gan has been granted share options for the subscription of 181,000 A Shares (representing approximately 0.013% of the total issued share capital of the Company and approximately 0.020% of the total issued A shares of the Company as at the Latest Practicable Date).

Save as disclosed above, Mr. Gan has not held any directorship in any other listed companies for the past three years nor any shares of the Company or any of its associated corporations within the meaning of Part XV of the SFO. Mr. Gan does not have any relationship with any directors, senior management, or substantial or controlling shareholders of the Company or its subsidiaries. During the term of his directorship, Mr. Gan will not receive any director's remuneration from the Company, however, Mr. Gan will receive annual emoluments of RMB640,000 (before taxation) from the Company as the vice president of the Company, which was determined by the remuneration and appraisal committee of the Board after taking into consideration the scale of operation of the Company and the remuneration level of senior management members of other listed companies. Mr. Gan will stand for election as the director of the Company at the EGM. If elected, Mr. Gan's term of office will commence from the date of his appointment at the EGM until the expiry of the term of the seventh session of the board of directors (that is, 25 June 2012).

Save as disclosed above, Mr. Gan confirms that there is no other matter that needs to be disclosed pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Hong Kong Listing Rules nor any other matter that needs to be brought to the attention of the Shareholders.

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II. CONTINUING CONNECTED TRANSACTIONS

(A) Compressors Purchase Framework Agreement

Date: 29 November 2011

Parties: The Company; and
Beijing Embraco Snowflake Compressor

Term:

The Compressors Purchase Framework Agreement shall commence from the date of approval of the Compressors Purchase Framework Agreement by the Independent Shareholders until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.

In the event of any non-compliance with the relevant Hong Kong Listing Rules and/or Shenzhen Listing Rules in respect of connected transactions for any transactions contemplated under the Compressors Purchase Framework Agreement, the performance of the Compressors Purchase Framework Agreement in respect of such transactions shall be terminated. The Compressors Purchase Framework Agreement will be terminated if all transactions contemplated thereunder have been terminated for the above reason.

Condition:

The Compressors Purchase Framework Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

Subject matter — Purchase of compressors:

Pursuant to the terms of the Compressors Purchase Framework Agreement, the Company and/or its subsidiaries will purchase on a non-exclusive basis such quantities of compressors as they may require from time to time from Beijing Embraco Snowflake Compressor and/or its subsidiaries (as the case may be) for the purpose of manufacturing home electrical appliances, including but not limited to refrigerators and freezers, by the Group.

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The relevant parties will enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Compressors Purchase Framework Agreement.

The Compressors Purchase Framework Agreement does not restrict the rights of Beijing Embraco Snowflake Compressor and/or its subsidiaries (as the case may be) to sell its compressors to any other purchasers, nor the rights of the Company and/or its subsidiaries (as the case may be) to purchase compressors from any other suppliers.

Pricing:

Pricing for the purchase of compressors will be the market price of compressors which will be confirmed by commercial negotiation between the parties according to the principles of fairness and reasonableness from time to time. Such transactions will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.

Payment term:

Payment term(s) for the transactions contemplated under the Compressors Purchase Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

Historical figures:

The annual cap for the purchase of compressors by the Group from Beijing Embraco Snowflake Compressor and/or its subsidiaries for the year ending 31 December 2011 as specified in the Existing Compressors Purchase Framework Agreement is RMB250,000,000 (inclusive of value-added tax). For the ten months ended 31 October 2011, the aggregate transaction amount for the purchase of compressors by the Group from Beijing Embraco Snowflake Compressor and/or its subsidiaries amounted to approximately RMB41,920,000 (unaudited).

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Proposed Cap:

The transactions contemplated under the Compressors Purchase Framework Agreement for the financial year ending 31 December 2012 are subject to the Cap of RMB250,000,000 (inclusive of value-added tax).

The above Cap was determined with reference to (a) similar transactions between the Group with Beijing Embraco Snowflake Compressor and/or its subsidiaries in the past; (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC; (c) the business development plan of the Company relating to the production and sales level of refrigerators and freezers in 2012; and (d) the estimated demand of the Group for the compressors provided by Beijing Embraco Snowflake Compressor and/or its subsidiaries. As the Group's production has been moving towards high-end products and the compressors provided by Beijing Embraco Snowflake Compressor and/or its subsidiaries are mainly used as components for the Group's high-end products, it is expected that the Group will increase its purchase for compressors from Beijing Embraco Snowflake Compressor and/or its subsidiaries in 2012.

The compressors supplied by Beijing Embraco Snowflake Compressor and Huayi Compressor to the Group are used as components for different products of the Group. As such, the Company has set different Caps for the purchases of compressors from Beijing Embraco Snowflake Compressor and Huayi Compressor respectively.

Reasons for and benefits of the Compressors Purchase Framework Agreement:

The Group is engaged in the manufacture of home electrical appliances, including but not limited to refrigerators and freezers, 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 Beijing Embraco Snowflake Compressor and/or its subsidiaries with the current facilities used by and the refrigerators and freezers manufactured by the Group as well as the level of services provided by Beijing Embraco Snowflake Compressor and/or its subsidiaries, the Group considers that Beijing Embraco Snowflake Compressor and/or

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its subsidiaries are in a good position to supply compressors to the Group. In addition, the Group can have bigger bargaining power by carrying out bulk purchase of compressors from Beijing Embraco Snowflake Compressor and/or its subsidiaries, thus reducing purchase costs and increasing product competitiveness.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Compressors Purchase Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(B) Huayi Compressors Purchase Framework Agreement

Date: 29 November 2011

Parties: The Company; and
Huayi Compressor

Term:

The Huayi Compressors Purchase Framework Agreement shall commence from the date of approval of the Huayi Compressors Purchase Framework Agreement by the Independent Shareholders until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.

In the event of any non-compliance with the relevant Hong Kong Listing Rules and/or Shenzhen Listing Rules in respect of connected transactions for any transactions contemplated under the Huayi Compressors Purchase Framework Agreement, the performance of the Huayi Compressors Purchase Framework Agreement in respect of such transactions shall be terminated. The Huayi Compressors Purchase Framework Agreement will be terminated if all transactions contemplated thereunder have been terminated for the above reason.

Condition:

The Huayi Compressors Purchase Framework Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

Subject matter — Purchase of compressors:

Pursuant to the terms of the Huayi Compressors Purchase Framework Agreement, the Company and/or its subsidiaries will 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 home electrical appliances, including but not limited to refrigerators and freezers, by the Group.

The relevant parties will enter into definitive contract(s) setting out specific terms including specifications of the compressors, quantity involved, pricing, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Huayi Compressors Purchase Framework Agreement.

The Huayi Compressors Purchase 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 purchasers, nor the rights of the Company and/or its subsidiaries (as the case may be) to purchase compressors from any other suppliers.

Pricing:

Pricing for the purchase of compressors will be the market price of compressors which will be confirmed by commercial negotiation between the parties according to the principles of fairness and reasonableness from time to time. Such transactions will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.

Payment term:

Payment term(s) for the transactions contemplated under the Huayi Compressors Purchase Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

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Historical figures:

The annual cap for the purchase of compressors by the Group from Huayi Compressor and/or its subsidiaries for the year ending 31 December 2011 as specified in the Existing Compressors Purchase and Supply Framework Agreement is RMB1,260,000,000 (inclusive of value-added tax). For the ten months ended 31 October 2011, the aggregate transaction amount for the purchase of compressors by the Group from Huayi Compressor and/or its subsidiaries amounted to approximately RMB697,320,000 (unaudited).

Proposed Cap:

The transactions contemplated under the Huayi Compressors Purchase Framework Agreement for the financial year ending 31 December 2012 are subject to the Cap of RMB1,380,000,000 (inclusive of value-added tax).

The above Cap was determined with reference to (a) similar transactions between the Group and Huayi Compressor and/or its subsidiaries in the past; (b) the prevailing market conditions relating to the demand for home electrical appliances in the PRC; (c) the business development plan of the Company relating to the production and sales level of refrigerators and freezers in 2012; and (d) the estimated demand of the Group for the compressors provided by Huayi Compressor and/or its subsidiaries. As the Group considers that the quality of the compressors provided by Huayi Compressor and/or its subsidiaries has improved, the Group intends to increase its purchase for compressors from Huayi Compressors and/or its subsidiaries in 2012.

The compressors supplied by Beijing Embraco Snowflake Compressor and Huayi Compressor to the Group are used as components for different products of the Group. As such, the Company has set different Caps for the purchases of compressors from Beijing Embraco Snowflake Compressor and Huayi Compressor respectively.

Reasons for and benefits of the Huayi Compressors Purchase Framework Agreement:

The Group is engaged in the manufacture of home electrical appliances, including but not limited to refrigerators and freezers, 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

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compressors manufactured by Huayi Compressor and/or its subsidiaries with the current facilities used by and the refrigerators and freezers manufactured by the Group as well as the level of services provided by Huayi Compressor and/or its subsidiaries, the Company considers that Huayi Compressor and/or its subsidiaries are in a good position to supply compressors to the Group. In addition, the Group can have bigger bargaining power by carrying out bulk purchase of compressors from Huayi Compressor and/or its subsidiaries, thus reducing purchase costs and increasing product competitiveness.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Huayi Compressors Purchase Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(C) Business Co-Operation Framework Agreement

Date: 29 November 2011

Parties: The Company;
Hisense Group; and
Hisense Electric

Term:

The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement by the Independent Shareholders until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.

In the event of any non-compliance with the relevant Hong Kong Listing Rules and/or Shenzhen Listing Rules in respect of connected transactions for any transactions contemplated under the Business Co-operation Framework Agreement, the performance of the Business Co-operation Framework Agreement in respect of such transactions shall be terminated. The Business Co-operation Framework Agreement will be terminated if all transactions contemplated thereunder have been terminated for the above reason.

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Condition:

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

Subject matters:

The transactions contemplated under the Business Co-operation Framework Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties. The Business Co-operation Framework Agreement does not restrict the rights of the parties (as the case may be) to sell or purchase products or services contemplated under the Business Co-operation Framework Agreement from any other purchasers or suppliers (as the case may be).

The relevant parties will enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing, quality standards and warranties, payment terms, terms of delivery, technological services and obligations in the event of default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

The transactions contemplated under the Business Co-operation Framework Agreement are in connection with the following aspects of business co-operation between the parties:

(1) Purchase of home electrical appliances

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will purchase from Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis home electrical appliances as they may require from time to time.

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Pricing:

Pricing for the purchase of home electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time.

Historical figures:

The annual cap allocated to the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2011 as specified in the Existing Business Co-operation Framework Agreement is RMB12,930,000 (inclusive of value-added tax). For the ten months ended 31 October 2011, the aggregate transaction amount for the purchase of home electrical appliances by the Group from Hisense Electric and/or its subsidiaries amounted to approximately RMB100,000 (unaudited). There has not been any purchase of home electrical appliances by the Group from Hisense Group and/or its subsidiaries for the ten months ended 31 October 2011.

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of home electrical appliances by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2012 are subject to the Cap of RMB4,000,000 (inclusive of value-added tax), of which:

- (i) RMB2,500,000 will be allocated to the purchase of home electrical appliances from Hisense Group and/or its subsidiaries; and
- (ii) RMB1,500,000 will be allocated to the purchase of home electrical appliances from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances; (b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and (c) the projected need of purchase cellular phones and television sets from Hisense Group,

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Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2012 as gifts for the Group's marketing and promotion activities which aimed at boosting the sales of the Group's home electrical appliances such as refrigerators.

Reasons for and benefits of the purchase of home electrical appliances from Hisense Group, Hisense Electric and/or their respective subsidiaries:

The sales and overall image of the Company can be enhanced by purchasing cellular phones and television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries as gifts for the Group's marketing and promotion activities which aimed at boosting the sales of the Group's home electrical appliances. In addition, the Group intends to procure models for electrical appliances (such as refrigerators and air-conditioners) through Hisense Group, Hisense Electric and/or their respective subsidiaries for the purpose of conducting analysis and research so as to develop the Group's market research functions. Since certain subsidiaries of Hisense Group and Hisense Electric are engaged in the import and export business and given that the pricing for the purchase of home electrical appliances will be determined with reference to the market price of similar home electrical appliances, it will be more convenient to the Group in terms of time and costs to purchase certain home electrical appliances through Hisense Group, Hisense Electric and/or their respective subsidiaries.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchase of home electrical appliances from Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(2) *Purchase of equipment*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will purchase from Hisense Group and/or its subsidiaries on a non-exclusive basis such quantities of equipment as they may require from time to time.

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Pricing:

Pricing for the purchase of equipment is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness.

Historical figures:

The annual cap allocated to the purchase of equipment by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2011 as specified in the Existing Business Co-operation Framework Agreement is RMB20,920,000 (inclusive of value-added tax), of which RMB18,920,000 is allocated to the purchase of equipment from Hisense Group and/or its subsidiaries and RMB2,000,000 is allocated to the purchase of equipment from Hisense Electric and/or its subsidiaries. For the ten months ended 31 October 2011, the aggregate transaction amount for the purchase of equipment by the Group from Hisense Group and/or its subsidiaries amounted to approximately RMB1,960,000 (unaudited). There has not been any purchase of equipment by the Group from Hisense Electric and/or its subsidiaries for the ten months ended 31 October 2011.

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of equipment by the Group from Hisense Group and/or its subsidiaries for the financial year ending 31 December 2012 are subject to the Cap of RMB10,000,000 (inclusive of value-added tax).

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group and/or its subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012.

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Reasons for and benefits of the purchase of equipment from Hisense Group and/or its subsidiaries:

Certain subsidiaries of Hisense Group are principally engaged in the import and export business. As such, Hisense Group has broad channels for import of materials and are in an advantageous position to obtain products with better quality and pricing by placing bulk purchase orders. For these reasons, the purchase of equipment by the Group from Hisense Group and/or its subsidiaries will reduce purchase costs. At the same time, the Company is satisfied with the quality of the equipment provided by Hisense Group and/or its subsidiaries from their previous course of dealings. Besides, it is a trend of the Group's business and production to move towards high-end products and it is expected that equipment will be purchased and imported from overseas to improve the Group's current production line technology.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchase of equipment from Hisense Group and/or its subsidiaries under the Business Co-operation Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(3) *Purchase of raw materials, parts and components*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will purchase from Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis such quantities of raw materials, parts and components as they may require from time to time.

Pricing:

Pricing for the purchase of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness.

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Historical figures:

The annual cap allocated to the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2011 as specified in the Existing Business Co-operation Framework Agreement is RMB68,630,000 (inclusive of value-added tax). For the ten months ended 31 October 2011, the aggregate transaction amount for the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB21,000,000 (unaudited) (of which RMB5,950,000 was for the purchases from Hisense Group and/or its subsidiaries, whereas RMB15,050,000 was for the purchases from Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the purchase of raw materials, parts and components by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2012 are subject to the Cap of RMB68,030,000 (inclusive of value-added tax), of which:

- (i) RMB22,030,000 will be allocated to the purchase of raw materials, parts and components from Hisense Group and/or its subsidiaries;
- (ii) RMB46,000,000 will be allocated to the purchase of raw materials, parts and components from Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012.

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Reasons for and benefits of the purchase of raw materials, parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries:

Certain subsidiaries of Hisense Group and/or Hisense Electric are principally engaged in the import and export business. As such, Hisense Group and/or Hisense Electric have broad channels for import of materials and are in an advantageous position to obtain products with better quality and pricing by placing bulk purchase orders. For these reasons, the purchase of raw materials, parts and components for refrigerators and air-conditioners by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries will reduce purchase costs, and at the same time, the Group can benefit from the sharing of resources and the maximization of the economies of scale. Further, the Company is satisfied with the quality of the raw materials, parts and components provided by Hisense Group, Hisense Electric and/or their subsidiaries from their previous course of dealings. Quality of the Group's products is enhanced by importing certain raw materials overseas, which in turn boosts the sales of high-end products and increases product and brand competitiveness.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the purchase of raw materials, parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(4) *Provision of services*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will engage (i) Hisense Group and/or its subsidiaries on a non-exclusive basis for the provision of property service, medical service, material processing services, material inspection services, installation and maintenance, management consultancy, agency services for import and export, leasing, design, property construction and information system maintenance and (ii) Hisense Electric and/or its subsidiaries on non-exclusive basis for the provision of property service, material processing services and product design services as they may require from time to time.

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Pricing:

The fees payable by the Group for the provision of the aforesaid services (other than agency services for export) is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services from time to time.

The fees payable by the Group for the provision of the agency services for export is calculated by multiplying the Group's turnover from overseas sales for the relevant products with an export agency fee percentage. Such export agency fee percentage is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties mainly with reference to the rate of the charges actually incurred by the Group for conducting overseas sales by itself in previous years, on the basis that such export agency fee percentage shall be a rate which is lower than the level of the rate of the charges actually incurred by the Group for conducting overseas sales by itself in previous years to a certain extent for the same computation of expenses and conditions.

Historical figures:

The annual cap allocated to the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2011 as specified in the Existing Business Co-operation Framework Agreement is RMB396,420,000 (inclusive of value-added tax). For the ten months ended 31 October 2011, the aggregate transaction amount for the provision of services contemplated under the Business Co-operation Framework Agreement by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group (other than those services of which there have not been any historical transactions for the period) amounted to approximately RMB170,640,000 (unaudited) (of which RMB47,190,000 was for the provision of relevant services (other than agency services for export) by Hisense Group and/or its subsidiaries, RMB117,020,000 was for the provision of the agency services for export by Hisense Group and/or its subsidiaries, whereas RMB6,430,000 was for the provision of relevant services by Hisense Electric and/or its subsidiaries .

