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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)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS

A) COMPRESSORS PURCHASE FRAMEWORK AGREEMENT

The Board announces that on 5 May 2010, the Company entered into the Compressors Purchase Framework Agreement with Beijing Embraco Snowflake Compressor for a term commencing from the date of approval of the agreement by Independent Shareholders, which is expected to be on 4 June 2010, until 31 December 2010 in connection with the purchase of compressors for the purpose of manufacturing home electrical appliances, including but not limited to refrigerators and air-conditioners, by the Group.

B) COMPRESSORS PURCHASE AND SUPPLY FRAMEWORK AGREEMENT 2

The Board announces that on 5 May 2010, the Company entered into the Compressors Purchase and Supply Framework Agreement 2 with Huayi Compressor for a term commencing from the date of approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, until 31 December 2010 in connection with the purchase of compressors for the purpose of manufacturing home electrical appliances, including but not limited to refrigerators and air-conditioners, by the Group.

C) BUSINESS CO-OPERATION FRAMEWORK AGREEMENT 2

The Board announces that on 5 May 2010, the Company entered into the Business Co-operation Framework Agreement 2 with Hisense Group and Hisense Electric for a term commencing from the date of approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, until 31 December 2010 in relation to the Company's purchase of home electrical appliances; raw materials, equipment such as equipment for the production of refrigerators, parts and components from Hisense Group and/or Hisense Electric; the provision of property management service, medical service, material processing services, installation and maintenance, management consultancy and

agency services for import and export, leasing, design, equipment management, advertising and information system maintenance by Hisense Group and/or Hisense Electric to the Group; the sales of home electrical appliances, moulds and raw materials from the Group to Hisense Group and/or Hisense Electric; and the provision of loading and unloading services and services on rental of equipment such as equipment for the undertaking of the EMC testing project for air-conditioners by the Group to Hisense Group.

D) PROVISION OF PROPERTY SERVICES FRAMEWORK AGREEMENT

The Board announces that on 5 May 2010, the Company entered into the Provision of Property Services Framework Agreement with Beijing Snowflake Group for a term commencing from 5 May 2010, until 31 December 2010 in connection with the provision of property services such as rental and utilities by Beijing Snowflake Group to the Group.

CONTINUING CONNECTED TRANSACTIONS

Compressors Purchase Framework Agreement

As at the date of this announcement, Beijing Embraco Snowflake Compressor is held as to 30.82% by Beijing Snowflake Group, a substantial shareholder which holds 45% equity interests in the Company's non wholly-owned subsidiary Hisense Beijing 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 each of the applicable percentage ratios (other than the profit ratio) is more than 2.5%, the continuing connected transactions under the Compressors Purchase Framework Agreement are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

Compressors Purchase and Supply Framework Agreement 2

As at the date of this announcement, Huayi Compressor is a substantial shareholder holding 29.95% of the equity interests in the Company's subsidiary Shunde Ronshen Plastic Products Co., Ltd. (佛山市顺德区容声塑胶有限公司) and 29.89% of the equity interests in the Company's subsidiary Guangdong Kelon Mould Co., Ltd. (广东科龙模具有限公司) and therefore Huayi Compressor is a connected person of the Company according to the Hong Kong Listing Rules. As each of the applicable percentage ratios (other than the profit ratio) for the aggregated amount of the transactions contemplated under the Compressors Purchase and Supply Framework Agreement 2 is more than 2.5%, the continuing connected transactions under the Compressors Purchase and Supply Framework Agreement 2 are subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

Business Co-operation Framework Agreement 2

As at the date of this announcement, Hisense Air-conditioning is a substantial shareholder of the Company, holding 25.22% of the issued shares of the Company. Each of Hisense Group and its Subsidiaries are Associates of Hisense Air-Conditioning and therefore connected persons of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement 2 will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules and should be aggregated for the purpose of Rules

14A.25 to 14A.27 of the Hong Kong Listing Rules. Given that the applicable percentage ratios (other than the profit ratio) for the aggregated amount of the transactions contemplated under the Business Co-operation Framework Agreement 2 is more than 2.5%, the continuing connected transactions under the Business Co-operation Framework Agreement 2 are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

Provision of Property Services Framework Agreement

As at the date of this announcement, Beijing Snowflake Group is a substantial shareholder which holds 45% of the equity interests in Hisense Beijing, a non wholly-owned subsidiary of the Company, and therefore a connected person or the Company. As such, the transactions contemplated under the Provision of Property Services Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. Given that the applicable percentage ratios (other than the profit ratio) for the transactions contemplated under the Provision of Property Services Framework Agreement exceeds 0.1% but is less than 2.5%, the continuing connected transactions under the Provision of Property Services Framework Agreement are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rule 14A.35 of the Hong Kong Listing Rules.

A circular containing further details of the Compressors Purchase Framework Agreement, Compressors Purchase and Supply Framework Agreement 2, and the Business Co-operation Framework Agreement 2 and their respective related annual caps, a letter from the independent board committee of the Company, and a letter from an independent financial adviser and the notice of the AGM will be despatched to the Shareholders within 21 days after the publication of this announcement under Rule 14A.49 of the Hong Kong Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 16 July 2009 and the circular of the Company dated 31 July 2009 in relation to the acquisition from Qingdao Hisense Air-Conditioning Company Limited of the interest in the Target Group (as defined in the circular of the Company dated 31 July 2009), which operates the White Goods Business (as defined in the circular of the Company dated 31 July 2009).

Reference is also made to the announcement of the Company dated 6 November 2009 and the circular of the Company dated 26 November 2009 in relation to the Business Cooperation Framework Agreement dated 6 November 2009 entered into between the Company and Qingdao Hisense Air-Conditioning Company Limited and five subsidiaries of the Hisense Group.

Following completion of the acquisition of the Target Group, the Company will hold, among other things, 55% of the equity interests in Hisense Beijing, 60% of the equity interests in Hisense Nanjing through Hisense Beijing, 100% equity interests in Hisense Shandong, 51% of the equity interests in Hisense Zhejiang and 78.7% of the equity interests in Hisense Mould.

Based on information available to the Company, these companies will cease to be connected persons of the Company as defined under Rule 14A.11 of the Hong Kong Listing Rules. Therefore, the Company's non-exempt continuing connected transactions with some of the members of Target Group as announced on 6 November 2009 and approved by the Independent

Shareholders on 15 January 2010 will no longer constitute continuing connected transactions of the Company after completion of the acquisition of the Target Group. The Company expects that RMB4.259 billion out of RMB5.324 billion of such aggregated amount as announced on 6 November 2009 will not be applicable thereafter. However, the Company has identified certain transactions between some of the members of the Target Group and connected persons of the Company that will constitute non-exempt continuing connected transactions after completion of the acquisition of the Target Group. Accordingly, the Company entered into the Compressors Purchase Framework Agreement, Compressors Purchase and Supply Framework Agreement 2, Business Co-operation Framework Agreement 2 and Provision of Property Services Framework Agreement in compliance with the Hong Kong Listing Rules.

