CHIGO

CHIGO HOLDING LIMITED
志 高 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

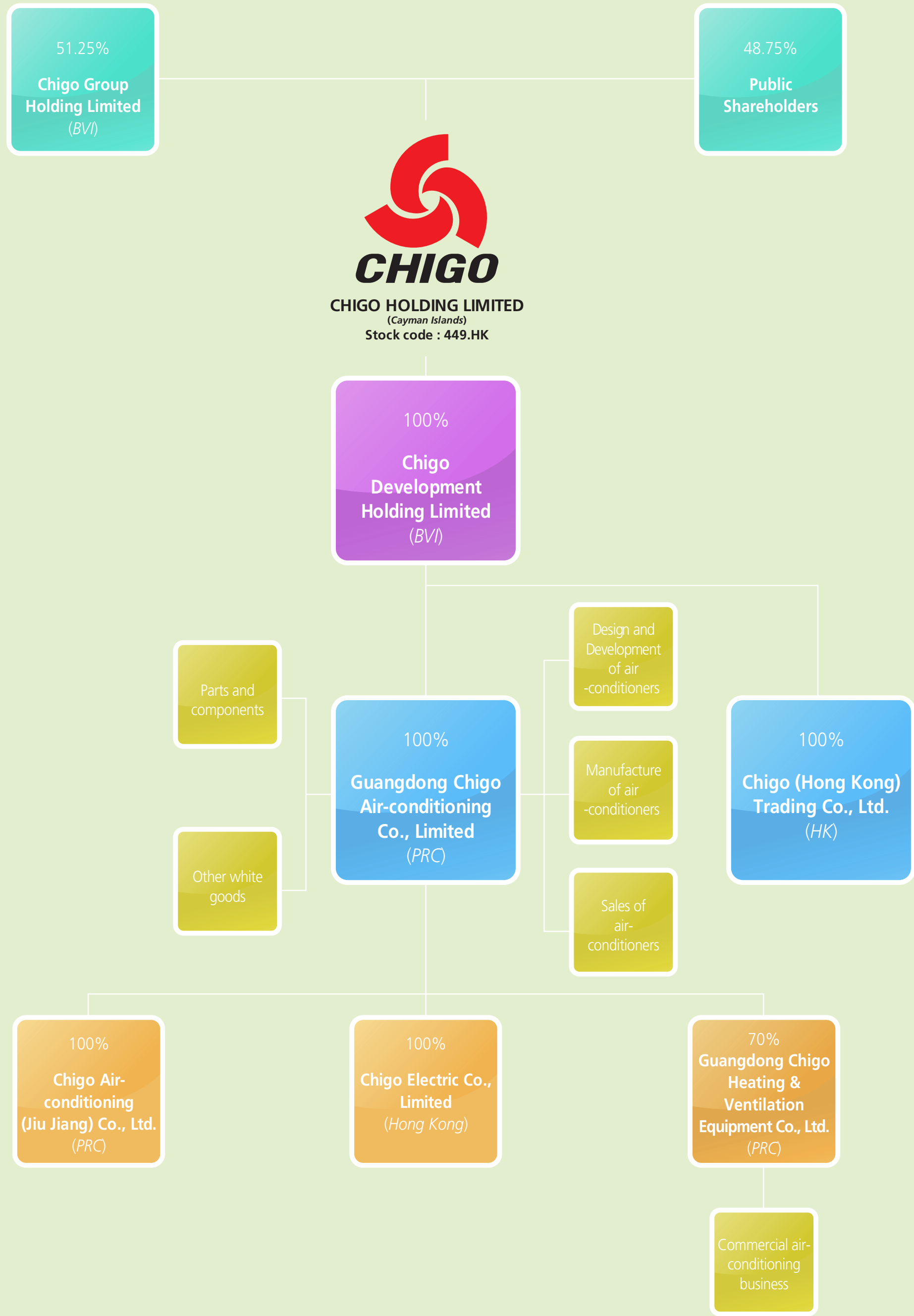
Stock Code: 449

ANNUAL REPORT 2011

CONTENTS

GROUP STRUCTURE

(as at 31 December 2011)



Chigo Holding Limited (the "Company") and its subsidiaries (together with the Company "Chigo" or the "Group") were founded in 1994, and has 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.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Dr. Zheng Zuyi *(Vice Chairman) (appointed on 4 January 2012)*
Dr. Ding Xiaojiang
Mr. Huang Xingke
Mr. Lei Jianghang *(resigned on 4 January 2012)*

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 08, 19th Floor
Greenfield Tower (South 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
Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER AS TO HONG KONG LAW

Reed Smith Richards Butler

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 2011:	
No. of shares issued:	8,434,178,000 shares
Market capitalisation:	HKD1.59 billion

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
Email: ir@china-chigo.com.hk

PRC

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

CHIGO'S AWARDS AND RECOGNITION IN 2011

3
March

In March, Guangdong Chigo Air-conditioning Co., Ltd. was ranked the third under the category of domestic sales of air-conditioners on the 2010年度全國家電市場銷量排行榜 (2010 National Appliance Market Sales List) released by China Industrial Information Issuing Center of National Bureau of Statistics of China at the 第十五屆全國市場銷量領先品牌資訊發佈會 (15th National Market Leading Brand Sales Information Briefing).

4
April

In April, Guangdong Chigo Air-conditioning Co., Ltd. was accredited as one of the first batch of 全國進出口品質誠信企業 (National Import & Export Quality Integrity Enterprises) in China.

5
May

In May, in the list of winners for the 2011年度中央國家機關空調集中採購專案 (China Central Government Agency Air-conditioner Collective Procurement Project 2011), Chigo won a contract for its central air-conditioner and became one of the three designated brands of commercial air-conditioners.

6
June

In June, Chigo Holding Limited was awarded the 資本中國傑出空調產品製造及品牌銷售企業 (CAPITAL Outstanding China Enterprise Award – Air-conditioning Products Manufacture and Brand Sales) in the 6th CAPITAL Outstanding China Enterprise Awards by CAPITAL.

8
August

In August, Guangdong Chigo Air-conditioning Co., Ltd. was awarded the 2011年度最具成長性品牌 (2011 Brand with the Highest Growing Potential) on the China Air-conditioning Industry Development Summit, while its inverter air-conditioner "San Chao Wang" series with a SEER reaching 8.36, namely the KFR-25GW/ABP71+1A, was awarded the 2011年度最佳節能產品 (2011 Best Energy-saving Product), being the most remarkable brand with rapid growth.

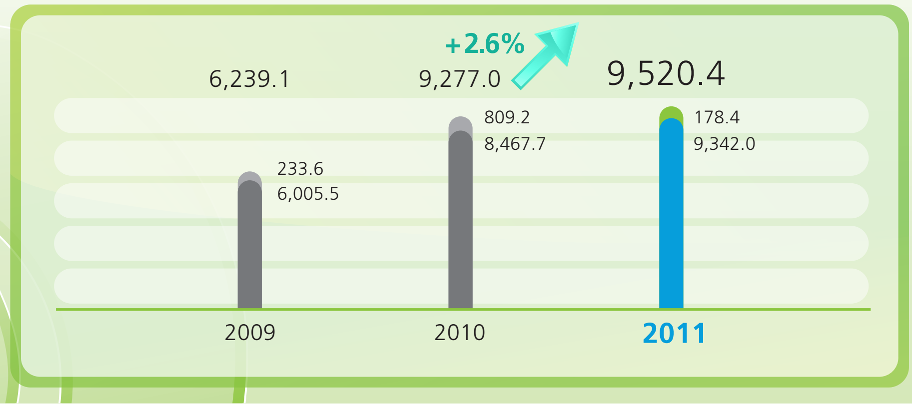
9
September

In September, a ceremony recognising the 2009至2010年度全國品質工作先進單位和先進個人 (Annual National Quality Advanced Units and Individuals from 2009 to 2010) was held in the Great Hall of the General Assembly in Beijing. Guangdong Chigo Air-conditioning Co., Ltd., together with other 90 advanced units in quality in the country, was recognised in the ceremony, which is another highest honour of National Quality Award of Chigo following the award of the 國家出口免驗資格 (National Export Inspection-free Qualification).

FINANCIAL HIGHLIGHTS

TURNOVER AND GROSS RECEIPTS[1]

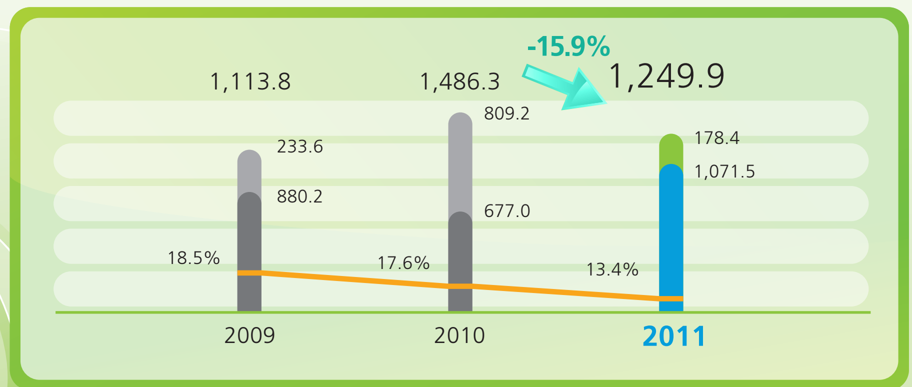
- **Turnover up by 10.3% in 2011**
- Government subsidies for energy-saving products amounted to RMB178.4 million
  Gross receipts up by 2.6%



Turnover *(RMB million)*   Government subsidies for energy-saving products *(RMB million)*

GROSS PROFIT, SEGMENT RESULTS[2] AND GROSS MARGIN[4]

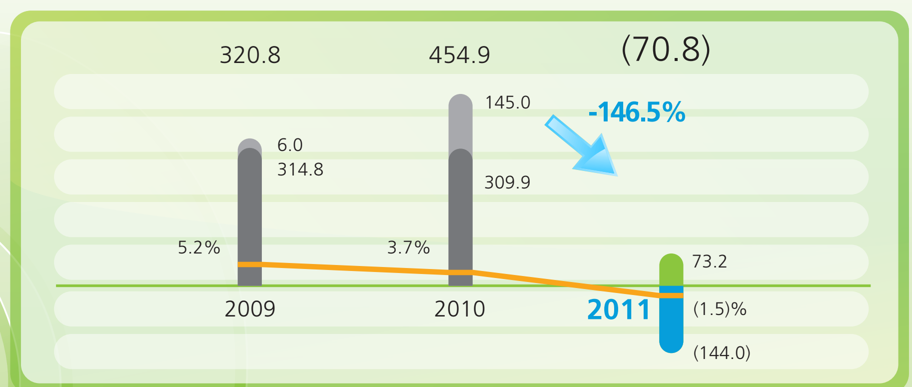
- **Consolidated segment results of operation down 15.9%**
  Gross margin (calculated as consolidated segment results to turnover) decreased from 17.6% to 13.4%



Gross Profit *(RMB million)*   Government subsidies for energy-saving products *(RMB million)*   Gross Margin

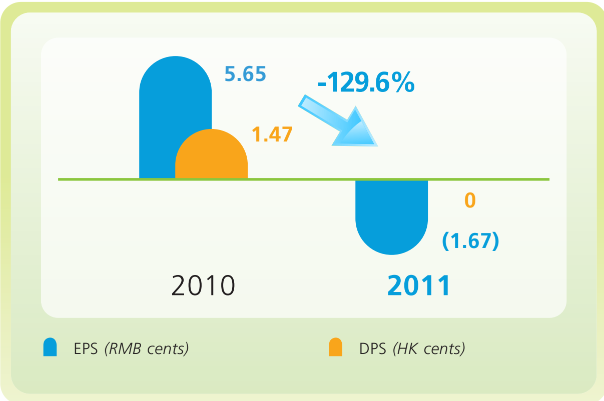
(LOSS) PROFIT FOR THE YEAR AND NET (LOSS) PROFIT MARGIN

- Significant decrease in subsidies received and increase in cost of goods sold
  Net Profit down 146.5%
  Net (loss) margin down to (1.5)%
- **Underlying loss[3] amounting to RMB70.8 million**



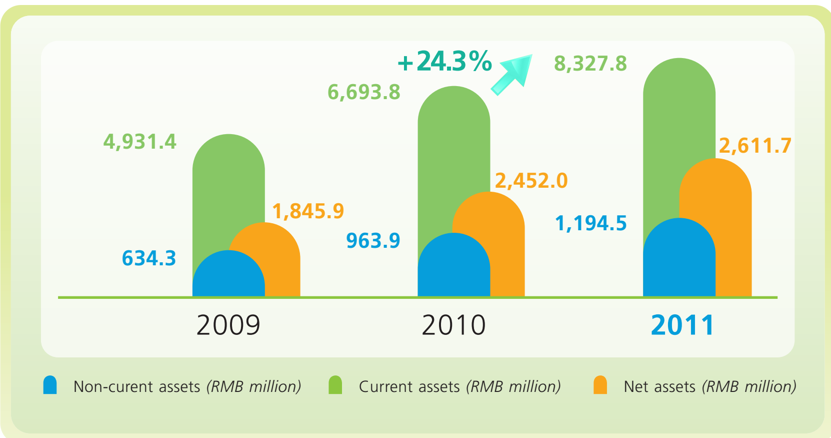
Net profit (loss) *(RMB million)*   One-off and non-cash items *(RMB million)*   Net Margin

EARNINGS PER SHARE (EPS) AND DIVIDEND PER SHARE (DPS)



- Net profit decreased and weighted average number of shares increased
  Basic loss per share down by 129.6%
- No final dividend was declared for the year ended 31 December 2011

TOTAL ASSETS AND NET ASSETS



- Non-current assets increased by 23.9% and current assets increased by 24.4%
  Total consolidated assets increased by 24.3%
- Net proceeds from unlisted warrants and share options
  Net assets increased by 6.5%

Note 1: Gross receipts represent the total turnover of the Group plus the government subsidies for energy-saving products.

Note 2: Segment results represent the gross profits and government subsidies for energy-saving products by each segment. Consolidated segment results represent the total of all the segments results (including the government subsidies for energy-saving products).

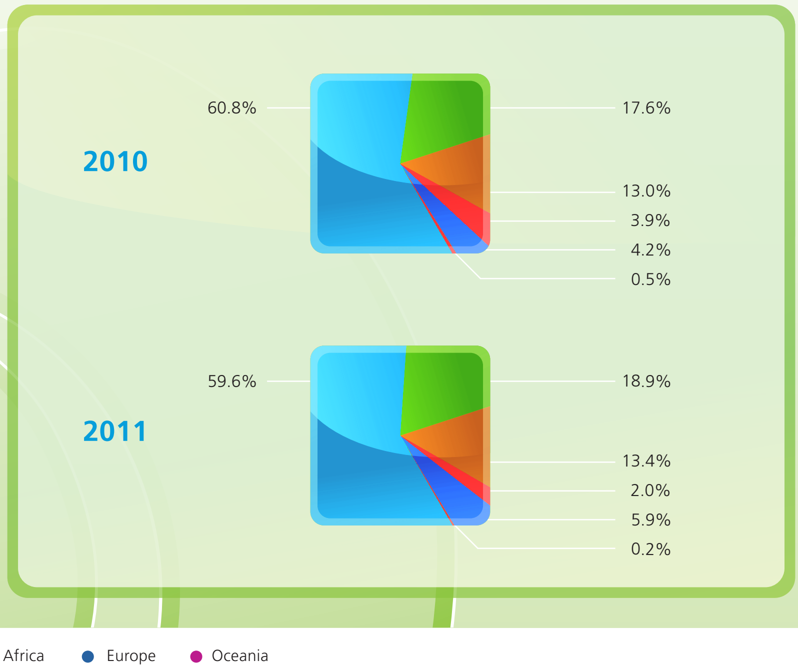
Note 3: Underlying (loss) profits reflects the underlying business performance of the Group and represents the (loss) profit for the year excluding the impacts of one-off items and the non-cash fair value changes.

Note 4: For a meaningful comparison of profitability, gross margins for the two financial years are calculated as the percentage of consolidated segment results of operation to turnover.

