CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 449

Promotion for
Green · Low Carbon
Product

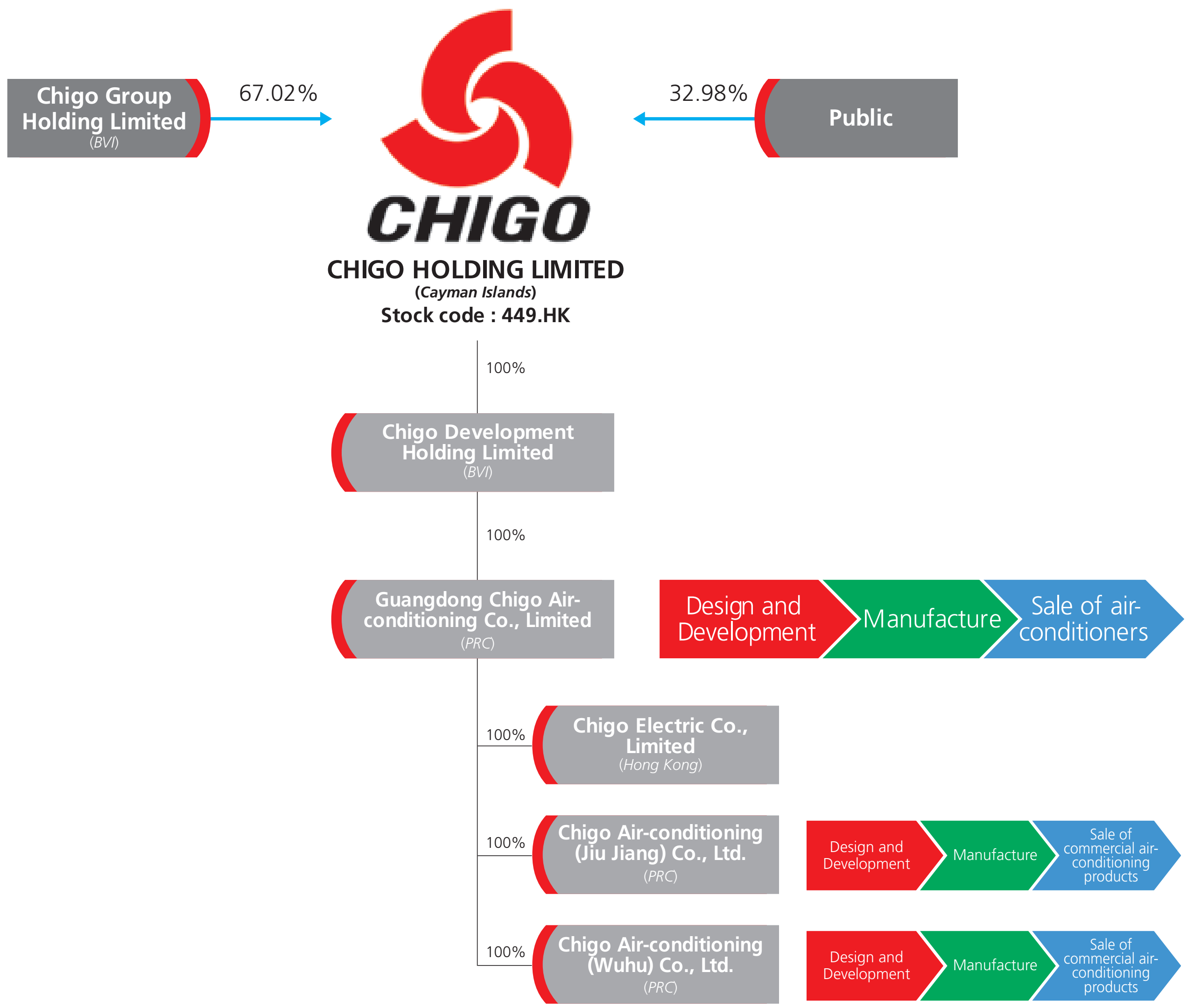
Annual Report 2009

MAKING THE BIGGEST GLOBAL REFRIGERATION BASE

Contents

2 Group Structure
3 Corporate Information
5 Key Events in 2009
6 Financial Highlights
8 Operation Highlights
11 Chairman's Statement
15 Management Discussion and Analysis
32 Directors and Senior Management
35 Corporate Governance Report
40 Directors' Report
48 Independent Auditor's Report
50 Consolidated Statement of Comprehensive Income
51 Consolidated Statement of Financial Position
53 Consolidated Statement of Changes in Equity
55 Consolidated Statement of Cash Flows
57 Notes to the Consolidated Financial Statements
106 Financial Summary

Group Structure (as at 31 December 2009)



Chigo Holding Limited (the "Company") and its subsidiaries (together with the Company "Chigo" or the "Group") were founded in 1994, and become one of the top air-conditioner brands in the People's of Republic of China (the "PRC"). The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products.

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Mr. Lei Jianghang *(Vice Chairman)*
Mr. Huang Guoshen
Dr. Ding Xiaojiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Junchu
Mr. Zhang Xiaoming
Mr. Fu Xiaosi

COMPANY SECRETARY

Mr. Leung Hon Man

REGISTERED OFFICE OF THE COMPANY

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 13, 10th Floor
Seapower Tower (North Tower)
Concordia Plaza
No.1 Science Museum Road
Tsimshatsui, Kowloon
Hong Kong

HEADQUARTERS OF THE GROUP

Shengli Industrial District, Lishui Town
Nanhai, Foshan, Guangdong
China
Post Code: 528244

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Bank of China, Foshan Nanhai Lishui Branch
China Construction Bank, Foshan Nanhai Lishui Branch
China Citic Bank, Foshan Branch
Guangdong Development Bank, Nanhai Branch
Agricultural Bank of China, Foshan Nanhai Lishui Branch
China Everbright Bank, Shenzhen Huali Road Branch

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER AS TO HONG KONG LAW

Sidley Austin

LISTING INFORMATION

Listing:	Main Board of The Stock Exchange of Hong Kong Limited
Stock code:	449
Listing date:	13 July 2009
Board lot size:	2,000 shares
As at 31 December 2009:	
No of shares outstanding:	510,874,000 shares
Market capitalisation:	HKD2,774 million

CORPORATE WEBSITES

www.china-chigo.com
www.irasia.com/listco/hk/chigo/index.htm

CORPORATE CONTACT INFORMATION FOR SHAREHOLDERS AND INVESTORS

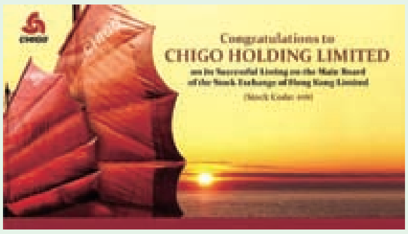
HONG KONG

Please contact our Company Secretary at:
Telephone: (852) 2997 7449
Facsimile: (852) 2997 7446

PRC

Please contact our Investment and Securities Department at:
Telephone: (86) 757 8878 3289
Facsimile: (86) 757 8562 8012

July



Congratulations to CHIGO HOLDING LIMITED on its successful listing on the Main Board of The Stock Exchange of Hong Kong Limited

On 13 July, Chigo was successfully listed on the Main Board of The Hong Kong Stock Exchange Limited. Chigo did a good job at its first listing day, share price closed at HKD2.51, increased 10.57% compared with its IPO offer price (HKD2.27 per share).

September

Chigo was awarded with a Certificate of Enterprise for the Exemption from Export Inspection

On 9 September, Guangdong Chigo Air-Conditioning Co., Ltd was awarded with a national Certificate of Enterprise for the Exemption from Export Inspection. At the award presentation ceremony, the vice minister of Guangdong Administration of Inspection and Quarantine, Li Qingxiang and the official of Nanhai District government, Zheng Canru, presented the certificate and tablet to Li Xinghao, the president of the Group. As of today, Chigo Air-Conditioning Co. Ltd. is the first enterprise awarded with the Certificate of Enterprise for the Exemption from Export Inspection in Nanhai district, and the second one in the industry.

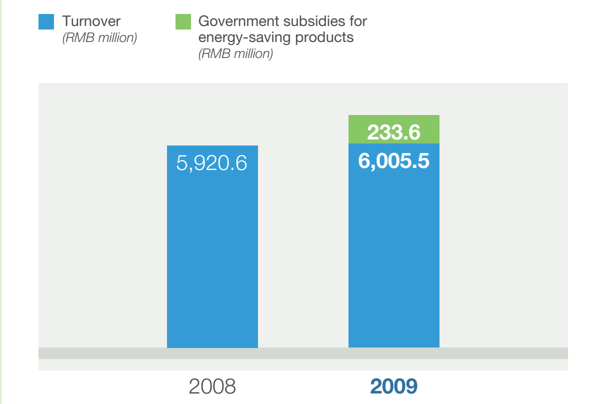
November

Governor of Guangdong Province Huang Huahua visited Chigo

On 6 November, Huang Huahua, Governor of Guangdong Province visited the modern exhibition hall, production factory etc. to deeply understand Chigo's operation and construction job.

Financial Highlights

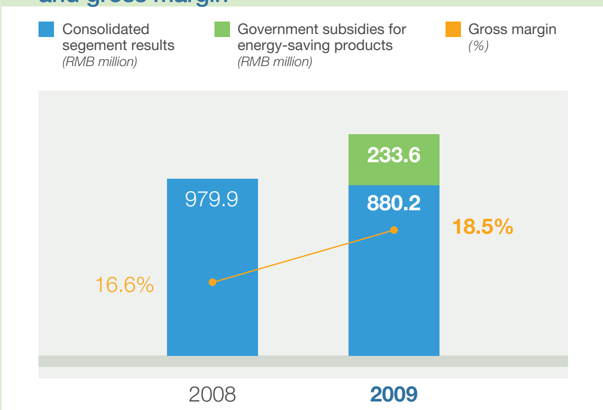
Turnover and gross receipts



- Strong growth in 2H 2009
  2009 **Turnover up by 1.4%**

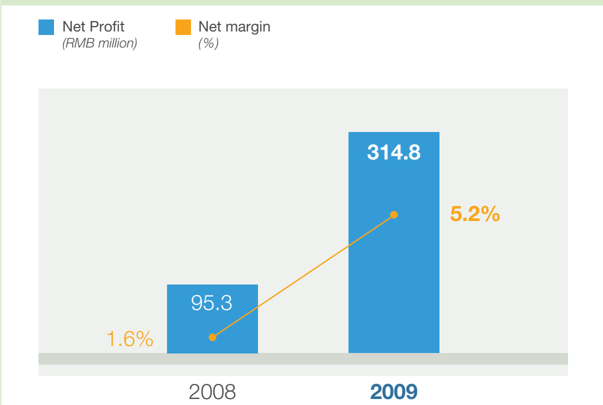
- Government subsidies for energy-saving products amounted to RMB233.6 million in 2H 20009
  Gross receipts up by 5.4%

Gross profit, consolideted segment results and gross margin



- Consolidated segment results of operation increased and gross margin (calculated as consolidated segment results to turnover) for 2H 2009 improved
  Gross margin improved from 16.6% to 18.5%

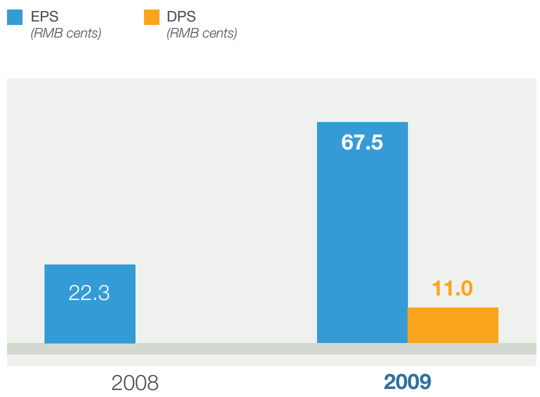
Profit for the year and net margin



- Sales improved significantly in 2H 2009

- Loss in fair value changes of derivative financial instruments reduced significantly
  Net profit up by 230.3%
  Net margin up from 1.6% to 5.2%

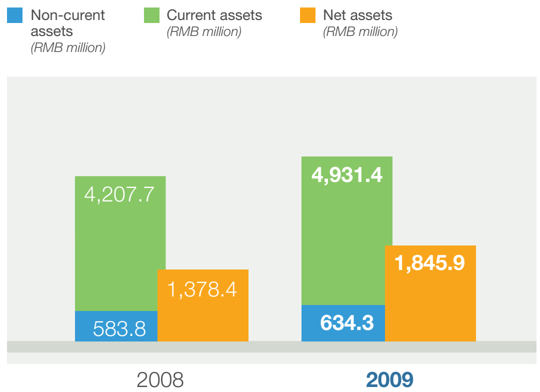
Earnings per share (EPS) and dividend per share (DPS)



- Net profit improved significantly
  Earnings per share up by 202.7%

- Final dividend of RMB11.0 cents per share
  Dividend payout ratio of 30% after listing

Total assets and net assets

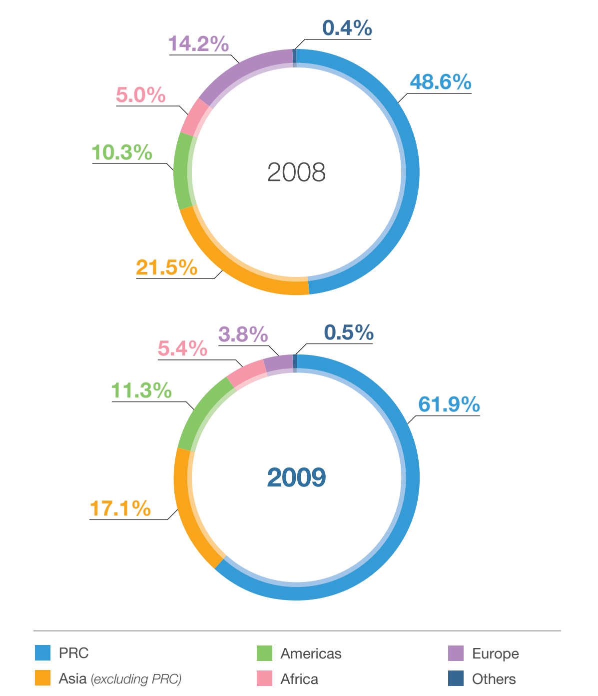


- Non-current assets increased by 8.7% and current assets increased by 17.2%
  Total consolidated assets increased by 16.2%

- Significant increase in net profit together with net proceeds from the global offering
  Net assets increased by 33.9%

Operation Highlights

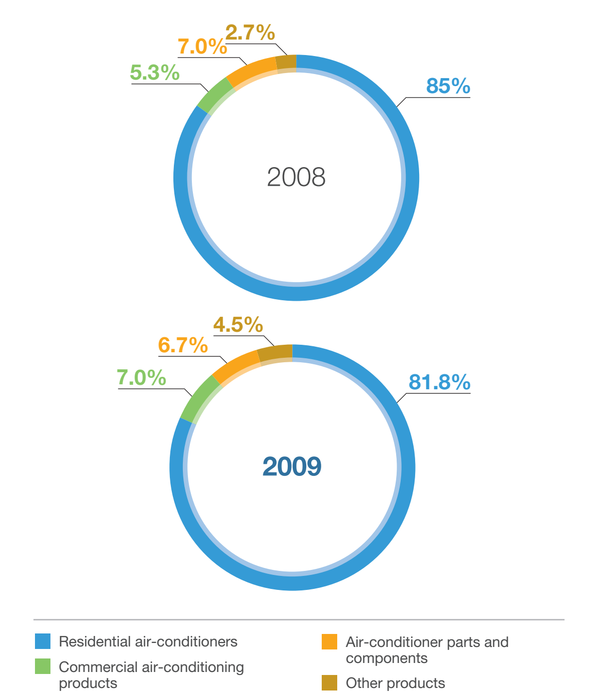
PRC and overseas sales



- Benefitted from "promotion of energy efficient appliances schemes" and had most number of Grade 1 (most energy efficient) products being selected
  PRC sales up by 29.2% and amounted to 61.9% of the total turnover

- Caused by declines in sales in Asian (excluding PRC) and European markets
  Overseas sales down by 24.9% and amounted to 38.1% of the total turnover