NEW NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A) COMPRESSORS PURCHASE FRAMEWORK AGREEMENT

Date and Parties

Date

5 May 2010

Parties

- (i) The Company; and
- (ii) Beijing Embraco Snowflake Compressor

Term

The Compressors Purchase Framework Agreement shall commence from the date of approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, until 31 December 2010, which can be terminated before its expiration by mutual agreement of the parties.

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

Condition

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

Purchase of Compressors

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

The Company and/or its Subsidiaries have the right to purchase compressors from suppliers other than 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

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

Payment Term

Payment term(s) for the purchase of compressors shall be in accordance with the payment term(s) as stipulated in the detailed contract(s) to be signed by relevant parties thereto.

Historical Figures

The Group and the relevant companies which have become Subsidiaries of the Company after completion of the acquisition of the Target Group have conducted similar transactions with Beijing Embraco Snowflake Compressor and/or its Subsidiaries in the past. Details of such historical transactions are set out below:-

Transaction amount for the purchase of compressors from Beijing Embraco Snowflake Compressor and/or its Subsidiaries for the year ended 31 December 2009	RMB 179,305,190 (inclusive of value-added tax)
Transaction amount for the purchase of	RMB 26,414,797

compressors from Beijing Embraco Snowflake Compressor and/or its subsidiaries for the three months ended 31 March 2010	(inclusive of value-added tax)
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Proposed Annual Cap

The transactions contemplated by the Compressors Purchase Framework Agreement from the date of approval of the agreement by the Independent Shareholders, which is expected to be 4 June 2010, to 31 December 2010 are subject to the annual cap set out below:

From 4 June 2010 to 31 December 2010	RMB 252,000,000 (inclusive of value-added tax)
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The above annual cap was determined with reference to (a) similar transactions between Hisense (Beijing) and/or its Subsidiaries 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; and (c) the business development plan of the Company relating to the production and sales level of refrigerators and air-conditioners in 2010.

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 air-conditioners, which requires compressors as a component for its products. After considering a range of factors including the quality, the price and the compatibility of the compressors manufactured by Beijing Embraco Snowflake Compressor and/or its Subsidiaries with the current facilities used by and the refrigerators and air-conditioners 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 its Subsidiaries are in a good position to supply compressors to the Group.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the independent financial advisor) are of the view that the terms of the Compressors Purchase Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

B) COMPRESSORS PURCHASE AND SUPPLY FRAMEWORK AGREEMENT 2

Date and Parties

Date

5 May 2010

Parties

- (i) The Company; and
- (ii) Huayi Compressor

Term

The Compressors Purchase and Supply Framework Agreement 2 shall commence from the date of the approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, until 31 December 2010, which can be terminated before its expiration by mutual agreement of the parties.

The parties are entitled to terminate the Compressors Purchase and Supply Framework Agreement 2 before its expiration upon mutual agreement or in the event of occurrence of any breaches of the Compressors Purchase and Supply Framework Agreement 2, which include any non-compliance with the relevant Hong Kong Listing Rules in respect of the connected transactions. In the event of any breaches of any declaration, warranty and undertaking and non-fulfilment of its obligations by any party under the Compressors Purchase and Supply Framework Agreement 2, the other party(ies) is(are) entitled to claim damages and compensation from such party.

Condition

The continuing connected transactions contemplated under the Compressors Purchase and Supply Framework Agreement 2 are subject to approval of the Independent Shareholders at the AGM.

Purchase of Compressors

Pursuant to the terms of the Compressors Purchase and Supply Framework Agreement 2, the Company 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 air-conditioners, by the Group. The transactions contemplated under the Compressors Purchase and Supply Framework Agreement 2 are in the ordinary and usual course of business of the Company.

The parties will enter into individual compressors purchase and supply orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Compressors Purchase and Supply Framework Agreement 2, including the pricing, operation and trading policies set out therein.

The Company and/or its relevant Subsidiaries has (have) the right to purchase compressors from suppliers other than Huayi Compressor and/or its Subsidiaries from time to time according to their own needs.

The Compressors Purchase and Supply Framework Agreement 2 does not restrict the rights of Huayi Compressor and/or its Subsidiaries (as the case may be) to sell its compressors to any other third parties.

Pricing

Pricing for the purchase of compressors is determined principally by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of compressors from time to time. Such transactions will be conducted in the

ordinary and usual course of business of the company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

Payment Term

Payment for the purchase of compressors should be made by telegraphic transfer or bank-issued bills by the Company and/or its Subsidiaries within 90 days from the first day of the following month after the compressors had passed the inspection tests and the relevant receipt(s) have been accounted for in the accounts

Historical Figures

The Group and the relevant companies which have become Subsidiaries of the Company after completion of the acquisition of the Target Group have conducted similar transactions with Huayi Compressor and/or its Subsidiaries in the past. Details of such historical transaction amount are set out below:-

Transaction amount for the purchase of compressors from Huayi Compressor and/or its Subsidiaries for the year ended 31 December 2009	RMB 472,423,200 (inclusive of value-added tax)
Transaction amount for the purchase of compressors from Huayi Compressor and/or its subsidiaries for the three months ended 31 March 2010	RMB 173,282,408 (inclusive of value-added tax)

Proposed Annual Cap

The transactions contemplated by the Compressors Purchase and Supply Framework Agreement 2 from the date of the approval of the agreement by Independent Shareholders, which is expected to be 4 June 2010, until 31 December 2010 are subject to the annual cap set out in the table below:

From 4 June 2010 to 31 December 2010	RMB 330,050,000 (inclusive of value-added tax)
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The above annual 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; and (c) the business development plan of the Company relating to the production and sales level of refrigerators and air-conditioners in 2010.