OPERATION HIGHLIGHTS

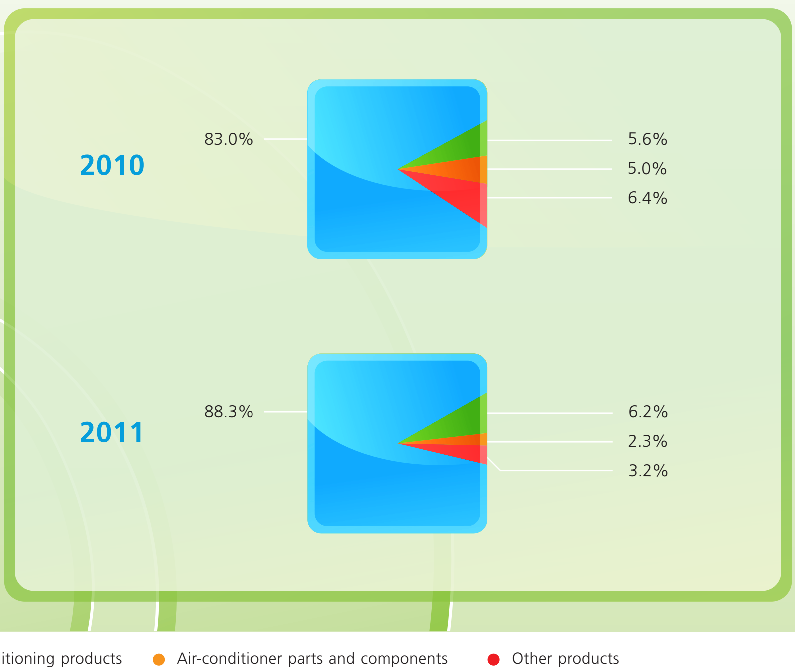
PRC AND OVERSEAS SALES

- Benefitted from strong demand and government supportive policies
  PRC sales up by 8.2% and amounted to 59.6% of the total turnover
- Positive growth in major overseas sales regions
  Overseas sales up by 13.6% and amounted to 40.4% of the total turnover

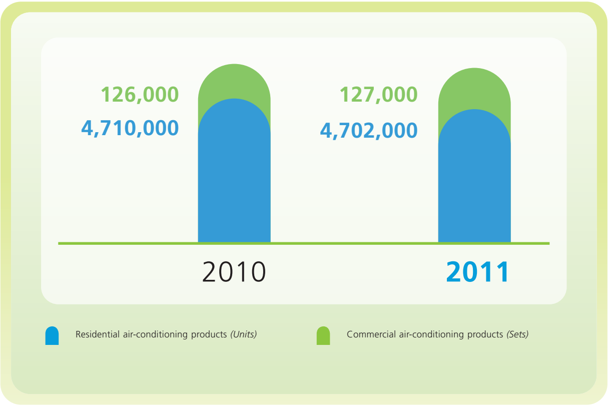


MAJOR PRODUCTS TYPE

- Both average selling price and sales volume remained stable
  Sales of residential air-conditioners up by 17.3% to 88.3% of the total turnover
  Sales of commercial air-conditioners up by 22.8% to 6.2% of the total turnover
- Sales of **air-conditioners parts and components** and **other products decreased by 49.0%** and **44.6% respectively**

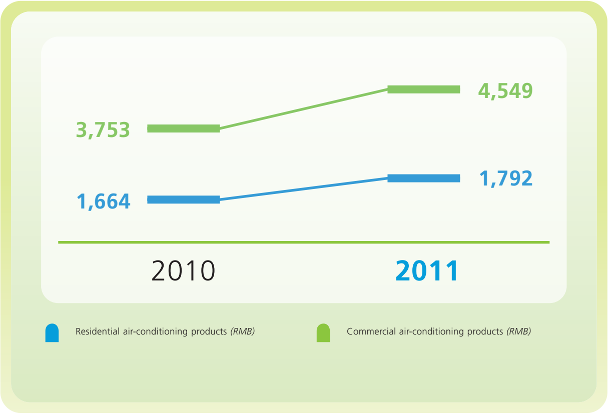


UNIT SALES VOLUME



- 4.7 million units of **residential air-conditioners** sold and **decreased slightly by 0.2%**
- 127,000 sets of **commercial air-conditioners** sold and **increased by 0.8%**

AVERAGE SELLING PRICE (ASP)



- The Group took appropriate strategy to counteract the effects of subsidies reduction and increase in raw materials costs, average selling prices per unit/set of the residential and commercial products increased by **7.7%** and **21.2%** respectively.

CHAIRMAN'S STATEMENT

TO MAKE THE BEST AIR-CONDITIONER IN THE WORLD

Dear shareholders,

On behalf of the board of directors of Chigo Holding Limited, I am pleased to present the audited annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

The year 2011 was a challenging year for the Group. Our business faced not only the expiry of various government subsidy policies and keen competition domestically but also general slowdown in export growth in fear of weak western economy as well as rising raw materials costs. In spite of all these challenges, as the third largest manufacturer in the air-conditioning industry in China, the Group has adjusted its product mix and launched innovative products to the market to maintain its sales volume and achieve growth in average sales price. The Group recorded satisfactory sales volume during the year, with a turnover of 9.34 billion (RMB, the same hereinafter), representing an increase of 10.3% as compared to 2010.

After the expiry of the PRC government's Energy-Saving Scheme for the promotion of energy efficient appliances on 1 June 2011, the amount of government subsidies received by the Group decreased substantially for the year 2011. However, the Group's PRC sales continued to record a growth of 8.2% thanks to our vigorous efforts to enhance our distribution network and refine our product mix as well as adoption of proactive pricing strategy. In view of economic slowdown and political unrest in foreign markets, the Group adopted flexible marketing strategies to continuously enhance its own brand presence, so that the overseas sales of CHIGO brand products increased sharply by 88.6%. During the year, the Group's overseas sales performed well and achieved 3.77 billion, representing an increase of 13.6%.

Li Xinghao
Chairman and Chief Executive Officer

It is worth mentioning that the Group has established a 70% indirectly owned subsidiary, 廣東志高暖通設備股份有限公司 (Guangdong Chigo Heating & Ventilation Equipment Co., Ltd.), during the year for the development of its commercial air-conditioning business. Such new commercial arm continues to be a key driver of business growth of the Group and is expected to make more contribution to the Group in the future. Furthermore, the Group's new manufacturing facilities in Jiujiang, Jiangxi Province has been established and commenced full operation which can increase the Group's production capacity and service the Group's business requirements in that region.

Looking forward, despite the short term fluctuation of its results in 2011 and the negative impact from the recent uncertainty overshadowing the western economy, the Group expects to enjoy the benefits of the China's fast-growing economy and the rapid growth of domestic consumption spending. The Group introduced the world's first icongo inverter air-conditioner in early 2012, which won itself a leading position in creating an icongo air-conditioner era. We believe that the introduction of the related products with brand-new revolutionary air-conditioner concept will generate source of income and bring profit growth for the Group. In order to further strengthen the competitiveness and profitability of the Group, we are considering the possibility of manufacturing all the core parts and components by ourselves so as to consolidate our leading position in the air-conditioner industry. Moreover, the Group will enhance cooperation with other brands and potential distributors and target to further enhance and strengthen the existing distribution network by increasing network coverage. As to the overseas sales, with the increase of orders from the emerging markets, the Group is actively studying and considering the feasibility and timing of overseas projects, the overseas sales is also expected to grow steadily. With the united efforts of all the Chigo staff, we will be bound to achieve satisfactory results in the coming year and reward our shareholders with the highest returns.

ACKNOWLEDGEMENT

Lastly, on behalf of the Board, I would like to take this opportunity to extend my gratitude to our Board members, business partners, management team and all our staff.

Li Xinghao
Chairman and Chief Executive Officer
Foshan, 29 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. During the year ended 31 December 2011, 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 2011 was a challenging year for the Group. Our businesses faced not only the expiry of various government subsidy policies and keen competition domestically but also general slowdown in export growth in fear of weak western economy as well as rising raw materials costs.

The PRC government's Energy-Saving Scheme for the promotion of energy efficient appliances expired on 1 June 2011. Under the Energy-Saving Scheme, subsidies provided for in 2011 were generally lower and for shorter period than those in 2010. Accordingly, there was a significant decrease in the amount of government subsidies received by the Group for the year ended 31 December 2011.

In view of the above and keen competition in the industry, the Group has adjusted its product mix and launched newly developed products to the market to maintain its sales volume and achieve growth in average sales price.

Despite economic slowdown and political unrest in foreign markets, the Group adopted flexible marketing strategies to keep its growth momentum and improved its gross margin sharply during the year under review.

With higher average sales price and stable sales volume, the Group's turnover and gross profit (which did not include any income relating to the Energy-Saving Scheme) increased gradually during the year ended 31 December 2011.

In early 2011, the Group established a 70% indirectly owned subsidiary, 廣東志高暖通設備股份有限公司 (Guangdong Chigo Heating & Ventilation Equipment Co., Ltd.) for the development of its commercial air-conditioning business. Such new commercial arm is a key driver of business growth of the Group and is expected to make more contribution to the Group in the coming year. Furthermore, the Group's manufacturing facilities in Jiujiang, Jiangxi Province, the PRC, commenced operation during the year which can increase the Group's production capacity and service the Group's business requirements in that region.

As announced by the Company on 6 July 2011, the Group terminated the expansion plan in Wuhu, Anhui Province, the PRC and surrendered the relevant land use rights, which have been acquired with government subsidies. Since the new manufacturing facilities in Jiujiang had already commenced operation, there will be no material adverse impact on the business and financial position of the Group.

OPERATION REVIEW

SALES FROM MAJOR PRODUCT GROUPS AND GROSS MARGINS

	Year ended 31 December					
	2011		2010		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
Residential air-conditioners						
– split type	**7,917.3**	**84.8**	6,750.7	79.7	+1,166.6	+17.3
– window type	**293.6**	**3.1**	238.7	2.8	+54.9	+23.0
– portable type	**34.6**	**0.4**	40.7	0.5	-6.1	-15.0
	8,245.5	**88.3**	7,030.1	83.0	+1,215.4	+17.3
Commercial air-conditioners	**579.8**	**6.2**	472.1	5.6	+107.7	+22.8
Air-conditioners parts and components	**214.4**	**2.3**	420.1	5.0	-205.7	-49.0
Others	**302.3**	**3.2**	545.4	6.4	-243.1	-44.6
	9,342.0	**100.0**	8,467.7	100.0	+874.3	+10.3

Turnover derived from sales of residential air-conditioners increased by 17.3% during the year ended 31 December 2011, principally because of the increase in the average sales prices of air-conditioning products following the increase in cost of raw material and components and adjustment of product mix during the year. As the average sales price increased during the year, turnover derived from commercial air-conditioners also increased moderately by 22.8%. However, turnover derived from sales of air-conditioner parts and components dropped substantially by 49.0% during the year, principally due to decrease in orders from overseas customers. The Group expects that the situation will reverse when orders from new overseas markets are placed to the Group gradually in the coming years. Sales of other products decreased significantly by 44.6% as the domestic sales of small electrical applicances and other white goods products slowed down during the year.

In 2011, the gross margin (including government subsidies for energy-saving products) of residential air-conditioning products decreased to 13.7% from 19.5% in 2010. Reasons for the decrease were (i) average subsidy per unit reduced substantially and was available only for the first five months in 2011 as compared to subsidies being available throughout 2010; (ii) raw materials and installation costs increased relatively faster than the sales during the year; and (iii) it took time for the Group to adjust its product mix and sales prices of the products to counteract the said negative effects.

The Group had set up a 70% owned commercial arm during the year and improved the profit margin of its commercial air-conditioning products from 4.1% in 2010 to 6.7% in 2011. The Directors expect that the profitability of the commercial unit would continue to improve and make more contribution when the expansion plan is fully implemented in the near future.

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

	Year ended 31 December					
	2011		2010		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
PRC sales						
CHIGO brand	**5,175.0**	**55.4**	4,410.3	52.1	+764.7	+17.3
HYUNDAI brand	**94.8**	**1.0**	86.7	1.0	+8.1	+9.3
Air-conditioner parts and components	**51.5**	**0.5**	148.9	1.8	-97.4	-65.4
Other products	**251.0**	**2.7**	502.9	5.9	-251.9	-50.1
	5,572.3	**59.6**	5,148.8	60.8	+423.5	+8.2
Overseas sales						
CHIGO brand	**595.9**	**6.4**	316.0	3.7	+279.9	+88.6
OEM	**2,959.6**	**31.7**	2,689.2	31.8	+270.4	+10.1
Air-conditioner parts and components	**162.9**	**1.7**	271.1	3.2	-108.2	-39.9
Other products	**51.3**	**0.6**	42.6	0.5	+8.7	+20.4
	3,769.7	**40.4**	3,318.9	39.2	+450.8	+13.6
	9,342.0	**100.0**	8,467.7	100.0	+874.3	+10.3

A majority of the air-conditioning products sold in China were under CHIGO brand. PRC sales of CHIGO brand air-conditioning products increased by 17.3% in 2011. Sales of parts and components, and other products in China decreased by 65.4% and 50.1% respectively mainly due to the slow down of demands for these products in the reporting period.

On the export front, the Group continues to enhance its brand presence. Sales of CHIGO brand products increased sharply by 88.6% during the year ended 31 December 2011. As the Group increased sales in its top three overseas markets, namely, Asia, Americas and Europe, OEM sales also rose by 10.1% in 2011.

SALES AND DISTRIBUTION

	Year ended 31 December					
	2011		2010		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
PRC						
Household appliances retail chain operators	**1,431.2**	**15.3**	1,569.3	18.5	-138.1	-8.8
Regional distributors	**4,141.1**	**44.3**	3,579.5	42.3	+561.6	+15.7
PRC Total	**5,572.3**	**59.6**	5,148.8	60.8	+423.5	+8.2
Overseas						
Regional distributors	**810.1**	**8.7**	629.7	7.4	+180.4	+28.6
OEM manufacturers	**2,959.6**	**31.7**	2,689.2	31.8	+270.4	+10.1
Overseas Total	**3,769.7**	**40.4**	3,318.9	39.2	+450.8	+13.6
Total Turnover	**9,342.0**	**100.0**	8,467.7	100.0	+874.3	+10.3

During the year ended 31 December 2011, the Group's PRC sales from household appliances retail chain operators decreased by 8.8%. Sales generated from regional distributors increased by 15.7% and accounted for 74.3% of the PRC sales in 2011 (2010: 69.5%). As more sales got through the regional distributors channel, percentage of domestic sales through the household appliances retail chain operators dropped to 25.7% (2010: 30.5%) in the same period.

For the overseas sales, the OEM customers generated more sales during the year. However, sales of CHIGO brand products increased relatively faster. As a result, approximately 78.5% and 21.5% (2010: 81.0% and 19.0% respectively) of the overseas sales are distributed by the OEM manufacturers and the overseas regional distributors respectively for the year ended 31 December 2011.

UNITS SOLD VOLUME AND AVERAGE SALES PRICES

	Year ended 31 December		
	2011	2010	Change %
Residential air-conditioning products sold ('000 units)	**4,702**	4,710	–0.2
Commercial air-conditioning products sold ('000 sets)	**127**	126	+0.8
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,792**	RMB1,664	+7.7
Average sales price – commercial air-conditioning product (per set)	**RMB4,549**	RMB3,753	+21.2

During the year ended 31 December 2011, the Group maintained its sales volume of both residential and commercial air-conditioning products and sold more than 4.8 million units/sets of air-conditioners within the reporting period.

As the Group took appropriate strategy to counteract the effect of subsidies reduction and increase in raw materials costs, average sales prices per unit/set of the residential and commercial air-conditioning products increased by 7.7% and 21.2% respectively during the year ended 31 December 2011.