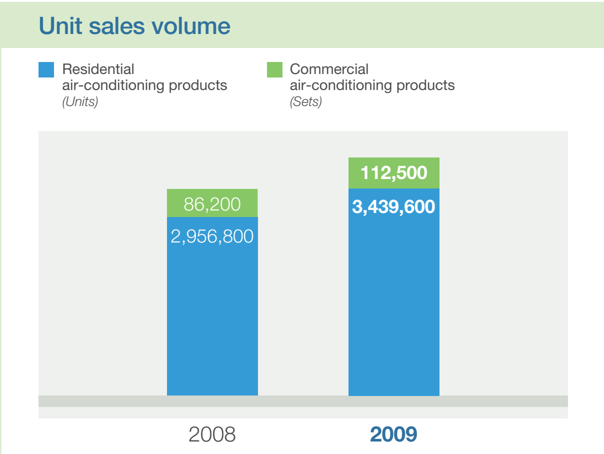
Major products type



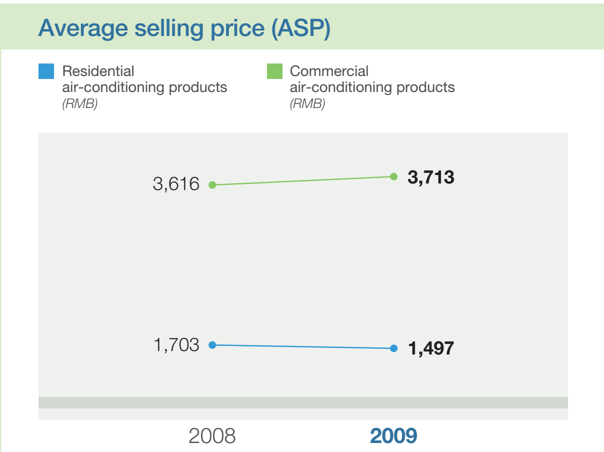
- Increase in PRC sales offset by decrease in overseas sales
  Sales of residential air-conditioners down by 2.4% and amounted to 81.8% of the total turnover

- Both average selling price and unit sales volume increased
  Sales of commercial air-conditioners up by 34.0% and amounted to 7.0% of the total turnover

- Sales of semi-finished parts and components increased
  Other products sales up by 70.9%



- 3.4 million units of **residential air conditioners** sold and **increased by 16.3%**
- 112,500 sets of **commercial air -conditioners** sold and **increased by 30.5%**



- Decreasing raw materials costs and competitive prices offered for certain energy saving products **ASP of residential products down by 12.1%**
- More expensive products sold **ASP of commercial products up by 2.7%**

Innovative Technology

Chairman's Statement

On behalf of the board of directors (the "Board") of Chigo Holding Limited, I am pleased to present the audited annual results of the Company and its subsidiaries ("Chigo" or the "Group") for the year ended 31 December 2009.

The year 2009 marked a milestone for Chigo. On 13 July 2009, the Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), taking the Group on to the international financial platform. The financial position of the Group has thus become stronger and healthier. A solid foundation for future development has also been laid for the Group to move forward to localised production, globalised operation and internationalised finances so as to facilitate further capture of development opportunities in the market.

Despite the fact that the aftermath of the global financial tsunami lingered in the first half of 2009, the PRC government had proactively launched a number of policies on motivating domestic demand and maintaining economic growth in 2009 so that the GDP for the year had increased by 8.7%, which has also become the key driving force for global recovery. As part of the air-conditioner industry, Chigo benefitted from a number of preferential policies launched by the state including "Promotion of Energy Efficient Appliances Scheme", "Household Appliances to the Countryside Policy", "Replacement of Household Electrical Appliance Programme" and "Policy of Tax Refund on Exports". Leveraged on its advanced energy-saving technologies and superior products, the Group became the biggest beneficiary of the "Promotion of Energy Efficient Appliances Scheme". After the issuance of the third batch of the Catalogue of Energy-efficient Air-conditioners (the "Catalogue") of the "Promotion of Energy Efficient Appliances Scheme" by the National Development and Reform Commission, Chigo had a total of 403 models of Grade 1 energy-saving air-conditioning products accepted in the tender for all the three batches, ranking the first among the 25 accepted air-conditioner enterprises. Leading among the peer in the industry, the awareness of the Group and its brand has been substantially enhanced and the sales of products has been directly driven up.

RESULTS OF OPERATION

In 2009, the turnover of the Group was approximately RMB6,005.5 million (2008: approximately RMB5,920.6 million). Net profit of the Group has increased substantially to RMB314.8 million by 230.3% over 2008. Gross margin (calculated as consolidated segment results to turnover) of the Group increased to 18.5% in 2009 from 16.6% of 2008. Net profit margin also improved significantly to 5.2% from 1.6%. Earnings per share improved substantially by 202.7% to RMB67.5 cents from RMB22.3 cents.

During the period under review, Chigo successfully strengthened the sales and production of energy-efficient products by responding promptly and proactively to the various preferential policies launched by the state so that a substantial increase in domestic sales has been recorded by the Group. Following the gradual recovery of the global economy, the sales of Chigo improved substantially during the second half of 2009.

SALES BY PRODUCTS AND GEOGRAPHIC REGIONS

The products sold during the period under review by the Group were mainly residential air-conditioning products. Its sales volume as well as that of commercial air-conditioning products have both increased. Although the turnover of residential air-conditioning products decreased slightly due to a decrease in export sales, the turnover of commercial air-conditioning products still increased. In addition, due to a substantial increase in the external sales of semi-finished parts and components, the turnover of other products during the period has also increased substantially.

The total income from the PRC of products under CHIGO brand during the period increased by approximately one third. Among which, the PRC sales, which were derived from household appliance retail chain operators, have increased substantially by over 60%. In addition, the increases in sales in Americas, Africa and other regions were also encouraging.

The remarkable performance in sales made by the Group was mainly attributable to the increasing awareness of CHIGO brand in the market after the Group has been listed. The flexible pricing strategies of the Group as well as its timely marketing events have also facilitated the achievement of the best sales results, which had come perfectly in line with the policies on encouraging the use of energy-saving products.

SALES NETWORK

In 2009, Chigo continued to explore distribution network in domestic and overseas markets. For domestic market, the Group continued to cooperate with household appliance retail chain operators and regional distributors to further expand the sales capacity of the Group in the PRC. Chigo had distribution network in 31 provinces, municipalities and autonomous regions. At the same time, it also cooperated with regional distributions in more than 300 regions and the three largest household appliance retail chain operators in the state. Both sales channels have recorded significant increase in sales. In addition, we had over 3,000 customer service points nationwide to provide complete after-sales service to our customers.

For overseas market, we mainly focussed on exports of air-conditioning products and parts and components to overseas countries and regions. Through 173 overseas distributors and 788 OEM clients, the sales network of the Group covered 150 countries in the world including Asia, the Middle East, Europe, Americas and Africa. The sales of overseas distributors and OEM clients remained stable during the year.

R&D CAPACITY AND QUALITY

Chigo was able to make full use of the opportunities from the preferential policies of the state to further develop its business. This was mainly attributable to the fact that Group was equipped with strong and advanced R&D capacity.

In 2009, Chigo was awarded Certificate of Enterprise for Exemption from Export Inspection of the State, which served as a high degree of recognition of the quality of the air-conditioning products of Chigo. The Group had conducted research and developed more than 210 patents on its own during the year. The professional core engineering and technical teams studied and made improvements to existing products and continued to develop new products. In line with a large-scale research and development centre newly set up by the Group, the R&D capacity of the Group was further enhanced. At the same time, the R&D department of the Group was also responsible for designing a diversified range of household and commercial air-conditioning products to cater for the needs of different customers.

PROSPECTS

2010 is going to be a vibrant year for Chigo. Chigo topped the composite ranking chart for the first three rounds of the "Promotion of Energy Efficient Appliances Scheme". Being able to lead in an energy-saving product competition is an encouragement to all of us. Looking forward, the Group's vividness, superior energy-saving technology and unique vertically integrated production mode will allow the Group to continue to enjoy the perpetual energy-saving and emission reduction policies of the state, and will even continuously increase the awareness of the world to practise environment protection. The Group will seize the enormous business opportunities and continue to capitalise on its excellent research and development capacity on energy-saving products so as to increase its market shares.

In addition, following the recovery of the global economy, the demands for the products of the Group in Europe and the North America markets are recovering gradually. The Group will also continue to boost sales efforts in South American and African regions where sales have been satisfactory.

Meanwhile, the Group is planning to establish two new production facilities in Wuhu, Anhui province, and Jiujiang, Jiangxi province, the PRC respectively in order to enhance the production capacity of commercial air-conditioning products. The construction for the two production facilities is expected to complete in the first half of 2011. Upon completion, the production lines of commercial air-conditioning products of Chigo will increase to 9, with a view that sales contribution from commercial air-conditioning products will further increase.

The long term goal of Chigo is to establish Chigo as a global refrigeration base. By means of its vertically integrated production chain and its extensive distribution network, the Group will be able to extend its business to other refrigerating product markets. We will also keep an eye on opportunities for development so as to further expand the business scale of the Group.

We will continue to seize the opportunities from the recovering market and the support from the policies, and strive to enhance our R&D capacity and sales performance. Long-term speaking, we will optimise our product chain by extending the production capacity of commercial air-conditioning products and by expanding our product range so as to further promote the business of Chigo and bring to our shareholders the most favourable returns.

ACKNOWLEDGEMENT

The continual development of Chigo relied on the support and efforts made by various parties. On behalf of the Board, I would like to take this opportunity to thank our clients, suppliers, business partners and shareholders for their tremendous support and to express our gratitude to our staff for their hard work and contribution made over the past year.

Li Xinghao
Chairman and Chief Executive Officer
Foshan, 24 March 2010

Green, Low Carbon Living

BUSINESS REVIEW

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. During the year ended 31 December 2009, the turnover of the Group was mainly derived from the sales of air-conditioners and air-conditioner parts and components. The Group's products were sold both in the PRC and overseas markets.

The year ended 31 December 2009 had been a challenging and fruitful year for the Company. In the first half of 2009, because the negative impact of the global financial crisis had yet to diminish, the Group's overseas sales were adversely affected by the weak demands in the European and North American markets. On the other hand, competition among peers became keener in the domestic market, the Group, through better cooperation with the nationwide household appliances retail chain operators and launching of high value-for-money products, was able to maintain its PRC sales level at the end of 2009.

During the year, the PRC government pursued an expansionary fiscal policy and a moderately loose monetary policy to pull the domestic demand and to keep stable economic growth. In respect of the air-conditioner industry, several preferential policies, namely "Household Appliances to the Countryside Policy", "Policy of Tax Refund on Exports", "Promotion of Energy Efficient Appliances Scheme" and "Replacement of Household Electrical Appliance Programme" had been launched one after another by the PRC Government in mid 2009. With these preferential policies in place, the management of the Company responded quickly and proactively by strengthening the sales and production of high energy-saving products. Taking advantage of its strong and advanced research and development, the Group had 403 Grade 1 (most energy efficient) products selected by the authority in three national tendering processes, which were far more than those of the other air-conditioner manufacturers. For the overseas markets, the Group also saw a rebound of economic condition in the second half of 2009. As a result, the Group improved its sales significantly during the second half of 2009 and reversed the decrease in total turnover by the end of the year. The Group had also handed in a remarkable and satisfactory profit growth to its shareholders.

In 2009, the Group was awarded Certificate of Enterprise for Exemption from Export Inspection by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC. Till now, the Group is the first enterprise which received the quality for exemption from export inspection in Nanhai district, and the second one in the air-conditioning industry. The Group is always confident of its products quality and leading research and development, award of Certificate of Enterprise for Exemption from Export Inspection speaks for itself.

OPERATION REVIEW

SALES FROM MAJOR PRODUCT GROUPS AND GROSS MARGINS

	Year ended 31 December					
	2009		2008		Change	
	RMB million	% of Turnover	RMB million	% of Turnover	RMB million	Change %
Residential air-conditioners						
– split type	**4,620.3**	**76.9**	4,746.9	80.2	-126.6	-2.7
– window type	**264.9**	**4.4**	203.1	3.4	+61.8	+30.4
– portable type	**30.3**	**0.5**	85.5	1.4	-55.2	-64.6
	4,915.5	**81.8**	5,035.5	85.0	-120.0	-2.4
Commercial air-conditioners	**417.7**	**7.0**	311.8	5.3	+105.9	+34.0
Air-conditioners parts and components	**402.8**	**6.7**	415.6	7.0	-12.8	-3.1
Others	**269.5**	**4.5**	157.7	2.7	+111.8	+70.9
	6,005.5	**100.0**	5,920.6	100.0	+84.9	+1.4

Turnover derived from sales of residential air conditioners decreased slightly by 2.4% during the year ended 31 December 2009, principally because (i) the increase in PRC sales of residential air-conditioning products was offset by the greater decrease in overseas sales of this product group and (ii) the average sales prices of air-conditioning products followed cost of raw material and components to drop during the year. As the number of sets of commercial air-conditioners sold and the average sales price both increased during the year, turnover derived from this product group increased by 34.0% accordingly. Additionally, turnover derived from sales of air-conditioner parts and components decreased slightly by 3.1% during the year, principally due to the decrease in export sales of the product. Sales of other products increased by 70.9% because sales of semi-finished parts and components manufactured by the Group's production facilities to external customers increased substantially in 2009.

In 2009, the gross margin (including government subsidies for energy-saving products) of residential air-conditioning products increased to 20.1% from 16.6% in 2008 because there were more energy-saving products of higher margins sold during the year. As the Group had offered bargain prices to certain customers for bulk orders, the gross margin of commercial air-conditioning products decreased from 17.9% in 2008 to 16.6% in 2009.

SALES FROM BRANDS AND ORIGINAL EQUIPMENT MANUFACTURING ("OEM")

	Year ended 31 December					
	2009		2008		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
PRC sales						
CHIGO brand	**3,293.4**	**54.8**	2,563.4	43.3	+730.0	+28.5
HYUNDAI brand	**66.2**	**1.1**	116.5	2.0	-50.3	-43.2
Air-conditioner parts and components	**127.9**	**2.1**	86.3	1.4	+41.6	+48.2
Other products	**232.8**	**3.9**	112.3	1.9	+120.5	+107.3
	3,720.3	**61.9**	2,878.5	48.6	+841.8	+29.2
Overseas sales						
CHIGO brand	**270.7**	**4.5**	336.4	5.7	-65.7	-19.5
OEM	**1,702.9**	**28.4**	2,330.9	39.3	-628.0	-26.9
Air-conditioner parts and components	**274.9**	**4.6**	329.4	5.6	-54.5	-16.5
Other products	**36.7**	**0.6**	45.4	0.8	-8.7	-19.2
	2,285.2	**38.1**	3,042.1	51.4	-756.9	-24.9
	6,005.5	**100.0**	5,920.6	100.0	+84.9	+1.4

As the awareness of CHIGO brand increased, sales of CHIGO brand products increased in 2009, especially in the PRC, where the Group recorded a satisfactory increase of 28.5% during the year ended 31 December 2009. OEM sales and overseas sales of parts and components decreased in the reporting period because of the weak demand for these products from overseas customers during the year.

SALES AND DISTRIBUTION

	Year ended 31 December					
	2009		2008		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
PRC						
Household appliances retail chain operators	**1,503.2**	**25.0**	931.9	15.7	+571.3	+61.3
Regional distributors	**2,217.1**	**36.9**	1,946.6	32.9	+270.5	+13.9
PRC Total	**3,720.3**	**61.9**	2,878.5	48.6	+841.8	+29.2
Overseas						
Regional distributors	**582.3**	**9.7**	711.1	12.1	-128.8	-18.1
OEM manufacturers	**1,702.9**	**28.4**	2,331.0	39.3	-628.1	-26.9
Overseas Total	**2,285.2**	**38.1**	3,042.1	51.4	-756.9	-24.9
Total Turnover	**6,005.5**	**100.0**	5,920.6	100.0	+84.9	+1.4

The Group's PRC sales from household appliances retail chain operators and regional distributors both increased in 2009. The business relationship between the Group and household appliances retail chain operators became closer during the year and sales generated through this distribution channel recorded a significant increase of 61.3%. During 2009, approximately 40.4% of the PRC sales was distributed through the household appliances retail chain operators and sales obtained from them had been increased from 32.4% of 2008. In the same period, PRC sales generated from regional distributors decrease from 67.6% in 2008 to 59.6% in 2009.