The transactions contemplated under the Compressors Purchase and Framework Agreement 2 will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules and should be aggregated with the transactions contemplated under the Compressors Purchase and Supply Framework Agreement 1 dated 6 November 2009 for the purpose of Rules 14A.25 to 14A.27 of the Hong Kong Listing Rules. As such, upon approval by the Independent Shareholders, the annual cap for all similar continuing connected transactions with Huayi Compressor shall be as follows:

Annual Cap from 1 January 2010 to 31 December 2010 pursuant to the Compressors Purchase and Supply Framework Agreement 1 dated 6 November 2009	RMB 580,000,000 (inclusive of value-added tax)
Annual Cap for the year ending 31 December 2010 pursuant to the Compressors Purchase Framework Agreement dated 4 June 2010 and the Compressors Purchase and Supply Framework Agreement 1 dated 6 November 2009	RMB 910,050,000 (inclusive of value-added tax)

REASONS FOR AND BENEFITS OF THE COMPRESSORS PURCHASE AND SUPPLY FRAMEWORK AGREEMENT 2

In addition to the members of the Group prior to completion of the acquisition of the Target Group, the Group is engaged in the manufacture of home electrical appliances, including but not limited to refrigerators and air-conditioners, which requires compressors as a component for its products. After considering a range of factors including the quality, the price and the compatibility of the compressors manufactured by Huayi Compressor and/or its Subsidiaries with the current facilities used by and the refrigerators and air-conditioners manufactured by the 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. The Company's demand for the purchase of compressors from Huayi Compressor has further increased as a result of a projected increase in the demand for home electrical appliances such as refrigerators and air-conditioners from the Group due to, among other things, prolonged heatwaves and global warming. In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the independent financial advisor) are of the view that the terms of the Compressors Purchase and Supply Framework Agreement 2 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

C) BUSINESS CO-OPERATION FRAMEWORK AGREEMENT 2

Date

5 May 2010

Parties

- (i) The Company;
- (ii) Hisense Group; and
- (iii) Hisense Electric

Term

The Business Co-operation Framework Agreement 2 shall commence from the date of approval of the agreement by Independent shareholders which is expected to be on 4 June 2010 to 31 December 2010, which can be terminated before its expiration by mutual agreement of the parties.

The parties are entitled to terminate the Business Co-operation Framework Agreement 2 before its expiration upon mutual agreement or in the event of occurrence of any breaches of the Business Co-operation Framework Agreement 2, which include any non-compliance with the relevant Hong Kong Listing Rules in respect of the connected transactions. In the event of any breaches of any declaration, warranty and undertaking and non-fulfilment of its obligations by any party under the Business Co-operation Framework Agreement 2, the other party(ies) is (are) entitled to claim damages and compensation from such party.

Condition

The continuing connected transactions contemplated under the Business Co-operation Framework Agreement 2 are subject to the approval of the Independent Shareholders at the AGM.

The transactions contemplated under the Business Co-operation Framework Agreement 2 are in the ordinary and usual course of business of the Company and are in connection with the following aspects of business co-operation between the parties:-

1) Purchase of home electrical appliances

Pursuant to the Business Co-operation Framework Agreement 2, the Company has agreed that the Group shall purchase from Hisense Group and Hisense Electric and/or their respective Subsidiaries other than the Target Group (collectively, the “**H and HE Group**”) on a non-exclusive basis home electrical appliances such as cellular phones and television sets. The parties agreed to enter into individual purchase orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement 2, including the pricing, operation and trading policies set out therein.

The Group has the right to purchase from suppliers other than the H and HE Group from time to time according to its own needs. The Business Co-operation Framework Agreement 2 does not restrict the rights of H and HE Group to sell their home electrical appliances to any other third parties.

Pricing

Pricing for the purchase of home electrical appliances is determined principally by arm’s length commercial negotiation between the relevant purchaser of the Group and the relevant vendor of H

and HE Group according to the principles of fairness and reasonableness with reference to the market price of home electrical appliances from time to time.

Payment Term

Payment for the fees for the purchase of home electrical appliances should be made by telegraphic transfer or bank-issued bills by the relevant purchaser of the Group within 60 days after receipt of the home electrical appliances.

Reasons for and Benefits of the Purchase of Home Electrical Appliances

The sales and overall image of the Company can be enhanced by purchasing cellular phones and television sets from the H and HE Group 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.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the independent financial advisor) are of the view that the terms of the purchase of home electrical appliances under the Business Co-operation Framework Agreement 2 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant companies which have become Subsidiaries of the Company after completion of the acquisition of the Target Group started to conduct similar transactions with the H and HE Group since the beginning of 2010. Details of such historical transaction amount are set out below:-

Transaction amount for the purchase of home electrical appliances from the H and HE Group for the year ended 31 December 2009	RMB 0 (inclusive of value-added tax)
Transaction amount for the purchase of home electrical appliances from the H and HE Group for the three months ended 31 March 2010	RMB 24,120 (inclusive of value-added tax)

Proposed Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement 2 regarding the purchase of home electrical appliances from the date of the approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, to 31 December 2010 are subject to the annual cap set out below:

From 4 June 2010 to 31 December 2010	RMB 2,200,000 (inclusive of value-added tax)
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The above annual 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 the relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group to purchase cellular phones and television sets from the H and HE Group for the year ending 31 December 2010 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.

2) Purchase of Raw Materials, Equipment, Parts and Components

Pursuant to the Business Co-operation Framework Agreement 2, the Company has agreed that the relevant Subsidiaries of the Company shall purchase from the Hisense Group and/or Hisense Electric on a non-exclusive basis such quantities of raw materials such as copper tubes and parts and components such as electronic components and parts for equipment for refrigerators as the relevant Subsidiaries of the Company may require from time to time for the purpose of the manufacture of air-conditioners and refrigerators. The parties agreed to enter into individual raw materials purchase and supply orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement 2, including the pricing, operation and trading policies set out therein.

The relevant Subsidiaries of the Company have the right to purchase raw materials, parts and components and parts for equipment for refrigerators from suppliers other than Hisense Group and/or Hisense Electric from time to time according to its own needs. The Business Co-operation Framework Agreement 2 does not restrict the rights of Hisense Group and/or Hisense Electric to sell its raw materials, parts and components and parts for equipment for refrigerators and air-conditioners to any other third parties.

Pricing

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

Payment Term

Payment for the fees for the purchase of raw materials, parts and components and parts for equipment for refrigerators should be made by the Group within 60 days after receipt of the raw materials, equipment and parts and components.

Reasons for and Benefits of the Purchase of Raw Materials, Equipment, Parts and Components

The relevant companies which have become Subsidiaries of the Company after completion of the acquisition of the Target Group and the Company are principally engaged in the design and manufacture of air-conditioners and refrigerators. The relevant Subsidiaries of Hisense Group are principally engaged in the manufacture of electrical appliances, including air-conditioners.

Pursuant to the Business Co-operation Framework Agreement 2, the Group shall manufacture and supply refrigerators and air-conditioners to Hisense Group and/or Hisense Electric (which is set out in the following parts of this announcement). In such circumstances, the Group shall purchase compatible raw materials and refrigerators' and air-conditioners' parts and components for its sale to Hisense Group and/or Hisense Electric.