BREAKDOWN OF COST OF GOODS SOLD

During the two years ended 31 December 2011, breakdown of the Group's total cost of goods sold is shown as follows:

	Year ended 31 December					
	2011		2010		Change	
	RMB million	**% of total cost of goods sold**	RMB million	% of total cost of goods sold	RMB million	Change %
Raw materials, parts and components:						
Compressors	**2,056.8**	**24.9**	1,531.8	19.7	+525.0	+34.3
Copper	**2,415.9**	**29.2**	2,791.0	35.8	-375.1	-13.4
Plastic chips	**484.5**	**5.8**	512.0	6.6	-27.5	-5.4
Aluminum	**561.5**	**6.8**	497.9	6.4	+63.6	+12.8
Steel plates	**550.9**	**6.7**	417.4	5.3	+133.5	+32.0
Others (note)	**1,584.9**	**19.2**	1,369.4	17.6	+215.5	+15.7
Total	**7,654.5**	**92.6**	7,119.5	91.4	+535.0	+7.5
Direct labour cost	**274.1**	**3.3**	198.2	2.5	+75.9	+38.3
Utilities	**58.5**	**0.7**	46.4	0.6	+12.1	+26.1
Production cost	**163.7**	**2.0**	138.5	1.8	+25.2	+18.2
Others	**119.7**	**1.4**	288.1	3.7	-168.4	-58.5
Total cost of goods sold	**8,270.5**	**100.0**	7,790.7	100.0	+479.8	+6.2

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

During the year ended 31 December 2011, the Group's turnover increased faster than the cost of goods sold. As the price of copper, one of the major raw materials, remained relatively stable in 2011, the cost of copper consumed decreased by 13.4%. During the year, the Group adjusted its product mix and manufactured more advanced air-conditioning products for sales. As such, purchase of advanced components, such as compressors increased and the cost of this component increased by 34.3% in 2011.

Because of the rising trend of labour costs in China, direct labour cost increased by 38.3% during the year ended 31 December 2011.

FINANCIAL REVIEW

TURNOVER

	Year ended 31 December					
	2011		2010		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
Geographic region						
PRC sales	**5,572.3**	**59.6**	5,148.8	60.8	+423.5	+8.2
Asia (excluding PRC)	**1,767.0**	**18.9**	1,489.7	17.6	+277.3	+18.6
Americas	**1,247.7**	**13.4**	1,105.4	13.0	+142.3	+12.9
Africa	**184.5**	**2.0**	329.4	3.9	-144.9	-44.0
Europe	**549.2**	**5.9**	356.2	4.2	+193.0	+54.2
Oceania	**21.3**	**0.2**	38.2	0.5	-16.9	-44.2
Overseas sales	**3,769.7**	**40.4**	3,318.9	39.2	+450.8	+13.6
Total turnover	**9,342.0**	**100.0**	8,467.7	100.0	+874.3	+10.3

During the year ended 31 December 2011, the Group's total turnover was approximately RMB9,342.0 million (2010: RMB8,467.7 million) and increased by RMB874.3 million, or 10.3% as compared to the corresponding period in 2010. The increase was principally due to a stable sales of air-conditioning products following the increase in average sales price of air-conditioning products during the year.

As the subsidies for the energy-saving products expired on 1 June 2011, the amount of government subsidies received by the Group decreased substantially for the year ended 31 December 2011 as compared to the corresponding period in 2010 and the Group received RMB178.4 million (2010: RMB809.2 million) as part of the receipts in relation to sales of products. 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 RMB9,520.4 million (2010: RMB9,277.0 million) and increased by 2.6% or RMB243.4 million as compared to 2010.

PRC SALES

During the year ended 31 December 2011, subsidies for energy-saving products per unit reduced substantially and were available only for the first five months. In addition, raw materials costs continued to rise during the reporting period. To minimise the impacts of these adverse factors, the Group refined its product mix and adopted proactive pricing strategy. As such, the Group's PRC sales increased by RMB423.5 million or 8.2% to RMB5,572.3 million (2010: RMB5,148.8 million). During the year ended 31 December 2011, domestic sales remained the main source of revenue of the Group and amounted to 59.6% of the total turnover (2010: 60.8%).

OVERSEAS SALES

The Group's overseas sales continued to perform well during 2011. Overseas sales achieved RMB3,769.7 million in 2011 (2010: RMB3,318.9 million) representing a year-on-year increase of 13.6% or RMB450.8 million.

The increase in the Group's overseas sales in 2011 was mainly contributed by the increases of 18.6% and 54.2% in sales in the Asian (excluding PRC) and European markets respectively. Among the overseas markets of the Group, Asia (excluding PRC) and Americas remained the two major markets which accounted for 18.9% and 13.4% (2010: 17.6% and 13.0% respectively) of the Group's turnover during the year ended 31 December 2011.

Since the Group's overseas sales had increased at a faster rate, overseas sales rose slightly to 40.4% (2010: 39.2%) of the Group's total turnover for the year ended 31 December 2011.

COST OF GOODS SOLD

The Group recorded growth in turnover and costs of certain raw materials increased relatively faster than the turnover in 2011. As such, cost of goods sold increased to RMB8,270.5 million (2010: RMB7,790.7 million), an increase of RMB479.8 million or 6.2% as compared to that of 2010. The increase in cost of goods sold was mainly caused by the increases in major raw materials and component costs, especially compressors and aluminum and installation cost during the year ended 31 December 2011.

GROSS PROFIT

The Group recorded a gross profit of RMB1,071.5 million for the year ended 31 December 2011 (2010: RMB677.0 million) which increased by RMB394.5 million or 58.3% as compared to 2010. However, part of the Group's gross receipts for energy-saving products sales had been received in the form of government subsidies under the "Promotion of energy efficient appliances scheme" which decreased substantially to RMB178.4 million (2010: RMB809.2 million) for the year ended 31 December 2011. As a result, consolidated segment results of operation (sum of gross profit and the government subsidies for energy-saving products) for the year ended 31 December 2011 totaled RMB1,249.9 million (2010: RMB1,486.3 million) representing a decrease of RMB236.4 million or 15.9% from that of 2010.

As the consolidated segment results of operation decreased, the Group's gross margin (calculated as consolidated segment results to turnover) decreased from 17.6% in 2010 to 13.4% for the year ended 31 December 2011 accordingly.

As the Group needed time to adjust its product mix and counteract the effects of the expiry of subsidy policies and increase in raw materials costs, its gross margin of PRC sales decreased to 14.7% in 2011. On the other hand, the gross margin of overseas sales of the Group continued to improve in 2011 to 11.4%. Among the overseas sales regions, Americas and Oceania contributed the most to the profitability of the Group and achieved gross margins of 13.3% and 26.4% respectively in 2011.

GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

For the year ended 31 December 2011, the Group was entitled to the government subsidies for high energy-saving products of RMB178.4 million (2010: RMB809.2 million). These government subsidies were part of the gross receipts received by the Group in relation to its principal operation.

OTHER INCOME

Other income was RMB61.8 million (2010: RMB42.2 million) and increased by RMB19.6 million or 46.4% because of increases in non-operating income and other government subsidies.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased to RMB760.7 million (2010: RMB667.9 million), an increase of RMB92.8 million or 13.9% for the year ended 31 December 2011. This increase was mainly due to the increases in (i) salary and allowance of sales personnel; (ii) warehousing cost; and (iii) advertising and promotion costs as a result of increase in the Group's sales during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased significantly by RMB92.1 million or 40.1% to RMB322.0 million (2010: RMB229.9 million) for the year ended 31 December 2011. The increase in administrative expenses was primarily due to the increases in (i) salaries, benefits and social insurance charges relating to administrative staff; (ii) banking charges relating to comprehensive banking services and (iii) professional fees in relation to fund raising exercise during the year.

EQUITY-SETTLED SHARE BASED PAYMENTS

The Group recorded an equity-settled share based payments of RMB22.8 million (2010: RMB104.5 million) for the year ended 31 December 2011 in relation to the share options granted by the Company to certain employees and customers. This non-cash expense decreased by RMB81.7 million or 78.2% because (i) there was a one-off expense in relation to the fair value of the shares given by the Company's controlling shareholder in 2010 but not in 2011 and (ii) the share-based payments in relation to the share options granted by the Company to certain employees and customers decreased to RMB22.8 million (2010: RMB42.9 million) during the reporting period because the majority of the expenses had been amortised in the previous periods.

RESEARCH AND DEVELOPMENT COSTS

Research and development ("R&D") costs increased to RMB82.2 million (2010: RMB61.8 million) by 33.0% or RMB20.4 million during the year. The increase was attributed to the increases in the R&D staff costs as the Group had further strengthened its R&D team and expenditures relating to new products development.

OTHER EXPENSES

Other expenses were mainly non-operating expenses which decreased by RMB10.7 million or 87.7% during the year ended 31 December 2011 and amounted to RMB1.5 million.

OTHER GAINS AND LOSSES

Other gains and losses increased by RMB25.4 million or 178.9% to RMB39.6 million (2010: RMB14.2 million) in 2011. The increase was mainly due to the net exchange losses and the net increase in allowance for doubtful debts made by the Group during the year.

NET GAIN IN FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group recorded a net gain of approximately RMB36.1 million (2010: RMB28.6 million) in fair value changes of derivative financial instruments relating to the foreign currency contracts entered into by the Group for the year ended 31 December 2011 as exchange rate of RMB against USD appreciated favourably to the Group.

LOSS IN FAIR VALUE CHANGES OF WARRANTS

During the year, 50% of the unlisted warrants had been exercised by certain investors. As at the year end, 50% of the unlisted warrants remained outstanding and the Group recognised an aggregate fair value loss of RMB50.4 million (2010: RMB40.5 million) relating to the unlisted warrants.

FINANCE COSTS

During the year ended 31 December 2011, the Group utilised more short-term bank loans and trade finance facilities to finance its working capital requirement. The Group also issued a debenture of RMB800 million during the year for general working capital purpose. Besides, the average interest rate on bank loans and bills discounting rosed significantly. As a result, interest on bank and other borrowings increased by RMB92.2 million or 81.9% to RMB204.8 million (2010: RMB112.6 million) for the year ended 31 December 2011.

TAXATION

Part of the receipts from sales of energy-saving products was not subject to tax. During the reporting period, the amount of such receipts decreased substantially. As such, the Group's tax charge increased to RMB7.9 million (2010: RMB3.7 million) by RMB4.2 million or 113.5% for the year ended 31 December 2011.

LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

As a result of the foregoing, the Group recorded a loss of RMB144.0 million for the year ended 31 December 2011 (2010: a profit of RMB309.9 million), representing a decrease of RMB453.9 million or 146.5% as compared to the corresponding period in 2010. Since the Group had recorded a loss in the reporting period, the Group's net margin changed from 3.7% in 2010 to a net loss of 1.5% for the year ended 31 December 2011 accordingly.

FINANCIAL POSITION

	As at 31 December			
	2011 RMB million	2010 RMB million	Change RMB million	Change %
Non-current assets	**1,194.5**	963.9	+230.6	+23.9
Current assets	**8,327.8**	6,693.8	+1,634.0	+24.4
Current liabilities	**6,856.9**	5,077.7	+1,779.2	+35.0
Non-current liabilities	**53.7**	128.0	-74.3	-58.0
Net assets	**2,611.7**	2,452.0	+159.7	+6.5

As at 31 December 2011, the Group's total consolidated assets increased by RMB1,864.6 million or 24.3% to RMB9,522.3 million (31 December 2010: RMB7,657.7 million). The increase was mainly in the current assets such as bank balances and cash (increased by RMB54.0 million), trade and other receivables (increased by RMB1,620.6 million) and non-current assets such as property, plant and equipment (increased by RMB275.0 million). Total consolidated liabilities of the Group as at 31 December 2011 amounted to RMB6,910.6 million (31 December 2010: RMB5,205.7 million) and increased by RMB1,704.9 million or 32.8% as compared to that of 31 December 2010. The major liabilities increased in the period were borrowings related to bills discounted with recourse (increased by RMB535.6 million), short-term bank loans (increased by RMB605.3 million) and short-term debentures (increased by RMB813.6 million).

Although the Group recorded a net loss for the year, the Group received new capital upon the exercises of unlisted warrants and share options by the respective holders. The Group's net assets increased by 6.5% or RMB159.7 million to RMB2,611.7 million at the end of 2011 (31 December 2010: RMB2,452.0 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, the Group had current assets amounting to RMB8,327.8 million (31 December 2010: RMB6,693.8 million) and current liabilities amounting to RMB6,856.9 million (31 December 2010: RMB5,077.7 million). The Group's working capital decreased by RMB145.2 million or 9.0% from RMB1,616.1 million as at the end of 2010 to RMB1,470.9 million as at the end of 2011. As the Group's current liabilities increased relatively faster, the current ratio dropped slightly from 1.3 times as at 31 December 2010 to 1.2 times as at 31 December 2011.

At the end of 2011, the balance of short-term bank loans owed by the Group was RMB1,798.0 million (31 December 2010: RMB1,192.7 million) and increased by RMB605.3 million or 50.8%. The bank loans are used for working capital purposes, charged at fixed interest rates and repayable within one year. Majority of the bank loans are made and repaid in Renminbi.

During the year ended 31 December 2011, the Group also obtained trade finance facilities from banks and discounted part of the bills receivable to banks for its working capital. As at 31 December 2011, bills receivable of RMB607.8 million had been discounted by the Group to banks. The full amount of such bills discounted of RMB607.8 million was recognised as borrowings related to bills discounted with recourse and the Group continues to recognise and include the same amount in the bills receivable until maturity. As such, the current assets (trade and other receivables), current liabilities (borrowings related to bills discounted with recourse) increased by RMB607.8 million simultaneously at the balance sheet date.

According to the past experience of the management of the Group, once the bills were discounted to the banks, the chance of repayment to banks was remote and the discounted bills receivable with recourse would be released upon maturity. As such, a portion of these borrowings will be excluded from calculation of the gearing ratio.

The gearing ratio (calculated as bank and other borrowings to total assets) of the Group increased to 27.4% as at 31 December 2011 (31 December 2010: 15.6%).

Ability of the Group to service finance costs, as indicated by interest cover, dropped during the reporting period. Since the finance costs had been increased as more bank and other borrowings were utilised for working capital purpose and increases in average interest rates in 2011, interest cover of the Group decreased to 0.3 times for the year ended 31 December 2011 as compared to 3.8 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. The gross financial exposure of the Group to these foreign currency forward contracts was approximately RMB16.1 million (31 December 2010: RMB26.1 million) as at the year end.

The bonus issue of new shares on the basis of nine (9) bonus shares for every one (1) then existing share to the qualifying shareholders was completed on 4 January 2011. As a result, 7,078,005,000 new shares were issued by the Company.

During the year ended 31 December 2011, 69,728,000 and 500,000,000 new shares had been issued in relation to the exercise of certain share options and unlisted warrants respectively.

As a result of the aforesaid issuances of shares, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue as at 31 December 2011. All of the issued shares were ordinary shares.

Since the Group had raised proceeds from issue of new shares which was more than the net loss reported during the year, the shareholders' equity increased to RMB2,611.7 million as at 31 December 2011 (31 December 2010: RMB2,452.0 million).

On 29 March 2011, shareholders of the Company approved the proposed amendments and the issue of ordinary shares of the Company upon the exercise of the subscription rights attached to the unlisted warrants. As such, the then 100,000,000 unlisted warrants were adjusted to 1,000,000,000 unlisted warrants. Each unlisted warrant carries the right to subscribe for one warrant share of the Company at the subscription price of HKD0.495 per warrant share (as adjusted by the bonus issue mentioned above). Since 500,000,000 unlisted warrants had been exercised by the warrantholders during the first half of 2011, there were 500,000,000 unlisted warrants outstanding as at 31 December 2011.

As announced by the Company on 7 September 2011, Guangdong Chigo Air-Conditioning Co., Limited ("Guangdong Chigo"), an indirect wholly-owned subsidiary of the Company, had issued short-term debentures in an aggregate principal amount of RMB800 million in the PRC. The short-term debentures, with a fixed coupon rate of 7.9% per annum and a face value of RMB100 each, were issued at 100% of its face value with a maturity period of 366 days.

On 23 September 2011, the Company granted to certain eligible participants share options to subscribe for 750,000,000 new shares. As at 31 December 2011, share options to subscribe for an aggregate of 746,500,000 shares remained outstanding.