For the overseas sales, the sales split between overseas distributors and OEM customers remained relatively stable for the year. Approximately 25.5% and 74.5% of the overseas sales are distributed by these two groups of customers respectively for the year ended 31 December 2009.

UNITS SOLD VOLUME AND AVERAGE SALES PRICES

	Year ended 31 December		
	2009	2008	Change %
Residential air-conditioning products sold ('000 units)	**3,439.6**	2,956.8	+16.3
Commercial air-conditioning products sold ('000 sets)	**112.5**	86.2	+30.5
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,497**	RMB1,703	-12.1
Average sales price – commercial air-conditioning product (per set)	**RMB3,713**	RMB3,616	+2.7

During the year ended 31 December 2009, the Group experienced a decrease in average sales price per residential unit due to (1) decreasing raw materials costs, especially compressors, copper and plastic chips; and (2) the competitive prices of residential air-conditioning products offered by the Group under "Promotion of energy efficient appliances scheme" for certain energy saving models. With regard to the commercial air-conditioners, the average sales price per commercial unit increased slightly by 2.7% because the Group sold more sets of higher cooling capacity air-conditioners, which were more expensive during the year ended 31 December 2009.

BREAKDOWN OF COST OF GOODS SOLD

During the two years ended 31 December 2008 and 2009, breakdown of the Group's total cost of goods was shown as follows:

	Year ended 31 December					
	2009		2008		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
Raw materials, parts and components:						
Compressors	**1,246.7**	**24.3**	1,417.3	28.7	-170.6	-12.0
Copper	**1,293.9**	**25.3**	1,285.6	26.0	+8.3	+0.6
Plastic chips	**337.1**	**6.6**	373.4	7.6	-36.3	-9.7
Aluminum	**231.0**	**4.5**	237.5	4.8	-6.5	-2.7
Steel plates	**432.3**	**8.4**	372.4	7.5	+59.9	+16.1
Others *(note)*	**1,071.3**	**20.9**	885.1	17.9	+186.2	+21.0
Total	**4,612.3**	**90.0**	4,571.3	92.5	+41.0	+0.9
Direct labour cost	**116.6**	**2.3**	92.1	1.8	+24.5	+26.6
Utilities	**29.8**	**0.6**	28.4	0.6	+1.4	+4.9
Production cost	**166.1**	**3.2**	166.6	3.4	-0.5	-0.3
Others	**200.5**	**3.9**	82.3	1.7	+118.2	+143.6
Total cost of goods sold	**5,125.3**	**100.0**	4,940.7	100.0	+184.6	+3.7

Note: Others include many other miscellaneous parts and components used in production, such as electronic controller systems, refrigerant, power costs, capacitors and other small parts.

Notwithstanding the increase in consumption of these raw material and components in line with the Group's turnover during the year ended 31 December 2009, as the market prices of the major raw material and components, such as compressors, copper and plastic chips had dropped since the second half of 2008, the cost of raw material and components only increased slightly by 0.9%.

Cost of others increased by 21.0% during the year because the consumption of miscellaneous part and components in relation to the Group's other businesses, such as sales of these parts and components to the external customers had increased during the year ended 31 December 2009.

FINANCIAL REVIEW

TURNOVER

	Year ended 31 December					
	2009		2008		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
Geographic region						
PRC sales	**3,720.3**	**61.9**	2,878.5	48.6	+841.8	+29.2
Asia (excluding PRC)	**1,025.8**	**17.1**	1,273.9	21.5	-248.1	-19.5
Americas	**677.4**	**11.3**	609.4	10.3	+68.0	+11.2
Africa	**325.4**	**5.4**	294.0	5.0	+31.4	+10.7
Europe	**227.7**	**3.8**	840.0	14.2	-612.3	-72.9
Others	**28.9**	**0.5**	24.8	0.4	+4.1	+16.5
Overseas sales	**2,285.2**	**38.1**	3,042.1	51.4	-756.9	-24.9
Total turnover	**6,005.5**	**100.0**	5,920.6	100.0	+84.9	+1.4

Turnover increased
1.4%

Gross receipts increased
5.4%

During the year ended 31 December 2009, the Group's total turnover was approximately RMB6,005.5 million (2008: approximately RMB5,920.6 million) and increased by RMB84.9 million, or 1.4% as compared to the corresponding period in 2008. The increase was principally due to the significant increase in the sales recorded by the Group during the second half of 2009 by more than 40% as compared to the sales recorded by the Group during the corresponding period of 2008.

As the Group was entitled to the government subsidies for the energy-saving products amounted to RMB233.6 million from the second half of 2009, gross receipts (sum of turnover and government subsidies for high energy-saving products) received by the Group in relation to its principal operation amounting to RMB6,239.1 million (2008: RMB5,920.6 million) and increased by 5.4% or RMB318.5 million as compared to 2008.

PRC Sales increased
29.2%

PRC SALES

The PRC government announced the "Promotion of energy efficient appliances scheme" in May 2009 to promote the energy-saving products. Under this scheme, the air-conditioner manufacturers would be entitled to government subsidies of RMB300 to RMB850 per unit on sales of those approved energy saving products. The Group always endeavours to provide high value-for-money products for its customers. To accommodate the national policy objective in promoting and subsidising the purchase of energy-saving products, the Group had participated in three national tenders and offered competitive prices for its energy-saving products to the buyers. During the year, the Group had most number of Grade 1 (note) products being selected by the authority and topped the approved products lists. Because of the increasing demand for its high energy-saving products, the Group's PRC sales increased substantially by more than 60% in the second half 2009. As a result, the sales generated from the PRC market increased by RMB841.8 million or 29.2% to RMB3,720.3 million (2008: RMB2,878.5 million) and amounted to 61.9% of the total turnover for the year ended 31 December 2009 (2008: 48.6%).

Note: According to the national standards of "The Minimum Allowance Values of the Energy Efficiency and Energy Efficiency Grades for Room Air-conditioners", Grade 1 being the most energy efficient.

Overseas sales decreased
24.9%

OVERSEAS SALES

As the negative effect of the global financial crisis on consumption confidence extended to year 2009, the Group suffered a significant decrease in overseas sales in the first half of 2009. Following the steady rebound of economic condition of Europe and North America in the second half of 2009, the Group's sales to overseas regions all recorded positive growth except Europe during the period. Because of the turnaround in sales to the respective overseas regions lately, the Group recorded overseas sales of approximately of RMB2,285.2 million (2008: RMB3,042.1 million) representing a year-on-year decrease of 24.9% or RMB756.9 million.

The decrease in Group's overseas sales in 2009 was mainly caused by the declines of 19.5% and 72.9% in sales in the Asian (excluding PRC) and European markets respectively. Sales in Americas, Africa and other regions recorded growth of 11.2%, 10.7% and 16.5% respectively for the year ended 31 December 2009. Among the various overseas sales regions, Asia (excluding PRC) and Americas were still the major overseas markets of the Group, they contributed 17.1% and 11.3% (2008: 21.5% and 10.3% respectively) of the Group's turnover in 2009.

Since the Group's PRC sales had increased substantially in 2009, overseas sales recorded by the Group decreased to 38.1% (2008: 51.4%) of the total turnover for the year ended 31 December 2009.

COST OF GOODS SOLD

Since total turnover recorded by the Group had increased during the year, cost of goods sold increased in line with the turnover to RMB5,125.3 million (2008: RMB4,940.7 million), an increase of RMB184.6 million or 3.7% as compared to that of 2008. The increase in cost of goods sold was mainly caused by the increases in installation cost, direct labour cost and expenses relating to other business which were offset partly by decreases in major raw material and component costs during the year ended 31 December 2009.

GROSS PROFIT

Gross profit decreased

10.2%

Consolidated segment result increased

13.7%

Gross margin

18.5%

Since the Group had offered relatively competitive prices for its energy-saving products under the "Promotion of energy efficient appliances scheme", increase in total turnover was less than that of the cost of goods sold during the year ended 31 December 2009. As such, the Group recorded a gross profit of RMB880.2 million for 2009 (2008: RMB 979.9 million) which decreased by RMB99.7 million or 10.2% as compared to 2008. However, the Group was entitled to the government subsidies for energy-saving products amounting to RMB233.6 million (2008: nil) for the year ended 31 December 2009, consolidated segment results of operation (sum of gross profit and the government subsidies for energy-saving products) for 2009 totaled RMB1,113.8 million (2008: RMB979.9 million) representing an increase of RMB133.9 million or 13.7% from that of 2008.

As the consolidated segment results of operation increased and the gross margin (calculated as consolidated segment results to turnover) for the second half of 2009 had increased to 21.1%, the Group's gross margin increased from 16.6% in 2008 to 18.5% for the year ended 31 December 2009 accordingly.

Due to the improvement of the PRC sales in the second half of 2009, the gross margin of the Group's PRC sales increased from 18.3% in 2008 to 20.5% for the year end 31 December 2009. Since the economic condition of various overseas sales region had recovered steadily and major raw material price decreased during the year, gross margin of the Group's overseas sales improved slightly to 15.3% in 2009 from 14.9% in 2008. Among the overseas regions, Africa and other overseas regions contributed most to the profitability of the Group and achieved gross margins of 18.1% and 23.2% respectively in 2009. In comparison, the gross margins of Europe and Americas remained low in 2009 as these sales regions were still recovering from the negative impact of the 2008 financial crisis.

GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

For the year ended 31 December 2009, the Group was entitled to the government subsidies for high energy-saving products of RMB233.6 million (2008: nil). These government subsidies were part of the gross receipts received by the Group in relation to its principal operation.

OTHER INCOME

Other income was RMB39.5 million (2008: RMB49.1 million) and decreased by RMB9.6 million or 19.6% because of the decrease in bank interest income received by the Group of approximately RMB10.1 million which in turn was due to the decrease in average interest rates in the PRC in 2009.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased to RMB515.6 million (2008: RMB500.3 million), an increase of RMB15.3 million or 3.1% for the year ended 31 December 2009. This increase was mainly due to the increases in (i) salary and allowance of sales staff of approximately RMB10.2 million; (ii) selling expenses of RMB7.3 million; and (iii) advertising and promotion costs of RMB3.6 million respectively as a result of the increase in the Group's sales and partly offset by a decrease in transportation costs of RMB12.5 million because of the decrease in fuel costs in 2009.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased by RMB7.3 million or 4.3% to RMB178.3 million (2008: RMB171.0 million) for the year ended 31 December 2009.

The increase in administrative expenses was primarily due to the increases in (i) salaries and benefits of administrative staff of approximately RMB16.5 million; and (ii) share based payments of RMB6.0 million in relation to the grant of share option by the Company and partly offset by the decrease in bank charges of RMB6.5 million and other non-operating expenses of 2.1 million during the year.

RESEARCH AND DEVELOPMENT COSTS

Research and development ("R&D") costs increased significantly to RMB47.8 million (2008: RMB12.7 million) by 276.4% or RMB35.1 million during the year. The increase was attributed to the increases in the costs of the R&D staff of RMB25.2 million and the R&D costs in relation to energy saving products in 2009.

OTHER EXPENSES

Other expenses represented the non-recurring pre-IPO and listing related expenses of RMB15.8 million and RMB17.0 million incurred in 2008 and 2009 respectively. These expenses increased slightly by RMB1.2 million or 7.6% during the year ended 31 December 2009. However, the Group does not expect to incur these expenses in the coming year.

OTHER GAINS AND LOSSES

Other gains and losses decreased by RMB27.7 million or 82.9% to RMB5.7 million (2008: RMB33.4 million) in 2009. The decrease was mainly due to the decrease in exchange loss of RMB22.5 million as the exchange rate of Renminbi against the US dollars remained relatively stable during the year.

NET GAIN (LOSS) IN FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group incurred a substantial net loss of approximately RMB84.0 million in fair value changes of derivative financial instruments for the year ended 31 December 2008.

Due to (i) the loss in fair value changes of such derivative financial instruments reduced significantly for the year ended 31 December 2009; and (ii) the reversal of the losses in relation to the copper swap contract entered into by the Group in 2008 as the average market floating prices of copper increased gradually and favourably to the Group in 2009, the Group turned the substantial net loss in 2008 to a net gain in fair value changes of derivative financial instruments of approximately RMB24.5 million for the year ended 31 December 2009.

FINANCE COSTS

Since the average interest rates in the PRC market decreased in 2009, the Group's interest on bank borrowing decreased significantly by RMB43.2 million or 37.9% to RMB70.9 million (2008: RMB114.1 million) for the year ended 31 December 2009.

TAXATION

The Group's tax charge was RMB27.8 million (2008: RMB2.4 million) which increased by RMB25.3 million or 1,034.5% for the year ended 31 December 2009. This increase was due to the expiry of the two-year tax exemption period at the end of 2008 and the increase in profit before taxation for the year ended 31 December 2009. The Group shall be entitled to a 50% tax relief from PRC corporate tax and subject to a tax rate of 12.5% for a term of three years commencing from 1 January 2009.

Net profit increased
230.3%

Net margin
5.2%

PROFIT AND TOTAL COMPREHENSIVE INCOME RECOGNISED FOR THE PERIOD

As a result of the foregoing, the Group recorded a profit of RMB314.8 million for the year ended 31 December 2009 (2008: RMB95.3 million), representing a significant increase of RMB219.5 million or 230.3% as compared to the corresponding period in 2008. Since the net profit of the Group had increased significantly in the reporting period and net margin had reached 6.1% for the second half of 2009, the net margin of the Group improved remarkably from 1.6% for the year ended 31 December 2008 to 5.2% for the year ended 31 December 2009 accordingly.

FINANCIAL POSITION

	As at 31 December			
	2009 RMB million	2008 RMB million	Change RMB million	Change %
Non-current assets	**634.3**	583.8	+50.5	+8.7
Current assets	**4,931.4**	4,207.8	+723.6	+17.2
Current liabilities	**3,644.3**	3,347.0	+297.3	+8.9
Non-current liabilities	**75.5**	66.2	+9.3	+14.0
Net assets	**1,845.9**	1,378.4	+467.5	+33.9

Total assets increased
16.2%

Total liabilities increased
9.0%

Net assets increased
33.9%

As at 31 December 2009, the Group's total consolidated assets increased by RMB774.1 million or 16.2% to RMB5,565.7 million (31 December 2008: RMB4,791.6 million). The increase was mainly made in the current assets such as inventories (increased by RMB263.2 million), trade and other receivables (increased by RMB198.4 million), pledged bank deposits (increased by RMB89.1 million) and bank balances and cash (increased by RMB172.0 million). Total consolidated liabilities of the Group as at 31 December 2009 amounted to RMB3,719.8 million (31 December 2008: RMB3,413.2 million) and increased by RMB306.6 million or 9.0% as compared to that of 31 December 2008. The major liabilities increased in the period were trade and other payables (increased by RMB607.0 million) which was offset by a decrease in short-term bank loans (decreased by RMB197.6 million). As the Group recorded a significant increase in net profit for the year together with the net proceeds from the global offering, the Group's net assets increased by 33.9% or RMB467.5 million to RMB1,845.9 million at the end of 2009 (31 December 2008: RMB1,378.4 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2009, the Group had current assets amounted to RMB4,931.4 million (31 December 2008: RMB4,207.7 million) and current liabilities amounted to RMB3,644.3 million (31 December 2008: RMB3,347.0 million). The Group's working capital increased by RMB426.4 million or 49.5% from RMB860.7 million as at the end of 2008 to RMB1,287.1 million at the end of 2009. As a result, the Group's current ratio improved slightly from 1.3 times as at 31 December 2008 to 1.4 times as at 31 December 2009.

At the end of 2009, the balance of short-term bank loans owed by Group was RMB880.4 million (31 December 2008: RMB1,078.0 million) and decreased by RMB197.6 million or 18.3%. The bank loans are used for working capital purposes, charged at fixed interest rates and repayable within one year. All of the bank loans are made and repaid in Renminbi.

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased from 22.5% at the end of 2008 to 15.8% as at 31 December 2009. The decreases in balance of short-term bank loans and gearing ratio were mainly because less bank loans were required for the working capital as the Company had strengthened its capital base through its listing on the Main Board of the Stock Exchange on 13 July 2009 in Hong Kong and generated a high level of net cash flow from its operation during the year.