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Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2012 are subject to the Cap of RMB319,220,000 (inclusive of value-added tax), of which:

- (i) RMB129,120,000 will be allocated to the provision of property service, medical service, material processing services, material inspection services, installation and maintenance, management consultancy, agency services for import, leasing, design, property construction and information system maintenance by Hisense Group and/or its subsidiaries;
- (i) RMB162,000,000 will be allocated to the provision of agency services for export by Hisense Group and/or its subsidiaries; and
- (iii) RMB28,100,000 will be allocated to the provision of material processing services, property service and product design services by Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012. The increase of the above Cap when compared with the historical amounts of the transactions for the ten months ended 31 October 2011 was mainly due to (a) the expansion of the type of services to be provided by Hisense Group, Hisense Electric and/or their respective subsidiaries with the addition of the provision of property construction service by Hisense Group and/or its subsidiaries and product design services by Hisense Electric and/or its subsidiaries; and (b) the expected increase in the fees payable by the Group to Hisense Electric and/or its subsidiaries as it is intended that the Group will lease more office premises from Hisense Electric and/or its subsidiaries in 2012.

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Reasons for and benefits of the engagement of services of Hisense Group, Hisense Electric and/or their respective subsidiaries:

The Company is satisfied with the quality of the services provided by Hisense Group, Hisense Electric and/or their subsidiaries from their previous course of dealings and considers that Hisense Group, Hisense Electric and/or their subsidiaries possess the expertise and experience for the provision of relevant services which can enable the Group to carry out its daily operation smoothly. Certain subsidiaries of Hisense Group are outstanding companies in the property development industry in Qingdao and the quality of property construction for the Group can be assured as a result of the professional quality which they can deliver.

In addition, Hisense Group and Hisense Electric have over 10 years' experience in overseas operations, professional expertise and mature market network and channels in overseas market. By leveraging on the overseas sales platform of Hisense Group and Hisense Electric, the Group can benefit in the development of its overseas sales channels, reduce setup costs for overseas market and reduce expenses in relation to export businesses. The Group can also make use of the popularity of the "Hisense" brand in the overseas market to compensate for the lack of brand awareness of the "Kelon" brand overseas, which boost confidence of customers and increase competitiveness of the products.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the engagement of services of Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(5) *Supply of home electrical appliances*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will supply on a non-exclusive basis home electrical appliances to Hisense Group, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

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Pricing:

Pricing for the supply of home electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of similar home electrical appliances from time to time.

Historical figures:

The annual cap allocated to the supply of home appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2011 as specified in the Existing Business Co-operation Framework Agreement is RMB1,783,850,000 (inclusive of value-added tax). For the ten months ended 31 October 2011, the aggregate transaction amount for the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB1,295,950,000 (unaudited) (of which RMB1,294,130,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB1,820,000 was for the supply to Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2012 are subject to the Cap of RMB2,504,000,000 (inclusive of value-added tax), of which:

- (i) RMB2,500,000,000 will be allocated to the supply of home electrical appliances to Hisense Group and/or its subsidiaries; and
- (i) RMB4,000,000 will be allocated to the supply of home electrical appliances to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions

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about the demand for electrical appliances in the PRC; and (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012. Currently, the Group has both engaged Hisense Group and/or its subsidiaries to provide agency services for export of its products as well as supplied its products to Hisense Group, Hisense Electric and/or their respective subsidiaries direct. In view of the recent market turmoil, especially in the overseas markets, it is the intention of the Group to conduct more sales by supplying its home electrical appliances to Hisense Group, Hisense Electric and/or their respective subsidiaries direct. Through the sales platform of Hisense Group, Hisense Electric and/or their respective subsidiaries, the Group can also develop new overseas markets, such as Middle East and Africa, for the Group's products. As such, the above Cap has been increased substantially when compared with the historical amounts of the transactions for the ten months ended 31 October 2011.

Reasons for and benefits of the supply of home electrical appliances to Hisense Group, Hisense Electric and/or their respective subsidiaries:

The competition in the home electrical appliances market in the PRC is very keen at present with substantial increase in the price of raw materials. The production and supply of home electrical appliances by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group by lowering the fixed costs per unit of product incurred by the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share and boost its sales turnover and revenue by selling products through the online platform of Hisense Group and Hisense Electric which reduces the product circulation links.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of home electrical appliances to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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(6) Supply of equipment

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will supply on a non-exclusive basis such quantities of equipment to Hisense Group, and/or its subsidiaries as they may require from time to time.

Pricing:

Pricing for the supply of equipment is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness.

Historical figures:

There has not been any transaction for the supply of equipment by the Group to Hisense Group and/or its subsidiaries for the ten months ended 31 October 2011.

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of equipment by the Group to Hisense Group and/or its subsidiaries for the financial year ending 31 December 2012 are subject to the Cap of RMB12,000,000 (inclusive of value-added tax).

The above Cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances in the PRC; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012.

Reasons for and benefits of the supply of equipment to Hisense Group and/or its subsidiaries:

The supply of equipment by the Group to Hisense Group and/or its subsidiaries will increase the Company's revenue and satisfy the production needs of Hisense Group and/or its subsidiaries. At the same time, through the export channels of Hisense Group and/or its subsidiaries, sales to overseas markets will be enhanced to satisfy the demands therein.

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In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of equipment to Hisense Group and/or its subsidiaries under the Business Co-operation Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(7) *Supply of moulds*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will supply on a non-exclusive basis moulds to Hisense Group, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

Pricing:

In response to the invitations to tender from Hisense Group, Hisense Electric and/or their respective subsidiaries (which are also extended to various independent third parties) from time to time, the Group may submit such tenders or bids to supply the moulds for such products requested by Hisense Group, Hisense Electric and/or their respective subsidiaries in its/ their invitation to tender. Pricing for the supply of moulds is determined by the open bidding process.

Historical figures:

The annual cap allocated to the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2011 as specified in the Existing Business Co-operation Framework Agreement is RMB275,000,000 (inclusive of value-added tax). For the ten months ended 31 October 2011, the aggregate transaction amount for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB155,150,000 (unaudited) (of which RMB109,910,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB45,240,000 was for the supply to Hisense Electric and/or its subsidiaries).

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Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries to the Group for the financial year ending 31 December 2012 are subject to the Cap of RMB267,000,000 (inclusive of value-added tax), of which:

- (i) RMB187,000,000 will be allocated to the supply of moulds to Hisense Group and/or its subsidiaries; and
- (i) RMB80,000,000 will be allocated to the supply of moulds to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions relating to the demand for electrical appliances and moulds in the PRC and overseas markets; (c) the expected increase in the purchase of moulds by Hisense Group, Hisense Electric and/or their respective subsidiaries from the Group given that (i) the former are satisfied with the quality of the moulds supplied by the Group and the ability of the Group to develop moulds and (ii) it is intended that more subsidiaries of Hisense Group and/or Hisense Electric will purchase moulds from the Group; and (d) the business development plan to be implemented by the Company, in particular, the Group's plan to expand into the new overseas markets.

Reasons for and benefits of the supply of moulds to Hisense Group, Hisense Electric and/or their respective subsidiaries:

The sale of moulds by the Group to Hisense Group and Hisense Electric will become an important part of the Group's business. The sale of moulds under the Business Co-operation Framework Agreement will facilitate the Group in maintaining an important existing relationship with the relevant subsidiaries of Hisense Group and Hisense Electric as the latter's supplier for moulds. By maintaining such relationship, the relevant subsidiaries of Hisense Group and Hisense Electric may become stable customers of the Company in respect of the sale of moulds, thereby further expanding the sales of the Company.

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In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of moulds to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(8) *Supply of raw materials, parts and components*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will supply to Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis such quantities of raw materials, parts and components to Hisense Group, Hisense Electric and/or their respective subsidiaries as they may require from time to time.

Pricing:

Pricing for the supply of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness.

Historical figures:

The annual cap allocated to the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2011 as specified in the Existing Business Co-operation Framework Agreement is RMB208,930,000 (inclusive of value-added tax). For the ten months ended 31 October 2011, the aggregate transaction amount for the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries amounted to approximately RMB38,880,000 (unaudited) (of which RMB38,800,000 was for the supply to Hisense Group and/or its subsidiaries, whereas RMB80,000 was for the supply to Hisense Electric and/or its subsidiaries).

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Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the supply of raw materials, parts and components by the Group to Hisense Group, Hisense Electric and/or its subsidiaries for the financial year ending 31 December 2012 are subject to the Cap of RMB90,000,000 (inclusive of value-added tax), of which:

- (i) RMB70,000,000 will be allocated to the supply of raw materials, parts and components to Hisense Group and/or its subsidiaries; and
- (ii) RMB20,000,000 will be allocated to the supply of raw materials, parts and components to Hisense Electric and/or its subsidiaries.

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC.

Reasons for and benefits of the supply of raw materials, parts and components to Hisense Group, Hisense Electric and/or their respective subsidiaries:

Hisense Group and Hisense Electric have overseas sales channels and high quality customer resources which can enhance the sales of raw materials, parts and components of the Company. Further, the provision of raw materials, parts and components to Hisense Group, Hisense Electric and their respective subsidiaries can increase the revenues of the Company.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the supply of raw materials, parts and components to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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(9) *Provision of services by the Group*

Pursuant to the terms of the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will provide property services, design, loading and unloading services and equipment rental services to Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis from time to time.

Pricing:

The fees payable by Hisense Group, Hisense Electric and/or its subsidiaries for the aforesaid services is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services from time to time.

Historical figures:

The annual cap allocated to the provision of services by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2011 as specified in the Existing Business Co-operation Framework Agreement is RMB3,920,000 (inclusive of value-added tax). For the ten months ended 31 October 2011, the aggregate transaction amount for the provision of the aforesaid services by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries (other than those services of which there have not been any historical transactions for the period) amounted to approximately RMB480,000 (unaudited) (of which RMB180,000 was for the provision of relevant services to Hisense Group and/or its subsidiaries, whereas 300,000 was for the provision of relevant services to Hisense Electric and/or its subsidiaries).

Proposed Cap:

The transactions contemplated under the Business Co-operation Framework Agreement regarding the provision of services by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries for the financial year ending 31 December 2012 are subject to the Cap of RMB8,920,000 (inclusive of value-added tax), of which:

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- (i) RMB8,420,000 will be allocated to the provision of design, loading and unloading services, equipment rental services and property services to Hisense Group and/or its subsidiaries; and
- (ii) RMB500,000 will be allocated to the provision of property services to Hisense Electric and/or its subsidiaries

The above Cap was determined with reference to (a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions relating to the provision of such services.

Reasons for and benefits of the provision of services to Hisense Group, Hisense Electric and/or their respective subsidiaries:

The provision of design, loading and unloading services, equipment rental services and property management services to Hisense Group, Hisense Electric and/or their respective subsidiaries will increase the Company's revenue.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the provision of services to Hisense Group, Hisense Electric and/or their respective subsidiaries under the Business Co-operation Framework Agreement and the Cap in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(D) Continuing Connected Transactions and Discloseable Transaction — Financial Services Agreement

Date: 29 November, 2011

Parties: The Company; and
Hisense Finance

Term:

The term of the Financial Services Agreement shall commence from the date of approval of the Financial Services Agreement by the Independent Shareholders until 31 December 2013, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

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Condition:

The Financial Services Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

Subject matters:

Pursuant to the terms of the Financial Services Agreement, the Group will engage Hisense Finance to provide a range of financial services within its scope of business, including without limitation, deposit services, loan services, draft discount services (票據貼現服務) and other businesses which may be carried on by Hisense Finance as approved by the regulatory authorities. Particulars of the services to be provided by Hisense Finance to the Group are as follows:

- (i) deposit services;
- (ii) loan and electronic bank acceptance bill (電子銀行承兌匯票) services;
- (iii) draft discount services (票據貼現服務); and
- (iv) settlement and sale of foreign exchange services (結售匯服務), subject to the approval from the Administration of Foreign Exchange (外匯管理局) having been obtained by Hisense Finance for the provision of such services.

For the draft discount services which will be provided to the Group by Hisense Finance, the Group is entitled to present bank drafts to Hisense Finance for payment before the maturity date of the bank drafts. In return, Hisense Finance will charge discount interest (貼現利息) from the Group for “cashing” the bank drafts. After the Group has discounted the bank drafts with Hisense Finance, such bank drafts will belong to the latter which will have the right to present such bank drafts to the issuing banks for payment on their respective maturity dates.

The implementation of the provision of particular services contemplated under the Financial Services Agreement shall be subject to the definitive contract(s) to be entered into between the relevant parties within the scope of the Financial Services Agreement.

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The Group may obtain financial services contemplated under the Financial Services Agreement from other financial institutions in addition to Hisense Finance, as it sees fit.

Pricing:

Deposit service

The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits.

Loan and electronic bank acceptance bill service

The interest rate charged for the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. Hisense Finance may require the Group to provide guarantee or security over assets in respect of the loan services rendered, depending on the then circumstances and business needs.

The service fees charged for the provision of electronic bank acceptance bill services by Hisense Finance for the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services.

Draft discount service

The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate (再貼現利率) quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group.

Settlement and sale of foreign exchange

The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be worse than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group. The Company confirmed that no service fees will be charged by Hisense Finance for the provision of settlement and sale of foreign exchange services for the Group.

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The basis for the pricing for the aforesaid services shall be the benchmark interest rate for deposits and loans (存貸款基準利率) and the rediscount rate (再貼現利率) prescribed by The People's Bank of China, and the market level of the market interest rates of discounted bill (票據貼現市場利率) and the service fee for establishing electronic bank acceptance bill (開立電子銀行承兌匯票手續費).

The transactions contemplated under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.

Proposed Caps and Historical figures:

Deposit service

The maximum daily balance of the deposits which can be placed by the Group with Hisense Finance during the term of the Existing Financial Services Agreement is RMB400,000,000 (inclusive of interest). For the ten months ended 31 October 2011, the average daily balance of the deposits placed by the Group with Hisense Finance amounted to approximately RMB64,015,633.

The Company currently expects that the maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the Cap of RMB350,000,000 (inclusive of interest) on any given day.

The above Cap was determined with reference to (i) the historical cashflow figures of the Group; and (ii) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group.

Loan and electronic bank acceptance bill service

The maximum balance of loan which can be provided by Hisense Finance to the Group during the term of the Existing Financial Services Agreement is RMB1.5 billion (inclusive of interest). For the ten months ended 31 October 2011, the average monthly balance of the loans provided by Hisense Finance to the Group amounted to approximately RMB686,500,000.

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The Company currently expects that the maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the Cap of RMB1.5 billion (inclusive of interest and service fees).

The above Cap was determined with reference to (i) the historical cashflow figures of the Group; (ii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iii) the plan of the Group to obtain more loans from Hisense Finance instead of from other financial institutions for the years ending 31 December 2013 since the terms for the provision of the loans by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the loan application process by the Company.

Draft discount service

Under the Existing Financial Services Agreement, the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services shall not exceed RMB25,000,000 during the term of the Existing Financial Services Agreement. For the ten months ended 31 October 2011, there has not been any transaction for the provision of draft discount services to the Group by Hisense Finance.

The Company currently expects that the annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the Cap of RMB50,000,000.

The above Cap was determined with reference to (i) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (ii) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the years ending 31 December 2013 since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the draft discount application process by the Company.

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Settlement and sale of foreign exchange

There has not been any historical transaction for the provision of settlement and sale of foreign exchange services by Hisense Finance to the Group.

The Company currently expects that, subject to the approval from the Administration of Foreign Exchange (外匯管理局) having been obtained by Hisense Finance for the provision of such services, the annual amount settled or sold by Hisense Finance for the Group shall not exceed the Cap of US\$50,000,000.

The above Cap was determined with reference to the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the years ending 31 December 2013.

Reasons for and benefits of the Financial Services Agreement:

The main reasons for the election by the Company to use Hisense Finance for the provision of the relevant financial services are as follows:

- (i) the rates on loans and deposits offered by Hisense Finance to the Group will be equal to or more favourable than those offered by PRC commercial banks;
- (ii) the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision than those offered by PRC commercial banks; and
- (iii) Hisense Finance is regulated by the CBRC and engages into the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. Its primary customers are companies within the Hisense Group. In general, as the risks exposed to Hisense Finance are lesser than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard customers' funds more effectively.