The purchase of raw materials and refrigerators' and air-conditioners' parts and components and equipment by the Group from Hisense Group and/or Hisense Electric will improve the control of reserve fund by the relevant Subsidiaries of the Company and reduce purchase costs, and at the same time, can reduce the limitation of the bottleneck in the production of upstream raw materials during peak season, achieving full utilisation of resources. It can also facilitate the Group's production of refrigerators and air-conditioners for its sale to Hisense Group and/or Hisense Electric.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the independent financial advisor) are of the view that the terms of the purchase of raw materials, equipment, parts and components of refrigerators and air-conditioners under the Business Co-operation Framework Agreement 2 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant companies which have become Subsidiaries of the Company after completion of the acquisition of the Target Group have conducted similar transactions with the relevant Subsidiary of Hisense Group in the past. Details of such historical transaction amount are set out below:-

Transaction amount for the purchase of raw materials, equipment, refrigerators' and air-conditioners' parts and components from the Hisense Group and/or Hisense Electric for the year ended 31 December 2009	RMB 101,130,400 (inclusive of value-added tax)
Transaction amount for the purchase of raw materials, equipment, refrigerators' and air-conditioners' parts and components from the Hisense Group and/or Hisense Electric for the three months ended 31 March 2010	RMB 41,534,400 (inclusive of value-added tax)

Proposed Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement 2 regarding the purchase of raw materials, equipment and refrigerators' and air-conditioners' parts and components from the date of the approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, to 31 December 2010 are subject to the annual cap set out below:

From 4 June 2010 to 31 December 2010	RMB 107,800,000
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	(inclusive of value-added tax)
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The above annual cap was determined with reference to (a) the prevailing market conditions about the demand for electrical appliances, including air-conditioners and refrigerators, in the PRC; and (b) the projected increase in the sale and production of refrigerators by the relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group to Hisense Group and/or Hisense Electric for the year ending 31 December 2010 and their projected purchases of raw materials, equipment, and refrigerators' and air-conditioners' parts and components and parts for equipment from Hisense Group and/or Hisense Electric to enable such production and sale.

The transactions contemplated under the Business Co-operation Framework Agreement 2 will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules and should be aggregated with the similar transactions contemplated under the Business Cooperation Framework Agreement 1 dated 6 November 2009 for the purpose of Rules 14A.25 to 14A.27 of the Hong Kong Listing Rules. As such, upon approval by the Independent Shareholders, the annual cap for all similar continuing connected transactions with Hisense Group and/or Hisense Electric in this regard shall be as follows:

Annual Cap from 1 January 2010 to 31 December 2010 pursuant to Business Co-operation Framework Agreement 1 dated 6 November 2009	RMB 3,780,000 (inclusive of value-added tax)
Annual Cap for the year ending 31 December 2010 pursuant to the Business Co-operation Framework Agreement 1 dated 6 November 2009 and the Business Co-operation Framework Agreement 2 dated 5 May 2010	RMB 111,580,000 (inclusive of value-added tax)

3) Provision of Services

Pursuant to the Business Co-operation Framework Agreement 2, the Company has agreed that the Group shall engage Hisense Group and/or Hisense Electric for the provision of property management service, medical service, material processing services, installation and maintenance, management consultancy and agency services for import and export, leasing, design, equipment management, advertising and information system maintenance. The parties agreed to enter into individual service provision orders setting out specific terms for the provision of services including fees, scope of the services, payment terms and schedules, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement 2, including the pricing, operation and trading policies set out therein.

The Group has the right to engage from time to time according to its own needs service providers other than Hisense Group and/or Hisense Electric to provide the aforesaid services to the Group. The Business Co-operation Framework Agreement 2 also does not restrict the rights of Hisense Group and/or Hisense Electric to provide such services to any other third parties.

Pricing

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

Payment Term

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

Reasons for and Benefits of the Engagement for the Services Provision

The relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group and the Company are principally engaged in the manufacture and sales of refrigerators and air-conditioners.

Even though the Group will continue to engage other third parties service providers for the provision of such services to its customers, the engagement of Hisense Group and/or Hisense Electric for the provision of property management service, medical service, material processing services, installation and maintenance, management consultancy and agency services for import and export, leasing, design, equipment management, advertising and information system maintenance can help the relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group to reduce reliance on a single service provider, foster its control on its services network, enhance its supervision on the maintenance and repair service teams and enable the Group to make long term planning on maintenance services provision. Further, Hisense Group and/or Hisense Electric possesses the expertise and experience for the provision and maintenance of services of such nature which can enable the Group to carry out its daily operation smoothly.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the independent financial advisor) are of the view that the terms of the services engagement under the Business Co-operation Framework Agreement 2 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant companies which will become Subsidiary of the Company after completion of the acquisition of the Target Group have conducted similar transactions with Hisense Group and/or Hisense Electric in the past. Details of such historical transaction amount are set out below:-

Transaction amount for the provision of property management service, medical service, material processing services, installation and maintenance, management consultancy and	RMB42,561,500 (inclusive of value-added tax)
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agency services for import and export, leasing, design, equipment management, advertising and information system maintenance by Hisense Group and/or Hisense Electric for the year ended 31 December 2009	
Transaction amount for the provision of property management service, medical service, material processing services, installation and maintenance, management consultancy and agency services for import and export, leasing, design, equipment management, advertising and information system maintenance by Hisense Group and/or Hisense Electric for the three months ended 31 March 2010	RMB 12,858,700 (inclusive of value-added tax)

Proposed Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement 2 regarding the service provision from the date of approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, to 31 December 2010 are subject to the annual cap set out below:

From 4 June 2010 to 31 December 2010	RMB 67,570,000 (inclusive of value-added tax)
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The above annual cap was determined with reference to (a) similar transactions between the Group with Hisense Group and/or Hisense Electric in the past; (b) the projected level of production and sale of electrical appliances of the relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group and the Company from 4 June 2010 to 31 December 2010.