Ability of the Group to service finance costs, as indicated by interest cover, was improving during the reporting period. As market interest rates and finance costs decreased and net profit increased in 2009, interest cover of the Group increased substantially to 5.8 times for the year ended 2009 as compared to 1.9 times the same period last year.

During the year, the Group had entered into certain foreign currency forward contracts to hedge against part of its exposure on potential variability of foreign currency risk. Together with those contracts entered by the Group before 2009 and outstanding as at 31 December 2009, the total financial exposure of the Group to these foreign currency forward contracts was approximately RMB16.1 million.

The Group had not entered into any new copper swap contract in 2009. There was no copper swap contract outstanding as at 31 December 2009 as all the copper swap contracts were expired during the year.

On 19 June 2009, all the shareholders of the Company passed the written resolutions and resolved that the directors (the "Directors") of the Company were authorised to capitalise an amount of HK$4,274,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 427,400,000 shares for allotment and issue to the shareholders of the Company on 19 June 2009 on a pro rata basis, conditional on the share premium account being credited as a result of the issue of shares by the Company pursuant to the global offering. On 13 July 2009, the Company's shares were listed on the Main Board of the Stock Exchange and 72,500,000 ordinary shares of HK$0.01 each of the Company were issued at HK$2.27 by way of global offering. A further 10,874,000 ordinary shares were issued at HK$2.27 per share upon an over-allotment option was exercised on 5 August 2009. As at 31 December 2009, the Company had issued share capital of RMB4.5 million and 510,874,000 shares in issue. All of the issued shares were ordinary shares.

Since the Company had raised gross proceeds of approximately RMB189.3 million from the global offering (including the exercise of the over-allotment option) and recorded an significant increase in net profit during the year, the shareholders' equity increased to RMB1,841.4 million at the end of 2009 (31 December 2008: RMB1,378.4 million).

On 19 June 2009, the then shareholders also resolved to adopt a share option scheme of the Company. During the year, share options to subscribe for 50,000,000 new shares were granted by the Company to certain eligible participants of the share option scheme. As at 31 December 2009, there were 50,000,000 share options granted and outstanding.

Other than the above, there were no other equity or debt instruments issued by the Company during the reporting period and at the end of 2009.

CASH FLOWS

	Year ended 31 December 2009 RMB million	2008 RMB million
Net cash from (used in) operating activities	**534.7**	(72.5)
Net cash (used in) from investing activities	**(197.2)**	15.0
Net cash (used in) from financing activities	**(165.5)**	243.6
Net increase in cash and cash equivalents	**172.0**	186.1
Cash and cash equivalents at 31 December	**432.8**	260.8

During the year, the Group financed its working capital by internally generated cash flow and short-term bank loans. For the year ended 31 December 2009, the Group generated net cash inflow of RMB543.7 million from operating activities (2008: cash outflow of RMB72.5 million). The Group raised bank loans of RMB925.4 million from and repaid RMB1,123.0 million to the banks during the year. As such, net cash used in financing activities amounted to RMB165.5 million (2008: cash inflow of RMB243.6 million). Part of the cash generated was primarily used to finance (i) the piling up of inventories to meet the demand for products in the coming year; and (ii) the investing activities of the Group such as pledging bank deposits for issuance of bills of exchange and letters of credit to suppliers for procurement of raw materials.

As a result of the foregoing, the Group generated surplus cash of RMB172.0 million during the year ended 31 December 2009 (2008: net cash inflow of RMB186.1 million) and had bank balances and cash amounted to RMB432.8 million at the end of 2009 (31 December 2008: RMB260.8 million).

USE OF NET PROCEEDS FROM GLOBAL OFFERING

The shares of the Company were listed on the Stock Exchange on 13 July 2009 with total net proceeds from the global offering and exercise of the over-allotment option amounting to approximately HK$130.2 million (approximately RMB114.6 million) after deducting underwriting commissions and all related expenses. These net proceeds of approximately RMB91.6 million were partially applied during the period from the listing date up to 31 December 2009 and such application was consistent with the proposed usage of the net proceeds set forth in the prospectus of the Company dated 30 June 2009. The amount allocated for the aforementioned use and pending the utilisation of the remaining proceeds, the Group has placed short-term interest-bearing deposits with authorised financial institutions and/or licensed banks in Hong Kong and the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS, SIGNIFICANT INVESTMENTS

During the year ended 31 December 2009, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies. As at the end of the reporting period, the Group did not hold any significant investments.

CHARGE ON ASSETS

As at 31 December 2009, certain bank deposits and inventories of the Group in an aggregate carrying amount of approximately RMB1,798.3 million (31 December 2008: approximately RMB1,823.5 million) were pledged to certain banks for securing the banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

During the period ended 31 December 2009, approximately 38.1% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may expose to foreign currency risk. As the Group had already entered into certain foreign currency forward contracts and the exchange rate of Renminbi against the US dollars remained rather stable during the reporting period, the Directors are of the view that the Group's exposure to foreign currency risk was not significant.

During and as at the end of the reporting period, most of the assets and liabilities of the Group were dominated in Renminbi. The Group had also converted the net proceeds from the global offering into the functional currency of the Group as required for its planned use during the year ended 31 December 2009. The Directors believe that the Group's exposure to exchange rate fluctuations is minimal in this aspect.

The management of the Group will monitor foreign currency exposure from time to time and will consider further hedging should the need arise.

CAPITAL COMMITMENTS

As at 31 December 2009, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB65.6 million (31 December 2008: approximately RMB13.9 million).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2009.

EMPLOYEES AND REMUNERATION

As at 31 December 2009, the Group employed 10,089 employees (31 December 2008: 9,204 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages are reviewed on a yearly basis. The Group also provides its employees with welfare benefits including medical care, meal subsidies, education subsidies and housing etc.

In order to attract, motivate and retain high calibre personnel, the Group also has a share option scheme in place in which the employees and directors of the Group are entitled to participate.

During the year ended 31 December 2009, the Group had granted the Directors and employees of the Group share options to subscribe for 1,040,000 and 48,940,000 shares of the Company respectively.

OUTLOOK AND FUTURE PLANS

It is understood that the PRC government will continue to support and promote energy saving products in the coming years. Since the Group had already done good work in 2009 and is well prepared to meet challenges, the Directors believe that the Group will continue to benefit from the increased market demand for such high energy efficiency products.

For overseas sales, the Group notes that the rebound of economic activities and gradual growth in demand in the European and North American markets. The Group will continue to strengthen the sales of products to the South American and African regions where the Group had achieved remarkable sales performance in 2009. With stronger capital base and higher awareness of CHIGO brand since the Company's listing, the Directors are optimistic that the financial performance of the Group in the coming year would be better than that of 2009.

As disclosed in the Company's prospectus dated 30 June 2009, the Group plans to expand its manufacturing capacity for the production of commercial air-conditioning products. Two new production facilities for the manufacture of commercial air-conditioning products will be established in Wuhu, Anhui province and Jiujiang, Jiangxi province, the PRC respectively. The construction work of these two production facilities has already commenced and is expected to be completed in the first half of 2011, after which, the number of production lines for the manufacture of the Group's commercial air-conditioning products will be increased from seven to nine. The Group expects that the sales and profitability of the Group could be further enhanced after the expansion of these commercial air-conditioning units is completed.

The Directors consider making Chigo a refrigerating production base in the PRC is an important long term strategy of the Group. With the competitive strengths of the Group's vertically integrated production chain and extensive distribution networks, the Directors believe the Group would be able to expand into other related refrigeration product markets to complement its product range and provide additional revenue sources.

The management of the Group will also closely monitor new opportunities that may arise and consider any potential merger and acquisition ("M&A") opportunities to further (i) expand the Group's operation scale which aligned with the its investment strategy and/or (ii) strengthen or integrate the Group's upstream or downstream production and distribution chains. Once a viable target is identified, the Directors are confident that potential M&As will be conducted in the best interests of the shareholders and will inform the shareholders of any investment in due course.

Directors and Senior Management

From left: Dr. Ding Xiaojiang (Executive Director), Mr. Huang Guoshen (Executive Director), Mr. Lei Jianghang (Vice Chairman), Mr. Li Xinghao (Chairman and Chief Executive Officer), Mr. Zhang Xiaoming (Independent Non-executive Director), Mr. Wan Junchu (Independent Non-executive Director), Mr. Fu Xiaosi (Independent Non-executive Director).

EXECUTIVE DIRECTORS

MR. LI XINGHAO

Mr. Li, aged 55, is the founder of the Group. He was appointed as an executive Director on 24 April 2006. Mr. Li is also the Chairman and Chief Executive Officer of the Company and is primarily responsible for the formulation of the Group's development strategies, as well as supervising the Group's overall business and operation management. He is one of the founders of Nanhai Chigo Factory, the predecessor of Guangdong Chigo, established in 1994 and has over 15 years of experience in the air-conditioning industry. He holds a senior engineer certificate issued by Hong Kong International Hitech Investment Development Centre. Mr. Li graduated from the Party School of the Central Committee of C.P.C. （中共中央黨校） in 2000. He obtained a masters degree in Western Economics Studies from Nankai University （南開大學） in July 2004. Mr. Li is currently serving as a deputy to the 11th National People Congress of the PRC.

MR. LEI JIANGHANG

Mr. Lei, aged 56, was appointed as an executive Director on 15 February 2008 and is the vice Chairman of the Company. He joined the Group in January 1995 as a senior engineer of Guangdong Chigo. Mr. Lei is responsible for overseeing the operation of commercial air-conditioning products of the Group. He graduated from Jiangxi Radio & TV University （江西廣播電視大學） in June 1982. Mr. Lei served as an engineer in Foshan Huahao Chemical Co., Ltd. （佛山市華昊化工有限公司電化廠） from September 1991 to December 1994.

MR. HUANG GUOSHEN

Mr. Huang, aged 46, was appointed as an executive Director of the Company on 15 February 2008. He joined the Group in January 1994 and has over 15 years of experience in the air-conditioning industry. Mr. Huang is responsible for the planning and construction of the Group's production facilities. Mr. Huang is also a director of Guangdong Join-Share Guarantee Investment Co., Ltd. （廣東中盈盛達擔保投資有限公司） since May 2003.

EXECUTIVE DIRECTORS (CONTINUED)

DR. DING XIAOJIANG

Dr. Ding, aged 45, was appointed as an executive Director of the Company on 15 February 2008. He joined the Group in January 1998 and has held positions as supervisor of the technology department and the procurement department, head of commercial department and the chief engineer of the Group. Currently, Dr. Ding is the General Manager of the Refrigeration Equipment Division of the Group. He is primary responsible for manufacture and sale of refrigerators, wine cabinets and heat pump water heaters. Dr. Ding graduated from Nanjing University of Aeronautics and Astronautics （南京航空航天大學） (formerly known as南京航空學院） in 1985, received a masters degree in engineering from the same university in 1988 and a doctorate degree in engineering from Chongqing University （重慶大學） in 1992. He joined Guangdong Meidi Refrigerating Research Centre （廣東美的股份有限公司空調研究所） as a senior engineer from November 1992 to May 1995.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. WAN JUNCHU

Mr. Wan, aged 43, was appointed as an independent non-executive Director on 26 August 2008. Mr. Wan had been working as a part-time chief editor of China Business Update (《中國經貿》雜誌社） from January 2005 to December 2005, and assistant to the secretary of China Association for Quality Promotion （中國質量萬里行促進會） since July 1999. He had conducted researches on famous Chinese brands and published more than three books on management including brand management.

MR. ZHANG XIAOMING

Mr. Zhang, aged 56, was appointed as an independent non-executive Director on 26 August 2008. He graduated from South China Normal University （華南師範大學） majoring in economic and management in August 1992. He has over 35 years of working experience in the household electrical appliance industry in the PRC and held various positions including technician, senior chief economist and general manager of several household electrical appliances company in Guangdong. Mr. Zhang has also participated in the research, planning and formulation of the development strategy in the household electrical appliance industry in Guangdong. He is the chairman of Guangdong Household Electrical Appliances Trade Association （廣東省家用電器行業協會）.

MR. FU XIAOSI

Mr. Fu, aged 50, was appointed as an independent non-executive Director on 26 August 2008. He graduated from Huazhong University of Science and Technology （華中科技大學） (formerly known as 華中工學院） in July 1986. He obtained a bachelor degree in economics from Zhongnan University of Economics and Law （中南財經大學） in 1999. He qualified as an assistant engineer in 1987 and as an accountant in 1991. Mr. Fu obtained the relevant qualification as a registered accountant from the Chinese Institute of Certified Public Accountants in the PRC in 1994. He has been promoted as a senior accountant while working at China State Ship Building Corporation （中國船舶工業總公司） in 1997. Mr. Fu has completed the training course for independent non-executive directors of the listed companies organised by Fudan University （復旦大學） in 2002. From November 2000 to May 2006, he worked at Beijing Zhong Qin Wan Xin Accounting Firm （北京中勤萬信會計師事務所） and he was responsible for auditing financial statements for various listed companies and he has experience working as a senior manager, department manager, vice chief accountant and senior partner of the above accounting firm. From May 2006 to the present, he served as a chief accountant at Hubei Sanhuan Development Corp. Ltd. （湖北三環股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange).

SENOR MANAGEMENT

DR. ZHENG ZUYI

Dr. Zheng, aged 54, is a vice president of the Group. He joined the Group on 1 October 2005 and is responsible for technology, quality, procurement and manufacturing of air-conditioning products of the Group. Dr. Zheng is also responsible for the assessment and approval of research and development projects. Dr. Zheng received a doctorate degree in engineering from Huazhong University of Science and Technology （華中理工大學） in December 1994 and completed the post-doctorate research studies in Tsinghua University in May 1996. Before joining the Group, Dr. Zheng was the head of the research department of Gree Electric Appliances, Inc. （珠海市格力電器股份有限公司） from 1997 to 2001 and he resigned from Guangdong Kelon Electrical Holdings Co. Ltd. （廣東科龍電器股份有限公司）, a company whose shares are listed on the Shenzhen Stock Exchange and the Stock Exchange in October 2005.

MR. HU ZHENGFU

Mr. Hu, aged 45, is a vice president of the Group. He is responsible for overseeing the corporate governance, financial and investor relation matters of the Group. He joined the Group on 7 September 2001 and has held positions within the Group including head of the auditing department, the manager of the finance department and assistant to the general manager. Mr. Hu graduated from Zhongnan University of Economics and Law （中南財經大學） majoring in accounting in 1992. Before joining the Group, Mr. Hu worked for the Finance Department of Hubei Province Supply and Marketing Cooperative （湖北省供銷社財務處） from 1986 to 1992 and the manager of the financial department of Zhuhai Fenghai Industrial & Commercial Company （珠海豐海工貿公司） from 1992 to 1995. From August 1995 to August 2001, he rejoined as the supervisor of the Audit Division in the Finance Department of Hubei Province Supply and Marketing Cooperative （湖北省供銷社財務處審計）.

MR. LEUNG HON MAN

Mr. Leung, aged 43, joined the Company as the Chief Financial Officer since 18 December 2007 and was appointed as the company secretary of the Company on 26 August 2008. He has over 14 years of experience in company management, accounting and company secretarial matters. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, Certified Practising Accountant of CPA Australia. Mr. Leung received a Professional Diploma in Business (Banking) at the Hong Kong Polytechnic University in 1990 and a master degree in Business Administration at Andrews University in 1996 and a master degree in Accounting at Central Queensland University in 1999. From 1990 to 1994, he had experience working as a senior officer in the Hong Kong Branch of the Kwangtung Provincial Bank, which is now known as Bank of China (Hong Kong) Limited after consolidation. From May 1994 to August 2000, he had experience working as a finance manager in Soundwill Holdings Limited (878), a company listed on the Stock Exchange. Since 2000, he has worked in Sanyuan Group Limited, a company formerly listed on the Stock Exchange, where he held various positions including company secretary, financial controller and executive director.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting and maintaining good corporate governance standard with a strong emphasis on integrity, efficiency, transparency and accountability to enhance shareholders' welfare.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

Since its shares were listed on 13 July 2009 (the "Listing Date"), the Company has adopted and commenced to apply its corporate governance practices which are in line with the code provisions contained in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). During the period from the Listing Date to 31 December 2009.

During the period from the Listing Date to 31 December 2009, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provision A.2.1 of the CG Code as explained in the paragraph headed "Chairman and Chief Executive Officer" below.