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Regarding the arrangement on depositing cash of the Group with Hisense Finance, it is the current intention that the Group may deposit a substantial part of its cash in hand with Hisense Finance in 2012. Hisense Finance has not been given a credit rating by CBRC as CBRC does not give credit ratings to regulated institutions. Despite that the Company considers that the risk associated with placing deposits with Hisense Finance is minimal, there is a risk that the Group may not be able to withdraw all of its deposits from Hisense Finance due to operational problems of Hisense Finance. However, the Company is of the view that such risk can be managed. On the one hand, Hisense Finance will strictly adhere to the risk management guidelines to financial institutions issued by the CBRC and the asset-liability ratio and liquidity ratio of Hisense Finance are in compliance with the requirements of the CBRC. On the other hand, the Company has devised a risk management plan to prevent, timely control and resolve the risk involved in the deposit arrangement and ensure safety of its capital. To enhance risk assessment and management, during the period when cash is deposited with Hisense Finance, the Company will review the latest available financial reports of Hisense Finance to assess the operational and financial risks of Hisense Finance and issue risk assessment reports to the Directors for their consideration and adopt necessary measures to prevent the risks identified and ensure the safety and liquidity of the Company's capital. The Directors consider that it is fair and reasonable to place deposits with Hisense Finance as the transactions will be conducted in the ordinary and usual course of business of the Company and the rates on deposits offered by Hisense Finance will be equal or more favourable than those offered by other PRC commercial banks to the Group.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Financial Services Agreement and the Caps in relation thereto are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

INFORMATION RELATING TO THE COMPANY, BEIJING EMBRACO SNOWFLAKE COMPRESSOR, BEIJING SNOWFLAKE GROUP, HISENSE ELECTRIC, HISENSE FINANCE, HISENSE GROUP AND HUAYI COMPRESSOR

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

Beijing Embraco Snowflake Compressor was established on 30 April 1995 with a registered capital of US\$94.15 million. Its authorised representative is Li Ding (李

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玎) and its registered address is at No. 29 Yu Hua Road, Zone B, Beijing Tianzhu Airport Economic Development Zone, Shunyi District, Beijing City. It is primarily engaged in the production and repairing of self-manufactured refrigeration and hermetically sealed compressors and their parts and components; and sale of self-manufactured products.

Beijing Snowflake Group was established on 14 December 1992 with a registered capital of RMB226.55 million. Its authorised representative is Dong Chun (董淳) and its registered address is at No. 1 (Section 3) Xinghua Street, Huangcun Town, Daxing District, Beijing City. It is primarily engaged in the manufacture and sale of refrigerators, washing machines, exhaust fans and freezers.

Hisense Electric was established on 17 April 1997 with a registered capital of RMB866,651,715. Its authorised representative is Ms. Yu Shu Min and its registered address is at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone. It is primarily engaged in the manufacture and sale of television, refrigerators, washing machines, radio and television equipment, communication products, information technology products, home and commercial appliances and electronic products and provision of the related services.

Hisense Finance is a non-bank financial institution which establishment was approved by the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance was established in the PRC on 12 June 2008 with a registered capital of RMB500 million. Hisense Finance is owned as to 51% by Hisense Group, 9% by China Everbright Limited (Stock code: 00165, a company listed on the Hong Kong Stock Exchange), 20% by Hisense Electric and 20% by 青島海信電子產業控股股份有限公司 (Qingdao Hisense Electronic (Holdings) Company Limited). Hisense Finance is not a banking company as defined in Rule 14A.10 of the Hong Kong Listing Rules.

The business scope of Hisense Finance include: the provision of financial services including financial consultation, credit appraisal and other relevant advice and agency services to member companies, provision of assistance in receiving transaction proceeds to member companies, provision of approved insurance agency services, provision of guarantees, entrusted loans and entrusted investment services, draft acceptance and discount services, planning of settlement scheme, deposit services, loan and finance leasing and intra-group transfer and settlement services to member companies, underwriting corporate bonds for member companies, securities investment other than investment in secondary markets for stocks and provision of consumer credit and buyer credit for products of member companies.

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Hisense Group was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Zhou Houjian is the legal representative of Hisense Group, a wholly state-owned enterprise with the registered capital of RMB806,170,000. It is primarily engaged in the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small home electrical appliances, VCD and DVD players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; and the self-operated import and export business.

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 and its registered address is at Hi-Tech Development Zone, No. 1 Changhong Avenue, Jingde Town, Jiangxi Province, China. It is primarily engaged in the production and sale of fluorine-free compressors, refrigerators and related accessories, processing of refrigerating equipment with supplied materials and supplied samples, assembly of supplied components, compensation trade, processing and sale of hardware accessories and export and trading business.

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

(A) Compressors Purchase Framework Agreement

As at the Latest Practicable Date, Beijing Embraco Snowflake Compressor is held as to 30.82% by Beijing Snowflake Group, a substantial shareholder which holds 45% of the equity interests in Hisense Beijing (being a non-wholly owned subsidiary of the Company) and therefore Beijing Embraco Snowflake Compressor is a connected person of the Company according to the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the Compressors Purchase Framework Agreement will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Compressors Purchase Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Compressors Purchase Framework Agreement, the transactions contemplated thereunder and the Cap in relation thereto are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

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Beijing Embraco Snowflake Compressor and its respective associates are required under the Hong Kong Listing Rules to abstain from voting in relation to the continuing connected transactions under the Compressors Purchase Framework Agreement and so far as the Company is aware, none of them holds any Shares as at the Latest Practicable Date. Should Beijing Embraco Snowflake Compressor or its associates become interested as registered or beneficial owner(s) of the Shares from the Latest Practicable Date to the date of the EGM, they would have to abstain from voting in the EGM in relation to the continuing connected transactions entered between the Group and Beijing Embraco Snowflake Compressor and the relevant Cap.

(B) Huayi Compressors Purchase Framework Agreement

As at the Latest Practicable Date, Huayi Compressor is a substantial shareholder holding 29.95% of Shunde Ronshen Plastic Products Co., Ltd. (佛山市順德區容聲塑膠有限公司) and 29.89% of Guangdong Kelon Mould Co., Ltd. (廣東科龍模具有限公司) (both being non-wholly owned subsidiaries of the Company) and therefore Huayi Compressor is a connected person of the Company according to the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the Huayi Compressors Purchase Framework Agreement will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Huayi Compressors Purchase Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Huayi Compressors Purchase Framework Agreement, the transactions contemplated thereunder and the Cap in relation thereto are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

Huayi Compressor and its respective associates are required under the Hong Kong Listing Rules to abstain from voting in relation to the continuing connected transactions under the Huayi Compressors Purchase Framework Agreement and so far as the Company is aware, none of them holds any Shares as at the Latest Practicable Date. Should Huayi Compressor or its associates become interested as registered or beneficial owner(s) of the Shares after the Latest Practicable Date to the date of the EGM, they would have to abstain from voting in the EGM in relation to the continuing connected transactions entered between the Group and Huayi Compressor and the relevant Cap.

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(C) Business Co-operation Framework Agreement

As at the Latest Practicable Date, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.22% of the issued shares of the Company and (ii) Hisense HK holds 1.99% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to 41.36% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

In view of the interests of Hisense Group and Hisense Electric in the Business Co-operation Framework Agreement, Hisense Group and Hisense Electric and their respective associates will abstain from voting in relation to the resolutions to approve the Business Co-operation Framework Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 612,316,909 Shares (representing approximately 45.22% of the issued share capital of the Company) and Hisense HK, which held 27,000,000 Shares (representing approximately 1.99% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution at the EGM.

(D) Financial Services Agreement

As at the Latest Practicable Date, (i) Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding 45.22% of the issued shares of the Company and (ii) Hisense HK holds 1.99% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Services Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

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As the applicable percentage ratios for the Caps in relation to the transactions for the provision of deposit, loan and electronic bank acceptance bill, draft discount and settlement and sale of foreign exchange services by Hisense Finance to the Group contemplated under the Financial Services Agreement exceed 5%, the Financial Services Agreement, the transactions contemplated thereunder and the Caps in relation thereto are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

The provision of deposit services to the Group under the Financial Services Agreement also constitutes the provision of financial assistance by the Group to Hisense Finance under Rule 14.04(1)(e) of the Hong Kong Listing Rules. Since the consideration ratio for the provision of such deposit services is more than 5% but less than 25%, it will constitute a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to the announcement requirement thereunder.

In view of the interests of Hisense Finance in the Financial Services Agreement, Hisense Finance and its associates will abstain from voting in relation to the resolution(s) to approve the Financial Services Agreement and the transactions contemplated thereunder and the relevant Caps at the EGM. As such, Hisense Air-conditioning, which held 612,316,909 Shares (representing approximately 45.22% of the issued share capital of the Company) and Hisense HK, which held 27,000,000 Shares (representing approximately 1.99% of the issued share capital of the Company) as at the Latest Practicable Date, will abstain from voting in relation to the relevant resolution at the EGM.

The Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement are not inter-conditional on each other.

GENERAL

Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin, being Directors, have abstained from voting on the relevant board resolution(s) for approving the Business Co-operation Framework Agreement, the Financial Services Agreement and the transactions contemplated thereunder in view of their interest therein as set out below:

- (a) Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin are also directors or senior management of Hisense Group or some of its subsidiaries;

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- (b) Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin are also directors of Hisense Electric; and
- (c) Mr. Tang Ye Guo and Ms. Yu Shu Min are also directors of Hisense Finance.

The Directors confirm that they do not have any material interest in the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement and the transactions contemplated therein, and therefore, no Directors have abstained from voting on the board resolution(s) for approving the same.

III. BUSINESS FRAMEWORK AGREEMENTS WITH HISENSE HITACHI AND HISENSE WHIRLPOOL

(A) Hitachi Business Framework Agreement

Date: 29 November 2011

Parties: The Company; and
Hisense Hitachi

Term:

The Hitachi Business Framework Agreement shall commence from the date of approval of the Hitachi Business Framework Agreement at the EGM until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.

Condition:

The Hitachi Business Framework Agreement and the transactions contemplated thereunder are subject to approval at the EGM by independent shareholders and associated Shareholders who have interests in such transactions shall abstain from voting on the relevant resolution at the EGM.

Subject matters:

The transactions contemplated under the Hitachi Business Framework Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent

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third parties. The Hitachi Business Framework Agreement does not restrict the rights of the Company to enter into transactions contemplated under the Hitachi Business Framework Agreement with any other third parties. The annual caps for the transactions contemplated under the Hitachi Business Framework Agreement and the historical amount of the transactions from January to October 2011 are set out as follows:

Unit: RMB ('0000) (including value-added tax)

Types of transactions	Division by products or services	Annual caps of transaction amount to be paid/ received during the term of the Hitachi Business Framework Agreement	Amount paid/ received in respect of such type of transactions from January to October 2011 (unaudited)
Sale of products and materials	Sale of home electrical appliances products by the Company	48,500	3,020
	Sale of raw materials, parts and components by the Company	220	2
	Sale of moulds by the Company	200	0
Purchase of products and materials	Purchase of raw materials, parts and components by the Company	1,500	500

The parties will enter into definitive contract(s) setting out specific terms including specifications of the home electrical appliances, moulds, raw materials, parts and components, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Hitachi Business Framework Agreement.

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Pricing and payment term:

Pricing for the sale of home electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

Pricing for the purchase and supply of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness and shall be confirmed in the definitive contract(s) signed by the parties. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

The price for the sale of moulds by the Company to Hisense Hitachi is the market price determined by price comparison by way of open bidding. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

Reasons for and benefits of the transactions contemplated under the Hitachi Business Framework Agreement:

Sales of home appliances

The sale of home appliances to Hisense Hitachi may expand the sales and increase sales revenue of the Company.

Reciprocal purchase of raw materials, parts and components

In order to ensure the supply and after-sale service for products customized by Hisense Hitachi, both parties intend to reciprocally purchase raw materials, parts and components that match the customized products.

Sales of moulds

Sale of mould products is an important business component of 青島海信模具有限公司 (Qingdao Hisense Mould Company Limited), the Company's subsidiary. The sale of moulds to Hisense Hitachi to meet its production requirements may expand the sales of the Company and increase the sales revenue of the Company.

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The above connected transactions will not prejudice the interests of the Company and will not cause adverse effect on the current and future financial situation and operating results of the Company.

Information of Hisense Hitachi

Hisense Hitachi was established on 8 January 2003, registered address: 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone, legal representative: Qing Shangong, registered capital: US\$46 million, nature of enterprise: company with limited liability (sino-foreign equity joint venture enterprise), scope of business: research and development, manufacture and sale of commercial air-conditioning system, sale of self-produced products and provision of after-sale services. As at the Latest Practicable Date, the Company held 49% equity interest of Hisense Hitachi.

In view of the above, and based on the business credit and ability of commercial operation of Hisense Hitachi as known by the Company, the board of directors of the Company considers that Hisense Hitachi can honour its obligations, and deliver and pay to the Company the products and payments under the connected transactions.

As Mr. Tang Ye Guo and Ms. Yu Shu Min, both being Directors, are also the directors of Hisense Hitachi, the transactions contemplated under the Hitachi Business Framework Agreement will constitute ordinary connected transactions under the Shenzhen Listing Rules. The independent non-executive Directors have agreed to put forward the transactions contemplated under the Hitachi Business Framework Agreement for the consideration of the board of directors and they considered that such transactions would be conducted on normal commercial terms and based on the terms of the Hitachi Business Framework Agreement, and the terms of the transactions as agreed in the Hitachi Business Framework Agreement were fair and reasonable and were in the interests of the Company and its shareholders as a whole. They also considered that the terms of the Hitachi Business Framework Agreement and the annual caps in relation thereto were fair and reasonable so far as the independent shareholders were concerned.

Mr. Tang Ye Guo and Ms. Yu Shu Min, being Directors, are also the directors of Hisense Hitachi and have abstained from voting on the relevant board resolution for approving the Hitachi Business Framework Agreement and the transactions contemplated thereunder in view of their interest therein.

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(B) Business Framework Agreement With Hisense Whirlpool

Date: 29 November 2011

Parties: The Company; and
Hisense Whirlpool

Term:

The Whirlpool Business Framework Agreement shall commence from the date of approval of the Whirlpool Business Framework Agreement at the EGM until 31 December 2012, which can be terminated before its expiration by mutual agreement of the parties.

Condition:

The Whirlpool Business Framework Agreement and the transactions contemplated thereunder are subject to approval at the EGM by independent shareholders and associated Shareholders who have interests in such transactions shall abstain from voting on the relevant resolution at the EGM.

Subject matters:

The transactions contemplated under the Whirlpool Business Framework Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties. The Whirlpool Business Framework Agreement does not restrict the rights of the Company to enter into transactions contemplated under the Whirlpool Business Framework Agreement with any other third parties. The annual caps for the transactions contemplated under the Whirlpool Business Framework Agreement and the historical amount of the transactions from January to October 2011 are set out as follows:

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Unit: RMB ('0000) (including value-added tax)

Types of transactions	Division by products or services	Annual caps of transaction amount to be paid/received during the term of the Whirlpool Business Framework Agreement	Amount paid/received in respect of such type of transactions from January to October 2011 (unaudited)
Sale of products and materials	Sale of home electrical appliances products by the Company	800	42
	Sale of raw materials, parts and components by the Company	4,000	776
	Sale of equipment by the Company	200	5
	Sale of moulds by the Company	1,050	95
Purchase of products and materials	Purchase of home electrical appliances products by the Company	100,000	40,574
	Purchase of raw materials, parts and components by the Company	1,210	307
	Purchase of equipment by the Company	200	130
Provision of services	Provision of services by the Company	1,100	71

The parties will enter into definitive contract(s) setting out specific terms including specifications of the home electrical appliances, moulds, raw materials, parts and components and equipment, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery,

LETTER FROM THE BOARD

technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Whirlpool Business Framework Agreement.

Pricing and payment term:

Pricing for the purchase and supply of home electrical appliances is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances from time to time. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

Pricing for the purchase and supply of raw materials, parts and components is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness and shall be confirmed in the definitive contract(s) to be signed by the parties. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

The price for the sale of moulds by the Company to Hisense Whirlpool is the market price determined by price comparison by way of open bidding. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

Pricing for the purchase and supply of equipment is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness and shall be confirmed in the definitive contract(s) to be signed by the parties. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

The price for the provision of services is determined after negotiation between the parties according to fair and reasonable pricing principles based on the market prices for similar services in the industry, and it shall be stipulated in the definitive service contract(s) to be signed between the parties. Payment is settled with the payment method as provided in the definitive contract(s) to be signed between the parties.

LETTER FROM THE BOARD

Reasons for and benefits of the transactions contemplated under the Whirlpool Business Framework Agreement:

Reciprocal purchase of home appliances

Hisense Whirlpool owns equipment for the manufacture of large refrigerators and washing machines. Procuring Hisense Whirlpool to manufacture home appliances may enhance the variety of the Company's high-end products, expand the sales of high-end products, and raise the market share of such products, thereby increasing the Company's income and facilitating the further development of its business. The sale of home appliances by the Company to Hisense Whirlpool may expand the sales of the Company and increase sales revenue.

Reciprocal purchase of raw materials, parts and components

Since the Company purchases home appliances such as refrigerators from Hisense Whirlpool, to ensure the supply and after-sale service of products customized by the Company, the Company needs to purchase raw materials, parts and components that match the products customized by the Company. Meanwhile, the provision of raw materials, parts and components by the Company to Hisense Whirlpool may help the Company to expand its purchases and lower its procurement costs.

Reciprocal purchase of equipment

The sale of equipment to Hisense Whirlpool to meet its production requirements may increase the revenue of the Company. The purchases of equipment from Hisense Whirlpool can satisfy the Company's production requirements.

Sales of moulds

Sale of mould products is an important business component of 青島海信模具有限公司 (Qingdao Hisense Mould Company Limited), the Company's subsidiary. The sale of moulds to Hisense Whirlpool to meet its production requirements may expand the sales of the Company and increase the sales revenue of the Company.

LETTER FROM THE BOARD

Provision of services

The provision of services to Hisense Whirlpool may enhance asset utilization ratio and increase revenue of the Company.