Other than the above, there were no other equity or debt instruments issued by the Group during the reporting period and at the end of 2011.

CASH FLOWS

	Year ended 31 December	
	2011	2010
	RMB	RMB
	million	million
Operating cash flows	**236.3**	667.9
Movements in working capital and tax paid	**(1,736.2)**	(804.3)
Net cash used in operating activities	**(1,499.9)**	(136.4)
Net cash used in investing activities	**(381.6)**	(269.0)
Net cash from financing activities	**1,935.4**	468.0
Net increase in cash and cash equivalents	**53.9**	62.6
Cash and cash equivalents at 31 December	**549.3**	495.4

For the year ended 31 December 2011, the Group generated operating cash flows of RMB236.3 million (2010: RMB667.9 million). The Group raised net bank loans of RMB605.3 million, net borrowings of RMB535.6 million from bills discounted with recourse and net proceeds of RMB791.2 million from short-term debenture during the year. The Company also raised RMB226.2 million from issue of new shares under the unlisted warrants and share options. As such, net cash generated from financing activities amounted to RMB1,935.4 million (2010: RMB468.0 million). Part of the cash generated was primarily used to finance the Group's working capital including trade and other receivables of RMB1,628.5 and settlement of trade and other payables of RMB151.3 million during the year. The Group also applied RMB381.6 million (2010: RMB269.0 million) of the cash generated for its investing activities including purchase and deposits paid on acquisition of property, plant and equipment for the future business expansion and development of the Group.

As a result of the foregoing, the Group generated surplus cash of RMB53.9 million during the year ended 31 December 2011 (2010: net cash inflow of RMB62.6 million) and had bank balances and cash amounted to RMB549.3 million at the end of 2011 (31 December 2010: RMB495.4 million).

MATERIAL ACQUISITIONS AND DISPOSALS, SIGNIFICANT INVESTMENTS

During the year ended 31 December 2011, 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 2011, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB998.6 million (31 December 2010: approximately RMB951.5 million) and certain intangible assets 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 2011, approximately 40.4% 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 be exposed 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 open offer into the functional currency of the Group as required for its planned use during the year ended 31 December 2011. 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 2011, 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 RMB104.7 million (31 December 2010: approximately RMB158.9 million).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2011.

EMPLOYEES AND REMUNERATION

As at 31 December 2011, the Group employed 14,540 employees (31 December 2010: 12,814 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 2011, the Group had granted the Directors and employees of the Group share options to subscribe for 51,000,000 and 685,750,000 shares of the Company respectively.

OUTLOOK AND FUTURE PLANS

The management of the Group believes that fluctuation of its results in 2011 was only short-term and of transitional nature. Sales of air-conditioning products will remain the major source of income of the Group. The Group is of the view that China will remain as a strong economic power in the world and expects to enjoy the benefits of the fast-growing China's economy and the prospect of the promising air-conditioning market. With the "RMB100 billion reaching in 5 to 10 years" plan in place, the Group will focus on the following areas in 2012:

- ### 雲空調 (ICONGO AIR-CONDITIONER) - INTELLIGENT AIR-CONDITIONING TECHNOLOGY

  The management of the Group always believes that leading technology is the key to success. Building on its strong foundation of inverter air-conditioning technology, the Group introduced the world's first inverter icongo air-conditioner (Icon1) in early 2012, which won itself a leading position in creating a icongo air-conditioner era. Firstly integrating the icongo computer technology into the air-conditioning industry was a completely new revolution of the intelligent inverter air-conditioners. The management is optimistic that the appearance of the icongo air-conditioners would completely change the definition of traditional air-conditioning and is an important breakthrough of intelligent science and technology. Related products will be launched to the market in 2012 and let the Group take leading role in the air-conditioning industry.

- ### FURTHER INTEGRATION UPSTREAM

  In order to improve the competitiveness and profitability of the Group, the management considers the possibility of manufacturing all the parts and components itself from time to time. Being one of the most fully integrated air-conditioners manufacturers, the management believes that it will be in the best interests of the shareholders and the future development of the Group.

- ### DISTRIBUTION NETWORK ENHANCEMENT

  In the past two years, the Group opened its authorised electrical appliance stores and B2C internet sales platform and achieved satisfactory sales growth in these distribution channels and brand promotion. In the coming year, the Group targets to further enhance and strengthen the existing distribution network by increasing the network coverage. The expansion plan will be implemented through cooperation with other brands and potential distributors. The management is also studying and considering the feasibility and timing of overseas projects. If any target is identified, the Group will inform the shareholders of the investment in due course.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. LI XINGHAO

Mr. Li, aged 57, 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 18 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.

DR. ZHENG ZUYI

Dr. Zheng, aged 56, is the vice Chairman of the Company and the chairman of the board of Guangdong Chigo. He joined the Group on 1 October 2005 and was appointed as an executive Director on 4 January 2012. He is responsible for overseeing the operation and management of the residential air-conditioning products of the Group. 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 senior technology consultant and head of the research institute of Gree Electric Appliances, Inc. (珠海市格力電器股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange) from June 1996 to August 2001. He was the general manager of an air-conditioning company of 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 of Hong Kong Limited) between September 2001 and September 2005 and resigned in October 2005 to join the Group.

DR. DING XIAOJIANG

Dr. Ding, aged 47, was appointed as an executive Director of the Company on 15 February 2008. He joined the Group in January 1998 and has held various positions as supervisor of the technology department and the procurement department, head of commercial department, the chief engineer and the General Manager of the Refrigeration Equipment Division of the Group. 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.

MR. HUANG XINGKE

Mr. Huang, aged 34, was appointed as an executive Director of the Company on 6 September 2010. He graduated from the University of International Business and Economics majoring in Accounting in July 2004. Mr. Huang Xingke further completed postgraduate courses in Modern Industrial Management and Advanced Production at Tsinghua University and in Business Administration (MBA) at Sun Yat-sen University in October 2006 and November 2008, respectively. He joined the Group in May 2002 and is currently the Vice Chairman and the President, the department head of the Procurement Centre and the general manager of Domestic marketing department of Guangdong Chigo Air-conditioning Co., Limited, a subsidiary of the Company. Mr. Huang Xingke has more than 10 years experience in accounting, production management and procurement management. Prior to joining the Group, Mr. Huang Xingke worked as an accountant of Foshan Taiyang Packaging Limited (佛山太陽包裝有限公司) from 2000 to May 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. WAN JUNCHU

Mr. Wan, aged 45, 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 58, 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 52, 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 (中南財經政法大學 formerly known as 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 北京中勤萬信會計師事務所 (Beijing Zhong Qin Wan Xin Accounting Firm) 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. Currently, he serves as a chief accountant at Hubei Tri-Ring Co., Ltd. (湖北三環股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange) and a director of Guangzhou Shipyard International Co., Ltd. (廣州廣船國際股份有限公司, a company whose shares are listed on the Shanghai Stock Exchange).

SENIOR MANAGEMENT

MR. ZHANG QUAN

Mr. Zhang, aged 43, is a vice president and the general manager of the central air-conditioning division of the Group. He joined the Group in April 2010 and is responsible for overseeing the operation and management of the commercial air-conditioning products of the Group. Mr. Zhang obtained a master degree in international management from the Australian National University in 2003 and a EMBA degree from the Peking University in August 2007 respectively. Prior to joining the Group, Mr. Zhang was appointed as a director and the president of the central air-conditioning division of GD Midea where he held various senior management positions. From November 2004 to March 2008, Mr. Zhang acted as the executive director of Welling Holding Limited (382), a company listed on The Stock Exchange of Hong Kong Limited. Mr. Zhang had been a director of Guangdong Midea Electric Appliances Co., Ltd, a company whose shares are listed on the Shenzhen Exchange from December 2005 to September 2009.

MR. CHENG JIAN

Mr. Cheng, aged 39, is the director and vice president of Guangdong Chigo. He joined the Group in 2001 and is in charge of the Operational Performance Management Centre and Overseas Marketing Department. Mr. Cheng graduated and obtained a bachelor degree in refrigeration engineering from Xi'an Jiaotong University in 1995. After graduating from the university, he worked in a Japanese compressor corporation and had been sent to Japan for training. Thereafter, he joined a well-known air-conditioning corporation in China. Mr. Cheng has ample experience in compressor technology and air-conditioning products development. After joining the Group, Mr. Cheng had been assigned to various senior positions of commercial air-conditioning business department and quality control centre of the Group.

MR. LIN KUN

Mr. Lin, aged 40, is the director and vice president of Guangdong Chigo. He joined the Group in October 2005 and currently is the technical director of Technical Centre of the Group. Mr. Lin graduated from Chongqing University in thermal engineering in June 1994 and was awarded a master degree in thermal engineering by Chongqing University in June 1999. In July 2002, he obtained the qualification of refrigeration and cryogenic technology engineer. Mr. Lin futher obtained the qualification of 輕工制冷設備工程高級工程師 (Senior Engineer of light industrial refrigerating equipment engineering) in March 2011. Before joining the Group, Mr. Lin had been working in various senior positions in products design in 廣東珠海格力電器股份有限公司研究所 (Research Centre Gree Electric Appliances of Zhuhai, Guangdong) and 科龍電器公司 (Kelon Electrical Corporation) respectively. He has extensive experience in air-conditioning technology. Since Mr. Lin had joined the Group in 2005, he held different senior positions as Deputy Chief Engineer and Head of Technical Centre of Guangdong Chigo.

MR. JIN SHANDONG

Mr. Jin, aged 47, is the director, vice president and financial controller of Guangdong Chigo. He joined the Group in September 2005 and is responsible for financial management of Guangdong Chigo. Mr. Jin graduated from Zhongnan University of Economics and Law (中南財經政法大學 formerly known as 中南財經大學) in industrial economics and has the qualifications as a senior accountant and registered accountant in the PRC. From December 1999 to May 2004, Mr. Jin worked at 中勤萬信會計師事務所 (Zhong Qin Wan Xin Accounting Firm) as project manager and was responsible for auditing listed companies. During May 2004 and September 2005, he worked in Nanhai motor factory of Beiqi Foton Motor Co., Ltd as the head of finance department and was in charge of the overall financial management.

MR. LEUNG HON MAN

Mr. Leung, aged 45, 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 of Hong Kong Limited. Since 2000, he has worked in Sanyuan Group Limited, a company formerly listed on The Stock Exchange of Hong Kong Limited, 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

The Company has adopted and applied 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 year ended 31 December 2011, 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

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)*
Dr. Zheng Zuyi *(Vice Chairman)*
Dr. Ding Xiaojiang
Mr. Huang Xingke

Independent Non-executive Directors

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

The biographical details of the Directors are set out on pages 28 to 29 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 2011, Board meetings and committee meetings 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	Number of Remuneration Committee meetings attended/held	Number of Nomination Committee meetings attended/held
Executive Directors				
Mr. Li Xinghao	4/4	N/A	1/1	N/A
Dr. Zheng Zuyi *(note 1)*	N/A	N/A	N/A	N/A
Mr. Lei Jianghang *(note 2)*	4/4	N/A	N/A	N/A
Dr. Ding Xiaojiang	4/4	N/A	N/A	N/A
Mr. Huang XingKe	4/4	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Wan Junchu	4/4	2/2	1/1	1/1
Mr. Zhang Xiaoming	4/4	2/2	1/1	1/1
Mr. Fu Xiaosi	4/4	2/2	1/1	1/1

Note: 1. Dr. Zheng was appointed as an executive Director of the Company on 4 January 2012.
2. Mr. Lei resigned as an executive Director of the Company on 4 January 2012.

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 2011, 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 18 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

Each of the independent non-executive Directors had been re-elected at the annual general meeting of the Company held on 27 May 2010. In accordance with the articles of association of the Company, Mr. Wan Junchu will hold office until the forthcoming annual general meeting and, being eligible, will offer himself for re-election at the annual general meeting.

The independent non-executive Directors' remuneration was determined by the Company with regard to their experience, performance and the prevailing market conditions. During the year ended 31 December 2011, the total remuneration paid to the independent non-executive Directors was approximately RMB438,000 including fees and equity-settled share-based payment.

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 (revised and adopted on 29 March 2012) 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, Mr. Fu Xiaosi, Mr. Zhang Xiaoming and Mr. Wan Junchu. Mr. Fu Xiaosi is the chairman of the Audit Committee.

During the year ended 31 December 2011, the Audit Committee had:

- held two committee meetings and reviewed the Company's annual results for the year ended 31 December 2010 and interim results for the six months ended 30 June 2011 respectively, financial and accounting policies and practices and relevant disclosure requirements under the Listing Rules with the management and the external auditor of the Company;

- 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.

The Audit Committee plans to conduct meetings at least twice a year.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 19 June 2009 with written terms of reference (revised and adopted on 29 March 2012) 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, Mr. Wan Junchu, Mr. Fu Xiaosi and Mr. Zhang Xiaoming. Mr. Wan Junchu is the chairman of the remuneration committee.

A Remuneration Committee meeting in relation to grant of share options was held during the year ended 31 December 2011. The Remuneration Committee plans to conduct meeting at least once a year.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 19 June 2009 with written terms of reference (revised and adopted on 29 March 2012) 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, Mr. Zhang Xiaoming, Mr. Fu Xiaosi and Mr. Wan Junchu. Mr. Zhang Xiaoming is the chairman of the Nomination Committee.

A Nomination Committee meeting was held during the year ended 31 December 2011. The Nomination Committee will conduct meeting when it is necessary.

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 46 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 2011, the Audit Committee had reviewed the internal control system of the Group with the management. 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.

During the year, the Company actively attended different investment conferences organised by various investment banks, arranged investors' tours to visit the headquarters of the Group and conducted telephone conferences with financial analysts, fund managers and investors with an aim to enhancing the transparency of the Group's business and investors relations.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit and non-audit services for the year ended 31 December 2011 amounted to HKD2,600,000 and HKD2,080,000 respectively. The non-audit services provided during the period were interim financial statements review, review on share options adjustment, ad hoc financial review and taxation services.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2011

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 37 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income statement on page 48 of this annual report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2011 (31 December 2010: 1.0 HK cents).

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 108.

SHARE CAPITAL AND DEBENTURE OF THE COMPANY

The bonus issue of new shares on the basis of nine (9) bonus shares for every one (1) then existing share to the qualifying shareholders was completed on 4 January 2011. As a result, 7,078,005,000 new shares were issued by the Company.

During the year ended 31 December 2011, 69,728,000 and 500,000,000 new shares had been issued in relation to the exercise of certain share options and unlisted warrants respectively.

As a result of the aforesaid issuances of shares, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue as at 31 December 2011. All of the issued shares were ordinary shares.

As at 31 December 2011 and the date of this report, the total number of issued shares of the Company were 8,434,178,000 shares.

Details of movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

During the year ended 31 December 2011, no debenture had been issued by the Company. As announced by the Company on 7 September 2011, Guangdong Chigo had issued short-term debentures in an aggregate principal amount of RMB800 million in the PRC. The short-term debentures, with a fixed coupon rate of 7.9% per annum and a face value of RMB100 each, were issued at 100% of its face value with a maturity period of 366 days.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2011, the Company did not have any reserve available for cash distribution to the Shareholders of the company.

Under the Companies Law of the Cayman Islands, the share premium of the Company amount to RMB938,187,000 (2010: RMB665,405,000) 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
Dr. Zheng Zuyi (appointed on 4 January 2012)
Dr. Ding Xiaojiang
Mr. Huang Xingke
Mr. Lei Jianghang (resigned on 4 January 2012)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The biographical details of the Directors are set out on pages 28 to 29 of this report.