THE BOARD OF DIRECTORS

BOARD COMPOSITION

As at 31 December 2009 and the date of this report, the Board comprised four executive Directors and three independent non-executive Directors. The following are the members of the Board:

Executive Directors

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Mr. Lei Jianghang *(Vice Chairman)*
Mr. Huang Guoshen
Dr. Ding Xiaojiang

Independent Non-executive Directors

Mr. Wan Junchu
Mr. Zhang Xiaoming
Mr. Fu Xiaosi.

The biographical details of the Directors are set out on pages 32 to 33 of this report.

FUNCTION OF THE BOARD

The business of the Group are conducted and managed by the Board. The Board is responsible for the overall management of the business, strategic development and significant policies and transactions of the Group. The management was delegated the authority and responsibility by the Board for the day-to-day management, administration and operation of the Group. In addition, the Board has also delegated various responsibilities to the various Board Committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") of the Company.

RELATIONSHIP OF THE BOARD MEMBER

There is no family relationship, nor any financial, business, or other material or relevant relationships, among the Directors and between each of the Directors.

NUMBER OF BOARD MEETINGS AND DIRECTORS' ATTENDANCE

During the year ended 31 December 2009, six Board meetings and one Audit Committee meeting were held. Attendance record of each of the Directors is set out below:

	Number of board meetings attended/held	Number of Audit Committee meetings attended/held
Executive Directors		
Mr. Li Xinghao	5/6	N/A
Mr. Lei Jianghang	5/6	N/A
Mr. Huang Guoshen	5/6	N/A
Dr. Xiaojiang	5/6	N/A
Independent Non-executive Directors		
Mr. Wan Junchu	2/6	1/1
Mr. Zhang Xiaoming	2/6	1/1
Mr. Fu Xiaosi	2/6	1/1

There was no Remuneration Committee meeting and Nomination Committee meeting held during the period from the Listing Date to 31 December 2009. The first Remuneration Committee meeting was held on 23 March 2010.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the year ended 31 December 2009, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer (the "CEO") of the Company.

The responsibilities of Chairman and CEO of the Company have been clearly established and set out in writing. Chairman of the Board will be responsible for effective running of the Board and the management of the Board's affairs. CEO will be primarily responsible for the formulation of the Group's business and development strategies.

Mr. Li is the founder of the Group and has over 15 years of experience in the air-conditioning industry. The Directors believe that Mr. Li is a good leader to lead the Board and vesting the roles of Chairman and CEO in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. As such, it is beneficial to the business prospects of the Company.

The Directors will continue to review the effectiveness of the corporate governance structure of the Group and assess whether changes, including the separation of the roles of Chairman and CEO, are necessary.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The term of the appointment of each of the independent non-executive Directors is one year from the Listing Date. The Company will pay RMB120,000 per annum to each of the independent non-executive Directors respectively in consideration of their services to the Group.

The independent non-executive Directors' remuneration was determined by the Company with regard to their experience, performance and the prevailing market conditions.

ADOPTION OF MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code regarding securities transactions by the Directors (the "Own Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code and the Own Code. All the Directors have confirmed their compliance during the year with required standards set out in the Model Code and the Own Code.

BOARD COMMITTEES

The Company has established three Board committees (the "Board Committees"), namely the Audit Committee, the Remuneration Committee and the Nomination Committee to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expenses.

AUDIT COMMITTEE

The Company established the Audit Committee on 19 June 2009 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee comprises the three independent non-executive Directors, namely, Fu Xiaosi, Zhang Xiaoming and Wan Junchu. Fu Xiaosi is the chairman of the Audit Committee.

During the period from the Listing Date to 31 December 2009, the Audit Committee had:

- held a committee meeting and reviewed the Company's interim results for the six months ended 30 June 2009, financial and accounting policies and practices and relevant disclosure requirements under the Listing Rules with the management and the external auditor of the Company;

- held a meeting with the internal audit department to review the internal audit function of the Group;

- reviewed with the management the Company's financial controls, internal control and risk management systems;
- attended a meeting with the external auditor without executive Board members present and discuss with the nature and scope of the audit before the audit commences; and
- approved the remuneration and terms of engagement of the external auditor.

From 2010 onwards, the Audit Committee will conduct meeting at least twice a year.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 19 June 2009 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies.

The Remuneration Committee comprises the three independent non-executive Directors, namely, Wan Junchu, Fu Xiaosi and Zhang Xiaoming. Wan Junchu is the chairman of the remuneration committee.

As the Company was just listed on 13 July 2009, no Remuneration Committee meeting was held during the period from the Listing Date to 31 December 2009. From 2010 onwards, the Remuneration Committee will conduct meeting at least once a year.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 19 June 2009 with written terms of reference in compliance with the CG Code. The primary duty of the Nomination Committee is to make recommendations to the Board on the appointment of Directors and senior management.

The Nomination Committee comprises the three independent non-executive Directors, namely, Zhang Xiaoming, Fu Xiaosi and Wan Junchu. Zhang Xiaoming is the chairman of the Nomination Committee.

As the Company was just listed on 13 July 2009. no Nomination Committee meeting was held during the period from the Listing Date to 31 December 2009. From 2010 onwards, the Nomination Committee will conduct meeting at least once a year.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statement of the Group in accordance with statutory requirements and accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements for the Group are published in a timely manner. The Directors' and auditors' responsibilities in respect of the financial statements are set out on page 48 in this report.

INTERNAL CONTROL

The Board is responsible for the internal control system of the Group and has the responsibility for reviewing its effectiveness including financial, operational and compliance controls. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets.

An Internal Audit Department has been established by the Group to carry out independent evaluations of its operating units. The Internal Audit Department has unrestricted access to the Group's operating units as well as all records, properties and personnel relevant to any function under review. Independent review on the operating and financial control of the Group conducted by the Internal Audit Department on an on-going basis. The Internal Audit Department reports its findings and irregularities (if any) and makes recommendations to the Board.

During the year ended 31 December 2009, the Audit Committee had reviewed the internal control system of the Group with the management and the Internal Audit Department. The Board will continue to review the system and procedures from time to time to maintain a high standard of internal control and will make appropriate changes to the internal control system, if necessary.

INVESTORS RELATIONS AND COMMUNICATION CHANNELS

The Directors recognise the importance of long-term supports from the shareholders of the Company. The Board highly respects the shareholders' rights to express their views and appreciates the shareholders to make suggestions to the Company. On top of the regular members' meetings to be held yearly, the Company has also established different channels, including the corporate website with updated Company's news and information, corporate email and public relations department, to (i) promote effective communication between the Company and its shareholders; (ii) release the latest news, information and announcements of the Company in a timely manner; and (iii) handle shareholders' enquiries and suggestions.

In addition, the Group has also set up the investment and securities department to deal with investor relations activities including meetings with financial analysts and fund managers and teleconferences with investors and research analysts.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit and non-audit services for the period from date of listing to 31 December 2009 amounted to HK$2,280,000 and HK$925,000 respectively. The non-audit services provided during the period were interim financial statements review and taxation services.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands on 24 April 2006 as a company with limited liability. In preparation for the listing of the Shares on the Stock Exchange, the companies comprising the Group underwent a corporate reorganization. Pursuant to the approval from the relevant PRC authorities, the Company has become the holding company of the Group since 1 September 2006.

The shares of the Company were listed on the Main Board of the Stock Exchange with effect from 13 July 2009.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income statement on page 50 of this annual report.

The Directors recommend the payment of a final dividend of RMB11.0 cents (approximately 12.5 HK cents, such amount is calculated by reference to the middle rate published by the People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 24 March 2010, being the date of the Board meeting of recommending the payment of such final dividend) per share for the year ended 31 December 2009 to the shareholders listed in the registered of members of the Company on Thursday, 27 May 2010. The final dividend is expected to be paid in Hong Kong dollars on or about Thursday, 10 June 2010 amounting to HK$63,859,250.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four financial years is set out on page 106.

PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

In the Prospectus, the Company included a valuation of certain properties at RMB372.4 million, which has not been incorporated in the consolidated financial statements for the year ended 31 December 2009. These properties have been included in the consolidated statement of financial position at 31 December 2009 at RMB195.4 million, being their historical cost less accumulated depreciation and accumulated impairment losses. Had the properties been stated at their revalued amount in the consolidated financial statements, additional depreciation of approximately RMB9.8 million would have been charged against the consolidated statement of comprehensive income statement.

LISTING OF THE SHARES AND SHARE CAPITAL OF THE COMPANY

The shares of the Company have been successfully listed on the Main Board of the Stock Exchange since 13 July 2009. The total number of issued shares of the Company as at 13 July 2009 was 500,000,000 shares.

On 5 August 2009, the Over-allotment Option (as defined in the Prospectus") (10,874,000 out of 10,875,000 addition shares) was partially exercised, 10,874,000 shares (the "Over-allotment Shares") were issued and allotted by the Company. The total number of issued shares of the Company increased to 510,874,000 shares immediately after the issue of the Over-allotment Shares.

As at 31 December 2009 and the date of this report, the total number of issued shares of the Company was 510,874,000 shares.

Details of movements during the year in the share capital of the Company are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Reserves of the Company available for distribution to shareholders as at 31 December 2009 amounted to RMB457,319,000 which consisted of the retained profits and share premium (2008: RMB332,614,000).

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to the Company's shareholders subject to the provisions of its memorandum of association and the articles of association (the "Articles") and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

EXECUTIVE DIRECTORS

Mr. Li Xinghao
Mr. Lei Jianghang
Mr. Huang Guoshen
Dr. Ding Xiaojiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Junchu
Mr. Zhang Xiaoming
Mr. Fu Xiaosi

The biographical details of the Directors are set out on pages 32 to 33 of this report.

In accordance with Article 83(3) of the Articles, each of Mr. Li Xinghao, Mr. Lei Jianghang, Mr. Huang Guoshen, Dr. Ding Xiaojiang, Mr. Wan Junchu, Mr. Zhang Xiaoming and Mr. Fu Xiaosi will hold office until the upcoming annual general meeting (the "Annual General Meeting") and, being eligible, offer themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 10 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHARE OPTIONS

At 31 December 2009, the interests of the Directors in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

LONG POSITION IN THE ORDINARY SHARES OF HK$0.01 EACH OF THE COMPANY

Name of Director	Capacity	Number of issued ordinary shares held	Approximate percentage of shareholding
Mr. Li Xinghao	Held by controlled corporation *(note)*	342,400,000	67.02

Note: Mr. Li Xinghao beneficially owns approximately 99.46% of the issued share capital of Chigo Group Holding Limited which beneficially owns 342,400,000 ordinary shares of the Company.

LONG POSITION IN THE SHARE OF ASSOCIATED CORPORATION

Name of Director	Associated Corporation	Capacity	Number of issued ordinary shares held	Approximate percentage of shareholding
Mr. Li Xinghao	Chigo Group Holding Limited	Beneficial owner	9,946.1036	99.46

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Particulars of the Company's share option scheme are set out in note 29 to the consolidated financial statements.

Name of Director	Capacity	Number of options held	Number of underlying shares
Mr. Li Xinghao	Beneficial owner	220,000	220,000
Mr. Lei Jianghang	Beneficial owner	210,000	210,000
Mr. Huang Guoshen	Beneficial owner	180,000	180,000
Dr. Ding Xiaojiang	Beneficial owner	220,000	220,000
Mr. Wan Junchu	Beneficial owner	70,000	70,000
Mr. Zhang Xiaoming	Beneficial owner	70,000	70,000
Mr. Fu Xiaosi	Beneficial owner	70,000	70,000
		1,040,000	1,040,000

Other than as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporation as at 31 December 2009.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors has interests in any business (including any interests acquired after listing) which directly or indirectly competes, or is likely to compete with the business of the Group.

CONTINUING CONNECTION TRANSACTIONS

On 19 June 2009, the Company and Foshan Nahai Lishui Zhongya Restaurant (the "Restaurant"), a restaurant controlled by Mr. Li Xinghao who is a connected person of the Company under the Listing Rules, entered into an agreement to provide restaurant services to the Group. During the year, the Group paid messing expenses to the Restaurant. The transaction is regarded as continuing connected transaction under Rule 14A.33(3) of the Listing Rules which is exempted from the reporting, announcement and independent shareholders' approval requirements. Particulars of the transaction are disclosed in note 33 to the consolidated financial statements.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted by the written resolution of the shareholders on 19 June 2009. Particulars of the Company's share option scheme are set out in note 29 to the consolidated financial statements.

The following table discloses movements in the Company's share options and the underlying shares during the year:

			Underlying shares exercisable under the share options					
	Exercise period	Exercise Price (HK$)	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at end of the year
Category 1: Directors								
Li Xinghao	2010.11.17 – 2012.11.16	4.152	–	220,000	–	–	–	220,000
Lei Jianghang	2010.11.17 – 2012.11.16	4.152	–	210,000	–	–	–	210,000
Huang Guoshen	2010.11.17 – 2012.11.16	4.152	–	180,000	–	–	–	180,000
Ding Xiaojiang	2010.11.17 – 2012.11.16	4.152	–	220,000	–	–	–	220,000
Wan Junchu	2010.11.17 – 2012.11.16	4.152	–	70,000	–	–	–	70,000
Zhang Xiaoming	2010.11.17 – 2012.11.16	4.152	–	70,000	–	–	–	70,000
Fu Xiaosi	2010.11.17 – 2012.11.16	4.152	–	70,000	–	–	–	70,000
				1,040,000	–	–	–	1,040,000
Category 2: Employees								
599 employees	2010.11.17 – 2012.11.16	4.152	–	48,940,000	–	–	–	48,940,000
Category 3: Customers								
5 customers	2010.11.17 – 2012.11.16	4.152	–	20,000	–	–	–	20,000
Total			–	50,000,000	–	–	–	50,000,000

The closing price of the shares of the Company immediately before 17 November 2009, the date of grant of the above options, was HK$4.09.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

LONG POSITION IN THE ORDINARY SHARES OF HK$0.01 EACH OF THE COMPANY

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of shareholding
Chigo Group Holding Limited	Beneficial owner	342,400,000	67.02
High Surplus Enterprises Limited	Beneficial owner	42,750,000	8.37

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2009.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent No-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the Independent Non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emolument of the Directors are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 29 to the consolidated financial statements.

PENSION SCHEMES

The pension schemes of the Group are primary in form of contributions to Hong Kong's Mandatory Provident Funds and the China statutory public welfare fund.

Details of the Group's pension scheme are set out in note 32 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float since the shares of the Company were successfully listed on the Main Board of the Stock Exchange of Hong Kong on 13 July 2009 to the date of this report.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company since the shares of the Company were successfully listed on the Main Board of the Stock Exchange on 13 July 2009 to the end of 2009.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$1,401,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's sales to the five largest customers accounted for less than 30% of the Group's total turnover for the year.

During the year, the Group's purchases attributable to the five largest suppliers combined and the largest supplier accounted for 32.3% and 11.4% respectively of the Group's total purchases for the year.

Neither the Directors, their respective associates, nor any shareholders, which to the best knowledge of the Directors, own more than 5% of the share capital of the Company, has any interest in any of the five largest suppliers of the Group for the year.

EVENTS AFTER THE REPORTING PERIOD

There was no significant event subsequent to 31 December 2009.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Tuesday, 25 May 2010 to Thursday, 27 May 2010 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting and the entitlement of the aforementioned proposed final dividend, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 24 May 2010.

AUDITOR

The consolidated financial statements for the two years ended 31 December 2008 and 2009 have been audited by the external auditor of the Company, Deloitte Touche Tohmatsu.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Boardrooms 3 & 4, Mezzanine Floor, Renaissance Harbour View Hotel, Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 27 May 2010 at 10:30 a.m.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners, bankers and auditors for their support to the Group throughout the period.