The above connected transactions will not prejudice the interests of the Company and will not cause adverse effect on the current and future financial situation and operating results of the Company.

Information of Hisense Whirlpool

Hisense Whirlpool was established on 4 November 2008, registered address: Zhongyang Avenue North Side, Changxing Economic Development Zone, Zhejiang Province, legal representative: BORRA BARBARA, registered capital: RMB450 million, State Tax Registration Certificate: 330522681658253, nature of enterprise: company with limited liability (joint venture with partners from Taiwan, Hong Kong, Macau and Mainland China), scope of business: development, production and assembly of washing machines, refrigerators and their parts, sale of self-manufactured products, provision of after-sale services and technical consultation services related to the above-mentioned products. The substantial shareholders of Hisense Whirlpool are Whirlpool (Hong Kong) Limited and the Company, each holding a 50% equity interest as at the Latest Practicable Date.

In view of the above, and based on the business credit and ability of commercial operation of Hisense Whirlpool as known by the Company, the board of directors of the Company considers that Hisense Whirlpool can honour its obligations, and deliver and pay to the Company the products and payments under the connected transactions.

As Mr. Lin Lan, being a Director, is also the vice-chairman of Hisense Whirlpool, the transactions contemplated under the Whirlpool Business Framework Agreement will constitute ordinary connected transactions under the Shenzhen Listing Rules. The independent non-executive Directors have agreed to put forward the transactions contemplated under the Whirlpool Business Framework Agreement for the consideration of the board of directors and they considered that such transactions would be conducted on normal commercial terms and based on the terms of the Whirlpool Business Framework Agreement, and the terms of the transactions as agreed in the Whirlpool Business Framework Agreement were fair and reasonable and were in the interests of the Company and its shareholders as a whole. They also considered that the terms of the Whirlpool Business Framework Agreement and the annual caps in relation thereto were fair and reasonable so far as the independent shareholders were concerned.

LETTER FROM THE BOARD

Mr. Lin Lan, being a Director, is also the vice-chairman of Hisense Whirlpool and has abstained from voting on the relevant board resolution for approving the Whirlpool Business Framework Agreement and the transactions contemplated thereunder in view of his interest therein.

EGM

The EGM will be held at the conference room of the Company's head office, Shunde District, Foshan City, Guangdong Province, the People's Republic of China at 2:00 p.m. on Monday, 16 January 2012 at which ordinary resolutions will be proposed to approve the appointment of Director, the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Agreement, the Business Co-operation Framework Agreement, Financial Services Agreement, the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto by poll.

A notice of the EGM, a proxy form for use at the EGM and a reply slip have been despatched by the Company on 29 November 2011 and are also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kelon.com>). If you are not able to attend the meeting in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon and to lodge the same with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

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

- (a) the chairman of the meeting; or
- (b) at least two Shareholders with voting rights or their proxies; or
- (c) one or more Shareholder(s) (including their proxies) representing, individually or in aggregate, 10% or more of all shares carrying the voting rights at the general meeting.

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, all votes casted at the EGM must be taken by poll and the Company will procure the chairman of the EGM to demand for voting by poll, the results of which will be announced after the EGM in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

The register of members of the Company has been closed since 17 December 2011 (Saturday) until 16 January 2012 (Monday) (both days inclusive). In order to qualify for attending the EGM, all transfer documents of H Shares together with the relevant share certificates must have been lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 16 December 2011 (Friday) for registration.

RECOMMENDATION

The Directors consider that (i) the appointment of Mr. Gan Yong He as Director of the seventh session of the Board and (ii) the Hitachi Business Framework Agreement and the Whirlpool Business Framework Agreement and the transactions contemplated thereunder and the annual caps in relation thereto are in the interests of the Company and its Shareholders as a whole and are fair and reasonable. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the same.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed in the EGM to approve the same.

ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and the Independent Financial Adviser in relation to the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated thereunder which are respectively set out on pages 60 to 61 and pages 62 to 122 of this circular. Additional information is also set out in the Appendix of this circular for your information.

Yours faithfully,

By Order of the Board of

Hisense Kelon Electrical Holdings Company Limited

Tang Ye Guo

Chairman

Hisense 海信科龙

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)

28 December 2011

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 28 December 2011 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the terms of the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto as to the fairness and reasonableness of the same. The Independent Financial Adviser, Investec Capital Asia Limited, has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out on pages 8 to 59 and pages 62 and 122 in the Circular respectively. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we concur with the views of the Independent Financial Adviser and consider that the terms of the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed in the EGM to approve the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement and the transactions contemplated thereunder and the Caps in relation thereto.

Yours faithfully,

For and on behalf of the Independent Board Committee

Zhang Sheng Ping Wang Xinyu Wang Ai Guo

Independent non-executive Directors

Hisense Kelon Electrical Holdings Company Limited

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from Investec Capital Asia Limited to the Independent Board Committee and the Independent Shareholders in relation to the Agreements prepared for the purpose of incorporation in this circular.



Investec Capital Asia Ltd
Room 3609, 36/F, Two International Finance Centre
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www.investec.com

28 December 2011

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 Framework Agreement, the Huayi Compressors Purchase Framework Agreement, the Business Co-operation Framework Agreement and the Financial Services Agreement (collectively the “Agreements”), details of which are set out in the circular to the Shareholders dated 28 December 2011 (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 Agreements. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

The Existing Compressors Purchase Framework Agreement, the Existing Compressors Purchase and Supply Framework Agreement and the Existing Business Co-operation Framework Agreement will expire on 31 December 2011 and the Existing Financial Services Agreement will expire on 14 January 2012 and it is expected that the Group will continue to enter into transactions of a nature similar to the transactions under those agreements from time to time thereafter. As such, on 29 November 2011, the Board announced that the Company entered into the Agreements with Beijing Embraco Snowflake

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Compressor, Huayi Compressor, Hisense Group and Hisense Electric and Hisense Finance (details of the Agreements are stated in the section headed “Terms of the Agreements” below).

Compressors Purchase Framework Agreement

As at the date of the Compressors Purchase Framework Agreement and the Latest Practicable Date, Beijing Embraco Snowflake Compressor was held as to approximately 30.82% by Beijing Snowflake Group, a substantial shareholder which held 45% of the equity interests in Hisense Beijing (being a non wholly owned subsidiary of the Company) and therefore Beijing Embraco Snowflake Compressor is a connected person of the Company according to the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the Compressors Purchase Framework Agreement will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Compressors Purchase Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Compressors Purchase Framework Agreement, the transactions contemplated thereunder and the annual cap in relation thereto are subject to reporting, announcement, annual review and independent shareholders’ approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

Huayi Compressors Purchase Framework Agreement

As at the date of the Huayi Compressors Purchase Framework Agreement and the Latest Practicable Date, Huayi Compressor was a substantial shareholder holding approximately 29.95% of Shunde Ronshen Plastic Products Co., Ltd. (佛山市順德區容聲塑膠有限公司) and approximately 29.89% of Guangdong Kelon Mould Co., Ltd. (廣東科龍模具有限公司) (both being non wholly owned subsidiaries of the Company) and therefore Huayi Compressor is a connected person of the Company according to the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the Huayi Compressors Purchase Framework Agreement will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Huayi Compressors Purchase Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Huayi Compressors Purchase Framework Agreement, the transactions contemplated thereunder and the annual cap in relation thereto are subject to the reporting, announcement, annual review and independent shareholders’ approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Business Co-operation Framework Agreement

As at the date of the Business Co-operation Framework Agreement and the Latest Practicable Date, (i) Hisense Air-conditioning was a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 45.22% of the issued shares of the Company and (ii) Hisense HK held approximately 1.99% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Electric is owned as to 41.36% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries are connected persons of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. As the applicable percentage ratios for the transactions contemplated under the Business Co-operation Framework Agreement exceed 5% on an annual basis and the annual consideration exceeds HK\$10,000,000, the Business Co-operation Framework Agreement, the transactions contemplated thereunder and the respective annual caps in relation thereto are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

Financial Services Agreement

As at the date of the Financial Services Agreement and the Latest Practicable Date, (i) Hisense Air-conditioning was a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 45.22% of the issued shares of the Company and (ii) Hisense HK held approximately 1.99% of the issued shares of the Company. As Hisense Group is the indirect holding company of Hisense Air-conditioning and Hisense HK and Hisense Finance is a subsidiary of Hisense Group, Hisense Finance is a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Financial Services Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the annual caps in relation to the transactions for the provision of deposit, loan, electronic bank acceptance bill, draft discount and settlement and sale of foreign exchange services by Hisense Finance to the Group contemplated under the Financial Services Agreement exceed 5% on an annual basis, the Financial Services Agreement, the transactions contemplated thereunder and the annual cap in relation thereto are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Agreements are in the interests of the Company and the Shareholders as a whole, and the terms of the 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 Agreements are on normal commercial terms, in ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; (ii) whether or not the respective terms of the 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 Agreements and the transactions contemplated thereunder at the EGM.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS CONSIDERED

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

I. Background information and reasons for the 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 2010 (the "2010 Annual 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 the year ended 31 December 2010, approximately 78.5% 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.

Set out below is a summary of the Group's operating results and financial positions for each of the two years ended 31 December 2010 extracted from the 2010 Annual Report:

	For the year ended	
	31 December	
	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited and restated)	(Audited)
Turnover		
— Sales of refrigerators	6,583,805	7,980,778
— Sales of air-conditioners	4,045,708	6,019,149
— Sales of freezers	594,816	765,775
— Sales of others	709,926	1,045,060
	<hr/>	<hr/>
	11,934,255	15,810,762
Gross profit	2,772,191	2,751,603
Other revenue	152,340	501,614

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended	
	31 December	
	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited and restated)	(Audited)
Other gains and losses	85,562	414,161
Distribution costs	(2,217,430)	(2,523,510)
Administrative expenses	(524,848)	(499,410)
Other operating expenses	(10,873)	(9,085)
Share of results of associates	16,057	2,370
Share of results of jointly controlled entities	53,466	94,406
Finance costs	(78,769)	(57,365)
Profit for the year	224,404	643,196
Attributable to:		
— Owners of the Company	207,830	632,354
— Minority interests	16,574	10,842
	As at 31 December	
	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited and restated)	(Audited)
Non-current assets	3,067,278	3,129,341
Total current assets	3,037,817	5,049,438
Total current liabilities	(5,845,136)	(7,308,450)
Total net assets	259,959	870,329

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the Group's operating result and financial position extracted from the Company's interim report for the six months ended 30 June 2011 (the "2011 Interim Report"):

	For the six months ended 30 June 2011 <i>RMB'000</i> (Unaudited)
Turnover	
— Sales of refrigerators	4,395,138
— Sales of air-conditioners	4,269,849
— Sales of freezers	435,820
— Sales of small electrical appliances and others	580,326
— Revenue from other operations	<u>1,053,776</u>
	10,734,909
Total operating costs	(10,652,649)
Business taxes and surcharges	(26,603)
Sales expenses	(1,399,644)
Administrative expenses	(275,034)
Financial expenses	(28,526)
Impairment loss on assets	(12,285)
Gain from changes in fair value	6,703
Investment profit	99,396
Operating profit	174,952
Total profit	292,367
Income tax expense	(7,688)
Net profit for the period	284,679
Attributable to:	
— Holders of the Company	285,838
— Minority interests	(1,160)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June 2011 <i>RMB'000</i> (Unaudited)
Total non-current assets	3,195,165
Total current assets	5,909,933
Total non-current liabilities	(316,450)
Total current liabilities	(7,602,973)
Total net assets	1,185,675

We have noted from the 2010 Annual Report that the Company's auditors (the "Auditors"), BDO Limited, had expressed a qualified opinion on the financial statements of the Company and its subsidiaries for the year ended 31 December 2010 arising from limitation of audit scope. As a result of a series of activities/transactions entered into by Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), its affiliates and/or companies suspected to be connected with Mr. Gu Chu Jun ("Mr. Gu") during the period from October 2001 to July 2005 which had been harmful to the Group. During the year ended 31 December 2008, legal proceedings which had been previously initiated against Greencool Enterprise and its affiliates and companies suspected to be connected with Mr. Gu reached court judgments which mostly ruled in favour of the Company. However, the enforcement of court judgments had not been completed. Due to the uncertainty on the final outcome of the legal proceedings and execution of court judgments, the Auditors were unable to satisfy themselves as to the appropriateness of the accumulated impairment amounts and the recoverability of the carrying amounts of the receivables due from by Greencool Enterprise, its affiliates and/or companies suspected to be connected with Mr. Gu. Any adjustments found to be necessary would affect the opening accumulated losses as at 1 January 2010, the net liabilities as at 31 December 2010 and the loss for the year then ended.

For the year ended 31 December 2010, the Group recorded an audited turnover of approximately RMB15,810.8 million (representing an increase of approximately 32.5% from the turnover of approximately RMB11,934.3 million for the preceding year) and a net profit of approximately RMB643.2 million

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(representing an increase of approximately 186.6% from the net profit of approximately RMB224.4 million in 2009). As explained in the 2010 Annual Report, in 2010, with the continual increase of citizens' income, acceleration of urbanization and the continued implementation of a series of supportive policies, the demand for changing and replacing of consumer goods had gone up and the popularization rate of home appliances in the third and fourth grade markets had further increased, leading to the rapid development of the home appliances industry.

For the six months ended 30 June 2011, the Group recorded an unaudited turnover of approximately RMB10,734.9 million, representing an increase of approximately 12.8% from the unaudited turnover of approximately RMB9,517.0 million for the corresponding period in 2010. The Group's unaudited net profit attributable to the equity holders of the Company for the six months ended 30 June 2011 of approximately RMB285.8 million represents a decrease of approximately 13.2% from the unaudited net profit attributable to the equity holders of the Company of approximately RMB329.4 million for the corresponding period in 2010. As noted in the 2011 Interim Report, the domestic refrigerator market experienced a significant slowdown in the growth momentum, whereas the air-conditioner market maintained a relatively repaid growth and the overall export of home appliances remained stable. However, the Company experienced increasing costs of raw materials and human resources, and appreciation of RMB and tightening monetary policies were also affecting the profitability of the Group.

As at 30 June 2011, the Group had unaudited total current assets of approximately RMB5,909.9 million and unaudited total current liabilities of approximately RMB7,603.0 million, representing net current liabilities of approximately RMB1,693.1 million. As at 30 June 2011, the Group had outstanding borrowings of approximately RMB1,231.0 million and its unaudited total equity was approximately RMB1,185.7 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 2010 Annual Report and the 2011 Interim Report. It should be noted while the Company's financial statements contain qualified auditors' opinion, we do not consider such qualified auditors' opinion to have any impact on the fairness or reasonableness of the annual caps (details of the fairness and reasonableness of the annual caps are set out in the section headed "Rationale for determining the maximum value of the transactions contemplated under the Agreements" below).

2. *Information on Beijing Embraco Snowflake Compressor*

Beijing Embraco Snowflake Compressor was established on 30 April 1995 with a registered capital of US\$94.15 million. It is primarily engaged in the production and repairing of self-manufactured refrigeration and hermetically sealed compressors and their parts and components; and sale of self-manufactured products.

Based on the information available from the website of Beijing Embraco Snowflake Compressor, it is an affiliated company of Embraco. Embraco was founded in 1971 and has approximately 9,600 employees worldwide. Embraco has factories in Brazil, Italy, China and Slovakia and has a global production capacity of over 30 million compressors per annum. In addition to these factories, Embraco has business offices in the United States, Mexico and Italy, and distribution centers in strategic locations.

3. *Information on Huayi Compressor*

Huayi Compressor has been listed on the Shenzhen Stock Exchange of the PRC (stock code: 000404) since 1996 and is located in Jingdezhen City, Jiangxi Province, the PRC. Based on the information available from the website of Huayi Compressor, it is one of the major fluorine-free compressor producers in the PRC. As disclosed in the interim report of Huayi Compressor for the six months ended 30 June 2011, 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 29.92% of the issued share capital of Huayi Compressor as at 30 June 2011. We also note that the Company held approximately 6.45% of the issued share capital of Huayi Compressor as at 30 June 2011 and was the second largest shareholder. Set out below is the consolidated financial information of Huayi Compressor for each of the two years ended 31 December 2010 and the nine months ended 30 September 2011 which is extracted from its annual report for the year ended 31 December 2010 and the third quarter report for the nine months ended 30 September 2011.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended		For the nine
	31 December		months ended
	2009	2010	30 September
	RMB'000	RMB'000	2011
	(Audited)	(Audited)	RMB'000
			(Unaudited)
Turnover	3,255,733	4,617,019	4,328,123
Net Profit attributable to owners of the company	83,619	19,076	19,189
Total assets as at year/ period end	2,955,226	3,592,170	4,349,761

As stated in its annual report for 2010, Huayi Compressor had a business segment turnover of approximately RMB4.1 billion which was generated from the sales of approximately 20.9 million units of compressors. In addition, Huayi Compressor was the second largest producer of refrigerator compressors in the PRC for 2010 in terms of sales volume. As at 30 September 2011, Huayi Compressor had unaudited net assets of approximately RMB923.0 million.

4. *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”), Sino-foreign economic and technical co-operation with the items verified by MOFTEC. In 2010, Hisense Group generated revenue of approximately RMB64 billion, making it one of the largest company in the electronic industry in the PRC.