The transactions contemplated under the Business Co-operation Framework Agreement 2 will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules and should be aggregated with the similar transactions contemplated under the Business Cooperation Framework Agreement 1 dated 6 November 2009 for the purpose of Rules 14A.25 to 14A.27 of the Hong Kong Listing Rules. As such, upon approval by the Independent Shareholders, the annual cap for all similar continuing connected transactions including after sales services with Hisense Group and/or Hisense Electric in this regard shall be as follows:

Annual Cap from 1 January 2010 to 31 December 2010 pursuant to Business Co-operation Framework Agreement 1 dated 6 November 2009	RMB 47,041,600 (inclusive of value-added tax)
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Annual Cap for the year ending 31 December 2010 pursuant to the Business Co-operation Framework Agreement 1 dated 6 November 2009 and the Business Co-operation Framework Agreement 2 dated 5 May 2010	RMB 114,611,600 (inclusive of value-added tax)
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4) Sale and Supply of home electrical appliances

Pursuant to the Business Co-operation Framework Agreement 2, the Company has agreed that the Group shall manufacture and supply on a non-exclusive basis such quantities of air-conditioners, refrigerators and other home electrical appliances such as washing machines as the H and HE Group may require from time to time for its sale to its customers.

The relevant parties agreed to enter into individual air-conditioners production and supply orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement 2, including the pricing, operation and trading policies set out therein.

The H and HE Group has the right to purchase air-conditioners, refrigerators and other home electrical appliances such as washing machines from suppliers other than the Group from time to time according to its own needs. The Business Co-operation Framework Agreement 2 does not restrict the rights of the Group to sell air-conditioners, refrigerators and home appliances to any other third parties.

Pricing

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

The prices offered by the Group to the H and HE Group for the sale and supply of air-conditioners, refrigerators and home appliances shall be on terms no more favourable than other third parties.

Payment Term

Payment for the purchase of air-conditioners, refrigerators and home electrical appliances should be made by telegraphic transfer or bank-issued bills by the relevant Subsidiary of Hisense Group within 60 days after receipt of the air-conditioners, refrigerators and home appliances.

Reasons for and Benefits of the Sale and Supply of Home Electrical Appliances

Therelevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group and the Company are principally engaged in the design and manufacture of air-conditioners and refrigerators. The relevant member of the H and HE Group is principally engaged in the production and sales of air-conditioners and refrigerators. Pursuant to the Business Co-operation Framework Agreement 2, the Group shall manufacture and supply air-conditioners and refrigerators to the Group for its sale to its customers. The manufacture and provision of air-conditioners and refrigerators by the Group to the H and HE Group will increase the sales and revenues of the Group.

The competition in the air-conditioners' and refrigerators' market in the PRC is very keen at present with substantial increase in raw materials prices, the production and supply of air-conditioners and refrigerators by the Group to the H and HE Electric Group can help to lower the fixed costs per unit of product incurred by the Group for the production of air-conditioners and refrigerators.

Since the Group possesses excess production capacity for air-conditioners and refrigerators and washing machines and fixed costs (e.g. depreciation of machinery and rent) will be incurred by the Group for the production of air-conditioners and refrigerators in any event, the production of air-conditioners and refrigerators for the H and HE Group can help make the best use of the idle machinery and lower the fixed costs per unit of product incurred by the Group as a result of the increase in production level. Therefore, the competitiveness of the products of the Group will increase.

Further, since the Company has no means to access the sales channel of the H and HE Group and in view of the above-mentioned benefits of selling and supplying air-conditioners and refrigerators and other home electrical appliances such as washing machines to the H and HE Group, it is in the interests of the Company to enter into the Business Co-operation Framework Agreement 2.

The sales of home electrical appliances to the H and HE Group for sale purpose can increase the revenue of the Group, globalize its sales networks, improve its profit margins and enhance its publicity.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the independent financial advisor) are of the view that the terms of the sale and supply of air-conditioners, refrigerators and home electrical appliances under the Business Co-operation Framework Agreement 2 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.]

Historical Figures

The relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group have conducted similar transactions with the H and HE Group in the past. Details of such historical transaction amount are set out below:-

Transaction amount for sale and supply of air-conditioners, refrigerators and washing machines to the H and HE Group for the year ended 31 December 2009	RMB 144,642,600 (inclusive of value-added tax)
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Transaction amount for sale and supply of air-conditioners, refrigerators and washing machines to the H and HE Group for the three months ended 31 March 2010	RMB 85,690,800 (inclusive of value-added tax)
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Proposed Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement 2 regarding sale and supply of air-conditioners, refrigerators and home appliances from the date of approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, to 31 December 2010 are subject to the annual cap set out below:

From 4 June 2010 to 31 December 2010	RMB 294,420,000 (inclusive of value-added tax)
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The above annual cap was determined with reference to (a) similar transactions between the relevant companies which will become Subsidiary of the Company after completion of the acquisition of the Target Group with the H and HE Group in the past; (b) the prevailing market conditions about the demand for electrical appliances, including air-conditioners, refrigerators and home appliances, in the PRC; and (c) the projected level of production and sale of air-conditioners, refrigerators and home appliances, of the relevant Subsidiary of Hisense Group for the year ending 31 December 2010.

The transactions contemplated under the Business Co-operation Framework Agreement 2 will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules and should be aggregated with the similar transactions contemplated under the Business Cooperation Framework Agreement 1 dated 6 November 2009 for the purpose of Rules 14A.25 to 14A.27 of the Hong Kong Listing Rules. As such, upon approval by the Independent Shareholders, the annual cap for all similar continuing connected transactions with H and HE Group in this regard shall be as follows:

Annual Cap from 1 January 2010 to 31 December 2010 pursuant to Business Co-operation Framework Agreement 1 dated 6 November 2009	RMB 931,269,300 (inclusive of value-added tax)
Annual Cap for the year ending 31 December 2010 pursuant to the Business Co-operation Framework Agreement 1 dated 6 November 2009 and the Business Co-operation Framework Agreement 2 dated 5 May 2010	RMB 1,225,689,300 (inclusive of value-added tax)

5) Sale and Supply of Moulds

Pursuant to the Business Co-operation Framework Agreement 2, the Company has agreed that the Group shall manufacture and supply on a non-exclusive basis such quantities of moulds as the H and HE Group may require from time to time. The relevant parties agreed to enter into individual mould purchase orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement 2, including the pricing, operation and trading policies set out therein.

The H and HE Group has the right to purchase moulds from suppliers other than the relevant Subsidiary of the Company from time to time according to its own needs. The Business Co-operation Framework Agreement 2 does not restrict the rights of the Group to sell its moulds to any other third parties.

Pricing

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

Payment Term

Payment for the sale and supply of moulds is determined according to the payment terms agreed between the parties as set out in the individual mould purchase orders and in accordance with public tenders.