In accordance with Article 83(3) of the Articles, each of Dr. Zheng Zuyi, Dr. Ding Xiaojiang and Mr. Wan Junchu 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

As at 31 December 2011, 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 HKD0.01 EACH OF THE COMPANY

Name of Director	Capacity	Number of issued ordinary shares held as at 31 December 2011	Approximate percentage of shareholding *(note 1)*
Mr. Li Xinghao *(note 2)*	Held by controlled corporation *(note)*	4,322,234,210	51.25
Mr. Lei Jianghang	Beneficial owner	10,462,750	0.12
Dr. Ding Xiaojiang	Beneficial owner	6,530,750	0.08
Mr. Huang Xingke	Beneficial owner	161,000	0.00
		4,339,388,710	51.45

Notes:

1. Based on 8,434,178,000 shares of the Company is issue as at 31 December 2011.

2. Mr. Li Xinghao beneficially owns approximately 99.46% of the issued share capital of Chigo Group Holding Limited which beneficially owns 4,322,234,210 ordinary shares of the Company.

LONG POSITION IN THE SHARES OF ASSOCIATED CORPORATION

Name of Director	Associated Corporation	Capacity	Number of issued ordinary shares held as at 31 December 2011	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 31 to the consolidated financial statements.

Name of Director	Capacity	Number of share options held as at 31 December 2011	Number of underlying shares
Mr. Li Xinghao	Beneficial owner	11,035,150	11,035,150
Mr. Lei Jianghang	Beneficial owner	6,457,190	6,457,190
Dr. Ding Xiaojiang	Beneficial owner	13,035,150	13,035,150
Mr. Huang Xingke	Beneficial owner	26,793,490	26,793,490
Mr. Wan Junchu	Beneficial owner	1,965,730	1,965,730
Mr. Zhang Xiaoming	Beneficial owner	1,485,730	1,485,730
Mr. Fu Xiaosi	Beneficial owner	1,485,730	1,485,730
		62,258,170	62,258,170

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 2011.

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' AND CONTROLLING SHAREHOLDER'S 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 or the controlling shareholder of the Company 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, certain details of which are disclosed in compliance with the requirements of chapter 14A of the Listing Rules. Particulars of the transaction are disclosed in note 35 to the consolidated financial statements.

Save as disclosed above, there was no other connected transaction and/or continuing connected transaction during the year.

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 31 to the consolidated financial statements.

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

	Exercise period	Exercise Price (HKD)	Underlying shares exercisable under the share options: Outstanding at beginning of the year	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year
Category 1: Directors								
Li Xinghao	2010.11.17 – 2012.11.16	0.301	150,000	–	1,350,000	–	–	1,500,000
	2011.11.17 – 2012.11.16	0.301	153,515	–	1,381,635	–	–	1,535,150
	2013.9.23 – 2018.9.22	0.45	–	2,400,000	–	–	–	2,400,000
	2016.9.23 – 2018.9.22	0.45	–	5,600,000	–	–	–	5,600,000
			303,515	8,000,000	2,731,635	–	–	11,035,150
Lei Jianghang	2010.11.17 – 2012.11.16	0.301	144,000	–	1,296,000	(1,440,000)	–	–
	2011.11.17 – 2012.11.16	0.301	145,719	–	1,311,471	–	–	1,457,190
	2013.9.23 – 2018.9.22	0.45	–	1,500,000	–	–	–	1,500,000
	2016.9.23 – 2018.9.22	0.45	–	3,500,000	–	–	–	3,500,000
			289,719	5,000,000	2,607,471	(1,440,000)	–	6,457,190
Ding Xiaojiang	2010.11.17 – 2012.11.16	0.301	150,000	–	1,350,000	–	–	1,500,000
	2011.11.17 – 2012.11.16	0.301	153,515	–	1,381,635	–	–	1,535,150
	2013.9.23 – 2018.9.22	0.45	–	3,000,000	–	–	–	3,000,000
	2016.9.23 – 2018.9.22	0.45	–	7,000,000	–	–	–	7,000,000
			303,515	10,000,000	2,731,635	–	–	13,035,150
Huang Xingke	2010.11.17 – 2012.11.16	0.301	88,000	–	792,000	–	–	880,000
	2011.11.17 – 2012.11.16	0.301	91,349	–	822,141	–	–	913,490
	2013.9.23 – 2018.9.22	0.45	–	7,500,000	–	–	–	7,500,000
	2016.9.23 – 2018.9.22	0.45	–	17,500,000	–	–	–	17,500,000
			179,349	25,000,000	1,614,141	–	–	26,793,490
Wan Junchu	2010.11.17 – 2012.11.16	0.301	48,000	–	432,000	–	–	480,000
	2011.11.17 – 2012.11.16	0.301	48,573	–	437,157	–	–	485,730
	2013.9.23 – 2018.9.22	0.45	–	300,000	–	–	–	300,000
	2016.9.23 – 2018.9.22	0.45	–	700,000	–	–	–	700,000
			96,573	1,000,000	869,157	–	–	1,965,730
Zhang Xiaoming	2010.11.17 – 2012.11.16	0.301	48,000	–	432,000	(480,000)	–	–
	2011.11.17 – 2012.11.16	0.301	48,573	–	437,157	–	–	485,730
	2013.9.23 – 2018.9.22	0.45	–	300,000	–	–	–	300,000
	2016.9.23 – 2018.9.22	0.45	–	700,000	–	–	–	700,000
			96,573	1,000,000	869,157	(480,000)	–	1,485,730

	Exercise period	Exercise Price (HKD)	Underlying shares exercisable under the share options: Outstanding at beginning of the year	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	Outstanding at end of the year
Fu Xiaosi	2010.11.17 – 2012.11.16	0.301	48,000	–	432,000	(480,000)	–	–
	2011.11.17 – 2012.11.16	0.301	48,573	–	437,157	–	–	485,730
	2013.9.23 – 2018.9.22	0.45	–	300,000	–	–	–	300,000
	2016.9.23 – 2018.9.22	0.45	–	700,000	–	–	–	700,000
			96,573	1,000,000	869,157	(480,000)	–	1,485,730
Sub-total			**1,365,817**	**51,000,000**	**12,292,353**	**(2,400,000)**	**–**	**62,258,170**
Category 2: Employees								
Employees	2010.11.17 – 2012.11.16	0.301	12,379,308	–	111,420,000	(67,328,000)	–	56,471,308
	2011.11.17 – 2012.11.16	0.301	32,822,148	–	295,393,104	–	(6,229,810)	321,985,442
	2013.9.23 – 2018.9.22	0.45	–	205,692,000	–	–	(1,050,000)	204,642,000
	2016.9.23 – 2018.9.22	0.45	–	480,058,000	–	–	(2,450,000)	477,608,000
Sub-total			**45,201,456**	**685,750,000**	**406,813,104**	**(67,328,000)**	**(9,729,810)**	**1,060,706,750**
Category 3: Customers								
Customers	2010.11.17 – 2012.11.16	0.301	13,795	–	124,155	–	–	137,950
	2011.11.17 – 2012.11.16	0.301	13,795	–	124,155	–	–	137,950
	2013.9.23 – 2018.9.22	0.45	–	3,942,000	–	–	–	3,942,000
	2016.9.23 – 2018.9.22	0.45	–	9,308,000	–	–	–	9,308,000
Sub-total			**27,590**	**13,250,000**	**248,310**	**–**	**–**	**13,525,900**
Total			**46,594,863**	**750,000,000**	**419,353,767**	**(69,728,000)**	**(9,729,810)**	**1,136,490,820**

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, 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 and short position in the issued share capital of the Company.

INTERESTS AND SHORT POSITION IN THE ORDINARY SHARES OF HKD0.01 EACH OF THE COMPANY

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of shareholding *(note 1)*
Chigo Group Holding Limited *(note 2)*	Beneficial owner	4,322,234,210	51.25
Deutsche Bank Aktiengesellschaft	Beneficial owner	260,304,646	3.09
	Person having a security interest in shares	258,900,000	3.07
		519,204,646	6.16
Senrigan Capital Group Limited on behalf of Senrigan Master Fund	Investment manager	507,550,000	6.02
Skyworth TV Holdings Limited	Beneficial owner	425,000,000	5.04
Short positions			
Deutsche Bank Aktiengesellschaft	Beneficial owner	260,270,646	3.09

Notes:

1. Based on 8,434,178,000 shares of the Company in issue as at 31 December 2011.

2. Chigo Group Holding Limited is owned as to approximately 99.46% by Mr. Li Xinghao, a Director of the Company and as to approximately 0.54% by Mr. Li Longyi who is the son of the elder brother of Mr. Li Xinghao.

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 2011.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that 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 31 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 34 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.

TAX RELIEF FOR SHAREHOLDERS

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holding of the shares of the Company.

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 during the year ended 31 December 2011 and 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 during the year ended 31 December 2011.

FIXED ASSETS

Details of the movement in fixed assets during the year are set out in notes 14 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately RMB439,000.

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 accounted for less than 30% of the Group's total purchases for the year.

EVENTS AFTER THE END OF THE REPORTING PERIOD

There are no material subsequent events after the reporting period.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Thursday, 24 May 2012 to Friday, 25 May 2012 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, 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 Wednesday, 23 May 2012.

AUDITOR

The consolidated financial statements for the two years ended 31 December 2010 and 2011 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, Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 25 May 2012 at 3:00 p.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, 29 March 2012

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 48 to 107, which comprise the consolidated statement of financial position as at 31 December 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statement that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 presentation of the consolidated financial statements that give a true and fair view 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 2011 and of its loss 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
29 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Turnover		**9,342,025**	8,467,723
Cost of goods sold		**(8,270,515)**	(7,790,692)
Gross profit		**1,071,510**	677,031
Government subsidies for high energy-saving products	8	**178,393**	809,237
Other income		**61,832**	42,167
Selling and distribution costs			
– equity-settled share based payments		**(6,587)**	(36,103)
– other selling and distribution costs		**(760,702)**	(667,883)
Administrative expenses			
– equity-settled share based payments		**(16,247)**	(68,362)
– other administrative expenses		**(321,970)**	(229,944)
Research and development costs		**(82,151)**	(61,756)
Other expenses		**(1,545)**	(12,170)
Other gains and losses		**(39,563)**	(14,151)
Net gain in fair value changes of derivative financial instruments		**36,056**	28,592
Loss in fair value changes of warrants		**(50,370)**	(40,504)
Interest on bank and other borrowings wholly repayable within five years		**(204,804)**	(112,596)
(Loss) profit before taxation	9	**(136,148)**	313,558
Taxation	11	**(7,875)**	(3,705)
(Loss) profit for the year and total comprehensive (expense) income for the year		**(144,023)**	309,853
(Loss) profit for the year and total comprehensive (expense) income for the year attributable to			
– owners of the Company		**(137,914)**	309,853
– non-controlling interests		**(6,109)**	–
		(144,023)	309,853
(Loss) earnings per share	13		
– Basic		**(1.67) cents**	5.65 cents
– Diluted		**(1.67) cents**	5.49 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	14	**782,389**	507,430
Land use rights	15	**208,900**	236,377
Intangible assets	16	**1,830**	2,199
Prepaid lease payments	17	**105,710**	133,391
Deposits made on acquisition of property, plant and equipment		**83,618**	73,293
Deferred tax assets	18	**12,040**	11,219
		1,194,487	963,909
Current assets			
Inventories	19	**2,740,968**	2,823,809
Trade and other receivables	20	**4,000,606**	2,379,975
Land use rights	15	**5,026**	5,525
Prepaid lease payments	17	**9,497**	6,457
Taxation recoverable		**8,202**	8,202
Derivative financial instruments	21	**15,534**	22,887
Pledged bank deposits	22	**998,571**	951,490
Bank balances and cash	22	**549,348**	495,439
		8,327,752	6,693,784
Current liabilities			
Trade and other payables	23	**3,544,103**	3,695,474
Warranty provision	24	**36,980**	36,598
Taxation payable		**55,734**	77,458
Derivative financial instruments	21	**607**	3,190
Borrowings related to bills discounted with recourse	25	**607,842**	72,272
Short-term debentures	26	**813,589**	–
Short-term bank loans	27	**1,798,015**	1,192,731
		6,856,870	5,077,723
Net current assets		**1,470,882**	1,616,061
Total assets less current liabilities		**2,665,369**	2,579,970
Non-current liabilities			
Warrants	28	**–**	44,670
Government grants	29	**41,344**	64,698
Deferred tax liabilities	18	**12,329**	18,594
		53,673	127,962
Net assets		**2,611,696**	2,452,008

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTES	**2011 RMB'000**	2010 RMB'000
Capital and reserves			
Share capital	*30*	**71,906**	6,881
Reserves		**2,515,899**	2,445,127
Equity attributable to owners of the Company		**2,587,805**	2,452,008
Non-controlling interests		**23,891**	–
Total equity		**2,611,696**	2,452,008

The consolidated financial statements on pages 48 to 107 were approved and authorised for issue by the Board of Directors on 29 March 2012 and are signed on its behalf by:

LI XINGHAO
CHAIRMAN
AND
CHIEF EXECUTIVE OFFICER

DING XIAOJIANG
EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note a)*	Share compensation reserve RMB'000 *(Note b)*	Share options reserve RMB'000	Statutory surplus reserve fund RMB'000 *(Note c)*	Retained profits RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010	4,503	372,298	(26,408)	1,967	6,048	141,139	1,346,397	1,845,944	–	1,845,944
Issue of shares	2,378	295,424	–	–	(25,230)	–	–	272,572	–	272,572
Expenses incurred in connection with the issue of shares	–	(2,317)	–	–	–	–	–	(2,317)	–	(2,317)
Recognition of equity-settled share based payments		–	–	61,568	42,897	–	–	104,465	–	104,465
Share options lapsed	–	–	–	–	(2,714)	–	2,714	–	–	–
Dividends	–	–	–	–	–	–	(78,509)	(78,509)	–	(78,509)
Transfers	–	–	–	–	–	45,166	(45,166)	–	–	–
	2,378	293,107	–	61,568	14,953	45,166	(120,961)	296,211	–	296,211
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	309,853	309,853	–	309,853
At 31 December 2010	6,881	665,405	(26,408)	63,535	21,001	186,305	1,535,289	2,452,008	–	2,452,008
Issue of shares	**65,025**	**272,782**	**–**	**–**	**(16,617)**	**–**	**–**	**321,190**	**–**	**321,190**
Capital contributions from non-controlling interests of a newly established subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**30,000**	**30,000**
Recognition of equity-settled share based payments	**–**	**–**	**–**	**–**	**22,834**	**–**	**–**	**22,834**	**–**	**22,834**
Share options lapsed	**–**	**–**	**–**	**–**	**(371)**	**–**	**371**	**–**	**–**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(70,313)**	**(70,313)**	**–**	**(70,313)**
Transfers	**–**	**–**	**–**	**–**	**–**	**2,480**	**(2,480)**	**–**	**–**	**–**
	65,025	**272,782**	**–**	**–**	**5,846**	**2,480**	**(72,422)**	**273,711**	**30,000**	**303,711**
Loss for the year and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(137,914)**	**(137,914)**	**(6,109)**	**(144,023)**
At 31 December 2011	**71,906**	**938,187**	**(26,408)**	**63,535**	**26,847**	**188,785**	**1,324,953**	**2,587,805**	**23,891**	**2,611,696**

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

(i) 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, Messrs. Li Xinghao and Li Longyi and the consideration paid by the employees in obtaining those shares; and

(ii) the fair value of shares of the Company given by the Company's controlling shareholder, Mr. Li Xinghao, at nil consideration, to the Group's employees and to certain customers of the Group, as reward for their past services and loyalty to the Group.