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Hisense Electric Co., Ltd. (“Hisense Electric”) has been listed on the Shanghai Stock Exchange since 1997 (stock code: 600060). As at 31 December 2010, Hisense Group was interested in approximately 41.36% of the issued share capital of Hisense Electric. The following financial results of Hisense Electric for each of the two years ended 31 December 2010 are extracted from its 2010 annual report.

	For the year ended	
	31 December	
	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited and adjusted)	(Audited)
Turnover	18,406,555	21,263,701
Net profit	614,229	979,402
Total assets as at year end	10,343,098	12,494,043

As stated in its annual report for the year ended 31 December 2010, the turnover of Hisense Electric mainly represented sales of televisions and approximately 79.3% of its turnover was generated from domestic sales in the PRC. As at 31 December 2010, Hisense Electric had total assets of approximately RMB12,494.0 million.

5. *Information on Hisense Finance*

Hisense Finance is a non-bank financial institution which establishment was approved by the CBRC and is regulated by the CBRC and other regulatory authorities in the PRC. Hisense Finance was established in the PRC on 12 June 2008 with a registered capital of RMB500 million. As at the date of the Financial Services Agreement and the Latest Practicable Date, Hisense Finance was owned as to 51% by Hisense Group, 9% by China Everbright Limited (Stock code: 00165, a company listed on the Hong Kong Stock Exchange), 20% by Hisense Electric and 20% by 青島海信電子產業控股股份有限公司 (Qingdao Hisense Electronic (Holdings) Company Limited). Hisense Finance is not a banking company as defined in Rule 14A.10 of the Hong Kong Listing Rules.

6. *Reasons for entering into the Agreements*

a. *Compressors Purchase Framework Agreement*

Under the Compressors Purchase 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 Beijing Embraco Snowflake Compressor and/or its subsidiaries (the “Beijing Embraco Snowflake Compressor Group”) (as the case may be) for the purpose of manufacturing household electrical appliances, including but not limited to refrigerators and freezers, by the Group. The transactions contemplated under the Compressors Purchase Framework Agreement are in the ordinary and usual course of business of the Company, and the Company and/or its subsidiaries have the right to purchase compressors from suppliers other than the Beijing Embraco Snowflake Compressor Group from time to time according to their own needs.

As stated in the letter from the Board, the Group is engaged in the manufacture of household electrical appliances, including but not limited to refrigerators and freezers, which requires compressors as component for its products. After considering a range of factors including the quality, the price and the compatibility of the compressors manufactured by the Beijing Embraco Snowflake Compressor Group with the current facilities used by and the refrigerators and freezers manufactured by the relevant subsidiaries of the Company, as well as the level of services provided by the Beijing Embraco Snowflake Compressor Group, the Group considers that the Beijing Embraco Snowflake Compressor Group is in a good position to supply compressors to the Group. In addition, the Group can have bigger bargaining power by carrying out bulk purchase of compressors from Beijing Embraco Snowflake Compressor Group, thus reducing purchase costs and increasing product competitiveness.

We understand from the Company that certain of its subsidiaries have been purchasing compressors from the Beijing Embraco Snowflake Compressor Group and they were very satisfied with the quality and prices of the compressors produced by the Beijing Embraco Snowflake Compressor Group. In view of the fact that the manufacture and sale of refrigerators and freezers is one of the principal businesses of the Group and compressors are essential components of refrigerators and freezers, it is reasonable for the Group to purchase compressors

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as part of the components for the manufacture of its products from time to time in its ordinary course of business. As mentioned above, Embraco is one of the major producers and has operations worldwide. Furthermore, the Beijing Embraco Snowflake Compressor Group has been one of the major suppliers of compressors of the Group. On this basis, we consider that the Beijing Embraco Snowflake Compressor 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 Framework Agreement for the purpose of sourcing compressors from the Beijing Embraco Snowflake Compressor Group is in the interests of the Company and the Shareholders as a whole and the transactions contemplated under the Compressors Purchase Framework Agreement are in the ordinary and usual course of business of the Company.

b. Huayi Compressors Purchase Framework Agreement

Under the Huayi Compressors Purchase 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 (the “Huayi Compressor Group”) (as the case may be) for the purpose of manufacturing household electrical appliances, including but not limited to refrigerators and freezers, by the Group. The transactions contemplated under the Huayi Compressors Purchase Framework Agreement are in the ordinary and usual course of business of the Company, and the Company and/or its subsidiaries have the right to purchase compressors from suppliers other than the Huayi Compressor Group from time to time according to their own needs.

As stated in the letter from the Board, the Group is engaged in the manufacture of household electrical appliances, including but not limited to refrigerators and freezers, 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 the Huayi Compressor Group with the current facilities used by and the refrigerators and freezers manufactured by the relevant subsidiaries of the Company, as well as the level of services provided by the Huayi Compressor Group, the Group considers that the Huayi Compressor Group is in a good position to supply compressors to the Group. In

addition, the Group can have bigger bargaining power by carrying out bulk purchase of compressors from the Huayi Compressor Group, thus reducing purchase costs and increasing product competitiveness.

We understand from the Company that the Group has been purchasing compressors from the Huayi Compressor Group since 2001 and the Company was very satisfied with the quality and prices of the compressors produced by the Huayi Compressor Group. In view of the fact that the manufacture and sale of refrigerators and freezers is one of the principal businesses of the Group and compressors are essential components of refrigerators and freezers, 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, the Huayi Compressor Group is one of the major producers of compressors in the PRC and was the second largest producer of refrigerator compressors in the PRC for 2010 in terms of sales volume. Furthermore, the Huayi Compressor Group has been one of the major suppliers of compressors of the Group, the Group will have bigger bargaining power by carrying out bulk purchase of compressors from the Huayi Compressor Group, thus reducing purchase costs and increasing product competitiveness. On this basis, we consider that the Huayi Compressor Group has the relevant experience and expertise in the manufacture of compressors. Accordingly, we are of the view that the entering into of the Huayi Compressors Purchase Framework Agreement for the purpose of sourcing compressors from the Huayi Compressor Group is in the interests of the Company and the Shareholders as a whole and the transactions contemplated under the Huayi Compressors Purchase Framework Agreement are in the ordinary and usual course of business of the Company.

c. 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 respective subsidiaries of Hisense Group and Hisense Electric in respect of the supply and purchase of home electrical appliances, equipments, raw materials, parts and components, provision of services and supply of moulds (particulars and terms of each category of the

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aforesaid transactions are discussed in the section headed “Terms of the Agreements” below).

Given the similar principal activities between the Group, Hisense Group and Hisense Electric which include the manufacture of home electrical appliances 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 maintaining its operations as a manufacturer of home electrical appliances.

In view of the substantial interest of Hisense Group in the Company and the fact 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 Hisense Group to assist the Group in maintaining its business conditions and improving its profitability. As Hisense Group and Hisense Electric 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, we are of the view that it is in the commercial interest of the Company to enter into the Business Co-operation Framework Agreement to co-operate with Hisense Group and Hisense Electric. Furthermore, as noted in the letter from the Board, Hisense Group and Hisense Electric have over 10 years’ experience in overseas operations, professional expertise and mature market network and channels in overseas market. By leveraging on the overseas sales platform of Hisense Group and Hisense Electric, the Group can benefit in the development of its overseas sales channels, reduce setup costs for overseas market and reduce expenses in relation to export businesses.

Certain transactions contemplated under the Business Co-operation Framework Agreement such as the sales of home electrical appliances, moulds, raw materials parts and components and provision of property services, design, loading and unloading services and equipment rental services by the 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 respective subsidiaries of

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Hisense Group and Hisense Electric as the latter's supplier for moulds. By maintaining such relationship, the relevant subsidiaries of Hisense Group and Hisense Electric may become stable customers of the Company in respect of the sale of moulds, thereby further expanding the sales of the Company.

As regards to the sale and supply of home electrical appliances, since certain subsidiaries of the Group currently possess excess production capacity and they will incur fixed costs such as depreciation of machinery and rent regardless of the production level, the sale and supply of home electrical appliances to the respective subsidiaries of Hisense Group and Hisense Electric can help to utilise their otherwise idling capacity as well as reduce the products' per-unit fixed costs as a result of the increase in the production level. The competitiveness of the Group's products in terms of costing may therefore increase.

As regards to those transactions contemplated under the Business Co-operation Framework Agreement in relation to the sale and purchase of raw materials, equipments, parts and components and purchase of home electrical appliances between Group and the respective subsidiaries of Hisense Group and Hisense Electric, we understand that as the Company, Hisense Group and Hisense Electric combine the purchase of raw materials, bulk purchase orders can be placed in order to negotiate for a more favourable price for the purchasing of raw materials. Accordingly, the total cost of sales of the Group may be reduced and the competitiveness and responsiveness of the Group's products may therefore increase.

As regards to the provision of services (mainly agency services for import and export) by Hisense Group, Hisense Electric and/or their subsidiaries to the Group, we understand that the Group has engaged Hisense Group and Hisense Electric for a few years and is very satisfied with the services. As mentioned above, Hisense Group and Hisense Electric have over 10 years' experience in overseas operations, professional expertise and mature market network and channels in overseas market. On the other hand, we understand that the Group currently does not have any overseas sales offices and all its overseas sales are carried out by the Group in the PRC. By leveraging on the overseas sales platform of Hisense Group and Hisense Electric, the Group can benefit in the development of their overseas sales channels, reduce setup costs for overseas market and reduce expenses in relation to export businesses.

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In addition, as advised by the management of the Company, the “Hisense” brand is much more well-known than the “Kelon” brand in the overseas market. By selling the Group’s products through Hisense Group’s or Hisense Electric’s overseas sales network, the Group can also make use of the popularity of the “Hisense” brand in the overseas market to compensate for the lack of brand awareness of the “Kelon” brand overseas, which boost confidence of customers and increase competitiveness of the products.

In summary, we are of the view that the respective co-operation between the Group and Hisense Group and Hisense Electric, which have broad channels for import of materials and are in an advantageous position to obtain products with better quality and price, which can (i) help to lower the production costs of the Group by lowering the fixed costs per unit of product incurred by the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group’s products; (ii) improve the control of reserve fund by the relevant subsidiaries of the Company by reducing purchase costs, and at the same time, it can reduce the bottleneck limitation in the upstream raw materials during production peak season, and the Group can benefit from the sharing of resources and the maximisation of the economies of scale; (iii) benefit in the development of the overseas sales channels of Hisense Group and Hisense Electric, reduce setup costs for overseas market and reduce expenses in relation to export businesses; and (iv) continue to provide quality services to the Group due to their familiarity of the operations of the Group.

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.

d. The Financial Services Agreement

As set out in the letter from the Board, the main reasons for the election by the Company to use Hisense Finance for the provision of the relevant financial services are as follows:

- the rates on loans and deposits offered by Hisense Finance to the Group will be equal to or more favourable than those offered by PRC commercial banks;
- the Group is expected to benefit from Hisense Finance's better understanding of the operations of the Group which should allow more expedient and efficient service provision than those offered by PRC commercial banks; and
- Hisense Finance is regulated by the CBRC and engages into the provision of financial services in compliance with the regulations and operation requirements issued by the relevant regulatory authorities. Its primary customers are the subsidiaries of Hisense Group. In general, as the risks exposed to Hisense Finance are lesser than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively.

Regarding the arrangement on depositing cash of the Group with Hisense Finance, it is the current intention that the Group may deposit a substantial part of its cash in hand with Hisense Finance in 2012. Hisense Finance has not been given a credit rating by CBRC as CBRC does not give credit ratings to regulated institutions. Despite that the Company considers that the risk associated with placing deposits with Hisense Finance is minimal, there is a risk that the Group may not be able to withdraw all of its deposits from Hisense Finance due to operational problems of Hisense Finance. However, the Company is of the view that such risk can be managed. On the one hand, Hisense Finance will strictly adhere to the risk management guidelines to financial institutions issued by the CBRC and the asset-liability ratio and liquidity ratio of Hisense Finance are in compliance with the requirements of the CBRC. On the other hand, the Company has devised a risk management plan to prevent, timely control and resolve the risk involved in the deposit arrangement and ensure safety of its capital. To

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enhance risk assessment and management, during the period when cash is deposited with Hisense Finance, the Company will review the latest available financial reports of Hisense Finance to assess the operational and financial risks of Hisense Finance and issue risk assessment reports to the Directors for their consideration and adopt necessary measures to prevent the risks identified and ensure the safety and liquidity of the Company's capital. The Directors consider that it is fair and reasonable to place deposits with Hisense Finance as the transactions will be conducted in the ordinary and usual course of business of the Company and the rates on deposits offered by Hisense Finance will be equal or more favourable than those offered by other PRC commercial banks to the Group.

Based on our discussion with the Directors, we understand that the Group has been occasionally utilising financial services rendered by PRC commercial banks such as deposit services, loan and electronic bank acceptance bill services and draft discount services in the usual and ordinary course of its business. As advised by the Directors, due to the appreciation of Renminbi and the fluctuation of energy and raw material prices in recent years, the market of refrigerating and air-conditioning products was subject to unprecedented challenges and the competition on the PRC household appliances market would continue to intensify in the foreseeable future. In light of the expected intense competition in the household appliances market and the increase in the prices of raw materials and energy, the Directors are of the view that in order to compete successfully, it is important for the Company to have effective cost control measures including but not limited to strengthening its existing cost management as well as the tracking and analysis of the uses of the costs. Through reducing the level of capital used in all areas, strictly controlling the liquidity risk and increasing the capital utilisation efficiency, the Group may be able to increase its profitability as well as competitiveness by lowering the financing costs and improving the liquidity position.

As at 30 June 2011, the Group had outstanding bank loans of approximately RMB1,231.0 million and its unaudited total liabilities amounted to approximately RMB7,919.4 million. In addition, the Group's total unaudited current liabilities exceeded its total unaudited current assets by approximately RMB1,693.1 million. Based on the existing financial position of the Group, we consider that the Group's

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ongoing operations have been to significant extent relied on the availability of the banking facilities from financial institutions. Should the Group be unable to renew its existing banking facilities with the relevant financial institutions, it is likely that the Group would not have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due.

Furthermore, given the significant amount of bank borrowings utilised by the Group to finance its operations, the Group has been incurring substantial amount of finance costs. For the six months ended 30 June 2011, the Group incurred total finance costs of approximately RMB28.5 million, representing approximately 9.8% of the Group's total profit for the period.

In addition, as discussed with the management of the Company, we understand that the Group expects to extend its customer networks to the new overseas markets, details of which are set out below under heading "Rationale for determining the maximum value of the transactions contemplated under the Agreements". It is expected that the Group will use more settlement and sale of foreign exchange services in coming years.

Pursuant to the Financial Services Agreement, the Group will be able to obtain certain deposit services, loan and electronic bank acceptance bill services, draft discount services and settlement and sale of foreign exchange services from Hisense Finance, the terms of which cannot be less favourable to the Company than those available from other normal commercial banks and financial institutions. As there is a possibility that the financing costs of the transactions under the Financial Services Agreement may be lower (but in any event cannot be higher) than the financing costs of the relevant transactions with other normal commercial banks and financial institutions (particulars of which are discussed under the section headed "Terms of the Agreements"), the Group may be able to reduce its total finance costs, which is currently one of the cost control measures of the Company aiming to improve its competitiveness. In light of the existing financial position of the Group as discussed above, we consider that the transactions contemplated under the Financial Services 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 Financial Services Agreement is in the interests of the Company and the Shareholders as a whole.

II. Terms of the Agreements

1. *The Compressors Purchase Framework Agreement*

The Compressors Purchase Framework Agreement shall commence from the date of approval of the Compressors Purchase Framework Agreement by the Independent Shareholders until 31 December 2012, (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 Beijing Embraco Snowflake Compressor and/or its subsidiaries (as the case may be) for the purpose of manufacturing home electrical appliances, including but not limited to refrigerators and freezers, by the Group. The transactions contemplated under the Compressors Purchase Framework Agreement are in the ordinary and usual course of business of the Company.

The relevant parties will enter into definitive contract(s) setting out specific terms including specifications of the compressors, quantity involved, pricing, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Compressors Purchase Framework Agreement.

The Company and/or its subsidiaries have the right to purchase compressors from suppliers other than Beijing Embraco Snowflake Compressor and/or its subsidiaries from time to time according to their own needs. The Compressors Purchase Framework Agreement does not restrict the rights of Beijing Embraco Snowflake 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 negotiations 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(s) for the purchase of compressors shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

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 of the definitive contract(s) to be entered into between the Company (and/or its subsidiaries) and Beijing Embraco Snowflake Compressor (and/or its subsidiaries) will be consistent with those of the Compressors Purchase 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 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 Huayi Compressors Purchase Framework Agreement*

The Huayi Compressors Purchase Framework Agreement shall commence from the date of approval of the Huayi Compressors Purchase Framework Agreement by the Independent Shareholders until 31 December 2012 (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 home electrical appliances, including but not limited to refrigerators and freezers, by the Group. The transactions contemplated under the Huayi Compressors Purchase Framework Agreement are in the ordinary and usual course of business of the Company.

The parties will enter into definitive contract(s) setting out specific terms including specifications of the compressors, quantity involved, pricing, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Huayi Compressors Purchase Framework Agreement.

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 Huayi Compressors Purchase 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.