Reasons for and Benefits of the Sale and Supply of Moulds

The relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group are principally engaged in the design and manufacture of large and medium size moulds for home electrical appliances. The relevant members of the H and HE Group are principally engaged in the manufacture of home electrical appliances. The manufacture and provision of moulds to the H and HE Group therefore form an integral part of the business of the relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group. The sale of moulds under the Business Co-operation Agreement will facilitate the Company to maintain an important existing relationship with the relevant members of the H and HE Group so that they may become stable customers of the Company thereby further expanding the sales of the Company.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the independent financial advisor) are of the view that the terms of the sale and supply the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group have conducted similar transactions with the H and HE Group in the past. Details of such historical transaction amount are set out below:-

Transaction amount for the sale and supply of moulds to the H and HE Group for the year ended 31 December 2009	RMB126,382,300 (inclusive of value-added tax)
Transaction amount for the sale and supply of moulds to the H and HE Group for the three months ended 31 March 2010	RMB33,158,700(inclusive of value-added tax)

Proposed Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement 2 from the date of approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, to 31 December 2010 regarding the sale and supply of moulds are subject to the annual cap set out below:

From 4 June 2010 to 31 December 2010	RMB138,300,000 (inclusive of value-added tax)
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The above annual cap was determined with reference to (a) similar transactions between the relevant companies which will become the subsidiaries of the Company after completion of the acquisition of the Target Group and the relevant Subsidiaries of the H and HE Group in the past; (b) the prevailing market conditions relating to the demand for electrical appliances in the PRC.

6) Sale and Supply of Raw Materials and Parts

Pursuant to the Business Co-operation Framework Agreement 2, the Company has agreed that the Group shall manufacture and supply to the H and HE Group on a non-exclusive basis such quantities of raw materials and parts for refrigerators and air-conditioners as the relevant Subsidiaries of Hisense Group may require from time to time for the purpose of the manufacture of refrigerators and air-conditioners pursuant to the Business Co-operation Framework Agreement 2. The relevant parties agreed to enter into individual raw materials production and supply orders setting out specific terms including the price, payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement 2, including the pricing, operation and trading policies set out therein.

The H and HE Group has the right to purchase raw materials and parts from suppliers other than the relevant Subsidiaries of the Company from time to time according to its own needs. The Business Co-operation Framework Agreement 2 does not restrict the rights of the Group to sell raw materials and parts to any other third parties.

Pricing

Pricing for the sale and supply of raw materials and parts is determined principally by arm's length commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of raw materials and parts from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company,

on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

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

Payment Term

Payment for the sale and supply of raw materials and parts should be made within 60 days after receipt of the parts.

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

The relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group are principally engaged in the design and manufacture of parts for refrigerators and air-conditioners. The relevant members of the H and HE Group are principally engaged in the production and sales of home electrical appliances and electronic products. In such circumstances, the relevant members of the H and HE Group shall purchase compatible parts for refrigerators and air-conditioners.

The provision of raw materials and parts for refrigerators and air-conditioners by the relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group to the H and HE Group facilitates the Group to distribute and sell its products. Further, the Company considers that the relevant members of the H and HE Group are reliable business co-operation partners and such co-operation is beneficial to the business of the Group. The sale and supply of raw materials and parts for refrigerators and air-conditioners between the parties under the Business Co-operation Framework Agreement 2 is in compliance with the relevant laws and regulations of the PRC. They will not jeopardise the interest of the Group and the Shareholders and will not affect the independence of the Group.

Further, the provision of raw materials and parts for refrigerators and air-conditioners to the relevant members of the H and HE Group can increase the revenues of the Company.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the independent financial advisor) are of the view that the terms of the sale and supply of raw materials and parts for refrigerators and air-conditioners under the Business Co-operation Framework Agreement 2 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Historical Figures

The relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group have conducted similar transactions with the H and HE Group in the past. Details of such historical transaction amount are set out below:-

Transaction amount for the sale and supply of raw materials and parts for refrigerators and air-conditioners to the H and HE Group for the year ended 31 December 2009	RMB 7,923,800 (inclusive of value-added tax)
Transaction amount for the sale and supply of	RMB 1,739,600

raw materials and parts for refrigerators and air-conditioners to the H and HE Group for the three months ended 31 March 2010	(inclusive of value-added tax)
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Proposed Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement 2 from the date of approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010 to 31 December 2010 regarding the sale and supply of raw materials and parts for refrigerators and air-conditioners are subject to the annual cap set out below:

From 4 June 2010 to 31 December 2010	RMB 18,760,000 (inclusive of value-added tax)
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The above annual cap was determined with reference to (a) similar transactions between the relevant companies which have become Subsidiaries of the Company after completion of the acquisition of the Target Group and the relevant Subsidiaries of Hisense Group in the past; and (b) the prevailing market conditions relating to the demand for electrical appliances, including air-conditioners and refrigerators, in the PRC.

The transactions contemplated under the Business Co-operation Framework Agreement 2 will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules and should be aggregated with the similar transactions contemplated under the Business Cooperation Framework Agreement 1 dated 6 November 2009 for the purpose of Rules 14A.25 to 14A.27 of the Hong Kong Listing Rules. As such, upon approval by the Independent Shareholders, the annual cap for all similar continuing connected transactions with H and HE Group in this regard shall be as follows:

Annual Cap from 1 January 2010 to 31 December 2010 pursuant to Business Co-operation Framework Agreement 1 dated 6 November 2009	RMB 82,685,700 (inclusive of value-added tax)
Annual Cap for the year ending 31 December 2010 pursuant to the Business Co-operation Framework Agreement 1 dated 6 November 2009 and the Business Co-operation Framework Agreement 2 dated 5 May 2010	RMB 101,445,700 (inclusive of value-added tax)

7) Provision of loading and unloading services and equipment rental services

Pursuant to the Business Co-operation Framework Agreement 2, the Company has agreed that the Group shall provide services for loading and unloading of goods and equipment rental services to Hisense Group pursuant to the Business Co-operation Framework Agreement 2. The relevant parties agreed to enter into individual orders setting out specific terms including the price,

payment terms and schedules, technological services and other terms of delivery, but such terms shall be consistent with the principles and the terms of the Business Co-operation Framework Agreement 2, including the pricing, operation and trading policies set out therein.

The H and HE Group have the right to engage suppliers other than the relevant Subsidiaries of the Company for such services from time to time according to its own needs.

The amount of connected transactions to be incurred in the provision of such services from 4 June 2010 for the year ending 31 December 2010 was minimal, with each applicable percentage ratios (as defined in the Hong Kong Listing Rules other than the profit ratio) is less than 0.1%.

