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Daikin Industries and Gree Electric Appliances Agree on Production of Inverter Air Conditioners To Supply Energy-Efficient Inverter Technology to the Global Market

Daikin Industries, Ltd. (based in Osaka, Japan, COO: Yuki Yoshi Okano) and Gree Electric Appliances, Inc. of Zhuhai (based in Zhuhai, Guangdong Province, PRC, President: Dong Mingzhu) have agreed that Daikin will commission Gree to manufacture 500,000 small inverter air conditioners, which Daikin will market in Japan in 2009. The two companies have also agreed to study four other areas of collaboration including joint development of residential air conditioners and joint procurement for such products for the Global market.

Daikin will plan and develop the products, Gree will manufacture for Daikin, and the products will carry the Daikin brand. Gree will establish a dedicated production line with special inspection equipment for Daikin products to assure product quality meeting Daikin's standard.

With tighter environmental regulations being enacted worldwide in the global market, the inverter technology developed by Japanese manufacturers to improve energy efficiency is attracting keen interest. By variable control of motor rotation, inverter air conditioners can reduce power consumption by 30% compared with ordinary air conditioners. Replacing the non-inverter air conditioners currently in use around the world with inverter units can significantly reduce power consumption by air conditioners, which accounts for about 30% of CO₂ emissions from homes.

While nearly 100% of air conditioners in Japan have inverters, the ratio of the rest of the world is only 9%. For inverter air conditioners to further penetrate the market, production at low cost is essential.

Daikin has the world's No. 1 share in the inverter air conditioner market, while Gree is the world leader in non-inverter air conditioners. Their collaboration will help them expand the world market for inverter air conditioners and lead the global air conditioning industry's environmental protection efforts.

Combining Daikin's advanced energy saving technology and Gree's strength in materials and parts procurement and production, the two companies aim to produce high-efficiency, low-cost inverter air conditioners to open up new markets in areas where penetration of inverter air conditioners is low.

The agreement covers the following five areas of collaboration: (1) commissioning of production from Gree by Daikin; (2) joint development of inverter residential air conditioners; (3) joint production of compressors, electric components and other key components of air conditioners; (4) joint procurement of materials and parts; and (5) joint production of molds. Daikin and Gree will establish working groups with members from both companies to pursue effective collaboration that maximizes the strengths of the two companies.

For the Daikin Group, collaboration with Gree, with its massive production volume, is an opportunity to enhance the cost competitiveness of the entire group including O.Y.L. Industries.

Areas of collaboration

1. Commissioning of production of inverter residential air conditioners for the Japanese market

Concrete agreement

Outline: Daikin will commission Gree to manufacture 500,000 small inverter air conditioners, which Daikin will market in Japan in 2009. Daikin will plan and develop the products, Gree will manufacture for the company, and the products will carry the Daikin brand. The two companies will jointly select parts suppliers of and materials for the products. Gree will establish a dedicated production line for Daikin products and introduce special inspection equipment to assure product quality meeting Daikin's standard.

2. Joint development of inverter residential air conditioners that can penetrate the global market

To be studied by Working Group

Outline: Jointly develop a base model of energy-efficient inverter residential air conditioner in an affordable price range for the global market on the strength of Daikin's energy-saving technology and Gree's cost competitiveness in procurement and production. The final product specifications will be unique to each company in accordance with its product strategy. The two companies will develop compressors, inverters and other key components that can be used in products of both companies, and Daikin will provide necessary technology. The products will be manufactured at production centers of the two companies.

3. Joint production of key components

To be studied by Working Group

Outline: Jointly manufacture the compressors, inverters and other key components jointly developed for inverter residential air conditioners that can penetrate the global market. To start production as early as possible, Daikin will provide necessary technology. The key components will also be supplied to the Daikin Group's production centers worldwide.

4. Joint procurement and purchasing of materials and parts

To be studied by Working Group

Outline: Increase the economy of scale by combining the procurement by the two companies. Cooperate with suppliers to establish common specifications of materials and parts for the two companies to expand the scope of joint procurement.

5. Joint production of molds

To be studied by Working Group

Outline: Combine Gree's capability of manufacturing molds with Daikin's technological expertise to manufacture high-quality, low-cost molds quickly. To establish a jointly owned mold center, hold consultations on possible forms of investment and schedule of establishment.

Overview of Gree Electric Appliances, Inc. of Zhuhai

- 1) Name: Gree Electric Appliances, Inc. of Zhuhai
- 2) Location: Zhuhai, Guangdong Province, PRC
- 3) Capital: RMB 536.94 million (about ¥8.05 billion at RMB1 = ¥15)
- 4) Founded: December 13, 1989
- 5) Representative: Board Chairman Zhu Jianghong
- 6) Lines of business: Production and sales of air conditioners, electric fans, air purifiers and other electric home appliances.
- 7) Employees: 38,000 (as of the end of 2006)
- 8) Sales: RMB 23.8 billion (2006, about ¥357 billion at RMB1 = ¥15)