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Pricing for the purchase of compressors is determined principally by commercial negotiations 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(s) for the transactions contemplated under the Huayi Compressors Purchase Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto

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 of the definitive contract(s) to be entered into between the Company (and/or its subsidiaries) and Huayi Compressor (and/or its subsidiaries) will be consistent with those of the Huayi Compressors Purchase 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 Huayi Compressors Purchase Framework Agreement are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

3. *The Business Co-operation Framework Agreement*

The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement by the Independent Shareholders until 31 December 2012 (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 respective subsidiaries of Hisense Group and Hisense Electric:

a. Purchase of home electrical appliances

Under the Business Co-operation Framework Agreement, the relevant subsidiaries of Hisense Group and Hisense Electric have agreed to manufacture and supply on a non-exclusive basis such quantities of home electrical appliances 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

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time to time. The contracting parties have also agreed to enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations in the event of default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

The purchase price of home electrical appliances supplied by the relevant subsidiaries of Hisense Group and Hisense Electric to the Group will be determined by commercial negotiations according to the principle of fairness and reasonableness between the contracting parties mainly with reference to the market price of similar home electrical appliances from time to time.

The purchase of home electrical appliances 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 term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto. The Business Co-operation Framework Agreement will not restrict the Group from purchasing home electrical appliances from other suppliers apart from the subsidiaries of Hisense Group or Hisense Electric, nor will it restrict the subsidiaries of Hisense Group or Hisense Electric from selling their home electrical appliances to any other third parties.

On the basis that (i) the purchase of home electrical appliances by the Group will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be 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 of the similar home appliances and not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (ii) the non-exclusive arrangement under the Business Co-operation Framework Agreement provides the Group with the flexibility without any commitment on the purchase quantity from the respective subsidiaries of Hisense Group and Hisense

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Electric, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the purchase of home electrical appliances by the Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

b. Purchase of equipment

Under the Business Co-operation Framework Agreement, the respective subsidiaries of Hisense Group and Hisense Electric have agreed to supply on a non-exclusive basis such quantities of equipment 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. The contracting parties have also agreed to enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

Pricing for the purchase of equipment is determined principally by commercial negotiations between the relevant subsidiaries of the Company and the relevant subsidiaries of Hisense Group and Hisense Electric according to the principles of fairness and reasonableness.

Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto. The Business Co-operation Framework Agreement will not restrict the Group from purchasing equipment from other suppliers apart from the subsidiaries of Hisense Group or Hisense Electric, nor will it restrict the subsidiaries of Hisense Group or Hisense Electric from selling their equipment to any other third parties.

On the basis that (i) the purchase of equipment by the Group will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be 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; (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 Hisense Electric; and (iii) the Group 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 equipment by the Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

c. Purchase of raw materials, parts and components

Under the Business Co-operation Framework Agreement, the respective subsidiaries of Hisense Group and Hisense Electric have agreed to supply on a non-exclusive basis such quantities of raw materials, parts and 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. The contracting parties have also agreed to enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

Pricing for the purchase of raw materials, parts and components is determined principally by commercial negotiations between the relevant subsidiaries of the Company and the relevant subsidiaries of Hisense Group and Hisense Electric according to the principles of fairness and reasonableness.

Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto. The Business Co-operation Framework Agreement will not restrict the Group from purchasing raw materials, parts and components from other suppliers apart from the subsidiaries of Hisense Group or Hisense Electric, nor will it restrict the subsidiaries of Hisense Group or Hisense Electric from selling their raw materials, parts and components to any other third parties.

On the basis that (i) the purchase of raw materials, parts and components by the Group will be conducted in the ordinary and usual course of its business and the terms of the definitive contract(s) to be 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; (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 Hisense Electric; and (iii) the Group 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, parts and components by the Group are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

d. 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 (i) engage Hisense Group and/or its relevant subsidiaries for the provision of property service, medical service, material processing services, material inspection services, installation and maintenance, management consultancy, agency services for import and export, leasing, design, property construction and information system maintenance and (ii) Hisense Electric and/or its subsidiaries on non-exclusive basis for the provision of property service, material processing services and product design services as they may require from time to time. The contracting parties have also agreed to enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

The fees payable by the Group to the relevant subsidiaries of Hisense Group and Hisense Electric for the provision of the aforesaid services (other than agency services for export) will be determined principally

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by commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price for the provision of similar services from time to time.

The fees payable by the Group for the provision of the agency services for export is calculated by multiplying the Group's turnover from overseas sales for the relevant products with an export agency fee percentage. Such export agency fee percentage is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties mainly with reference to the rate of the charges actually incurred by the Group for conducting overseas by itself in previous years, on the basis that such export agency fee percentage shall be a rate which is lower than the level of the rate of the charges actually incurred by the Group for conducting overseas sales by itself in previous years to a certain extent for the same computation of expenses and conditions.

Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto. The Business Co-operation Framework Agreement will not restrict the Group from engaging services providers other than the subsidiaries of Hisense Group or Hisense Electric, nor will it restrict the subsidiaries of Hisense Group or Hisense Electric from providing their services to any other third parties.

On the basis that (i) the terms of the definitive contract(s) 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; (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 respective subsidiaries of Hisense Group and Hisense Electric; and (iii) the Group has conducted similar transactions 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.

e. Supply of home electrical appliances

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 supply on a non-exclusive basis such quantities of home electrical appliances as the respective subsidiaries of Hisense Group and Hisense Electric may require from time to time. The relevant contracting parties will enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations in the event of default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

The pricing for the supply of home electrical appliances by the Group to the respective subsidiaries of Hisense Group and Hisense Electric will be determined principally by commercial negotiations according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of the similar home electrical appliances from time to time. Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

The Business Co-operation Framework Agreement will not restrict the relevant subsidiaries of Hisense Group or Hisense Electric from purchasing home electrical appliances from other suppliers apart from the Group, nor will it restrict the Group from selling its home electrical appliances to any other third parties.

On the basis that (i) the sale and supply of home electrical appliances by the Group to the respective subsidiaries of Hisense Group and Hisense Electric will increase the revenue of the Group; (ii) such transactions will be able to utilise the Group's resources so as to help to lower the production costs by lowering the fixed costs per unit of product as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's product and facilitate the Group to maintain normal business operations; and (iii) such transactions will be conducted in the ordinary and usual course of business of the Group

and on terms according to the principle of fairness and reasonableness between the contracting parties with reference to the market price of the similar home electrical appliances from time to time, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of home electrical appliances by the Group to the respective subsidiaries of Hisense Group and Hisense Electric are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

f. Supply of equipment

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 supply on a non-exclusive basis such quantities of equipment as the respective subsidiaries of Hisense Group and Hisense Electric may require from time to time.

The relevant parties will enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations of the parties upon default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement. Pricing for the sale and supply of equipment is determined by commercial negotiations between the parties according to the principles of fairness and reasonableness. Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

The Business Co-operation Framework Agreement will not restrict the relevant subsidiaries of Hisense Group or Hisense Electric from purchasing equipment from other suppliers apart from the Group, nor will it restrict the Group from selling its equipment to any other third parties.

On the basis that (i) the sale and supply of equipment by the Group to the subsidiaries of Hisense Group or Hisense Electric will increase the revenue of the Group; and (ii) the terms of the definitive contract(s) to be 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, we are of the view that the terms of the Business Co-operation Framework Agreement with respect to the sale and supply of equipment to the subsidiaries of Hisense Group and Hisense Electric are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

g. 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 respective subsidiaries of Hisense Group and Hisense Electric may require from time to time. The relevant parties will enter into definitive contract(s) setting out specific terms including specifications of the products or services, quantity involved, pricing principles, quality standards and warranties, payment terms, terms of delivery, technological services and obligations in the event of default, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement.

Pursuant to the Business Co-operation Framework Agreement and in response to the invitations to tender from Hisense Group, Hisense Electric and/or their respective subsidiaries (which are also extended to various independent third parties) from time to time, the Group may submit such tenders or bids to supply the moulds for such products requested by Hisense Group, Hisense Electric and/or their respective subsidiaries in its/ their invitation to tender. Pricing for the supply of moulds is determined by the open bidding process. Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

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

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In view of the pricing for the supply of moulds will be determined by open bidding 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 respective subsidiaries of Hisense Group and Hisense Electric are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

h. Supply of raw materials, parts and components

Under the Business Co-operation Framework Agreement, the Company has agreed that it (or any of its subsidiaries which will be entitled to have the same rights and obligations under the Business Co-operation Framework Agreement) may manufacture and supply on a non-exclusive basis such quantities of raw materials, parts and components as the respective subsidiaries of Hisense Group and Hisense Electric may require from time to time.

Pricing for the sale and supply of raw materials, parts and components is determined by commercial negotiations between the parties according to the principles of fairness and reasonableness. Payment term(s) for the transactions contemplated under the Business Co-operation Framework Agreement shall be in accordance with the payment term(s) as stipulated in the definitive contract(s) to be signed by the relevant parties thereto.

The Business Co-operation Framework Agreement will not restrict the relevant subsidiaries of Hisense Group or Hisense Electric from purchasing raw materials, parts or components from suppliers other than the Group, nor will it restrict the Group from selling its raw materials, parts or components to any other third parties.

On the basis that (i) the sale and supply of raw materials, parts and components by the Group to the subsidiaries of Hisense Group or Hisense Electric will increase the revenue of the Group; (ii) the terms of the definitive contract(s) to be 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 (iii) the Group has conducted similar transactions in the past, we are of the view that the terms of the Business Co-operation Framework Agreement with respect

to the supply of raw materials, parts and components to the subsidiaries of Hisense Group and Hisense Electric are in the interests of the Company and the Shareholders as a whole, on normal commercial terms and fair and reasonable.

i. Provision of services by the Group

Under the Business Co-operation Framework Agreement, the Company and/or its subsidiaries will provide property services, design, loading and unloading services and equipment rental services to Hisense Group, Hisense Electric and/or their respective subsidiaries on a non-exclusive basis from time to time.

The fees payable by Hisense Group, Hisense Electric and/or its subsidiaries for the aforesaid services is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services from time to time.

The Business Co-operation Framework Agreement will not restrict Hisense Group, Hisense Electric and/or its respective subsidiaries from engaging services providers other than the Group, nor will it restrict the Group from providing its services to any other third parties.

On the basis that (i) the terms of the definitive contract(s) 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; (ii) the transactions, when taken place, will increase the revenue of the Group; and (iii) 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, 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.

4. *The Financial Services Agreement*

The term of the Financial Services Agreement shall commence from the date of approval of the Financial Services Agreement by the Independent Shareholders until 31 December 2013, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.

Pursuant to the terms of the Financial Services Agreement, the Group will engage Hisense Finance to provide a range of financial services within its scope of business, including without limitation, deposit services, loan services, draft discount services and other businesses which may be carried on by Hisense Finance as approved by the regulatory authorities. Particulars of the services to be provided by Hisense Finance to the Group are as follows:

- (i) deposit services;
- (ii) loan and electronic bank acceptance bill services;
- (iii) draft discount services; and
- (iv) settlement and sale of foreign exchange services, subject to the approval from the Administration of Foreign Exchange having been obtained by Hisense Finance for the provision of such services.

For the draft discount services which will be provided to the Group by Hisense Finance, the Group is entitled to present bank drafts to Hisense Finance for payment before the maturity date of the bank drafts. In return, Hisense Finance will charge discount interest from the Group for “cashing” the bank drafts. After the Group has discounted the bank drafts with Hisense Finance, such bank drafts will belong to the latter which will have the right to present such bank drafts to the issuing banks for payment on their respective maturity dates.

The implementation of the provision of particular services contemplated under the Financial Services Agreement shall be subject to the definitive contract(s) to be entered into between the relevant parties within the scope of the Financial Services Agreement.

The Group may obtain financial services contemplated under the Financial Services Agreement from other financial institutions in addition to Hisense Finance, if necessary.

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a. Pricing of deposit services

The interest rate payable for the Group's deposits with Hisense Finance shall not be lower than the rate payable by normal commercial banks in the PRC for comparable deposits.

b. Pricing of loan and electronic bank acceptance bill services

The interest rate charged on the loans provided to the Group by Hisense Finance shall not be higher than the rate charged by normal commercial banks in the PRC for comparable loans. Hisense Finance may require the Group to provide guarantee or security over assets in respect of the loan services rendered, depending on the then circumstances and business needs.

The service fees charged on the provision of electronic bank acceptance bill services by Hisense Finance to the Group shall not be higher than the standard service fees charged by normal commercial banks in the PRC for comparable services.

c. Pricing of draft discount services

The discount rate for the provision of draft discount services by Hisense Finance to the Group shall be determined on the basis of the rediscount rate quoted by The People's Bank of China and with reference to market level and shall not be higher than the discount rate charged by normal commercial banks in the PRC providing such services to the Group.

d. Pricing of settlement and sale of foreign exchange services

The level of services (including the level of exchange rates) for the settlement and sale of foreign exchange at Hisense Finance shall not be less favourable than the level of services (including the level of exchange rates) of normal commercial banks in the PRC providing such services to the Group. The Company confirmed that no service fees will be charged by Hisense Finance for the provision of settlement and sale of foreign exchange services for the Group.

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The basis for the pricing for the aforesaid services shall be the benchmark interest rate for deposits and loans and the rediscount rate prescribed by The People's Bank of China, and the market level of the market interest rates of discounted bill and the service fee for establishing electronic bank acceptance bill.

The transactions contemplated under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the parties, on normal commercial terms and on terms not less favourable to the parties than terms available to or from (as appropriate) independent third parties.

Based on our review of the principal terms of the Financial Services Agreement as stated above, we consider (i) the non-exclusivity of the financial services to be provided under the Financial Services Agreement (i.e. the Group is free to obtain such financial services from other financial institutions, if necessary); and (ii) the condition that the actual terms of such financial services shall not be less favourable than those offered by other normal commercial banks and financial institutions to be the most important terms in safeguarding the interests of the Company.

On the basis that (i) the transactions under the Financial Services Agreement will be conducted in the ordinary and usual course of business of the Group and on terms not less favourable to the Company than terms available from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment or obligation for the Company to obtain such services from Hisense Finance; and (iii) the Group has conducted similar transactions in the past, we are of the view that the terms of the Financial Services Agreement 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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III. Rationale for determining the maximum value of the transactions contemplated under the Agreements

1. *The Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement and the Business Co-operation Framework Agreement*

Pursuant to Rule 14A.35(2) of the Listing Rules, the transactions contemplated under the Agreements during the period commencing from the date of approval of the relevant agreements by the Independent Shareholders to 31 December 2012 will be subject to an annual cap for the financial year ending 31 December 2012 of the Company. The proposed maximum aggregate values, or “caps”, of the transactions contemplated under the Agreements for the year ending 31 December 2012 and the unaudited value of similar transactions between the relevant parties in 2011 are summarised below:

	Annualised value of the similar transactions between the relevant parties for the year ending 31 December 2011 <i>(note)</i> <i>(RMB)</i>	Increase/(decrease) of the proposed caps as compared to the estimated annualised value of the similar transactions for the year 2011 based on their unaudited value for the ten months ended 31 October 2011 <i>(%)</i>
Proposed caps for the year ending 31 December 2012 <i>(RMB)</i>	relevant parties for the year ending 31 December 2011 <i>(note)</i> <i>(RMB)</i>	value for the ten months ended 31 October 2011 <i>(%)</i>

The Compressors Purchase Framework Agreement

Maximum aggregate value of purchase of compressors	250,000,000	50,304,000 397.0%
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	Proposed caps for the year ending 31 December 2012 (RMB)	Annualised value of the similar transactions between the relevant parties for the year ending 31 December 2011 (note) (RMB)	Increase/(decrease) of the proposed caps as compared to the estimated annualised value of the similar transactions for the year 2011 based on their unaudited value for the ten months ended 31 October 2011 (%)
The Huayi Compressors Purchase Framework Agreement			
Maximum aggregate value of purchase of compressors	1,380,000,000	836,784,000	64.9%
The Business Co-operation Framework Agreement			
Maximum aggregate value of purchase of home electrical appliances	4,000,000	120,000	3,233.3%
Maximum aggregate value of purchase of equipment	10,000,000	2,352,000	325.2%
Maximum aggregate value of purchase of raw materials, parts and components	68,030,000	25,200,000	170.0%

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	Proposed caps for the year ending 31 December 2012 (RMB)	Annualised value of the similar transactions between the relevant parties for the year ending 31 December 2011 (note) (RMB)	Increase/(decrease) of the proposed caps as compared to the estimated annualised value of the similar transactions for the year 2011 based on their unaudited value for the ten months ended 31 October 2011 (%)
Maximum aggregate value of the provision of services by Hisense Group and Hisense Electric	319,220,000	204,768,000	55.9%
Maximum aggregate value of supply of home electrical appliances	2,504,000,000	1,555,140,000	61.0%
Maximum aggregate value of supply of equipment	12,000,000	—	N/A
Maximum aggregate value of supply of moulds	267,000,000	186,180,000	43.4%
Maximum aggregate value of supply of raw materials, parts and components	90,000,000	46,656,000	92.9%
Maximum aggregate value of the provision of services by the Group	8,920,000	576,000	1,448.6%

Note: Annualised value based on the unaudited transaction amount for the ten months ended 31 October 2011.