Historical Figures

The relevant companies which will become Subsidiaries of the Company after completion of the acquisition of the Target Group have conducted similar transactions with the H and HE Group in the past. Details of such historical transaction amount are set out below:-

Transaction amount for the provision of loading and unloading of goods and equipment rental services to the Hisense Group for the year ended 31 December 2009	RMB 356,200 (inclusive of value-added tax)
Transaction amount for the provision of loading and unloading of goods and equipment rental services to the Hisense Group for the three months ended 31 March 2010	RMB 183,400 (inclusive of value-added tax)

Proposed Annual Cap

The transactions contemplated by the Business Co-operation Framework Agreement 2 from the date of approval of the agreement by the Independent Shareholders, which is expected to be on 4 June 2010, to 31 December 2010 regarding the provision of services of loading and unloading of goods and equipment rental services are subject to the annual cap set out below:

For 4 June 2010 to 31 December 2010	RMB420,000 (inclusive of value-added tax)
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The above annual cap was determined with reference to (a) similar transactions between the relevant companies which have become Subsidiaries of the Company after completion of the acquisition of the Target Group and the Hisense Group in the past; and (b) the prevailing market conditions relating to the provision of such services.

The transactions contemplated under the Business Co-operation Framework Agreement 2 will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules and should be aggregated with the similar transactions contemplated under the Business Cooperation Framework Agreement 1 dated 6 November 2009 for the purpose of Rules 14A.25 to 14A.27 of the Hong Kong Listing Rules. As such, upon approval by the Independent Shareholders, the annual cap for all similar continuing connected transactions with H and HE Group in this regard shall be as follows:

Annual Cap from 1 January 2010 to 31 December 2010 pursuant to Business Co-operation Framework Agreement 1 dated 6 November 2009	RMB360,000 (inclusive of value-added tax)
Annual Cap for the year ending 31 December 2010 pursuant to the Business Co-operation Framework Agreement 1 dated 6 November 2009 and the Business Co-operation Framework Agreement 2 dated 5 May 2010	RMB780,000 (inclusive of value-added tax)

In the light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the independent financial adviser) are of the view that the terms of the Business co-operation Framework Agreement 2 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

D) Provision of Property Services Framework Agreement

Date and Parties

Date

5 May 2010

Parties

- (i) The Company; and
- (ii) Beijing Snowflake Group

Term

The Provision of Property Services Framework Agreement shall commence from 5 May 2010 until 31 December 2010, which can be terminated before its expiration by mutual agreement of the parties.

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

Provision of Property Services

Pursuant to the Provision of Property Services Framework Agreement, the Company has agreed that the Group shall engage Beijing Snowflake Group and its relevant Subsidiaries for the provision of property services such as rental and utilities to the Group. The parties agreed to enter into individual agreement setting out specific terms for the provision of services including fees, scope and term of services, pricing principles, quality standards and warranties, payment terms and schedules, but such terms shall be consistent with the principles and the terms of the Provision of Property Services Framework Agreement, including the pricing, operation and trading policies set out therein.

The Group has the right to engage from time to time according to its own needs service providers other than Beijing Snowflake Group and its relevant Subsidiaries to provide the aforesaid services to the Group. The Provision of Property Service Framework Agreement also does not restrict the rights of the Beijing Snowflake Group and its relevant Subsidiaries to provide such services to any other third parties.

Pricing

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

Payment Term

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

Reasons for and Benefits of the Engagement for the Services Provision

Beijing Snowflake Group and its relevant Subsidiaries possess the expertise and experience for the provision of property services of such nature which can enable the Company to carry out its daily operation smoothly. In addition, by leveraging on the price advantages for the provision of property services including leasing properties as offices and production plants for the Group by Beijing Snowflake Group, the Group is able to reduce its costs.

In light of the above, the Directors including the independent non-executive Directors are of the view that the terms of the services engagement under the Provision of Property Services Framework Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

Historical Figures

The relevant companies which will become subsidiaries of the Company after completion of the acquisition of the Target Group have conducted similar transactions with Beijing Snowflake Group in the past. Details of such historical transaction amounts are set out below:-

Transaction amount for the provision of property management services by Beijing	RMB 21,351,200 (inclusive of value-added tax)
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Snowflake Group and its relevant Subsidiaries for the year ended 31 December 2009	
Transaction amount for the provision of property management services by Beijing Snowflake Group and its relevant Subsidiaries for the three months ended 31 March 2010	RMB6,696,300 (inclusive of value-added tax)

Proposed Annual Cap

The transactions contemplated by the Provision of Property Services Framework Agreement regarding the service provision from 5 May 2010 to 31 December 2010 are subject to the annual cap set out below:

From 5 May 2010 to 31 December 2010	RMB 16,000,000 (inclusive of value-added tax)
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The above annual cap was determined with reference to (a) similar transactions between the relevant Subsidiary of the Company and Beijing Snowflake Group in the past; (b) the projected level of production and sale of electrical appliances of the relevant Subsidiary of the Company for the year ending 31 December 2010.

INFORMATION RELATING TO THE COMPANY

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

INFORMATION RELATING TO BEIJING EMBRACO SNOWFLAKE COMPRESSOR

Beijing Embraco Snowflake Compressor was established on 30 April 1995 with a registered capital of US\$94.15 million. Its authorised representative is Sun Yan Chang (孫燕昌) and registered address at No. 29 Yu Hua Road, Zone B, Beijing Tianzhu Airport Economic Development Zone, Shunyi District, Beijing City. It is primarily engaged into the production and repairing of self-manufactured refrigeration and hermetically sealed compressors and their parts and components; and sale of self-manufactured products.

INFORMATION RELATING TO BEIJING SNOWFLAKE ELECTRICAL APPLIANCE GROUP CORPORATION

Beijing Snowflake Electrical Appliance Group Corporation was established on 14 December 1992 with a registered capital of RMB226.55 million. Its authorised representative is Dong Chun (董淳) and registered address at No.1 (Section 3) Xinghua Street, Huangcun Town, Daxing District, Beijing City. It is primarily engaged into the manufacture and sale of home appliances such as refrigerators, washing machines and compressors.

INFORMATION RELATING TO HISENSE ELECTRIC

Qingdao Hisense Electric Co., Ltd. was established on 17 April 1997 with a registered capital of RMB577,767,800. Its authorised representative is Ms. Yu Shu Min and registered address at 218 Qian Wan Gang Road, Qingdao Economic and Technological Development Zone. It is primarily engaged into 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.

INFORMATION ON HISENSE GROUP

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. The scope of business includes: the entrusted operation of state-owned assets; 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; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction, provision of brokerage and information services; provision of industrial travel agency services; and provision of relevant business trainings. (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).