(c) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiaries of the Company are 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 subsidiaries 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Operating activities		
(Loss) profit before taxation	**(136,148)**	313,558
Adjustments for:		
Interest income	**(20,785)**	(18,488)
Interest expenses	**204,804**	112,596
Depreciation of property, plant and equipment	**81,760**	87,115
Amortisation of intangible assets	**369**	366
Amortisation of government grants	**(1,568)**	(1,768)
Amortisation of land use rights	**5,318**	5,525
Release of prepaid lease payments	**7,746**	6,069
Write-off/loss on disposal of property, plant and equipment	**5,197**	3,746
Loss on disposal of land use rights	**872**	–
Net gain in fair value changes of derivative financial instruments	**(36,056)**	(28,592)
Loss in fair value changes of warrants	**50,370**	40,504
Provision for warranty	**22,990**	22,282
Write down on inventories	**20,757**	19,502
Allowance for doubtful debts	**11,250**	3,364
Recovery of doubtful debts	**(3,364)**	(2,325)
Equity-settled share based payments	**22,834**	104,465
Operating cash flows before movements in working capital	**236,346**	667,919
Decrease (increase) in inventories	**62,084**	(1,157,261)
Increase in trade and other receivables	**(1,628,517)**	(683,487)
Change in derivative financial instruments	**40,826**	510
(Decrease) increase in trade and other payables	**(151,371)**	1,056,499
Decrease in warranty provision	**(22,608)**	(19,939)
Cash used in operations	**(1,463,240)**	(135,759)
Taxation paid	**(36,685)**	(613)
Net cash used in operating activities	**(1,499,925)**	(136,372)
Investing activities		
Interest received	**20,785**	18,488
Purchase of property, plant and equipment	**(251,296)**	(211,731)
Proceeds from disposal of property, plant and equipment	**8,719**	27,018
Purchase of land use rights	**–**	(162,772)
Purchase of intangible assets	**–**	(110)
Prepaid lease payments paid	**(29,151)**	(16,929)
Deposits paid on acquisition of property, plant and equipment	**(83,618)**	(71,196)
Government grants received	**–**	4,600
(Increase) decrease in pledged bank deposits	**(47,081)**	143,670
Net cash used in investing activities	**(381,642)**	(268,962)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Financing activities		
Interest paid	**(182,415)**	(112,596)
Dividends paid	**(70,313)**	(78,413)
Proceeds from issue of shares	**226,150**	272,572
Expenses incurred in connection with the issue of shares	**–**	(2,317)
Proceeds from issue of warrants	**–**	4,166
Capital contributions from non-controlling interests in a newly established subsidiary	**30,000**	–
Borrowings from bills discounted with recourse	**9,465,454**	9,783,135
Repayment of borrowings related to bills discounted with recourse	**(8,929,884)**	(9,710,863)
Proceeds from issue of short-term debentures	**800,000**	–
Expenses incurred in connection with the issue of short-term debentures	**(8,800)**	–
Bank loans raised	**1,925,014**	1,452,730
Repayment of bank loans	**(1,319,730)**	(1,140,435)
Net cash from financing activities	**1,935,476**	467,979
Net increase in cash and cash equivalents	**53,909**	62,645
Cash and cash equivalents at 1 January	**495,439**	432,794
Cash and cash equivalents at 31 December	**549,348**	495,439
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**549,348**	495,439

1. GENERAL

The Company was incorporated and registered as an exempted company in the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 (the "Chigo Group"), a company which is incorporated in the British Virgin Islands. The ultimate controlling party of Chigo Group is Mr. Li Xinghao.

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 Company and its subsidiaries (collectively referred as the "Group") have applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2011.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendment to HK(IFRIC*) – INT 14	Prepayments of a minimum funding requirement
HK(IFRIC*) – INT 19	Extinguishing financial liabilities with equity instruments

* IFRIC represents the IFRS Interpretations Committee.

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

NEW AND REVISED HKFRSS ISSUED BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[4]
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9	Financial instruments[6]
HKFRS 10	Consolidated financial statements[4]
HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosure of interests in other entities[4]
HKFRS 13	Fair value measurement[4]
Amendments to HKAS 1	Presentation of financial statements – presentation of items of other comprehensive income[3]
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets[2]
HKAS 19 (as revised in 2011)	Employee benefits[4]
HKAS 27 (as revised in 2011)	Separate financial statements[4]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[5]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[4]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2014.
6 Effective for annual periods beginning on or after 1 January 2015.

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

HKFRS 9 "FINANCIAL INSTRUMENTS"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015. Based on the Group's financial assets and liabilities as at 31 December 2011, the directors of the Company anticipate that the application of HKFRS 9 is not expected to have material impact on the consolidated financial statements.

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

HKFRS 13 "FAIR VALUE MEASUREMENT"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard is not expected to affect the amounts reported in the consolidated financial statements but may results in more extensive disclosure in the consolidated financial statements.

AMENDMENTS TO HKAS 1 "PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME"

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual period beginning 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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 issued by HKICPA. 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 principal 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

ALLOCATION OF TOTAL COMPREHENSIVE INCOME TO NON-CONTROLLING INTERESTS

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 the sales of goods is recognised when the goods are delivered and title have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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.

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 recognised 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

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

INVENTORIES

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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"). The classification depends on the nature and purpose of the financing assets and is determined at the time of initial recognition.

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 and 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.

Financial assets at FVTPL

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

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 loans and receivables

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, 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 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

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 loans and receivables 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 off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Impairment of loans and receivables (Continued)

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 as either financial liabilities or as equity in accordance with 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 (including all fees and 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

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
- on initial recognition it is a part of a portfolio of identified 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity (Continued)

Warrants

Warrants that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument are accounted as derivatives.

The warrants are initially recognised at fair value 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.

Right issues

Right issues, options or warrants offered or granted by the Company for the holders to acquire a fixed number of the Company's equity instruments for a fixed amount of any currency are classified as equity instruments of the Company provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments.

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 borrowings related to bills discounted with recourse, bank loans, short-term debentures and trade and other payables 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

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Derecognition (Continued)

On derecognition of a financial asset in its entirety, 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 and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 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, and a reliable estimate can be made of the amount of the 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 of the time value of money is material.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 statement of comprehensive income 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 temporary 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. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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.

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 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 is 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.

Current and 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 current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

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 original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, 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.

Shares granted to employees and customers by shareholder

The fair value of employees' past services and customer loyalty are determined by reference to the fair value of shares granted at the grant date, these shares' vested immediately at the date of grant without any vesting conditions. The fair values of shares are recognised as expenses with a corresponding increase in equity (share compensation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

LEASEHOLD LAND AND BUILDING

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each elements have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases are presented as "land use rights" in the consolidated statement of financial position.

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

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 consolidated 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 income 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, 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 2011, the carrying amount of warranty provision is RMB36,980,000 (2010: RMB36,598,000). Details of the movements are disclosed in note 24.

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES

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 2011, the carrying amount of trade receivables is RMB2,247,184,000, net of allowance for doubtful debts of RMB11,250,000 (2010: RMB1,370,952,000, net of allowance for doubtful debts of RMB3,364,000).

FAIR VALUE OF WARRANTS

The directors of the Company use their judgement in selecting an appropriate valuation technique to determine fair value of the warrants which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these warrants are determined at the end of the reporting period with movement in fair value recognised in profit or loss. In estimating the fair value of these warrants, the Group uses independent valuation which is based on various inputs and estimates (see note 28). If the inputs and estimates applied in the model are different, the carrying amount of these warrants will change. The carrying value of the warrants at 31 December 2011 was RMB5 (2010: RMB44,670,000).

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 owners of the Company through the optimisation of the debt and equity balance.

The capital structure of the Group consists of bank loans, short-term debentures, borrowings related to bills discounted with recourse, 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 and other borrowings.

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

	2011 **RMB'000**	2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**5,324,441**	3,731,682
Fair value through profit or loss – held for trading	**15,534**	22,887
	5,339,975	3,754,569
Financial liabilities		
Amortised cost	**6,248,916**	4,455,674
Fair value through profit or loss		
– held for trading	**607**	3,190
– warrants	**–**	44,670
	6,249,523	4,503,534

6. FINANCIAL INSTRUMENTS *(Continued)*

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, borrowings related to bills discounted with recourse, short-term debentures, short-term bank loans and warrants. 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 2011, 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 is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, 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 as such amounts are placed in 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 contracts. However, the directors of the Company consider such risk is minimal as those contracts were entered with 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 and geographical locations.

MARKET RISK

Foreign currency risk

The Group has certain transactions that denominated in foreign currencies, hence exposures to foreign currency risk. Approximately 40% (2010: 39%) 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 2010 and 31 December 2011, the Group has entered into certain foreign currency contracts. 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:

	2011		2010	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
United States dollars ("USD")	**960,568**	**104,378**	694,194	86,100
Hong Kong dollars ("HKD")	**6,831**	**24,450**	100,825	26,381
Euro	**12,434**	**–**	7,114	–

The Group mainly exposes to currencies of USD, HKD 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, including the trade and other receivables, pledged bank deposits, bank balances, borrowings related to bills discounted with recourse, 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 an increase in loss for the year (2010: 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 loss for the year where the RMB weakens against the relevant currencies.

	2011 RMB'000	2010 RMB'000
USD	**(53,247)**	(30,405)
HKD	**1,564**	(3,722)
Euro	**(622)**	(356)

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

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, short-term debentures and borrowings related to discounted bills with recourse, of which are subjected 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk management (Continued)

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 higher and all other variables were held constant, the potential effect on loss for the year is as follows:

	2011 **RMB'000**	2010 RMB'000
Decrease in loss for the year (2010: increase in profit for the year)	**4,644**	4,341

There will be an equal and opposite impact on the loss for the year (2010: 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 21.

The sensitivity analysis includes the outstanding foreign currency contracts as at the end of the reporting period and adjust at the year end for a 5% change in the relevant forward rates, holding other variables constant.

If the input of market forward rate to the valuation models of these foreign currency contracts had been 5% higher against RMB while all other variables were held constant, the loss for the year would increase (2010: the profit for the year would decrease) as follows:

	2011 **RMB'000**	2010 RMB'000
USD forward rate	**(69,908)**	(55,861)

There will be an equal and opposite impact on the loss for the year (2010: profit for the year) where there had been 5% lower.

The Group was exposed to equity price risk arising from the warrants. The fair values of the warrants were calculated using the Binomial Option Pricing Model. Details of these derivative financial instruments are set out in note 28.

The sensitivity analysis includes the outstanding number of warrants as at the end of the reporting period and adjust as at the year end for a higher/lower in share price, holding other variables constant.

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Other price risk (Continued)

At 31 December 2010, if the input of share price to the valuation models of the warrants had been 5% higher/lower while all other variables were held constant, the profit for the year would (decrease) increase as follows:

	2010 RMB'000
Higher by 5%	(3,993)
Lower by 5%	3,941

At 31 December 2011, the exercise price of the warrants was substantially higher than the share price. If the input of share price to the valuation models of the warrants had been 100% higher/lower while all other variables were held constant, the impact to the loss for the year would not be material.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the warrants which involves multiple variables are interdependent.

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 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 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)*

For warrants, undiscounted gross inflows are not presented since the Group is unable to estimate the ultimate timing and amount of subscription money of the warrants. There are no cash outflows for the warrants.

	Weighted average interest rate %	Less than 3 months RMB'000	Over 3 months but not more than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities						
As at 31 December 2011						
Trade and other payables	–	1,609,935	1,404,743	14,792	3,029,470	3,029,470
Borrowings related to bills discounted with recourse	–	378,925	228,917	–	607,842	607,842
Short-term debentures	7.90	–	–	863,200	863,200	813,589
Short-term bank loans	5.64	899,264	347,223	592,247	1,838,734	1,798,015
		2,888,124	1,980,883	1,470,239	6,339,246	6,248,916
Foreign currency contracts liabilities – gross settlement						
At 31 December 2011						
Foreign currency contracts						
– inflows		–	–	(160,879)	(160,879)	(160,879)
– outflows		–	–	161,486	161,486	161,486
		–	–	607	607	607
Foreign currency contracts assets – gross settlement						
At 31 December 2011						
Foreign currency contracts						
– inflows		(332,540)	(563,585)	(356,042)	(1,252,167)	(1,252,167)
– outflows		323,298	559,047	354,288	1,236,633	1,236,633
		(9,242)	(4,538)	(1,754)	(15,534)	(15,534)

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

	Weighted average interest rate %	Less than 3 months RMB'000	Over 3 months but not more than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities						
As at 31 December 2010						
Trade and other payables	–	1,459,772	1,730,899	–	3,190,671	3,190,671
Borrowings related to bills discounted with recourse	–	72,272	–	–	72,272	72,272
Short-term bank loans	4.83	887,081	212,001	105,647	1,204,729	1,192,731
		2,419,125	1,942,900	105,647	4,467,672	4,455,674
Foreign currency contracts liabilities – gross settlement						
At 31 December 2010						
Foreign currency contracts						
– inflows		–	–	(68,182)	(68,182)	(66,610)
– outflows		–	–	68,187	68,187	66,614
		–	–	5	5	4
Foreign currency contracts liabilities – net settlement						
At 31 December 2010						
Foreign currency contracts		2,387	815	–	3,202	3,186
Foreign currency contracts assets – gross settlement						
At 31 December 2010						
Foreign currency contracts						
– inflows		(346,523)	(532,368)	(621,520)	(1,500,411)	(1,480,100)
– outflows		339,347	523,160	614,803	1,477,310	1,457,213
		(7,176)	(9,208)	(6,717)	(23,101)	(22,887)

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 financial instruments and warrants) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair value of foreign currency 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 warrants is estimated based on various inputs and estimates including data not observable from market.

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 to 3 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).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	At 31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Derivative financial assets				
– foreign currency contracts	–	15,534	–	15,534
Financial liabilities at FVTPL				
Derivative financial liabilities				
– foreign currency contracts	–	607	–	607

6. FINANCIAL INSTRUMENTS *(Continued)*

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

	At 31 December 2010			
	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Financial assets at FVTPL				
Derivative financial assets				
– foreign currency contracts	–	22,887	–	22,887
Financial liabilities at FVTPL				
Derivative financial liabilities				
– foreign currency contracts	–	3,190	–	3,190
– warrants	–	–	44,670	44,670
	–	3,190	44,670	47,860

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

Reconciliation of Level 3 fair value measurement of warrants:

	Warrants RMB'000
At 1 January 2010	–
On issue of warrants	4,166
Loss in fair value changes	40,504
At 31 December 2010	44,670
Exercised during the year	(95,040)
Loss in fair value changes	50,370
At 31 December 2011	–

7. SEGMENT INFORMATION

Segment information has been 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. The CODM reviews the revenue and result by geographical location of customers for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

SEGMENT REVENUES AND RESULTS

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

	Turnover		**Results**	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Mainland China (the "PRC")	**5,572,276**	5,148,804	**819,276**	1,232,184
Asia (excluding PRC)	**1,767,031**	1,489,651	**189,515**	114,042
Americas	**1,247,713**	1,105,438	**166,107**	119,628
Africa	**184,463**	329,396	**26,895**	8,217
Europe	**549,192**	356,219	**42,482**	4,272
Oceania	**21,350**	38,215	**5,628**	7,925
	9,342,025	8,467,723	**1,249,903**	1,486,268
Unallocated other income			**61,832**	42,167
Unallocated expenses			**(841,138)**	(706,869)
Staff costs included in selling and distribution costs and administrative expenses			**(375,938)**	(367,966)
Charitable donations			**(439)**	(12,170)
Allowance for doubtful debts			**(11,250)**	(3,364)
Net gain in fair value changes of derivative financial instruments			**36,056**	28,592
Loss in fair value changes of warrants			**(50,370)**	(40,504)
Finance costs			**(204,804)**	(112,596)
(Loss) profit before taxation			**(136,148)**	313,558

7. SEGMENT INFORMATION *(Continued)*

SEGMENT REVENUES AND RESULTS *(Continued)*

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 high 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.

OTHER SEGMENT INFORMATION

Geographical 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 other than deferred tax assets**	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
PRC	**5,572,276**	5,148,804	**1,182,447**	952,690
Asia (excluding PRC)	**1,767,031**	1,489,651	**–**	–
Americas	**1,247,713**	1,105,438	**–**	–
Africa	**184,463**	329,396	**–**	–
Europe	**549,192**	356,219	**–**	–
Oceania	**21,350**	38,215	**–**	–
	9,342,025	8,467,723	**1,182,447**	952,690

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 *(Continued)*

Revenue from major products

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

	2011 RMB'000	2010 RMB'000
Residential air-conditioners		
– split type	**7,917,335**	6,750,703
– window type	**293,580**	238,646
– portable type	**34,586**	40,721
	8,245,501	7,030,070
Commercial air-conditioners	**579,811**	472,080
Air-conditioners' parts and components	**214,392**	420,139
Others	**302,321**	545,434
	9,342,025	8,467,723

Information about major customers

For the year ended 31 December 2011, none of the Group's customer had individually accounted for more than 10% of the Group's total revenue.