On behalf of the Board
Li Xinghao
Chairman

Foshan, 24 March 2010

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHIGO HOLDING LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Chigo Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 105, which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Turnover		**6,005,495**	5,920,583
Cost of goods sold		**(5,125,307)**	(4,940,650)
Gross profit		**880,188**	979,933
Government subsidies for high energy-saving products	*8*	**233,640**	–
Other income		**39,457**	49,071
Selling and distribution costs		**(515,632)**	(500,336)
Administrative expenses		**(178,323)**	(171,029)
Research and development costs		**(47,780)**	(12,665)
Other expenses		**(16,993)**	(15,758)
Other gains and losses		**(5,684)**	(33,439)
Net gain (loss) in fair value changes of derivative financial instruments		**24,509**	(83,978)
Interest on bank borrowings wholly repayable within five years		**(70,852)**	(114,065)
Profit before taxation	*9*	**342,530**	97,734
Taxation	*11*	**(27,751)**	(2,446)
Profit for the year and total comprehensive income for the year		**314,779**	95,288
Earnings per share			
Basic	*13*	**67.5 cents**	22.3 cents

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	14	**396,271**	372,595
Land use rights	15	**82,803**	84,124
Intangible assets	16	**2,455**	2,812
Prepaid lease payments		**123,012**	103,831
Deposits made on acquisition of property, plant and equipment		**19,404**	10,557
Deferred tax assets	17	**10,340**	9,921
		634,285	583,840
Current assets			
Inventories	18	**1,686,050**	1,422,838
Trade and other receivables	19	**1,697,527**	1,499,119
Land use rights	15	**1,852**	1,815
Prepaid lease payments		**5,976**	–
Taxation recoverable		**8,202**	13,662
Derivative financial instruments	20	**3,844**	3,408
Pledged bank deposits	21	**1,095,160**	1,006,067
Bank balances and cash	21	**432,794**	260,834
		4,931,405	4,207,743
Current liabilities			
Trade and other payables	22	**2,638,879**	2,031,918
Warranty provision	23	**34,255**	35,302
Amount due to ultimate holding company	24	**–**	28,250
Amount due to a director	25	**–**	15,580
Taxation payable		**78,455**	75,683
Derivative financial instruments	20	**12,229**	82,294
Short-term bank loans	26	**880,436**	1,077,986
		3,644,254	3,347,013
Net current assets		**1,287,151**	860,730
Total assets less current liabilities		**1,921,436**	1,444,570
Non-current liabilities			
Government grants	27	**61,866**	63,174
Deferred tax liabilities	17	**13,626**	2,995
		75,492	66,169
Net assets		**1,845,944**	1,378,401

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	**2009** **RMB'000**	2008 RMB'000
Capital and reserves			
Share capital	*28*	**4,503**	1
Reserves		**1,841,441**	1,378,400
Total equity		**1,845,944**	1,378,401

The consolidated financial statements on pages 50 to 105 were approved and authorised for issue by the Board of Directors on 24 March 2010 and are signed on its behalf by:

LI XINGHAO
CHAIRMAN
AND
CHIEF EXECUTIVE OFFICER

LEI JIANGHANG
VICE CHAIRMAN
AND
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital	Share premium	Special reserve	Share compensation reserve	Share options reserve	Statutory surplus reserve fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note a)	*(Note b)*		*(Note c)*		
At 1 January 2008	1	212,564	(26,408)	1,967	–	87,991	906,998	1,183,113
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	95,288	95,288
Transfers	–	–	–	–	–	24,428	(24,428)	–
Dividend waived *(Note d)*	–	17,520	–	–	–	–	82,480	100,000
At 31 December 2008	1	230,084	(26,408)	1,967	–	112,419	1,060,338	1,378,401
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	314,779	314,779
Capitalisation issue	3,767	(3,767)	–	–	–	–	–	–
Issue of shares	735	166,093	–	–	–	–	–	166,828
Expenses incurred in connection with the issue of shares	–	(20,112)	–	–	–	–	–	(20,112)
Recognition of equity-settled share based payments	–	–	–	–	6,048	–	–	6,048
Transfers	–	–	–	–	–	28,720	(28,720)	–
	4,502	142,214	–	–	6,048	28,720	286,059	467,543
At 31 December 2009	4,503	372,298	(26,408)	1,967	6,048	141,139	1,346,397	1,845,944

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

Notes:

(a) Special reserve represents the difference between the consideration paid for the acquisition of the entire interest in 廣東志高空調有限公司 (Guangdong Chigo Air-Conditioning Co., Ltd.) ("Guangdong Chigo") and the then paid-in capital of Guangdong Chigo upon group reorganisation in 2006.

(b) Share compensation reserve represents the difference of fair value of certain shares of 廣東志高空調股份有限公司 (Guangdong Chigo Air-Conditioning Joint Stock Co., Ltd.), the predecessor of Guangdong Chigo, transferred to the Group's certain employees by the shareholders, Mr. Li Xinghao and Mr. Li Longyi and the consideration paid by the employees in obtaining those shares.

(c) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiary of the Company is required to maintain a statutory surplus reserve fund which is non-distributable. Appropriation to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiary and the allocation basis are decided by its Board of Directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied for conversion into capital by means of capitalisation issue.

(d) The amount of RMB17,520,000 recognised in the share premium account and RMB82,480,000 recognised directly in equity represent the dividend waived by the subscribers and convertible note holders, and Mr. Li Xinghao, the beneficial controlling shareholder of the Company respectively, on 6 June 2008.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Operating activities		
Profit before taxation	**342,530**	97,734
Adjustments for:		
Interest income	**(23,304)**	(33,379)
Interest expenses	**70,852**	114,065
Depreciation	**62,329**	55,303
Amortisation of intangible assets	**357**	357
Amortisation of government grants	**(1,308)**	(1,308)
Amortisation of land use rights	**1,852**	1,814
Release of prepaid lease payment	**3,682**	–
Write-off/loss on disposal of property, plant and equipment	**7,216**	807
Net (gain) loss in fair value changes of derivative financial instruments	**(24,509)**	83,978
Provision for warranty	**17,709**	16,659
Provision for stock	**19,061**	10,677
Allowance for doubtful debts	**2,208**	3,869
Recovery of doubtful debts	**(3,752)**	(201)
Share-based payments	**6,048**	–
Operating cash flows before movements in working capital	**480,971**	350,375
(Increase) decrease in inventories	**(282,273)**	162,013
Increase in trade and other receivables	**(196,864)**	(377,991)
Change in derivative financial instruments	**(45,992)**	38,411
Increase (decrease) in trade and other payables	**606,961**	(216,823)
Decrease in warranty provision	**(18,756)**	(16,480)
Cash from (used in) operations	**544,047**	(60,495)
Mainland China income tax paid	**(9,307)**	(12,017)
Net cash from (used in) operating activities	**534,740**	(72,512)
Investing activities		
Interest received	**23,304**	33,379
Purchase of property, plant and equipment	**(85,969)**	(86,873)
Proceeds from disposal of property, plant and equipment	**15**	150
Purchase of land use rights	**(568)**	–
Prepaid lease payments made	**(28,839)**	(39,266)
Deposits paid on acquisition of property, plant and equipment	**(16,114)**	(1,321)
(Increase) decrease in pledged bank deposits	**(89,093)**	108,955
Net cash (used in) from investing activities	**(197,264)**	15,024

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009	2008
	RMB'000	RMB'000
Financing activities		
Interest paid	**(70,852)**	(114,065)
Proceeds from issue of shares	**166,828**	–
Expenses incurred in connection with the issue of shares	**(20,112)**	–
Repayment to ultimate holding company	**(28,250)**	–
Repayment to a director	**(15,580)**	(31,636)
Bank loans raised	**925,436**	2,050,551
Repayment of bank loans	**(1,122,986)**	(1,661,295)
Net cash (used in) from financing activities	**(165,516)**	243,555
Net increase in cash and cash equivalents	**171,960**	186,067
Cash and cash equivalents at 1 January	**260,834**	74,767
Cash and cash equivalents at 31 December	**432,794**	260,834
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**432,794**	260,834

1. GENERAL

The Company was incorporated and registered as an exempted company in the Cayman Islands on 24 April 2006 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2009. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report. Its immediate and ultimate holding company is Chigo Group Holding Limited, a company which is incorporated in the British Virgin Islands.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

NEW AND REVISED HKFRSS AFFECTING PRESENTATION AND DISCLOSURE ONLY

HKAS 1 (Revised 2007) "Presentation of financial statements"

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 "Operating segments"

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 7) and changes in the basis of measurement of segment profit or loss.

Improving disclosures about financial instruments (Amendments to HKFRS 7 Financial instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosure[6]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS[7] disclosures for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payments transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[5]

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(Continued)*

[1] Effective for annual periods beginning on or after 1 July 2009.

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2010.

[4] Effective for annual periods beginning on or after 1 February 2010.

[5] Effective for annual periods beginning on or after 1 July 2010.

[6] Effective for annual periods beginning on or after 1 January 2011.

[7] Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 July 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values. The consolidated financial statements have also been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principle accounting policies adopted are as follows:

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The cost of buildings is depreciated over the shorter of the unexpired lease term of the land which the buildings are located or their estimated useful lives of 8 to 30 years after the date of completion.

Depreciation is provided to write off the cost of other property, plant and equipment, using the straight line method, over their estimated useful lives as follows:

Furniture, fixtures and equipment	3 - 6 years
Motor vehicles	5 years
Plant and machinery	5 - 10 years

LAND USE RIGHTS

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

The up-front payments to acquire leasehold interest in land are accounted for as operating leases and are stated at cost and released over the lease term on a straight line basis.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

INTANGIBLE ASSETS

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS *(Continued)*

Research and development expenditure (Continued)

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Patents

Purchased patents are stated at cost less accumulated amortisation and any identified impairment losses. Amortisation is calculated on a straight line basis over its estimated useful economic life, starting from the time when the patent is available for use.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL").

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Effective interest method (Continued)

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in the profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Loans and receivables, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-orgainsation.

For certain categories of loans and receivables, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Impairment of financial assets (Continued)

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written of are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method (Continued)

Financial liabilities at fair value through profit or loss

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Derivatives financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Other financial liabilities

Other financial liabilities including bank loans, trade and other payables, amounts due to ultimate holding company and a director are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows where the effect is material.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Share options granted to customers

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to the profit or loss on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

GOVERNMENT GRANTS AND SUBSIDIES

Government grants and subsidies are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants and subsidies related to depreciable assets are recognised as deferred income in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants and subsidies are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants and subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are reported separately as "other income".

RETIREMENT BENEFITS COSTS

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF") are charged as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies detailed in note 3, the management has made the following estimation that have significant effect on the amounts recognised in the consolidated financial statements. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

WARRANTY OBLIGATION

The Group provides free repairing services for its products and free replacement of the major components of its products for 3 to 6 years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation. The costs are estimated by the management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results. When a material defect is subsequently tested and identified, further warranty provision may arise. As at 31 December 2009, the carrying amount of warranty provision is RMB34,255,000 (2008: RMB35,302,000). Details of the movements are disclosed in note 23.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLE

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of trade receivable is RMB1,114,753,000 (net of allowance for doubtful debts of RMB2,325,000) (31 December 2008: carrying amount of RMB864,557,000, net of allowance for doubtful debts of RMB3,869,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of bank loans, net of pledged bank deposits and bank balances and cash and equity attributable to owners of the Company, comprising share capital, reserves and retained profits as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues of the Company as well as the raising of bank loans.

6. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

Categories of financial instruments

	2009 **RMB'000**	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,213,844**	2,758,928
Fair value through profit or loss – held for trading	**3,844**	3,408
	3,217,688	2,762,336
Financial liabilities		
Amortised cost	**3,164,760**	2,953,627
Fair value through profit or loss – held for trading	**12,229**	82,294
	3,179,989	3,035,921

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, derivative financial instruments, amounts due to ultimate holding company and a director and short-term bank loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

CREDIT RISK

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

6. FINANCIAL INSTRUMENTS *(Continued)*

CREDIT RISK *(Continued)*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits and bank balances is limited because majority of the counterparties are state-owned banks with good reputation.

The Group is also exposed to credit risk arising from the failure to discharge of obligation by the counterparties in foreign currency forward contracts and commodity forward contracts. However, the directors of the Company consider such risk is minimal as those contracts were entered with state-owned banks with good reputation.

Other than concentration of credit risk on liquid funds, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers which spread across diverse industries.

MARKET RISK

Foreign currency risk

The Group has certain transactions that denominated in foreign currencies, hence exposures to foreign currency risk. Approximately 38% (2008: 51%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst all of the costs are denominated in the group entity's functional currency. The Group also has certain monetary items that denominated in foreign currencies which have exposed the Group to foreign currency risk. The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are disclosed in respective notes. During the years ended 31 December 2008 and 31 December 2009, the Group has entered into certain foreign currency contracts to hedge against part of its exposure on potential variability of foreign currency risk arising from changes in foreign exchange rates. The management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Foreign currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2009		2008	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
United States dollars	**496,606**	**50,958**	724,063	7,592
Hong Kong dollars	**27,355**	**–**	688	–
Euro	**7,951**	**–**	2,179	–

The Group mainly exposes to currency of United States dollars, Hong Kong dollars and Euro. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, the trade and other receivables, pledged bank deposits, bank balances and short-term bank loans and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number indicates a decrease in profit for the year where the RMB strengthens against the relevant currencies. There would be an equal and opposite impact on the profit for the year where the RMB weakens against the relevant currencies.

	2009	2008
	RMB'000	RMB'000
United States dollars	**(27,378)**	(35,824)
Hong Kong dollars	**(1,368)**	(34)
Euro	**(398)**	(109)

Details of the Group's exposure in respect of the foreign currency contracts are set out in other price risk disclosed below.

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing pledged bank deposits and bank balances at prevailing market interest rates. The Group's fair value interest rate risk relates primarily to its fixed rate bank loans subject to negotiations at each renewal date. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing pledged bank deposits and bank balances and assumed that the amount of assets outstanding at the end of the reporting period were outstanding for the whole year.

If interest rates on pledged bank deposits and bank balances had been 30 basis points (2008: 50 basis points) higher and all other variables were held constant, the potential effect on profit for the year is as follows:

	2009	2008
	RMB'000	RMB'000
Increase in profit for the year	**1,943**	945

There will be an equal and opposite impact on the profit for the year where there had been 30 basis points lower.

Other price risk

The Group was exposed to other price risk arising from the outstanding foreign currency contracts. The fair value of these foreign currency contracts was calculated using the forward pricing model and option pricing model. Details of these foreign currency contracts are set out in note 20.

If the input of market forward rate to the valuation models of these foreign currency forward contracts had been 5% higher against RMB while all other variables were held constant, the profit for the year would decrease as follows:

	2009	2008
	RMB'000	RMB'000
United States dollars forward rate	**(17,024)**	(88,033)
Hong Kong dollars forward rate	**–**	(1,709)

There will be an equal and opposite impact on the profit for the year where there had been 5% lower.

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Other price risk (Continued)

The Group was also exposed to copper price risk from the outstanding copper swap contract as at 31 December 2008. If the copper price had been 50% higher while all other variables were held constant, the profit for the year would increase as follows:

	2009 RMB'000	2008 RMB'000
Higher by 50%	–	8,367

If the copper price had been 50% lower while all other variables were held constant, the profit for the year would decrease as follows:

	2009 RMB'000	2008 RMB'000
Lower by 50%	–	8,881

The management consider that the price risks of copper forward contracts as at 31 December 2008 are not significant to the Group.

LIQUIDITY RISK MANAGEMENT

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities.

The following tables detail the remaining contractual maturity for the non-derivative financial liabilities, copper swap contract with net settlement and foreign currency contracts with gross settlement of the Group. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the agreed repayment terms. The tables include both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash (inflows) outflows are presented. Whereas they require gross settlement, the undiscounted gross (inflows) and outflows on these derivatives are shown in the tables. For foreign currency forward contracts with predetermined exercisable period with gross settlement, the tables have been drawn up based on the assumption that the Group will exercise such contracts on the maturity of the exercisable period.