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The basis for the proposed maximum value for each category of transactions contemplated under the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement and the Business Co-operation Framework Agreement is set out in the letter from the Board. The table below summaries the basis for each category of the transactions:

Category	Basis for the proposed annual cap
The Compressors Purchase Framework Agreement	
Purchase of compressors	(a) similar transactions between the Group with Beijing Embraco Snowflake Compressor and/or its subsidiaries in the past; (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC; (c) the business development plan of the Company relating to the production and sales level of refrigerators and freezers in 2012; and (d) the estimated demand of the Group for the compressors provided by Beijing Embraco Snowflake Compressor and/or its subsidiaries
The Huayi Compressors Purchase Framework Agreement	
Purchase of compressors	(a) similar transactions between the Group and Huayi Compressor and/or its subsidiaries in the past; (b) the prevailing market conditions relating to the demand for home electrical appliances in the PRC; (c) the business development plan of the Company relating to the production and sales level of refrigerators and freezers in 2012; and (d) the estimated demand of the Group for the compressors provided by Huayi Compressor and/or its subsidiaries

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Category	Basis for the proposed annual cap
The Business Co-operation Framework Agreement	
Purchase of home electrical appliances	(a) the prevailing market conditions about the demand for electrical appliances; (b) the Group's plan to boost the sales of the Group's home electrical appliances through marketing and promotion activities; and (c) the projected need of purchasing cellular phones and television sets from Hisense Group, Hisense Electric and/or their respective subsidiaries for the year ending 31 December 2012 as gifts for the Group's marketing and promotion activities which aimed at boosting the sales of the Group's home electrical appliances such as refrigerators
Purchase of equipment	(a) similar transactions between the Group with Hisense Group and/or its respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012
Purchase of raw materials, parts and components	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012
Provision of services	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012

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Category	Basis for the proposed annual cap
Supply of home electrical appliances	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions about the demand for electrical appliances in the PRC; and (c) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012
Supply of equipment	(a) the prevailing market conditions about the demand for electrical appliances in the PRC; and (b) the projected level of production and sales of electrical appliances of the relevant subsidiaries of the Company for the year ending 31 December 2012
Supply of moulds	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions relating to the demand for electrical appliances and moulds in the PRC and overseas markets; (c) the expected increase in the purchase of moulds by Hisense Group, Hisense Electric and/or their respective subsidiaries from the Group given that (i) the former are satisfied with the quality of the moulds supplied by the Group and the ability of the Group to develop moulds and (ii) it is intended that more subsidiaries of Hisense Group and/or Hisense Electric will purchase moulds from the Group; and (d) the business development plan to be implemented by the Company, in particular, the Group's plan to expand into the new overseas markets

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Category	Basis for the proposed annual cap
Supply of raw materials, parts and components	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC
Provision of services by the Group	(a) similar transactions between the Group with Hisense Group, Hisense Electric and/or their respective subsidiaries in the past; (b) the prevailing market conditions relating to the provision of such services

a. *The Compressors Purchase Framework Agreement*

As regards the purchase of compressors by the Group under the Compressors Purchase Framework Agreement, we understand from the Company that after improvement of the production lines in Beijing Embraco Snowflake Compressor, the management expects that the quality of the Group's products will be enhanced by purchasing compressors from Beijing Embraco Snowflake Compressor, which in turn will boost the Group's sales of high-end products and increases the product and brand competitiveness. Given that in the past the Group sold its products to the overseas customers only through its existing customer network, the Group's sales for the ten months ended 30 October 2011 in Africa and Middle East were relatively low. However, the Group plans to extend to its customer base in Africa and Middle East by utilising the existing customer network of Hisense Group and Hisense Electric since they have already established its customer network in these markets. On this basis, it is expected that the Group would sell more products and provide more services to Hisense Group and Hisense Electric and their respective subsidiaries in 2012. In addition, the Group intends to produce numerous new high quality products for exporting to those new developing markets in 2012 which will require the compressors to be supplied by Beijing Embraco Snowflake Compressor. Accordingly, the Company would purchase more compressors from Beijing Embraco Snowflake Compressor in 2012. As stated in letter from the Board, the Group can also have bigger bargaining power by carrying out bulk

purchase of compressors from Beijing Embraco Snowflake Compressor Group, so that it could reduce purchase costs and increasing product competitiveness of the Group. Based on above, the transaction amount for 2012 is expected to increase significantly. In order to determine the fairness and reasonableness of the proposed annual 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 basis and the underlying assumptions prepared by the management of the Company for calculation of the relevant annual cap. Based on (i) our discussion with the management of the Company about the underlying assumptions including the additional new models to be developed and the expansion plan in Africa and Middle East; and (ii) the result of our review, we are satisfied that the proposed annual cap has been conducted on a fair and reasonable basis.

b. The Huayi Compressors Purchase Framework Agreement

As regards the purchase of compressors by the Group under the Huayi Compressors Purchase Framework Agreement, we understand that the management of the Company considers that (i) the quality of compressors manufactured by Huayi Compressor is high; and (ii) the prices of compressors manufactured by Huayi Compressor are competitive. As advised by the management, the management expects that the quality of the Group's products would be enhanced by adopting compressors to be purchased from the Huayi Compressor Group, which in turn will boost the sales of the Group's high-end products and increase the product and brand competitiveness of the Group. As mentioned above, given that the Group plans to expand its customer base in Africa and Middle East, it would purchase more compressors from the Huayi Compressor Group in 2012. Therefore, the transaction amount for 2012 under the Huayi Compressors Purchase Framework Agreement is expected to increase. In order to determine the fairness and reasonableness of the proposed annual cap, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual cap, have carried out a review on the basis and the underlying assumptions prepared by the management of the Company for calculation of the relevant annual cap. Based on (i) our discussion with the management of the Company about the underlying assumptions including the expansion plan in Africa and Middle East; and (ii) the result of our review, we are satisfied that the proposed annual cap has been conducted on a fair and reasonable basis.

c. The Business Co-operation Framework Agreement

i. Purchase of home electrical appliances

As regards the proposed annual cap for the purchase of home electrical appliances which represents an increase of approximately 3,233.3% over the estimated annualised value of such transactions for 2011, it has been arrived at based on the Company's estimate of the transaction value the Group would purchase (i) certain home electrical appliances such as mobile phones from members of Hisense Group and Hisense Electric as gifts for the Group's marketing and promotion activities; and (ii) certain models of air-conditioners and refrigerators for the purposes of the Group's internal research and developments. Regarding the purchase of certain home electrical appliances as gifts for the Group's marketing and promotion activities or for internal research and development purposes, we understand from the Company that to large extent such purchases were not executed in 2011 due to the prevailing uncertain global market condition but the Group intends to continue such marketing and promotion activities and internal research and development in 2012. It should be noted that such increase of approximately 3,233.3% over the estimated annualised value of the similar transactions for the year 2011 was in fact due to the insignificantly low base value of RMB100,000 for the ten months ended 31 October 2011. As mentioned above, due to the fact that the relevant purchases were not executed in 2011, the transactions in relation to purchase of home electrical appliances for the ten months ended 31 October 2011 was relatively low. Taking into account that the Group's original planned marketing and promotion and internal research and development activities could not be carried out in 2011 but would be expected to carry out in 2012, we are of the view that the proposed annual cap for the purchase of home electrical appliances for the year ending 31 December 2012 is not excessive.

ii. Purchase of equipment

As regards the purchase of equipment by the Group, as stated in letter from the Board, we note that the purchase of equipment by the Group from Hisense Group and/or its subsidiaries can reduce purchase costs. At the same time, the Company is satisfied with the quality of the equipment provided by Hisense Group and/or its subsidiaries from their previous course of dealings. In addition, it is the trend of the Group's business and production to move towards high-end products and it is expected that equipment will be purchased and imported from overseas to improve the Group's current production line technology, the transaction amount for 2012 is expected to increase significantly. We are of the view that the proposed annual cap's significant increase over the estimated annualised value of the similar transactions for the year 2011 was mainly because of the unstable financial market situation in 2011 which in turn resulted in the low transaction value for the year. Based on above, taking into account that the Group will purchase more equipment directly from Hisense Group and/or its subsidiaries, we are of the view that the proposed annual cap for the purchase of equipment from Hisense Group and Hisense Electric is prepared on a fair and reasonable basis.

iii. Purchase of raw materials, parts and components

As regards the purchase of raw materials, parts and components, as stated in the letter from the Board, we understand from the Company that the purchase of raw materials, parts and components for refrigerators and air-conditioners by the Group from Hisense Group, Hisense Electric and/or their respective subsidiaries will reduce purchase costs, and at the same time, the Group can benefit from the sharing of resources and the maximisation of the economies of scale. Further, the Company is satisfied with the quality of raw materials, parts and components provided by Hisense Group, Hisense Electric and/or their respective subsidiaries from their previous course of dealings. Quality of the Group's products is enhanced by importing certain raw materials parts and components, which in turn boosts the sales of the Group's high-end products and increase the product and brand competitiveness. Based on above, taking into account that the Group will purchase more raw materials, parts and components directly from Hisense Electric in 2012, we are of the view that the proposed annual cap for the purchase of raw materials, parts and components from Hisense Group and Hisense Electric is prepared on a fair and reasonable basis.

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iv. *Provision of services by Hisense Group and Hisense Electric*

As regards the provision of services by Hisense Group and Hisense Electric, we understand that (i) the Company shall engage Hisense Electric and Hisense Group to provide the property construction services and the product design services to the Group in 2012, respectively, whereas the Group did not require such services from Hisense Group and Hisense Electric in 2011; and (ii) the expected increase in the fees payable by the Group to Hisense Electric and/or its subsidiaries as it is intended that the Group will lease more office premises from Hisense Electric and/or its subsidiaries in 2012. Therefore, the transaction amount for 2012 is expected to increase significantly. In order to determine the fairness and reasonableness of the proposed annual cap, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual cap, have carried out a review on the basis and the underlying assumptions prepared by the management of the Company for calculation of the relevant annual cap. Based on (i) our discussion with the management of the Company about the underlying assumptions including the additional category of services, in particular, the additional property construction services and product design services to be provided by Hisense Group and Hisense Electric, respectively; and (ii) the result of our review, we are satisfied that the proposed annual cap has been conducted on a fair and reasonable basis.

v. *Supply of home electrical appliances*

As regards the supply of home electric appliances, as advised by the Directors, due to the outstanding European debt crisis that may continue to affect the market in 2012, it is expected that the demand in European countries may not continue to grow in coming years. As stated above, we understand from the management that the Group expects to expand its customer base in Africa and Middle East in 2012 through the customer network established by Hisense Group, Hisense Electric and their respective subsidiaries, so it would sell more home electrical appliances to Hisense Group in 2012. In order to determine the fairness and reasonableness of the proposed annual cap, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual

cap, have carried out a review on the basis and the underlying assumptions prepared by the management of the Company for calculation of the relevant annual cap including the estimated models to be developed and their estimated unit price. Based on (i) our discussion with the management of the Company about the underlying assumptions including the business development plan to be implemented by the Company, in particular, the expected expansion plan in Africa and Middle East; and (ii) the result of our review, we are satisfied that the proposed annual cap has been conducted on a fair and reasonable basis.

vi. *Supply of equipment*

As regards the increase in the proposed annual cap in relation to the supply of equipment for the year ending 31 December 2012, we have discussed with the management of the Company and note that such proposed annual cap has been arrived at on the basis of (i) the Company's estimation of the prevailing market conditions about the demand for home electrical appliances in the PRC in the future; and (ii) the expected increase in the sales of the Company and the services to be provided by the Company due to the implementation of the business development plan as set out above. In order to determine the fairness and reasonableness of the proposed annual cap, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual cap, have carried out a review on the basis and the underlying assumptions prepared by the management of the Company for calculation of the relevant annual cap. Based on (i) our discussion with the management of the Company about the underlying assumptions including the business development plan to be implemented by the Company; and (ii) the result of our review, we are satisfied that the proposed annual cap has been conducted on a fair and reasonable basis.

vii. *Supply of moulds*

As regards the supply of moulds, as discussed above, the Group expects to expand its customer base in new overseas markets through the customer network of Hisense Group, Hisense Electric and their respective subsidiaries, so the Group would supply more moulds to Hisense Group and/or Hisense Electric and/or their

respective subsidiaries in 2012. In order to determine the fairness and reasonableness of the proposed annual cap, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual cap, have carried out a review on the basis and the underlying assumptions prepared by the management of the Company for calculation of the relevant annual cap. Based on (i) our discussion with the management of the Company about the underlying assumptions including the business development plan to be implemented by the Company, in particular, the Group's expansion plan in Africa and Middle East; and (ii) the result of our review, we are satisfied that the proposed annual cap has been conducted on a fair and reasonable basis.

viii. Supply of raw materials, parts and components

As regards the supply of raw materials, parts and components, as discussed above, the Group expects to develop new overseas markets through the customer network of Hisense Group, Hisense Electric and their respective subsidiaries, so that the Group intends to supply more raw materials, parts and components to the Hisense Group and Hisense Group, Hisense Electric and/or their respective subsidiaries in 2012. Furthermore, we note from the management that Hisense Electric has improved its production facilities for enhancing its production volume in 2012, so that it is expected that the Group will increase in supply of raw materials, parts and components to Hisense Electric and/or its subsidiaries. In order to determine the fairness and reasonableness of the proposed annual cap, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual cap, have carried out a review on the basis and the underlying assumptions prepared by the management of the Company for calculation of the relevant annual cap. Based on (i) our discussion with the management of the Company about the underlying assumptions including the business development plan to be implemented by the Company; and (ii) the result of our review, we are satisfied that the proposed annual cap has been conducted on a fair and reasonable basis.

ix. Provision of services by the Group

As regards the provision of services by the Group, we understand from the Company that given the Group shall provide the property services to Hisense Group and Hisense Electric and/or their subsidiaries for the year ending 31 December 2012 whereas the Group only provided the property services to Hisense Electric and its subsidiaries in 2011. It should be noted that such increase of approximately 1,448.6% over the estimated annualised value of the similar transactions for the year 2011 was in fact due to the insignificantly low base value of RMB480,000 for the ten months ended 31 October 2011. As regards the additional services, the Group intends to provide the property services to Hisense Group and its subsidiaries with a transaction value of RMB 4 million for the year ending 31 December 2012. After taking into account the implementation of the above business development plan, it is expected that the amount of the services to be provided by the Group to Hisense Group would increase significantly in 2012. In order to determine the fairness and reasonableness of the proposed annual cap, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual cap, have carried out a review on the basis and the underlying assumptions prepared by the management of the Company for calculation of the relevant annual cap including the estimated transaction amount for each category of services. Based on (i) our discussion with the management of the Company about the underlying assumptions including the additional category of services; and (ii) the result of our review, we are satisfied that the proposed annual cap has been conducted on a fair and reasonable basis.

Based on the information from the National Bureau of Statistics of China, retail sales kept solid growth in China as the economy of China turned to domestic consumption for growth. In particular, retail sales of consumer goods rose approximately 17.0% for the nine months ended 30 September 2011 compared to the corresponding period in 2010 to approximately RMB13,081.1 billion. For the nine months ended 30 September 2011, the retail sales in cities reached RMB11,326.5 billion, up by approximately 17.1% as compared to the same period last year, and the retail sales at and below county level stood at RMB1,754.6 billion, representing an increase of approximately 16.4% on a year-

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on-year basis. According to the statistics from the website of BC360.com (慧聰網), the export sales in relation to the refrigerator compressors, air-conditioners and freezers recorded a stable growth in the past years. Based on its statistic, the export sales of the refrigerator compressors, air-conditioners, and freezers were approximately 17.3 million units, 38.5 million units and 6.3 million units, respectively, for the nine months ended 30 September 2011, representing an increase of approximately 30.8%, 25.5% and 9.8%, respectively, as compared with that in same period of 2010.

However, in 2011, the PRC government implemented various administrative and policy measures (the “Measures”) to temper the growth of the economy in the PRC such as several increases in the borrowing rate and bank reserve ratio in order to stabilise inflation and prevent overheating in the economy. According to the statistics from the People’s Bank of China, the one year borrowing rate increased from 6.06% in February of 2011 to 6.56% in July of 2011 and the reserve ratio for sizable financial institutions increased from 19% in January 2011 to 21% in May 2011.

In addition, according to the website of 家電下鄉信息管理系統 (Information management system in relation to Home Appliances Subsidy Policy for Rural Villages), the implementation of Home Appliances Subsidy Policy for Rural Villages (家電下鄉政策) (the “Subsidy Policy”) in Shongdong province, Qingdao, Henan province and Sichuan province was ceased on 30 November 2011 and the Subsidy Policy to the rest of PRC regions will also be ceased at the end of November 2012. We have discussed with the management of the Company and note that the above proposed annual caps have been arrived at on the basis of the Company’s estimation of the prevailing market conditions about the demand for home electrical appliances in the PRC in the future after taking into account the cessation of the Subsidy Policy in the PRC regions. Given that (i) the implementation of the Measures is to control inflation and overheating in the PRC consumer market, the Management is of the view that such actions by the PRC government are interim steps and should, in the long run, facilitate the sustainable and healthy development of the PRC consumer market; and (ii) the management believes that continuing economic

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growth in PRC consumer market will offset the effect from cessation of the Subsidy Policy in the PRC regions. Accordingly, the management is of the view that the PRC consumer market will maintain a healthy development in the future.