For the year ended 31 December 2010, revenue from one of the Group's customers included in PRC operating segment amounting to RMB872,562,000 accounted for more than 10% of the Group's total revenue.

Analysis of capital additions, depreciation, amortisation of intangible assets and operating lease rentals on land use rights by location of customers were not presented as in the opinion of the directors, there is no appropriate basis in allocating the property, plant and equipment, intangible assets and land use rights by location of customers.

The goods sold to various geographical market were principally produced from the same production facilities situated in the PRC. Moreover, all of the Group's assets and liabilities at 31 December 2011 and 31 December 2010 were located in the PRC.

8. GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

In order to promote the high 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, manufacturing entities are eligible for government subsidies on their manufactured high energy-saving electrical products upon reporting of its sales to the PRC government authority. The Energy-Saving Scheme was expired on 1 June 2011.

During the year, the Group was entitled to government subsidies of RMB178,393,000 (2010: RMB809,237,000) in respect of high energy-saving products.

9. (LOSS) PROFIT BEFORE TAXATION

	2011 **RMB'000**	2010 RMB'000
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 10)*	**2,700**	2,528
Other staff's retirement benefits scheme contributions	**32,634**	20,103
Other staff's equity-settled share based payments	**20,158**	77,095
Other staff costs	**616,554**	564,911
	672,046	664,637
Less: Staff costs included in research and development costs	**(47,663)**	(44,311)
	624,383	620,326
Allowance for doubtful debts included in other gains and losses	**11,250**	3,364
Write down on inventories included in cost of goods sold	**20,757**	19,502
Amortisation of intangible assets included in administrative expenses	**369**	366
Auditor's remuneration	**2,090**	2,090
Cost of inventories recognised as an expense	**8,325,931**	7,748,908
Depreciation of property, plant and equipment	**81,760**	87,115
Loss on disposal of land use rights	**872**	–
Net exchange losses included in other gains and losses	**31,677**	13,112
Operating lease rentals in respect of		
– land use rights	**5,318**	5,525
– rented premises	**17,389**	12,686
Provision for warranty included in cost of goods sold	**22,990**	22,282
Release of prepaid lease payments	**7,746**	6,069
Share-based payments to certain customers of the Group	**1,845**	26,453
Write-off/loss on disposal of property, plant and equipment	**5,197**	3,746
and after crediting:		
Amortisation of government grants	**1,568**	1,768
Government subsidies included in other income*	**11,316**	6,995
Interest income	**20,785**	18,488
Recovery of doubtful debts included in other gains and losses	**3,364**	2,325
Sales of scrap materials	**13,664**	3,364

* 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:

	2011					2010				
	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	Equity-settled share based payments RMB'000	Total RMB'000
Executive directors										
– Mr. Li Xinghao	–	374	4	161	539	–	360	4	172	536
– Mr. Lei Jianghang	–	301	3	90	394	–	311	3	165	479
– Mr. Huang Guoshen (resigned on 6 September 2010)	–	–	–	–	–	–	167	2	141	310
– Mr. Huang Xingke	–	505	4	319	828	–	84	2	102	188
– Dr. Ding Xiaojiang	–	315	3	183	501	–	314	3	172	490
Independent non-executive directors										
– Mr. Wan Junchu	120	–	–	34	154	120	–	–	55	175
– Mr. Zhang Xiaoming	120	–	–	22	142	120	–	–	55	175
– Mr. Fu Xiaosi	120	–	–	22	142	120	–	–	55	175
	360	1,495	14	831	2,700	360	1,236	14	917	2,528

The five highest paid individuals included one (2010: two) director(s) of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2010: three) highest paid employees are as follows:

	2011 RMB'000	2010 RMB'000
Employee		
– basic salaries and allowances	**2,765**	2,030
– retirement benefits scheme contributions	**7**	3
– equity-settled share based payments	**1,710**	573
	4,482	2,606

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

Their emoluments were within the following bands:

	Number of employees	
	2011	2010
Up to HKD1,000,000	**3**	2
HKD1,000,001 to HKD1,500,000	**1**	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

	2011	2010
	RMB'000	RMB'000
The charge comprises:		
PRC withholding tax	**(6,935)**	(7,952)
PRC income tax		
– current year	**(8,026)**	–
– overprovision in prior year	**–**	8,336
Deferred taxation	**7,086**	(4,089)
	(7,875)	(3,705)

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. In addition, the income tax rate for both domestic and foreign investment enterprise was unified at 25% effective from 1 January 2008 (Order of the President 2007 No. 63).

Pursuant to the relevant laws and regulations in the PRC, one of 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. The PRC subsidiary is entitled to 50% relief from PRC income tax in 2011 and 2010.

11. TAXATION *(Continued)*

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 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.

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

	2011		2010	
	RMB'000	**%**	RMB'000	%
(Loss) profit before taxation	**(136,148)**		313,558	
Tax at the applicable income tax rate	**34,037**	**25.0**	(78,390)	(25.0)
Effect of expenses not deductible for tax purposes	**(72,510)**	**(53.3)**	(49,941)	(15.9)
Effect of income not taxable for tax purposes	**49,009**	**36.0**	212,105	67.6
Tax effect of deductible temporary differences not recognised	**(8,002)**	**(5.8)**	–	–
Tax effect of tax losses not recognised	**(9,739)**	**(7.2)**	(82,895)	(26.5)
PRC withholding tax on undistributed earnings	**(670)**	**(0.5)**	(12,920)	(4.1)
Overprovision in prior year	**–**	**–**	8,336	2.7
Tax charge and effective tax rate for the year	**(7,875)**	**(5.8)**	(3,705)	(1.2)

12. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Dividends recognised as distributions during the year		
– 2010 final dividend of HK1.00 cents (equivalent to RMB0.84 cents) (2010: 2009 final dividend of HK12.5 cents (equivalent to RMB11.0 cents)) per share paid	**70,313**	56,196
– 2010 interim dividend of HK5.0 cents (equivalent to RMB4.37 cents) per share	**–**	22,313
	70,313	78,509
Final dividend proposed	**–**	66,367

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period.

13. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

(LOSS) EARNINGS

	2011 RMB'000	2010 RMB'000
(Loss) earnings for the year attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	**(137,914)**	309,853

NUMBER OF SHARES

	2011 '000	2010 '000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share on the assumption that the bonus issue on 4 January 2011 has been effective on 1 January 2010	**8,272,809**	5,480,577
Effect of dilutive potential ordinary shares on		
– share options	**–**	135,001
– warrants	**–**	25,100
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**8,272,809**	5,640,678

13. (LOSS) EARNINGS PER SHARE *(Continued)*

The computation of diluted (loss) earnings per share does not assume the exercise of the Company's outstanding warrants and share options because the exercise price of those warrants and share options was higher than the average market price for shares during the year ended 31 December 2011.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2010	102,995	55,644	29,738	407,686	24,290	620,353
Additions	4,931	33,596	7,976	107,826	74,709	229,038
Write-off/disposals	–	(10,621)	(2,611)	(76,279)	–	(89,511)
Transfers	32,765	1,117	115	3,736	(37,733)	–
At 31 December 2010	140,691	79,736	35,218	442,969	61,266	759,880
Additions	493	47,887	10,226	167,554	144,475	370,635
Write-off/disposals	–	(6,810)	(504)	(21,521)	(9,836)	(38,671)
Transfers	105,162	7,943	–	11,588	(124,693)	–
At 31 December 2011	246,346	128,756	44,940	600,590	71,212	1,091,844
DEPRECIATION						
At 1 January 2010	9,564	39,430	15,157	159,931	–	224,082
Provided for the year	2,609	19,114	3,423	61,969	–	87,115
Eliminated on write-off/disposals	–	(9,240)	(1,755)	(47,752)	–	(58,747)
At 31 December 2010	12,173	49,304	16,825	174,148	–	252,450
Provided for the year	4,926	20,610	3,690	52,534	–	81,760
Eliminated on write-off/disposals	–	(5,117)	(333)	(19,305)	–	(24,755)
At 31 December 2011	17,099	64,797	20,182	207,377	–	309,455
CARRYING VALUES						
At 31 December 2011	229,247	63,959	24,758	393,213	71,212	782,389
At 31 December 2010	128,518	30,432	18,393	268,821	61,266	507,430

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

15. LAND USE RIGHTS

	2011 **RMB'000**	2010 RMB'000
Analysed for reporting purposes as		
– non-current assets	**208,900**	236,377
– current assets	**5,026**	5,525
	213,926	241,902

The balance represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 44 years or 50 years (2010: for a period of 30 years or 50 years).

16. INTANGIBLE ASSETS

	2011 **RMB'000**	2010 RMB'000
CARRYING VALUE		
At 1 January	**2,199**	2,455
Additions	**–**	110
Charged to profit or loss	**(369)**	(366)
At 31 December	**1,830**	2,199

Included in intangible assets are patents and trademarks in which patents represent the exclusive rights in connection with certain product design. The cost of patents and trademarks has been amortised on a straight line basis over its estimated useful life of 10 years.

17. PREPAID LEASE PAYMENTS

	2011 **RMB'000**	2010 RMB'000
Analysed for reporting purposes as		
– non-current assets	**105,710**	133,391
– current assets	**9,497**	6,457
	115,207	139,848

The balance represents prepayment of rentals for medium-term land and buildings situated in the PRC for a period of 20 years under operating leases.

18. DEFERRED TAXATION

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

	Accelerated accounting depreciation RMB'000	Warranty provision RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2010	1,776	8,564	(13,626)	(3,286)
Credited (charged) to profit or loss	293	586	(12,920)	(12,041)
PRC withholding tax paid	–	–	7,952	7,952
At 31 December 2010	2,069	9,150	(18,594)	(7,375)
Credited (charged) to profit or loss	726	95	(670)	151
PRC withholding tax paid	–	–	6,935	6,935
At 31 December 2011	2,795	9,245	(12,329)	(289)

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

	2011 RMB'000	2010 RMB'000
Deferred tax assets	**12,040**	11,219
Deferred tax liabilities	**(12,329)**	(18,594)
	(289)	(7,375)

At 31 December 2011, the Group has unrecognised deferred tax liability of RMB50,192,000 (2010: RMB55,817,000) in relation to PRC withholding tax on undistributed earnings of RMB501,918,000 (2010: RMB558,174,000) due to the retention of undistributed earnings by the PRC subsidiaries determined by the directors of the Company.

At the end of the reporting period, the Group has unused tax losses of RMB40,536,000 (2010: RMB331,580,000) available for offset against future profits. Besides, the Group has deductible temporary differences of RMB32,007,000 relating to write-down on inventories and allowance on doubtful debts at 31 December 2011. No deferred tax asset has been recognised in relation to such tax losses and deductible temporary differences as it is not probable that taxable profit will be available against which the tax losses and deductible temporary differences can be utilised. In 2011, the PRC tax authority denied deduction of certain expenses incurred by the Group in 2010 in respect of the manufacture of high energy-saving products as they were subsidized by the government. Accordingly, the tax loss reduced by RMB330,000,000 at 31 December 2011.

No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

19. INVENTORIES

	2011 **RMB'000**	2010 RMB'000
Raw materials	**616,749**	659,948
Work in progress	**48,206**	29,544
Finished goods	**2,076,013**	2,134,317
	2,740,968	2,823,809

20. TRADE AND OTHER RECEIVABLES

	2011 **RMB'000**	2010 RMB'000
Trade receivables	**2,247,184**	1,370,952
Bills receivables	**1,500,910**	788,101
	3,748,094	2,159,053
Government subsidies receivables for high energy-saving products	**–**	105,157
Deposits paid to suppliers	**132,267**	17,284
Prepayments	**7,680**	5,666
Advances to staff	**22,795**	24,316
Value-added tax recoverable	**84,137**	63,027
Other receivables	**5,633**	5,472
	4,000,606	2,379,975

At the end of the reporting date, bills receivables outstanding amounted to RMB607,842,000 (2010: RMB72,272,000) have been discounted to certain banks. The Group continues to present the discounted bills as bills receivables until maturity.

Payment terms with customers are mainly on credit. Invoices are normally payable from 30 days to 180 days from date of issuance, while invoices to long-established customers are normally payable within 210 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.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

	2011 RMB'000	2010 RMB'000
Age		
0 – 30 days	**1,067,568**	856,720
31 – 60 days	**656,726**	435,177
61 – 90 days	**599,771**	346,364
91 – 180 days	**1,394,851**	507,466
181 – 365 days	**29,178**	13,326
	3,748,094	2,159,053

Include in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB353,611,000 (2010: RMB2,528,000) 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:

	2011 RMB'000	2010 RMB'000
Age		
31 – 60 days	**10,562**	–
61 – 90 days	**43,156**	2
91 – 180 days	**285,814**	698
181 – 365 days	**14,079**	1,828
	353,611	2,528

The Group does not hold any collateral over these balances. The average age of these receivables is 77 days (2010: 62 days).

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.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts is as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	**3,364**	2,325
Allowances recognised on receivables	**11,250**	3,364
Amounts recovered during the year	**(3,364)**	(2,325)
At 31 December	**11,250**	3,364

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB11,250,000 (2010: RMB3,364,000) 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:

	2011 RMB'000	2010 RMB'000
USD	**786,387**	587,001
Euro	**5,578**	6,125

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2011		2010	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
Derivatives not under hedge accounting – foreign currency contracts	**15,534**	**607**	22,887	3,190

At 31 December 2011, 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**
95 contracts to sell USD224,000,000 (gross settlement)	From 8 March 2011 to 8 November 2012	USD1/RMB6.2790 to USD1/RMB6.5202

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

At 31 December 2010, the Group has the following foreign currency contracts with predetermined maturity dates. Their major terms are as follows:

Notional amount	Maturity	Forward contract rates
11 contracts to sell USD19,500,000 (gross settlement)	From 11 May 2011 to 25 October 2011	USD1/RMB6.5058 to USD1/RMB6.7194
7 contracts to buy USD10,500,000 (gross settlement)	From 13 September 2011 to 25 October 2011	USD1/RMB6.4450 to USD1/RMB6.5920

In addition, at 31 December 2010, 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
81 contracts to sell USD204,700,000 (gross settlement)	From 23 July 2010 to 29 December 2011	USD1/RMB6.5340 to USD1/RMB6.7610
19 contracts to buy USD41,700,000 (net settlement)	From 10 January 2011 to 18 April 2011	USD1/RMB6.6370 to USD1/RMB6.6930

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

	2011	2010
Volatility	**4.3200%**	4.2800%
RMB risk-free interest rate	**2.6994%**	3.0215%
USD risk-free interest rate	**0.1298%**	0.2709%
Spot price for USD foreign currency contracts	**RMB6.2950**	RMB6.6070
USD/RMB market forward rate	**USD1/RMB6.2978 to USD1/RMB6.3334**	USD1/RMB6.5608 to USD1/RMB6.6075

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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 the end of the reporting period. The inputs into the model at the respective dates were as follows:

	2010
RMB risk-free interest rate	3.0215%
USD/RMB market forward rate	USD1/RMB6.4733 to USD1/RMB6.6003

22. 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 interest at the prevailing market interest rate ranging from 0.36% to 0.5% (2010: 0.36% to 2.5%) per annum.

At 31 December 2011, pledged bank deposits represents deposits pledged to banks to secure issuance of bills payables amounting to RMB2,466,798,000 (2010: RMB2,529,720,000) which carry interest at market rates ranged from 2.5% to 3.5% (2010: 2% to 2.24%) per annum.

Certain pledged bank deposits and bank balances and cash of RMB1,360,049,000 (2010: RMB1,237,922,000) 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:

	2011 RMB'000 equivalent	2010 RMB'000 equivalent
USD	**174,181**	107,193
HKD	**6,831**	100,825
Euro	**6,856**	989

23. TRADE AND OTHER PAYABLES

	2011 **RMB'000**	2010 RMB'000
Trade payables	**356,379**	529,254
Bills payables	**2,563,161**	2,574,729
	2,919,540	3,103,983
Customers' deposits	**441,133**	440,738
Payroll and welfare payables	**30,609**	26,400
Other tax payables	**25,742**	18,825
Other payables	**127,079**	105,528
	3,544,103	3,695,474

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.