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

	Weighted average interest rate	Less than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
As at 31 December 2009						
Trade and other payables	–	1,458,884	825,440	–	2,284,324	2,284,324
Short-term bank loans	4.9	235,762	210,729	456,781	903,272	880,436
		1,694,646	1,036,169	456,781	3,187,596	3,164,760
Foreign currency contracts liabilities – gross settlement						
At 31 December 2009						
Foreign currency contracts						
– inflows		(40,869)	(561,146)	(107,458)	(709,473)	(706,195)
– outflows		40,922	572,316	108,523	721,761	718,412
		53	11,170	1,065	12,288	12,217
Foreign currency contracts assets – gross settlement						
At 31 December 2009						
Foreign currency contracts						
– inflows		(40,919)	(231,418)	(107,376)	(379,713)	(374,116)
– outflows		40,490	229,161	106,208	375,859	370,272
		(429)	(2,257)	(1,168)	(3,854)	(3,844)
Foreign currency contracts liabilities – net settlements						
At 31 December 2009						
Copper forward contracts		12	–	–	12	12

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

	Weighted average interest rate	Less than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
At 31 December 2008						
Trade and other payables	–	1,022,743	799,260	9,808	1,831,811	1,831,811
Amount due to ultimate holding company	–	28,250	–	–	28,250	28,250
Amount due to a director	–	15,580	–	–	15,580	15,580
Short-term bank loans	5.9	555,205	134,479	417,183	1,106,867	1,077,986
		1,621,778	933,739	426,991	2,982,508	2,953,627
Swap contract liability – net settlement						
At 31 December 2008						
Copper swap contract		6,508	6,508	6,509	19,525	19,525
Foreign currency contracts liabilities – gross settlement						
At 31 December 2008						
Foreign currency contracts						
– inflows		(224,702)	(463,327)	(781,881)	(1,469,910)	(1,461,877)
– outflows		233,708	482,798	816,383	1,532,889	1,524,646
		9,006	19,471	34,502	62,979	62,769
Foreign currency contracts assets – gross settlement						
At 31 December 2008						
Foreign currency contracts						
– inflows		(131,381)	(137,500)	–	(268,881)	(268,085)
– outflows		128,600	136,922	–	265,522	264,677
		(2,781)	(578)	–	(3,359)	(3,408)

6. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair value of foreign currency forward contracts is estimated using forward pricing model and option pricing model based on forward exchange rates from observable current market transaction as input. The fair value of copper swap contract was measured by reference to the current market price provided by counterparty institutions for these instruments. The fair value of commodity forward contracts that are traded on active liquid markets are determined with reference to quoted market bid prices.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the reporting date.

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 and 2 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

6. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION *(Continued)*

	At 31 December 2009		
	Level 1	**Level 2**	**Total**
	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL			
Derivative financial assets			
– foreign currency forward contracts	–	3,844	3,844
Financial liabilities at FVTPL			
Derivative financial liabilities			
– foreign currency forward contracts	–	12,217	12,217
– copper forward contracts	12	–	12
	12	12,217	12,229

There were no transfers between level 1 and 2 in the current year.

7. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), the Board of Directors, for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, "Segment reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has resulted in a redesignation of the Group's operating segments because the CODM, reviews the revenue and result by geographical location for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is present as they are not regularly provided to the CODM.

7. SEGMENT INFORMATION *(Continued)*

SEGMENT REVENUES AND RESULTS

The following is an analysis of the Group's revenue and results by operating segment for the year.

	Turnover		Results	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China (the "PRC")	**3,720,303**	2,878,527	**764,390**	526,089
Asia (excluding PRC)	**1,025,755**	1,273,875	**168,368**	193,467
Americas	**677,437**	609,449	**86,092**	91,374
Africa	**325,411**	294,026	**58,934**	45,397
Europe	**227,654**	839,951	**29,331**	119,625
Others	**28,935**	24,755	**6,713**	3,981
	6,005,495	5,920,583	**1,113,828**	979,933
Unallocated other income			**39,457**	49,071
Unallocated expenses			**(764,412)**	(733,227)
Net gain (loss) in fair value changes of derivative financial instruments			**24,509**	(83,978)
Finance costs			**(70,852)**	(114,065)
Profit before taxation			**342,530**	97,734

Turnover represents the fair value of the consideration received and receivable for goods sold by the Group to outside customers during the year.

Segment results represent the gross profits and government subsidies for energy-saving products by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

7. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION

The Group's operations are located in PRC (country of domicile).

The Group's revenue from external customers and information about its non-current assets other than deferred tax assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**3,720,303**	2,878,527	**623,945**	573,919
Asia (excluding PRC)	**1,025,755**	1,273,875	**–**	–
Americas	**677,437**	609,449	**–**	–
Africa	**325,411**	294,026	**–**	–
Europe	**227,654**	839,951	**–**	–
Others	**28,935**	24,755	**–**	–
	6,005,495	5,920,583	**623,945**	573,919

The management considered that the cost to develop the revenue by individual countries other than PRC and Americas are excessive and revenues other than "PRC" and "Americas" above attributed to each individual country are not material.

7. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION

Revenue from major products

The following is an analysis of the Group's revenue from major products:

	2009 RMB'000	2008 RMB'000
Residential air-conditioners		
– split type	**4,620,306**	4,746,919
– window type	**264,924**	203,041
– portable type	**30,225**	85,527
	4,915,455	5,035,487
Commercial air-conditioners	**417,722**	311,791
Air-conditioners' parts and components	**402,842**	415,608
Others	**269,476**	157,697
	6,005,495	5,920,583

Information about major customers

For the year ended 31 December 2009, revenue from two customers of the Group included in PRC operating segment amounting to RMB662,357,000 and RMB645,217,000 had individually accounted for over 10% of the Group's total revenue.

For the year ended 31 December 2008, revenue from one of the Group's customers included in PRC operating segment amounting to RMB521,684,000 accounted for over 10% of the Group's total revenue.

8. GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

In order to promote the energy-saving products, the PRC government announced the "Promotion of energy efficient appliances scheme" (the "Energy-Saving Scheme") on 18 May 2009. Under the Energy-Saving Scheme, the manufacturing entities are eligible for the government subsidies on the manufactured energy-saving electrical products upon reporting of its sales to the PRC government authority.

During the year, the Group was entitled to the government subsidies of RMB233,640,000 (2008: Nil) in respect of energy-saving products.

9. PROFIT BEFORE TAXATION

	2009 RMB'000	2008 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 10)*	**1,628**	1,182
Other staff's retirement benefits scheme contributions	**16,343**	14,137
Other staff's equity settled share-based payments	**5,920**	–
Other staff costs	**386,467**	343,324
	410,358	358,643
Less: Staff costs included in research and development costs	**(34,417)**	(9,190)
	375,941	349,453
Allowance for doubtful debts included in other gains and losses	**2,208**	3,869
Amortisation of intangible assets included in administrative expenses	**357**	357
Allowance for inventories	**19,061**	10,677
Auditor's remuneration	**2,009**	2,400
Depreciation	**62,329**	55,303
Release of prepaid lease payment	**3,682**	–
Write-off/loss on disposal of property, plant and equipment	**7,216**	807
Net exchange losses included in other gains and losses	**7,228**	29,771
Operating lease rentals in respect of		
– land use rights	**1,852**	1,814
– rented premises	**4,451**	7,658
Provision for warranty	**17,709**	16,659
and after crediting:		
Amortisation of government grants	**1,308**	1,308
Government subsidies included in other income*	**6,205**	6,595
Interest income	**23,304**	33,379
Recovery of doubtful debts included in other gains and losses	**3,752**	201

* The government subsidies provided by the PRC government to the Group were paid as an incentive for research and development on new environmental friendly products. There are no conditions and contingencies attached to the receipt of the government subsidies.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of directors during the year are analysed as follows:

	2009					2008			
	Fees RMB'000	**Salaries and other benefits RMB'000**	**Retirement benefits scheme contributions RMB'000**	**Equity-settled share-based payments RMB'000**	**Total RMB'000**	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors									
– Mr. Li Xinghao	**–**	**504**	**3**	**27**	**534**	–	360	2	362
– Mr. Lei Jianghang	**–**	**300**	**2**	**26**	**328**	–	300	2	302
– Mr. Huang Guoshen	**–**	**250**	**2**	**22**	**274**	–	251	1	252
– Dr. Ding Xiaojiang	**–**	**289**	**2**	**27**	**318**	–	265	1	266
Independent non-executive directors									
– Mr. Wan Junchu	**50**	**–**	**–**	**8**	**58**	–	–	–	–
– Mr. Zhang Xiaoming	**50**	**–**	**–**	**8**	**58**	–	–	–	–
– Mr. Fu Xiaosi	**50**	**–**	**–**	**8**	**58**	–	–	–	–
	150	**1,343**	**9**	**126**	**1,628**	–	1,176	6	1,182

The five highest paid individuals included three directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining two highest paid employees are as follows:

	2009 RMB'000	2008 RMB'000
Employee		
– basic salaries and allowances	**1,432**	1,334
– retirement benefits scheme contributions	**2**	1
– equity-settled share based payments	**131**	–
	1,565	1,335

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

	Number of employees	
	2009	2008
Up to HK$1,000,000 (equivalent to RMB880,390)	**1**	2
HK$1,000,000 to HK$1,500,000 (equivalent to RMB880,390 to RMB1,320,585)	**1**	–

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

11. TAXATION

	2009 **RMB'000**	2008 RMB'000
The charge comprises:		
PRC income tax	**(17,539)**	–
Deferred taxation *(note 17)*	**(10,212)**	(2,446)
	(27,751)	(2,446)

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Pursuant to the relevant laws and regulations in the PRC, the PRC subsidiary of the Group is entitled to exemption from PRC income tax for the two years commencing from its first profit making year of operation and thereafter, this PRC subsidiary will be entitled to a 50% relief from PRC income tax for the following three years. The first profit making year selected by the PRC subsidiary is the calendar year of 2007. Currently, the PRC subsidiary is entitled to 50% relief from PRC income tax.

According to a joint circular of Ministry of Finance and the State Administration of Taxation of the PRC, Cai Shui [2008] No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to Enterprise Income Tax ("EIT") at 10% and withheld by the PRC subsidiary, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Rules. Deferred tax liability on the undistributed profits earned during the year ended 31 December 2008 and 2009 has been accrued at the tax rate of 10% on the expected dividend stream of 30% which is determined by the directors of the Company.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's Hong Kong operations had no assessable profit for the year.

11. TAXATION *(Continued)*

The charge for the year is reconciled to profit before taxation as follows:

	2009		2008	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**342,530**		97,734	
Tax at the applicable income tax rate	**(85,633)**	**(25.0)**	(24,434)	(25.0)
Effect of expenses not deductible for tax purposes	**(14,547)**	**(4.3)**	(1,283)	(1.3)
Effect of income not taxable for tax purposes	**65,865**	**19.2**	–	–
Tax effect of tax exemption	**17,195**	**5.1**	25,762	26.4
Withholding tax on undistributed earnings	**(10,631)**	**(3.1)**	(2,995)	(3.1)
Others	**–**	**–**	504	0.5
Tax charge and effective tax rate for the year	**(27,751)**	**(8.1)**	(2,446)	(2.5)

12. DIVIDENDS

	2009	2008
	RMB'000	RMB'000
Final dividend proposed	**56,196**	–

The final dividend of RMB11.0 cents per share (2008: Nil) which was proposed by the directors of the Company for the year is subjected to approval by the shareholders of the Company in the annual general meeting and are calculated on the basis of 510,874,000 shares in issue as at the date of this announcement.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to owners of the Company of RMB314,779,000 (2008: RMB95,288,000) and on the weighted average number of 466,103,359 (2008: 427,500,000) shares in issue during the year on the assumption that the capitalisation issue as detailed in note 12 have been effective on 1 January 2008.

The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares in 2009.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP						
COST						
At 1 January 2008	64,883	43,068	24,298	292,472	30,202	454,923
Additions	134	8,370	3,982	58,976	23,854	95,316
Disposals	(60)	(813)	(90)	(1,861)	–	(2,824)
Transfers	–	30	–	3,943	(3,973)	–
At 31 December 2008	64,957	50,655	28,190	353,530	50,083	547,415
Additions	55	5,758	1,866	67,319	18,238	93,236
Write-off/disposals	–	(901)	(318)	(19,079)	–	(20,298)
Transfers	37,983	132	–	5,916	(44,031)	–
At 31 December 2009	102,995	55,644	29,738	407,686	24,290	620,353
DEPRECIATION						
At 1 January 2008	4,557	25,322	10,307	81,198	–	121,384
Provided for the year	2,160	7,512	2,452	43,179	–	55,303
Eliminated on disposals	–	(691)	(59)	(1,117)	–	(1,867)
At 31 December 2008	6,717	32,143	12,700	123,260	–	174,820
Provided for the year	2,847	8,123	2,697	48,662	–	62,329
Eliminated on write-off/disposals	–	(836)	(240)	(11,991)	–	(13,067)
At 31 December 2009	9,564	39,430	15,157	159,931	–	224,082
NET BOOK VALUES						
At 31 December 2009	93,431	16,214	14,581	247,755	24,290	396,271
At 31 December 2008	58,240	18,512	15,490	230,270	50,083	372,595

The Group's buildings are erected on land held under medium-term land use rights in the PRC.

15. LAND USE RIGHTS

	2009	2008
	RMB'000	RMB'000
Carrying value		
At 1 January	**85,939**	87,753
Additions	**568**	–
Released to profit or loss	**(1,852)**	(1,814)
At 31 December	**84,655**	85,939
Analysed for reporting purposes as		
– non-current assets	**82,803**	84,124
– current assets	**1,852**	1,815
	84,655	85,939

The balance represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 30 years or 50 years.

16. INTANGIBLE ASSETS

	2009	2008
	RMB'000	RMB'000
Carrying value		
At 1 January	**2,812**	3,169
Charged to profit or loss	**(357)**	(357)
At 31 December	**2,455**	2,812

Patents represented the exclusive rights in connection with certain product design. The cost of patents has been amortised on a straight line basis over its estimated useful life of 10 years.

At 31 December 2009, certain patents with a carrying value of approximately RMB144,000 (2008: RMB189,000) were pledged to a bank to secure the credit facilities granted to the Group.

17. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Accelerated accounting depreciation RMB'000	Warranty provision RMB'000	Withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2008	591	8,781	–	9,372
Credited (charged) to profit or loss	504	45	(2,995)	(2,446)
At 31 December 2008	1,095	8,826	(2,995)	6,926
Credited (charged) to profit or loss	681	(262)	(10,631)	(10,212)
At 31 December 2009	1,776	8,564	(13,626)	(3,286)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2009 RMB'000	2008 RMB'000
Deferred tax assets	**10,340**	9,921
Deferred tax liabilities	**(13,626)**	(2,995)
	(3,286)	6,926

At 31 December 2009, the Group has unrecognised deferred tax liability of RMB31,794,000 (2008: RMB6,988,000) in relation to withholding tax on undistributed earnings of RMB317,940,000 (2008: RMB69,877,000) due to the retention of undistributed earnings by the subsidiary in the PRC determined by the directors of the Company.

18. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**478,408**	560,996
Work in progress	**4,628**	9,071
Finished goods	**1,203,014**	852,771
	1,686,050	1,422,838

At 31 December 2009, certain finished goods with a carrying value of approximately RMB333,438,000 (2008: RMB583,773,000) were pledged to certain banks to secure for the credit facilities granted to the Group.

19. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**1,114,753**	864,557
Bills receivables	**470,529**	609,502
	1,585,282	1,474,059
Government subsidies receivables for high energy-saving products	**62,196**	–
Deposits paid to suppliers	**2,659**	2,703
Prepayments	**8,978**	4,389
Advances to staff	**17,573**	11,183
Other receivables	**20,839**	6,785
	1,697,527	1,499,119

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Payment terms with customers are mainly on credit. Invoices are normally payable from 30 days to 90 days from date of issuance, while invoices to long-established customers are normally payable within 270 days. The following is an aged analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period.

	2009	2008
	RMB'000	RMB'000
Age		
0 – 30 days	**546,877**	560,414
31 – 60 days	**278,927**	182,974
61 – 90 days	**326,720**	144,663
91 – 180 days	**431,022**	307,374
181 to 365 days	**1,736**	248,517
Over 1 year	**–**	30,117
	1,585,282	1,474,059

Include in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB359,282,000 (2008: RMB203,711,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date of credit was initially granted.

Aging of trade receivables which are past due but not impaired is as follows:

	2009	2008
	RMB'000	RMB'000
Age		
31 – 60 days	**21,013**	5,880
61 – 90 days	**35,385**	5,319
91 – 180 days	**301,142**	39,796
181 – 365 days	**1,742**	122,599
Over 1 year	**–**	30,117
	359,282	203,711

The Group does not hold any collateral over these balances. The average age of these receivables is 128 days (2008: 231 days).