INFORMATION RELATING TO HUAYI COMPRESSOR

Huayi Compressor was incorporated in the PRC on 13 June 1996 with a registered capital of RMB324,581,200. Its authorised representative is Mr. Liu Ti Bin and registered address 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

CONTINUING CONNECTED TRANSACTIONS

Compressors Purchase Framework Agreement

As at the date of this announcement, 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 the Company's non wholly owned subsidiary Hisense Beijing 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 each of the applicable percentage ratios (other than the profit ratio) is more than 2.5%, the continuing connected transactions contemplated under the Compressors

Purchase Framework Agreement are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

Compressors Purchase and Supply Framework Agreement 2

As at the date of this announcement, Huayi Compressor is a substantial shareholder holding 29.95% of the Company subsidiary Shunde Ronshen Plastic Products Co., Ltd. (佛山市顺德区容声塑胶有限公司) and 29.89% of the Company's subsidiary Guangdong Kelon Mould Co., Ltd. (廣東科龍模具有限公司) and therefore Huayi Compressor is a connected person of the Company according to the Hong Kong Listing Rules. As each of the applicable percentage ratios (other than the profit ratio) for the aggregated amount of the transactions contemplated under the Compressors Purchase and Supply Framework Agreement 2 dated 5 May 2010 and the Compressors Purchase and Supply Framework Agreement 1 dated 6 November 2009 is more than 2.5%, the continuing connected transactions under the Compressors Purchase and Supply Framework Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

Business Co-operation Framework Agreement 2

As at the date of this announcement, Hisense Air-conditioning is a substantial shareholder of the Company, holding 25.22% of the issued shares of the Company. Each of Hisense Group and its Subsidiaries are Associates of Hisense Air-Conditioning and therefore connected persons of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Business Co-operation Framework Agreement 2 will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules and should be aggregated (in terms of the revenue and expenditure nature of such transactions) for the purpose of Rules 14A.25 to 14A.27 of the Hong Kong Listing Rules. Given that the applicable percentage ratios (other than the profit ratio) for the aggregated amount of the transactions contemplated under the Business Co-operation Framework Agreement 2 is more than 2.5%, the continuing connected transactions under the Business Co-operation Framework Agreement 2 are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Hong Kong Listing Rules.

Provision of Property Services Framework Agreement

As at the date of this announcement, Beijing Snowflake Group is a substantial shareholder which holds 45% of the equity interests in Hisense Beijing, a non-wholly owned subsidiary of the Company, and therefore a connected person of the Company according to the Hong Kong Listing Rules. As such, the transactions contemplated under the Provision of Property Services Framework Agreement will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules. Given that each of the applicable percentage ratios (other than the profit ratio) exceeds 0.1% but is below 2.5%, the continuing connected transactions under the Provision of Property Services Framework Agreement are subject to the reporting and announcement requirement but exempt from the independent shareholders' approval requirement under Rule 14A.35 of the Hong Kong Listing Rules.

The Compressors Purchase Framework Agreement, the Compressors Purchase and Supply Framework Agreement 2, the Business Co-operation Framework Agreement 2 and the Provision of Property Services Framework Agreement are not inter-conditional on each other.

	Compressors Purchase Framework Agreement, the Compressors Purchase and Supply Framework Agreement 2 and the Business Co-operation Framework Agreement 2 and the relevant annual caps
“A Shares”	domestic ordinary shares of the Company with a nominal value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
“Associate”	has the meaning ascribed to it in 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
“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
“Board”	the board of Directors
“Business Co-operation Framework Agreement 2”	the agreement (業務合作框架協議(二)) entered into between the Company, Hisense Group and Hisense Electric dated 5 May 2010 in relation to the sale and purchase of raw materials, parts and components, parts for equipment, air-conditioners, refrigerators, home appliances, sale and export of moulds, spare parts for refrigerators, equipment, parts for refrigerators and air-conditioners and the provision of property management service, medical service, material processing services, installation and maintenance, management consultancy and agency services for import and export, leasing, design, equipment management, advertising and information system maintenance.
“Company”	Hisense Kelon Electrical Holdings Company Limited, a company incorporated in the PRC with limited liability and listed on the main board of the Stock Exchange and Shenzhen Stock Exchange
“Compressors Purchase Framework Agreement”	the agreement (壓縮機採購框架協議) entered into between the Company and Beijing Embraco Snowflake Compressor dated May 5 2010 in connection with the purchase and supply of compressors
“Compressors Purchase and Supply Framework Agreement 2”	the agreement (壓縮機採購供應框架協議(二)) entered into between the Company and Huayi Compressor dated May 5 2010 in connection with the purchase and supply of compressors
“Director(s)”	the director(s) of the Company

“Group”	the Company and the Subsidiaries of the Company (including, without limitation, companies within the Target Group upon completion of the acquisition of the Target Group)
“H Shares”	Overseas listed foreign shares of the Company with a nominal value of RMB1.00 each and are listed on the Stock Exchange
“Hisense Air-conditioning”	Qingdao Hisense Air-Conditioning Co., Ltd (青島海信空調有限公司), a subsidiary of Hisense Group
“Hisense (Beijing)”	Hisense (Beijing) Electric Company Limited (海信(北京)電器有限公司), a limited company incorporated in the PRC
“Hisense Electric”	Qingdao Hisense Electric Co., Ltd. (青島海信電器股份有限公司), a limited company incorporated in the PRC
“Hisense Group”	Hisense Company Limited (海信集團有限公司), a limited company incorporated in the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“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, which principally engaged in the production and sale of fluorine-free compressors, refrigerators and their components.
“Independent Shareholders”	Shareholders other than the parties to the respective relevant framework agreement to be put to a vote at the AGM, its associates and parties acting in concert with it and any person who is involved in, or interested in, the relevant framework agreement, who are entitled to attend and vote at the AGM under the applicable laws and regulations and articles of association.
“Independent Third Parties”	third parties independent of and not connected with the Company and its connected persons, as defined in the Listing Rules, of the Company
“MOFTEC”	Ministry of Foreign Trade and Economic Corporation

“PRC”	the People’s Republic of China
“Provision of Property Services Framework Agreement”	the agreement dated 5 May 2010 entered into between the Company and Beijing Snowflake Group in connection with the provision of property services such as rentals and utilities by Beijing Snowflake Group to the Group
“RMB”	Renmibi yuan, the lawful currency of the PRC
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company, comprising the A Shares and the H Shares
“Shareholder(s)”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary” or “Subsidiaries”	has the meaning defined in sections 2 and 2B of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong)
“%”	per cent.

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

As at the date of this announcement, the Company’s directors are Mr. Tang Ye Guo, Mr. Zhou Xiao Tian, Ms. Yu Shu Min, Mr. Lin Lan, Ms. Liu Chun Xin and Mr. Zhang Ming; and the Company’s independent non-executive directors are Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren.

Foshan City, Guangdong, the PRC, 5 May 2010