	2011 **RMB'000**	2010 RMB'000
Age		
0 – 90 days	**1,500,005**	1,730,899
91 – 180 days	**1,404,743**	1,353,863
181 – 365 days	**14,260**	17,242
1 – 2 years	**532**	1,979
	2,919,540	3,103,983

24. WARRANTY PROVISION

	2011 **RMB'000**	2010 RMB'000
CARRYING VALUE		
At 1 January	**36,598**	34,255
Additional provision for the year	**22,990**	22,282
Utilisation of provision	**(22,608)**	(19,939)
At 31 December	**36,980**	36,598

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.

25. BORROWINGS RELATED TO BILLS DISCOUNTED WITH RECOURSE

During the year, bank bills issued by customers and discounted by the Group carry interest at rates ranging from 6.00% to 8.88% (2010: 3.96% to 5.10%) per annum.

26. SHORT-TERM DEBENTURES

On 5 September 2011, 廣東志高空調有限公司 Guangdong Chigo Air-Conditioning Co., Ltd., the Company's wholly-owned subsidiary, issued short-term debentures in an aggregate principal amount of RMB800,000,000 (the "Debentures"). The Debentures, with a fixed coupon rate of 7.9% per annum and a face value of RMB100 each, were listed and transferrable on the inter-bank debenture market in the PRC, at 100% of its face value with a maturity period of 366 days.

The movement of the Debentures during the year is set out below:

	RMB'000
Proceeds from issue of debentures	800,000
Transaction costs	(8,800)
Net proceeds	791,200
Interest expense	22,389
Carrying value at 31 December 2011	813,589

27. SHORT-TERM BANK LOANS

	2011 RMB'000	2010 RMB'000
Short-term bank loans		
– unsecured	**1,087,500**	517,731
– secured by bank deposits and "Chigo" trademark	**185,515**	–
– jointly guaranteed by Mr. Li Xinghao and third parties	**375,000**	325,000
– guaranteed by Mr. Li Xinghao	**150,000**	350,000
	1,798,015	1,192,731

At the end of the reporting period, Mr. Li Xinghao, being a director and ultimate controlling party of the Company, has given personal guarantee to certain banks for banking facilities granted to a PRC subsidiary to the extent of RMB300,000,000 (2010: RMB1,825,000,000).

Also, at the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB2,917,255,000 (2010: RMB1,105,919,000).

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

	2011 RMB'000 equivalent	2010 RMB'000 equivalent
HKD	**24,450**	26,381
USD	**101,686**	86,100

Average interest rates paid were as follows:

	2011	2010
Bank loans	**5.63%**	4.83%

All the bank loans are fixed rate borrowings, subject to negotiation at renewal or drawndown date and were denominated in RMB, HKD and USD at 31 December 2011 and 31 December 2010.

28. WARRANTS

On 2 December 2010, the Company issued 100,000,000 unlisted warrants at a price of HKD0.05 per warrant to six placees, all being independent third parties to the Group and each warrant entitles its holder to subscribe for one ordinary share of HKD0.01 each of the Company ("Subscription Share") at the subscription price of HKD4.95 per Subscription Share at any time during the period of two years commencing from the date of issue of the warrants.

On 4 January 2011, the subscription price of the warrants was adjusted in accordance with the terms and conditions of the warrants instrument from HKD4.95 per warrant share to HKD0.495 per warrant share as a result of the bonus issue on the basis of nine bonus shares for every one existing share. On 29 March 2011, under the resolution of an extraordinary general meeting of the Company which were approved by the shareholders, the Company amended the warrant instrument by adjusting the number of unlisted warrants from 100,000,000 to 1,000,000,000 to be exercised at any time on or before 31 May 2012.

On 13 April 2011 and 15 April 2011, respective registered holders of 300,000,000 and 200,000,000 warrants exercised their rights to subscribe for 300,000,000 and 200,000,000 ordinary shares respectively in the Company at HKD0.495 per share. The fair value loss, representing the fair value changes of the warrants from 1 January 2011 and 29 March 2011 to the dates immediately prior to each respective subscription dates, was approximately RMB72,705,000 and had been recognised in profit and loss during the year ended 31 December 2011. The cumulative change in fair value of warrants up to the subscription dates amounting to RMB95,040,000 was transferred to share premium.

28. WARRANTS *(Continued)*

At 31 December 2011, the Company had outstanding 500,000,000 warrants to be exercised at any time on or before 31 May 2012, exercise in full of such warrants would result in the issue of approximately 500,000,000 additional ordinary shares of HKD0.01 each. The fair values of outstanding warrants at 31 December 2011 was RMB5 (2010: RMB44,670,000).

At 31 December 2011, the fair value of the outstanding warrants was determined using the Binomial Option Pricing Model and the inputs into the model were as follows:

	31.12.2011	**(Date of subscription) 15.4.2011**	**(Date of subscription) 13.4.2011**	31.12.2010
Exercise price	HKD0.495	HKD0.495	HKD0.495	HKD0.495*
Share price	HKD0.188	HKD0.70	HKD0.70	HKD1.00
Expected volatility#	32.44%	38.13%	37.82%	42.54%
Remaining life	5 months	12.5 months	12.5 months	23 months
Risk free rate	0.19%	0.31%	0.30%	0.64%
Dividend yield	5.32%	1.82%	1.82%	1.27%

\# The expected volatility are determined based on the historical volatility of comparable companies in the similar industry.

* The exercise price has been adjusted for the effect of Bonus Issue (see note 30) as the shares have been traded ex-right since 28 December 2010.

During the year ended 31 December 2011, an aggregate fair value loss of RMB50,370,000 has been recognised in profit or loss (2010: RMB40,504,000).

29. 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. In 2010, the Group received government grants of RMB4,600,000 from relevant PRC local authorities for the acquisition of plant and machinery amounting to RMB9,440,000.

In 2011, the Group returned government grants amounting to RMB24,000,000 in connection with the investment in economic development zone located in Anhui Province in the PRC by surrendering the relevant land use rights to the PRC local authorities.

29. GOVERNMENT GRANTS *(Continued)*

During the year ended 31 December 2011, the related operating lease rentals in respect of land use rights and related depreciation in respect of plant and machinery which has been charged to profit or loss amounted to RMB1,165,000 (2010: RMB1,310,000) and RMB944,000 (2010: RMB944,000) respectively and the government grant which was recognised as other income was RMB1,108,000 (2010: RMB1,308,000) and RMB460,000 (2010: RMB460,000) respectively. As at 31 December 2011, an amount of RMB41,344,000 (2010: RMB64,698,000) remains unamortised.

30. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	Amount HKD'000	Number of shares '000	Amount HKD'000
Ordinary shares of HKD0.01 each				
– at 1 January 2010	50,000,000	500,000	510,874	5,109
– exercise of share options	–	–	20,134	201
– issue of shares under the open offer	–	–	255,437	2,554
– at 31 December 2010	50,000,000	500,000	786,445	7,864
– issue of shares under the Bonus Issue	–	–	7,078,005	70,780
– exercise of share options	–	–	69,728	697
– exercise of warrants	–	–	500,000	5,000
– at 31 December 2011	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at	
– 31 December 2011 as	71,906
– 31 December 2010 as	6,881

On 4 January 2011, 7,078,005,000 ordinary shares of HKD0.01 each of the Company were issued at HKD0.01 by way of bonus issue on the basis of nine bonus shares for every one then existing share to the qualifying shareholders whose name appeared on the register of members of the Company on 4 January 2011 (the "Bonus Issue").

During the year, 69,728,000 share options were exercised at a subscription price of HKD0.301 per share, resulting in an aggregate issue of 69,728,000 ordinary shares of HKD0.01 each in the Company.

30. SHARE CAPITAL *(Continued)*

In addition, during the year, 500,000,000 warrants were exercised at a subscription price of HKD0.495 per share, resulting in an aggregate issue of 500,000,000 ordinary shares of HKD0.01 each in the Company.

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

31. EQUITY-SETTLED SHARE BASED PAYMENTS

(I) 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 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 1,136,490,820 (2010: 46,594,863), representing 13.5% (2010: 5.9%) 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. On 13 May 2011, under the resolution of Annual General Meeting of the Company which were approved by the shareholders, the total number of shares in respect of which options may be granted under the Scheme is permitted not to exceed 30% of the shares of the Company in issue at any point in time. 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 HKD5,000,000 must be approved in advance by the Company's shareholders.

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.

On 20 November 2010, the exercise price was adjusted downwards from HKD4.15 per share to HKD3.01 per share with effect from 20 November 2010 as a result of the open offer and the total number of share options was adjusted from 49,280,000 to 67,987,415.

On 4 January 2011, the exercise price was adjusted downwards from HKD3.01 per share to HKD0.301 per share with effect from 4 January 2011 as a result of the Bonus Issue and the total number of share options was adjusted upwards from 46,594,863 to 465,948,630.

31. EQUITY-SETTLED SHARE BASED PAYMENTS *(Continued)*

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

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

					Number of share options										
Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HKD	Outstanding at 1.1.2010	Exercised during the year	Adjusted during the year	Lapsed during the year	Reclassified during the year	Outstanding at 31.12.2010	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2011
Directors	17.11.2009	17.11.2009 – 16.11.2010	17.11.2010 – 16.11.2012	0.301	516,000	–	220,000	–	(59,308)	676,692	–	6,084,000	(2,400,000)	–	4,360,692
		17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	0.301	524,000	–	224,147	–	(59,022)	689,125	–	6,208,353	–	–	6,897,478
	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	–	–	–	–	–	–	15,300,000	–	–	–	15,300,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	–	–	–	–	–	–	35,700,000	–	–	–	35,700,000
Employees	17.11.2009	17.11.2009 – 16.11.2010	17.11.2010 – 16.11.2012	0.301	24,044,000	(20,134,000)	8,962,242	(552,000)	59,308	12,379,308	–	111,420,000	(67,328,000)	–	56,471,308
		17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	0.301	24,896,000	–	9,293,436	(1,426,552)	59,022	32,822,148	–	295,393,104	–	(6,229,810)	321,985,442
	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	–	–	–	–	–	–	205,692,000	–	–	(1,050,000)	204,642,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	–	–	–	–	–	–	480,058,000	–	–	(2,450,000)	477,608,000
Customers#	17.11.2009	17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	0.301	20,000	–	7,590	–	–	27,590	–	248,310	–	–	275,900
	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	–	–	–	–	–	–	3,942,000	–	–	–	3,942,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	–	–	–	–	–	–	9,308,000	–	–	–	9,308,000
					50,000,000	(20,134,000)	18,707,415	(1,978,552)	–	46,594,863	750,000,000	419,353,767	(69,728,000)	(9,729,810)	1,136,490,820
Exercisable at end of the year										13,056,000					389,990,820

\# The Company's share options granted to customers are measured by reference to the fair value of options granted since the fair value of the customer loyalty to the Group cannot be estimated accurately. There are no specified performance conditions to be met. The fair value of share options are charged to profit or loss at the date of grant.

31. EQUITY-SETTLED SHARE BASED PAYMENTS *(Continued)*

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

In respect of fair value of options granted in 2011, the inputs into the model were as follows:

	23 September 2011
Spot price	HKD0.39
Exercise price	HKD0.45
Expected volatility	47.74%
Risk-free rate	1.03%
Expected dividend yield	2.56%
Suboptimal exercise factor	2.45 and 2.74
Exercise period	23 September 2013 to 22 September 2018

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 47.74% was assumed.

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.

In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HKD0.80 (2010: HKD5.78).

The Group recognised the total expense of RMB831,000 (2010: RMB917,000), RMB20,158,000 (2010: RMB41,962,000) and RMB1,845,000 (2010: RMB18,000) for the year ended 31 December 2011 in relation to share options granted by the Company to the Group's directors, employees and certain customers of the Group respectively.

(II) SHARES TO EMPLOYEES AND CUSTOMERS BY SHAREHOLDER

At 31 December 2010, 9,101,278 shares and 6,843,827 shares of the Company were granted by the Company's ultimate controlling party, Mr. Li Xinghao, at nil consideration, to the Group's employees and certain customers of the Group respectively, as reward for their past services and loyalty to the Group.

The Group recognised the total expenses of RMB35,133,000 and RMB26,435,000 for the shares of the Company given to the Group's employees and certain customers of the Group respectively.

The fair value of these shares is determined by the closing price of the Company's shares on the date of grant. These shares vested immediately at the date of grant without any vesting conditions. Total fair value of RMB61,568,000 is considered as deemed capital contribution from the shareholder and credited to share compensation reserve.

32. 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:

	2011 RMB'000	2010 RMB'000
Within one year	**10,802**	10,963
In the second to fifth year inclusive	**7,557**	11,741
After five years	**7,085**	8,482
	25,444	31,186

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

33. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**104,711**	158,869

34. 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.

35. RELATED PARTY TRANSACTIONS

Other than the transactions and balances with related parties disclosed in respective notes in the consolidated financial statements, during the year, the Group paid messing expenses totalling RMB999,000 (2010: RMB789,000) to a related company, which is controlled by Mr. Li Xinghao, a director and ultimate controlling party 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.

36. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2011 RMB'000	2010 RMB'000
Unlisted investments in subsidiaries	**345,815**	345,815
Amounts due from subsidiaries	**605,093**	394,099
Bank balances and cash	**5,224**	13,399
Total assets	**956,132**	753,313
Accruals and other payables	**99**	7,511
Amounts due to subsidiaries	**4,273**	4,744
Warrants *(note 28)*	**–**	44,670
Deferred tax liabilities	**12,329**	18,594
Total liabilities	**16,701**	75,519
Net assets	**939,431**	677,794
Share capital *(note 30)*	**71,906**	6,881
Reserves	**867,525**	670,913
Total equity	**939,431**	677,794

37. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued share capital/registered capital held by the Group indirectly		Principal activity
			2011	2010	
廣東志高空調有限公司 Guangdong Chigo Air-Conditioning Co., Ltd. ("Guangdong Chigo")	PRC as a wholly foreign owned enterprise for a term of 50 years commencing 1 September 2006	Registered capital – RMB996,140,000 (2010: RMB696,140,000)	**100%**	100%	Manufacture and sales of air-conditioners
志高空調(九江)有限公司 Chigo Air-Conditioning (Jiu Jiang) Co., Ltd.	PRC as a limited liability enterprise for a term of 10 years commencing 1 June 2007	Registered capital – RMB45,000,000	**100%**	100%	Factories under construction for manufacture and sales of air-conditioners
廣東志高暖通設備股份有限公司 (Guangdong Chigo Heating and Ventilation Equipment Co., Ltd.)	PRC as a sino-foreign joint stock limited company	Shares – RMB100,000,000	**70%**	–	Manufacture and sales of commercial air-conditioners

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 particulars 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 except for Guangdong Chigo which has issued Debentures (see note 26).

FINANCIAL SUMMARY

	Year ended 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
RESULTS					
Turnover	5,716,408	5,920,583	6,005,495	8,467,723	**9,342,025**
Profit (loss) before taxation	370,034	97,734	342,530	313,558	**(136,148)**
Taxation	2,869	(2,446)	(27,751)	(3,705)	**(7,875)**
Profit (loss) for the year	372,903	97,288	314,779	309,853	**(144,023)**
Profit (loss) attributable to					
– owners of the Company	372,903	97,288	314,779	309,853	**(137,914)**
– non-controlling interests	–	–	–	–	**(6,109)**
	372,903	97,288	314,779	309,853	**(144,023)**

	As at 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	4,471,500	4,791,583	5,565,690	7,657,693	**9,522,239**
Total liabilities	(3,288,387)	(3,413,182)	(3,719,746)	(5,205,685)	**(6,910,543)**
Net assets	1,183,113	1,378,401	1,845,944	2,452,008	**2,611,696**
Equity attributable to owners of the Company	1,183,113	1,378,401	1,845,944	2,452,008	**2,587,805**
Non-controlling interests	–	–	–	–	**23,891**
	1,183,113	1,378,401	1,845,944	2,452,008	**2,611,696**

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