With (i) an expected stable economic growth in the future; (ii) rising household income and spending power and improving living standard, China represents a huge consumer market with enormous potential; and (iii) planning to extend the customer networks of the Company to new overseas markets such as Africa and Middle East, we are generally of the view that the demand for home electrical appliances of the Company will be strong in 2012.

It should be noted that the Agreements will not restrict the relevant subsidiaries of Beijing Embraco Snowflake Compressor, Huayi Compressor, Hisense Group or Hisense Electric from purchasing products from other suppliers apart from the Group, nor will it restrict the Group from selling its products to any other third parties. Therefore, the anticipated value of the transactions to be carried does not reflect the Company's projection of total purchases or sales of the relevant product.

While the proposed annual caps under the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement and the Business Co-operation Framework Agreement for the year ending 2012 in certain cases represent a significant increase over the historical unaudited value of the similar transactions between the relevant parties in 2011, it should be noted that (i) the proposed transactions contemplated under the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement and the Business Co-operation Framework Agreement will continue to be conducted in the ordinary and usual course of business of the Company and on normal commercial terms; (ii) it is generally in the interest of the Company to maximise the value of the sales transactions contemplated under the Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement and the Business Co-operation Framework Agreement so as to increase the Company's revenue; and (iii) the non-exclusive arrangement under the Agreements provides

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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 Compressors Purchase Framework Agreement, the Huayi Compressors Purchase Framework Agreement and the Business Co-operation Framework Agreement are in the interests of the Company and the Shareholders as a whole and the proposed annual caps under these agreements have been arrived at on a fair and reasonable basis.

2. *The Financial Services Agreement*

Pursuant to Rule 14A.35(2) of the Listing Rules, the transactions contemplated under the Financial Services Agreement will be subject to a maximum aggregate annual cap in respect of each category of the transactions under the Financial Services Agreement (i.e. the deposit services, the loan and electronic bank acceptance bill services, the draft discount services and settlement and sale of foreign exchange services). The proposed annual caps of the transactions contemplated under the Financial Services Agreement are as follows:

	Proposed annual caps
Maximum daily balance of the deposits to be placed by the Group with Hisense Finance in respect of the deposit services	RMB350,000,000
Maximum balance of the loan and electronic bank acceptance bills to be provided by Hisense Finance to the Group in respect of the loan and electronic bank acceptance bill services	RMB1,500,000,000
Maximum aggregate value of the annual discount interest payable by the Group to Hisense Finance in respect of the draft discount services	RMB50,000,000
Maximum aggregate value payable by the Group to Hisense Finance in respect of settlement and sale of foreign exchange services	US\$50,000,000

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For the purpose of evaluating the fairness and reasonableness of the above annual caps, we have analysed the historical value of the relevant transactions between the Group and other commercial banks and financial institutions in the past and discussed with the Directors about the underlying basis for determining the value of such proposed annual caps. Details of our analysis in respect of each annual cap are summarised as follows:

i. Deposit Services

As set out in the letter from the Board, the Company expects that the maximum daily balance of the deposits to be placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the cap of RMB350,000,000 (inclusive of interest) on any given day. Such proposed cap was determined with reference to (i) the historical cashflow figures of the Group; and (ii) the expected financial needs of cash of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group.

In general, we have discussed with the management of the Company about its business development plans on areas relating to research and development, investment, sales and supply of the Group. In particular, we understand that the Company intends to strengthen its research and development capacity so as to shorten the lead time for its products. As mentioned above, the Group had outstanding borrowings of approximately RMB1,231.0 million and its unaudited total liabilities amounted to approximately RMB7,919.4 million as at 30 June 2011. For the purposes of efficient treasury management and satisfying the financial needs for its existing development plans, the Company expects that the Group may frequently utilise the loan and draft discount services to be provided by Hisense Finance if the relevant terms are more favourable than those available from other financial institutions. On the other hand, since the proposed loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal, the Company also expects to utilise frequently the deposit services to be provided by Hisense Finance.

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For the purpose of evaluating the fairness and reasonableness of the proposed cap of RMB350 million in respect of the deposit services, we have analysed the historical value for the deposit services provided by Hisense Finance to the Group in the past so as to see whether or not the proposed cap is excessive. We note that the maximum balance of the deposits during the ten months ended 31 October 2011 placed by the Group with Hisense Finance amounted to approximately RMB184 million and the Group's cash balance as at 30 June 2011 amounted to RMB322 million, which are approximately 47.4% and 8.0% lower than the proposed annual cap of RMB350 million, respectively. The Company expects that as a result of the business development plans on areas relating to research and development, investment, sales and supply of the Group, the Company shall utilise more deposit services in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance. As advised by the Directors, the Group may place a substantial part of the Group's cash in Hisense Finance in 2012.

As stated in letter from the Board, Hisense Finance is regulated by the CBRC and engaged in the provision of financial services in compliance with the relevant regulations and operation requirements. Its primary customers are the subsidiaries of Hisense Group. We have discussed with the management on their view on credibility of Hisense Finance. The management has advised that although there is no credit rating on Hisense Finance, Hisense Finance only provided the services to the subsidiaries of Hisense Group, so the risks of those companies are fully monitored by the management of Hisense Group. In order to minimise the risk associated with Hisense Finance in relation to the deposit services, as a prerequisite of utilising such deposit services, each time the Company would assess the business and financial risks of Hisense Finance by reviewing its latest available financial statements and such assessment is required to be reported to the Directors for their approvals. In addition, the management of the Company considers that Hisense Finance has honoured its business commitments and obligations in the past. Therefore, the Directors are of the view that the above measurement could minimise the risk exposed to Hisense Finance. Based on above, we concur with the view of the management that the risk associated with Hisense Finance in relation to the deposit placed/to be placed by the Company is low. Furthermore, the proposed transactions contemplated in relation to the deposit services will be conducted in the ordinary and

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usual course of business of the Company and on normal commercial terms and the terms will not be less favourable to the Company than terms available from other normal commercial banks and financial institutions, we are of the view that the proposed transactions in relation to the deposit services under the Financial Services Agreement are fair and reasonable.

As set out above, it is proposed that the loans to be provided by Hisense Finance to the Group under the Financial Services Agreement will first be transferred by Hisense Finance to the Group in its deposit account with Hisense Finance for withdrawal. Given the proposed maximum amount of loan and electronic bank acceptance bill services of RMB1,500 million to be provided by Hisense Finance to the Group in respect of the loan and electronic bank acceptance bill services (which is 329% higher than the proposed maximum daily balance of the deposit to be placed by the Group with Hisense Finance), we do not consider the proposed annual cap of RMB350 million in respect of the deposit services under the Financial Services Agreement to be excessive. Given that (i) the proposed transactions contemplated under the Financial Services Agreement will 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 from other normal commercial banks and financial institutions; and (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values, we are of the view that the proposed annual cap of RMB350 million in respect of the deposit services under the Financial Services Agreement is fair and reasonable.

ii. Loan and electronic bank acceptance bill services

As set out in the letter from the Board, the Company expects that the maximum balance of loan and electronic bank acceptance bills to be provided by Hisense Finance to the Group shall not exceed the cap of RMB1,500 million (inclusive of interest) during the term of the Financial Services Agreement. Such proposed cap has been determined based on (i) the historical cashflow figures of the Group; (ii) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (iii) the plan of the Group to obtain more loans

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from Hisense Finance instead of from other financial institutions for the next two financial years since the terms for the provision of the loans by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the loan application process by the Company.

We note that the average monthly balance for the ten months ended 30 October 2011 was approximately RMB687 million, which is approximately 54.2% lower than the proposed annual cap of RMB1,500 million. As discussed above, given the implementation of the Measures by the PRC government in 2011, the PRC credit market has become more tightened, and it was difficult to borrow money from the PRC commercial banks. In addition, as discussed above, according to the statistics from the People's Bank of China, the one year borrowing rate increased from 6.06% in February 2011 to 6.56% in July 2011 while the Group's borrowings with Hisense Finance bore interest rates ranging from 5.454% to 5.904%. As such, the interest rates for the loans provided by Hisense Finance were lower than the loans provided by the PRC commercial banks, which is in the interests of the Company and the Shareholders as a whole. We consider that it is beneficial for the Group to continue to utilise such loan services to be provided by Hisense Finance in the future as the Group will be able to reduce its finance costs. We also consider that it is of the Group's interest to maximise the relevant annual cap so as to capture the potential interest savings to the greatest extent.

Given that the loan and electronic bank acceptance bill services under the Financial Services Agreement will 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 from other normal commercial banks and financial institutions, we are of the view that the proposed annual cap in respect of the loan and electronic bank acceptance bill services under the Financial Services Agreement to be fair and reasonable.

iii. Draft discount services

As set out in the letter from the Board, the Company expects that the annual discount interest payable by the Company to Hisense Finance for draft discount services shall not exceed the cap of RMB50,000,000 under the Financial Services Agreement. Such proposed cap has been determined based on (i) the expected financial needs of the Group taking into account the business development plans on areas relating to research and development, investment, sales and supply of the Group; and (ii) the plan of the Group to use more draft discount services to be provided by Hisense Finance instead of from other financial institutions for the next two financial years since the terms for the provision of the draft discount services by Hisense Finance to the Group shall be no less favourable than those of other normal commercial banks and financial institutions and Hisense Finance has better knowledge about the background and financial status of the Company which will facilitate the draft discount application process by the Company.

As mentioned above, the historical service fees paid by the Company for the draft discount services provided by other financial institutions to the Group was approximately RMB400,000 for the ten months ended 31 October 2011. We note that such payments of services fees had been fluctuating during the past several financial years and the service fees paid by the Company for the ten months ended 31 October 2011 occurred in July 2011 only. As advised by the Directors, given that the PRC credit environment became tightened in 2011, the discount interest rates were higher than the borrowing rates issued by the PRC commercial banks. In order to reduce the cost of the transactions of the Company, the Directors considered to minimise the transactions in relation to draft discount services in 2011. We further understand that the Company expects that PRC government would relax its credit policy in 2012 which may cause a decrease of the discount rate. In addition, as a result of the implementation of the business development plans on areas relating to research and development, investment, sales and supply of the Group, the Company shall utilise more draft discount services in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance.

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In view of the fact that (i) the proposed draft discount services to be provided by Hisense Finance to the Group will 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 from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (iii) given the existing development plans of the Company, it is generally in the interest of the Company to maximise the amount of service fees payable so as to provide for its expected increasing utilisation in the coming financial years, we are of the view that the proposed annual cap of RMB50 million in respect of the draft discount service fees to be payable under the Financial Services Agreement is fair and reasonable.

iv Settlement and sale of foreign exchange services

As set out in the letter from the Board, the Company expects that subject to the approval from the Administration of Foreign Exchange having been obtained by Hisense Finance for the provision of such services, the annual amount settled or sold by Hisense Finance for the Group shall not exceed the annual cap of US\$50,000,000. Such proposed cap has been determined based on the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for each of the next two financial years.

There has not been any historical transaction for the provision of settlement and sale of foreign exchange services by Hisense Finance to the Group. In order to determine the fairness and reasonableness of the proposed annual cap, we, for the purpose of ensuring the accuracy of the Company's computation of the proposed annual cap, have reviewed the basis and assumptions on calculation in respect of the expected volume of export and the expected amount subject to settlement and sale of foreign exchange for the next two financial years. As discussed above, the Company expects that as a result of implementation of the business development plan for developing the new overseas markets such as Africa and Middle East, the Company shall utilise more settlement and foreign exchange services in relation in the coming years to take advantage of the more expedient and efficient service provision by Hisense Finance.

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In view of the fact that (i) the proposed settlement and sale of foreign exchange services to be provided by Hisense Finance to the Group will 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 from other normal commercial banks and financial institutions; (ii) the non-exclusive arrangement under the Financial Services Agreement provides the Company with the flexibility without any commitment on the actual transaction values; and (iii) the business development plans of the Company to be implemented in the future, it is generally in the interest of the Company to maximise the amount of settlement and sale of foreign exchange payable so as to provide for its expected increase in export sales for the coming financial years, we are of the view that the proposed annual cap of US\$50,000,000 in respect of the settlement and sale of foreign exchange to be payable under the Financial Services Agreement is fair and reasonable.

IV. Conditions of the annual caps under the 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 Agreements by way of the annual cap for each of the relevant financial years 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. Furthermore, 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 Agreements are conducted in accordance with the terms of the relevant 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 Agreements and safeguard the interests of the Independent Shareholders.

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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 home electrical appliances is one of the principal businesses of the Group and compressors are essential components of home electrical appliances such as refrigerators and freezers. Huayi Compressor and Beijing Embraco Snowflake Compressor are major producers of compressors in the PRC and have 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 Framework Agreement and the Huayi Compressors Purchase Framework Agreement with Beijing Embraco Snowflake Compressor and Huayi Compressors, respectively;
- (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 and Hisense Electric are in a good position to assist the Group in maintaining its business conditions;
- (iii) Certain transactions contemplated under the Agreements will increase the sales of the Group, so it is in the interest of the Group to enter into such transactions;
- (iv) The terms of the definitive contract(s) to be entered into by the Group pursuant to the 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 Agreements will be conducted in the ordinary and usual course of business of the Company and on normal commercial terms. In addition, all transactions contemplated under the Agreements are to be conducted on a non-exclusive basis, so the Agreements will not restrict the Company from engaging in the similar transactions with other parties; and
- (v) The value of, and the basis for determining, the annual caps under the 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 Agreements”.

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Based on the above, we are of the opinion that each of the Agreements is in the interests of the Company and the Shareholders as a whole, the transactions to be contemplated under the 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 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 the Agreements at the EGM.

Yours faithfully

For and on behalf of

Investec Capital Asia Limited

Alexander Tai

Executive Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accepts full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement contained herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors, supervisors and chief executive of the Company in the securities of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV 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 he was taken or deemed to have under such provisions of the SFO) or were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the “Model Code”) to be notified to the Company and the Stock Exchange were as follows:

Long Position in the share options of the Company

Name of Director	Number of A Shares which may be subscribed under the options	Approximate percentage of issued A Shares (%)	Approximate percentage of total issued share capital (%)
Tang Ye Guo	1,260,000 <i>(Note)</i>	0.14	0.09
Ren Li Ren	720,000 <i>(Note)</i>	0.08	0.05
Xiao Jian Lin	828,000 <i>(Note)</i>	0.09	0.06

Note: These share options were granted on 31 August 2011 pursuant to the first A share share option incentive scheme of the Company and are exercisable at RMB7.65 per A Share after a restriction period of 2 years from the grant date until the trading day falling on the fifth anniversary of the grant date, subject to the exercise arrangements and conditions as set out in the scheme.

Save as disclosed above, 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 of 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 Hong Kong Listing Rules.

Other interests

As at the Latest Practicable Date:

- (a) none of the Directors, proposed Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been, since 31 December 2010, 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;
- (b) 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 subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (c) Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin, being Directors, are also directors or senior management of Hisense Group or some of its subsidiaries. Hisense Group was deemed to have an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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 Group within one year without payment of compensation (other than statutory compensation)).

4. COMPETING BUSINESS

As at the Latest Practicable Date, the following Directors 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 Hong Kong Listing Rules:

Name of Director	Name of entity which business is considered to compete or likely to compete with the business of the Group	Description of business of the entity which is considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Mr. Tang Ye Guo	The subsidiaries of Hisense Group	Production of air-conditioning/ electrical products	Director
Ms. Yu Shu Min	Hisense Group, the subsidiaries of Hisense Group or Hisense Electric	Production of air-conditioning/ electrical products	Director and/or senior management
Mr. Lin Lan	Hisense Group or Hisense Electric	Production of air-conditioning/ electrical products	Director and/or senior management
Mr. Xiao Jian Lin	Hisense Group or Hisense Electric	Production of air-conditioning/ electrical products	Director and/or senior management

As at the Latest Practicable Date, save as disclosed above, none of the Directors 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

As 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 2010 (being the date to which the latest published audited financial statements of the Group were made up).

6. EXPERT

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

Name	Qualifications
Investec Capital Asia Limited	a corporation licensed under the SFO to carry on 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

As at the Latest Practicable Date, the Independent Financial Adviser:

- (a) did 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;
- (b) did not have any interest, direct or indirect, in any assets which have been, since 31 December 2010, the date to which the latest published audited financial statements of the Company were made up, 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; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name, letter and/or report in the form and context in which they are included.

The letter of advice given by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders 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 3101-05, Singa Commercial Centre, No. 148 Connaught Road West, Hong Kong during normal business hours from the date of this circular up to and including 16 January 2012:

- (a) the letter from the Independent Financial Adviser dated 28 December 2011;
- (b) the letter from the Independent Board Committee dated 28 December 2011;
- (c) the Compressors Purchase Framework Agreement;
- (d) the Huayi Compressors Purchase Framework Agreement ;
- (e) the Business Co-operation Framework Agreement;
- (f) the Financial Services Agreement;
- (g) the Hitachi Business Framework Agreement;
- (h) the Whirlpool Business Framework Agreement;
- (i) resolutions passed at the fourteenth board meeting of the year 2011 of the seventh session of the Board;
- (j) the prior approval and independent opinion of the independent non-executive Directors dated 29 November 2011 in relation to the connected transactions;
- (k) the Existing Compressors Purchase Framework Agreement;
- (l) the Existing Compressors Purchase and Supply Framework Agreement;
- (m) the Existing Business Co-operation Framework Agreement; and
- (n) the Existing Financial Services Agreement.