19. TRADE AND OTHER RECEIVABLES *(Continued)*

In determining the recoverability of the trade receivables, the Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

Movement in the allowance for doubtful debts is as follows:

	2009	2008
	RMB'000	RMB'000
At 1 January	**3,869**	201
Allowances recognised on receivables	**2,208**	3,869
Amounts recovered during the year	**(3,752)**	(201)
At 31 December	**2,325**	3,869

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB2,325,000 (2008: RMB3,869,000) which have been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

Included in trade and other receivables are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2009	2008
	RMB'000	RMB'000
United States dollars	**461,009**	698,024
Euro	**7,823**	1,740

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2009		2008	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Derivatives not under hedge accounting				
– foreign currency contracts	**3,844**	**12,217**	3,408	62,769
– copper forward contract	**–**	**12**	–	–
– copper swap contract	**–**	**–**	–	19,525
	3,844	**12,229**	3,408	82,294

At 31 December 2009, the Group has the following foreign currency contracts with predetermined maturity dates. Their major terms are as follows:

Notional amount	**Maturity**	**Forward contract rates**
2 contracts to sell US$50,000,000	From 30 April 2010 to 25 June 2010	US$1/RMB6.5916 to US$1/RMB6.5923
22 contracts to buy US$41,500,000	From 26 March 2010 to 12 November 2010	US$1/RMB6.6100 to US$1/RMB6.7570

In addition, at 31 December 2009, the Group has the following foreign currency contracts with predetermined exercisable period. Their major terms are as follows:

Notional amount	**Exercisable period**	**Forward contract rates**
22 contracts to sell US$56,000,000	From 3 March 2010 to 1 November 2010	US$1/RMB6.7000 to US$1/RMB6.8170

At 31 December 2008, the Group has the following foreign currency forward contracts with predetermined maturity dates. Their major terms are as follows:

Notional amount	**Maturity**	**Forward contract rates**
12 contracts to sell US$19,500,000	From 21 January 2009 to 27 July 2009	US$1/RMB6.4125 to US$1/RMB6.6875

20. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

In addition, at 31 December 2008, the Group has the following foreign currency forward contracts with predetermined exercisable period. Their major terms are as follows:

Notional amount	Exercisable period	Forward contract rates
41 contracts to sell US$238,029,307	From 16 March 2008 to 30 December 2009	US$1/RMB6.2711 to US$1/RMB7.0500
1 contract to sell HK$38,750,000	From 10 November 2008 to 10 March 2009	HK$1/RMB0.8466

The fair value of the above contracts were determined based on the valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent valuer to the Group.

The fair value of the foreign currency contracts with predetermined maturity dates are determined using the forward pricing model based on the difference between the predetermined forward rate on the respective date of which the contracts were entered and the market forward rate at each balance sheet date. The inputs into the model at the respective dates were as follows:

	At 31 December 2009	At 31 December 2008
RMB risk-free interest rate	**1.0065%**	1.0743%
US$/RMB market forward rate	**US$1/RMB6.6942 to US$1/RMB6.8203**	US$1/RMB6.8254 to US$1/RMB6.8544

The fair value of the forward contracts with predetermined exercisable period are determined using the option pricing model of which the forward contracts embedded a time option where the holder can exercise the forward contracts within a specified period upon presenting the contract to the issuer. The inputs into the model at the respective dates were as follows:

	2009	2008
Volatility	**4.7250%**	14.3700%
RMB risk-free interest rate	**1.0065%**	1.0743%
HKD risk-free interest rate	**–**	0.2956%
USD risk-free interest rate	**0.4928%**	0.3433%
Spot price for USD forward contracts	**RMB6.8270**	RMB6.8277
Spot price for HKD forward contracts	**–**	RMB0.8804
US$/RMB market forward rate	**US$/RMB6.7762 to US$/RMB6.8208**	US$1/RMB6.8224 to US$/RMB6.8823
HK$/RMB market forward rate	**–**	HK$/RMB0.8822

20. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Also, at 31 December 2009, the Group has entered into the following copper forward contract. Its major terms are as follows:

Contract amount			
Currency	**Quantity**	**Maturity**	**Forward price**
RMB	Copper 200 Metric tonne	31 March 2010	RMB59,690/Metric tonne

The fair value of the copper forward contract is determined based on open market fair value at 31 December 2009.

As at 31 December 2008, the Group has an outstanding OTC Asian Style copper swap contract ("Copper Swap Contract"). Under the Copper Swap Contract, the Group will deliver copper at the unweighted arithmetic mean of copper price on each day during each calendar month ("floating price") and receive copper at a fixed price on a monthly basis from 1 October 2008 to 30 September 2009. At the end of each calendar month, when floating price moves favorable to the Group (i.e. floating price is higher than the fixed price), the Group is required to buy the agreed notional amount of copper (i.e. 50 metric tonnes) at the fixed price. However, when floating price moves unfavorable to the Group (i.e. floating price is lower than the fixed price), the Group is required to buy 2 times the agreed notional amount of copper (i.e. 100 metric tonnes) at the fixed price. The contract specified the maximum aggregate profit the Group can earn. Once the maximum stipulated profit is reached for the contract, the contract will be knocked out (i.e. obligation to deliver outstanding copper to the Group by the counterparty will automatically cease). However, there is no similar knock-out features for losses. As at 31 December 2008, the Copper Swap Contract has remaining 9 monthly settlements. Total realised losses amounted to approximately RMB11,918,000 and (2008: RMB3,992,000) has been recognised in profit or loss for the year ended 31 December 2009 and 2008 respectively. Total unrealised loss amounted to approximately RMB19,525,000 has been recognised in profit or loss for the year ended 31 December 2008.

Such contract is settled on a net basis, the estimated undiscounted net cash outflows on this contract are shown in note 6. The fair value of the Copper Swap Contract is measured by reference to the valuation provided by counterparty financial institutions for this instrument at 31 December 2008.

21. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry at the prevailing market interest rate ranging from 0.24% to 3.56% (2008: 0.36% to 3.78%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure issuance of bills payables. Certain pledged bank deposits and bank balances and cash of RMB1,464,874,000 (2008: RMB1,239,735,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

Included in pledged bank deposits and bank balances and cash are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2009 RMB'000 equivalent	2008 RMB'000 equivalent
United States dollars	**35,597**	26,039
Hong Kong dollars	**27,355**	688
Euro	**128**	439

22. TRADE AND OTHER PAYABLES

	2009 RMB'000	2008 RMB'000
Trade payables	**275,173**	280,537
Bills payables	**1,915,045**	1,488,464
	2,190,218	1,769,001
Customers' deposits	**344,599**	192,951
Payroll and welfare payables	**13,670**	7,201
PRC business tax payable	**7,156**	7,156
Other payables	**83,236**	55,609
	2,638,879	2,031,918

22. TRADE AND OTHER PAYABLES *(Continued)*

The Group normally receives credit terms of 30 days to 180 days from its suppliers. The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period.

	2009	2008
	RMB'000	RMB'000
Age		
0 to 90 days	**1,435,292**	1,200,759
91 to 180 days	**717,855**	558,434
181 to 365 days	**34,373**	7,090
1 – 2 years	**2,698**	2,718
	2,190,218	1,769,001

23. WARRANTY PROVISION

	2009	2008
	RMB'000	RMB'000
CARRYING VALUE		
At 1 January	**35,302**	35,123
Additional provision for the year	**17,709**	16,659
Utilisation of provision	**(18,756)**	(16,480)
At 31 December	**34,255**	35,302

The warranty provision represents management's best estimate of the Group's liability under 3 to 6 years warranty granted on air-conditioning products, based on prior experience and industry average for defective products.

24. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount was unsecured, interest-free and was repayable on demand. It was fully repaid on 26 June 2009.

25. AMOUNT DUE TO A DIRECTOR

The amount represented an amount due to a director of the Company, Mr. Li Xinghao, which was unsecured, interest-free and was repayable on demand. It was fully repaid on 26 June 2009.

26. SHORT-TERM BANK LOANS

	2009 **RMB'000**	2008 RMB'000
Short-term bank loans		
– secured	**11,608**	115,565
– unsecured	**403,828**	7,592
– secured and jointly guaranteed by directors and third parties	**–**	97,110
– jointly guaranteed by directors and third parties	**460,000**	857,719
– guaranteed by directors	**5,000**	–
	880,436	1,077,986

At the end of the reporting period, a director of the Company, Mr. Li Xinghao, has given personal guarantee to certain banks for banking facilities granted to a PRC subsidiary to the extent of RMB1,795,000,000 (2008: RMB1,993,839,000).

Included in short-term bank loans are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2009 **RMB'000** **equivalent**	2008 RMB'000 equivalent
United States dollars ("USD")	**50,958**	7,592

Average interest rates paid were as follows:

	2009	2008
Bank loans	**4.85%**	5.90%

All the bank loans are fixed rate borrowings, subject to negotiation at renewal or drawndown date and denominated in RMB and USD at 31 December 2008 and 31 December 2009.

27. GOVERNMENT GRANTS

In 2006 and 2007, the Group received government grants totalling RMB65,400,000 from the relevant PRC local authorities for the investment in economic development zones located in Anhui province and Jiangxi province in the PRC. They were granted as an incentive for obtaining land use rights amounting to RMB65,400,000 by the Group for the construction of production facilities in the economic development zones.

During the year ended 31 December 2009, the related operating lease rentals in respect of land use right which has been charged to profit or loss amounted to RMB1,310,000 (2008: RMB1,310,000) and the government grant which was recognised as other income was RMB1,308,000 (2008: RMB1,308,000). As at 31 December 2009, an amount of RMB61,866,000 (2008: RMB63,174,000) remains unamortised.

28. SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	Number of shares	**Amount**	**Number of shares**	**Amount**
	'000	HK$'000	'000	HK$'000
Ordinary shares of HK$0.01 each				
– at 1 January 2008 and 31 December 2008	5,000	50	100	1
– increase in authorised share capital	49,995,000	499,950	–	–
– capitalisation issue	–	–	427,400	4,274
– global offering	–	–	72,500	725
– exercise of over-allotment option	–	–	10,874	109
– at 31 December 2009	50,000,000	500,000	510,874	5,109

	RMB'000
Shown in the consolidated statement of financial position	
– at 31 December 2009 as	4,503
– at 1 January 2008 and 31 December 2008 as	1

Pursuant to the written resolutions by all the shareholders of the Company dated 19 June 2009, the Company increased its authorised share capital from HK$50,000 to HK$500,000,000 by the creation of an additional 49,995,000,000 shares of HK$0.01 each.

28. SHARE CAPITAL *(Continued)*

Pursuant to the written resolutions passed by all the shareholders of the Company dated 19 June 2009, the directors of the Company were authorised to capitalise an amount of HK$4,274,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 427,400,000 shares for allotment and issue to the shareholder of the Company on the register of members of the Company on 19 June 2009 on a pro rata basis, conditional on the share premium account being credited as a result of the issue of shares by the Company pursuant to the global offering.

On 13 July 2009, 72,500,000 ordinary shares of HK$0.01 each of the Company were issued at HK$2.27 by way of global offering. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

On 5 August 2009, an over-allotment option was exercised and a further 10,874,000 shares of HK$0.01 each were issued at HK$2.27 per share.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

29. SHARE OPTION SCHEME

EQUITY-SETTLED SHARE OPTION SCHEME:

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 19 June 2009 for the primary purpose of providing incentives to directors, eligible employees and customers, and will expire on 16 November 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 50,000,000 (2008: Nil), representing 10% (2008: Nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

29. SHARE OPTION SCHEME *(Continued)*

EQUITY-SETTLED SHARE OPTION SCHEME: *(Continued)*

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board of Directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of the movements of the share options granted are as follows:

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Number of share options: Outstanding at 1.1.2009	Granted during the year	Outstanding at 31.12.2009
Directors	17.11.2009	17.11.2009 – 16.11.2010	17.11.2010 – 16.11.2011	4.152	–	516,000	516,000
		17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	4.152	–	524,000	524,000
Employees	17.11.2009	17.11.2009 – 16.11.2010	17.11.2010 – 16.11.2011	4.152	–	24,044,000	24,044,000
		17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	4.152	–	24,896,000	24,896,000
Customers	17.11.2009	17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	4.152	–	20,000	20,000
					–	50,000,000	50,000,000

During the year ended 31 December 2009, options were granted on 17 November 2009 with an estimated fair value of the options granted of RMB67,032,000.

The options granted to the customers were the rewards for their contribution to the Group. The fair value of such benefit could not be estimated reliably and as a result, their fair values are measured by reference to the fair value of share options granted. The estimate of the fair value of the options is measured based on Binomial model, which is the acceptable valuation model with reference to HKFRS 2, and the valuation, which comprised of option granted to the directors, eligible employees and customers, have been carried out by an independent professional valuers not connected to the Group, Jones Lang LaSalle Sallmanns Limited.

29. SHARE OPTION SCHEME *(Continued)*

EQUITY-SETTLED SHARE OPTION SCHEME: *(Continued)*

The inputs into the model were as follows:

	2009
Spot price	HK$4.09
Exercise price	HK$4.152
Expected volatility	67.21%
Risk-free rate	0.8955%
Expected dividend yield	1.875%
Suboptimal exercise factor	1.5
Exercise period	17 November 2010 to 16 November 2012

As the Company was newly listed since July 2009, there were no sufficient trading records to make reference of its share price volatility. Based on the historical volatility of comparable companies in similar industries over the past 3 years, a volatility of 67.21% was assumed.

The Group recognised the total expense of RMB6,048,000 for the year ended 31 December 2009 (2008: Nil) in relation to share options granted by the Company.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

30. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2009 **RMB'000**	2008 RMB'000
Within one year	**5,947**	3,441
In the second to fifth year inclusive	**7,438**	5,777
After five years	**9,880**	11,277
	23,265	20,495

Leases are negotiated and rentals are fixed for lease terms of 1 to 20 years.

31. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**65,582**	13,936

32. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate in the MPF in Hong Kong. The assets of the MPF are held separately from those of the Group in fund under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF Scheme.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

33. RELATED PARTY TRANSACTIONS

Other than the transactions and balances with related parties disclosed in respective notes in these consolidated financial statements, during the year, the Group paid messing expenses totalling RMB970,000 (2008: RMB919,000) to a related company, which is controlled by Mr. Li Xinghao, a beneficial controlling shareholder of the Company.

The details of remuneration of key management personnel, represents emoluments of the directors of the Company and are set out in note 10.

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at the end of the each of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital	Principal activity
廣東志高空調有限公司 Guangdong Chigo Air-Conditioning Co., Ltd.	PRC as a wholly foreign owned enterprise for a term of 50 years commencing 1 September 2006	Registered capital – RMB353,140,000	Manufacture and sales of air-conditioners
志高空調(蕪湖)有限公司 (Chigo Air-Conditioning (Wuhu) Co., Ltd.)	PRC as a limited liability enterprise for a term of 10 years commencing 20 December 2006	Registered capital – RMB30,000,000	Factories under construction for manufacture and sales of of air-conditioners
志高空調(九江)有限公司 (Chigo Air-Conditioning (Jiu Jiang) Co., Ltd.)	PRC limited liability enterprise for a term of 10 years commencing 1 June 2007	Registered capital – RMB45,000,000	Factories under construction for manufacture and sales of air-conditioners
Chigo Electric Co., Limited	Hong Kong	Ordinary shares – HK$100,000	Holding of derivative instruments

The above table lists the subsidiaries of the Company which, in the opinion of the directors principally affect the results or assets of the Group. To give details of other subsidiaries would in the opinion of the directors, result in participants of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Financial Summary

	Year ended 31 December			
	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS				
Turnover	4,535,062	5,716,408	5,920,583	**6,005,495**
Profit before taxation	263,405	370,034	97,734	**342,530**
Taxation	(42,450)	2,869	(2,446)	**(27,751)**
Profit for the year	220,955	372,903	97,288	**314,779**

	As at 31 December			
	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES				
Total assets	3,359,156	4,471,500	4,791,583	**5,565,690**
Total liabilities	(2,548,946)	(3,288,387)	(3,413,182)	**(3,719,746)**
Net assets	810,210	1,183,113	1,378,401	**1,845,944**

The results and summary of assets and liabilities for each of the three years ended 31 December 2008 were extracted from the Company's prospectus dated 30 June 2009.