CHIGO HOLDING LIMITED

志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 449

Smart CLOUD AC Close to You

Platform for making a better life

Annual Report

2012


say

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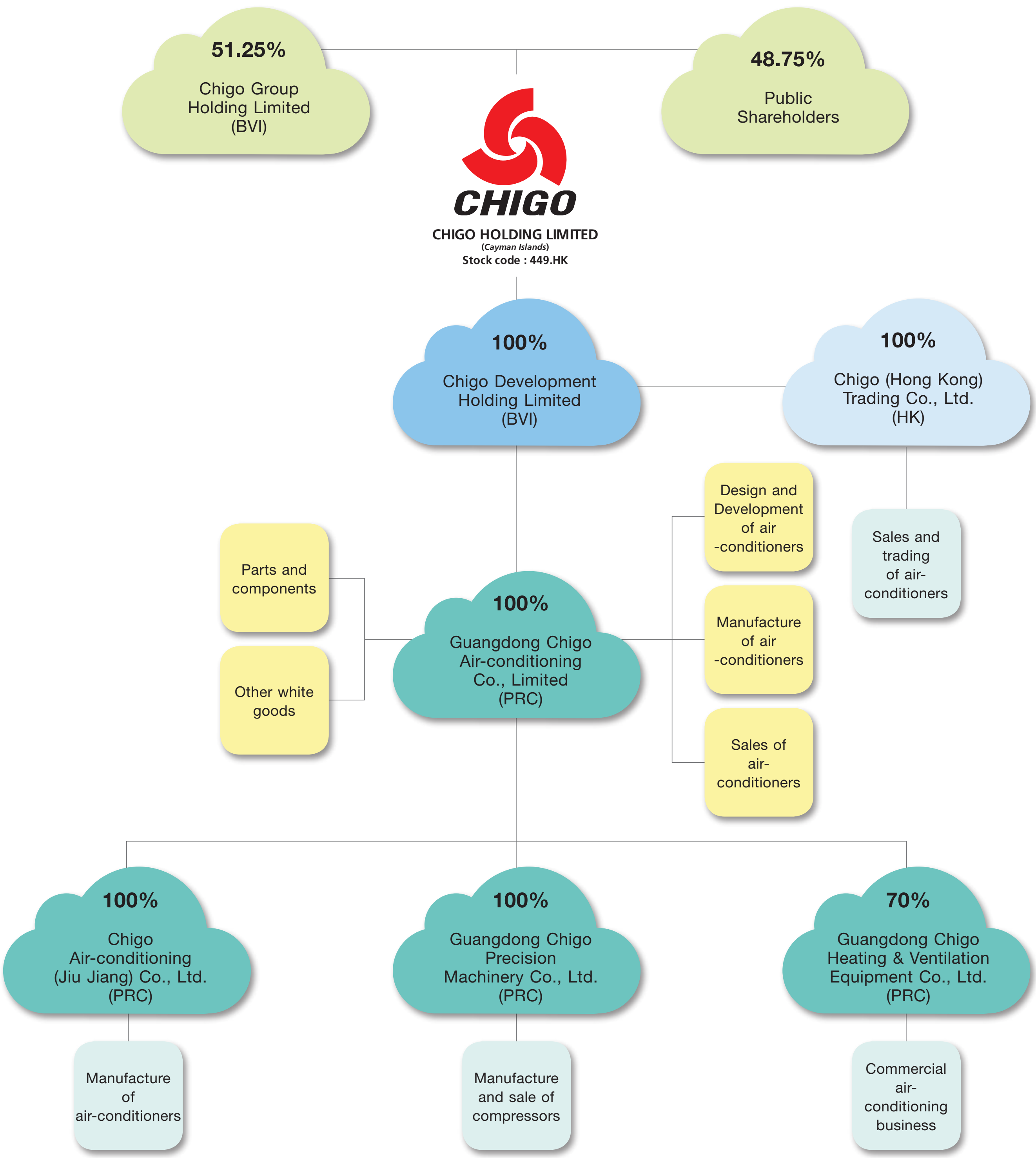
GROUP STRUCTURE



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.

CORPORATE INFORMATION

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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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
DBS Bank (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 2012:	
No. of shares issued:	8,434,178,000 shares
Market capitalisation:	HKD1.64 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

KEY EVENTS AND RECOGNITION IN 2012

JANUARY

In January, Dr. Zheng Zuyi was appointed as an executive director and vice chairman of the Company, with effect from 4 January 2012. The Board also announced that with effect from 1 January 2012, Dr. Zheng Zuyi was appointed as the chairman of the board of Guangdong Chigo Air-conditioning Co., Ltd. ("Guangdong Chigo"); and Huang Xingke was appointed as the vice chairman of the board and president of Guangdong Chigo. In addition to Zheng Zuyi and Huang Xingke, three other new members have been appointed to the board of Guangdong Chigo, namely vice president Lin Kun, vice president Cheng Jian and vice president Jin Shandong.

FEBRUARY

In February, Guangdong Chigo held a grand press release in Foshan, Guangdong, launching the world's first icongo inverter air-conditioner (Icon1), which won itself a leading position in creating an era of icongo air-conditioner.

MAY

In May, a strategic cooperation agreement was entered into between Guangdong Chigo and Anhui Meizhi Compressor Sales Co., Ltd. (安徽美芝壓縮機銷售有限公司). Pursuant to the agreement, GMCC will deliver long-term and utmost supports to Chigo in respect of compressor supply, while Chigo will conduct in-depth cooperation with GMCC in respect of technology application, quality control and other aspects.

In May, as revealed in the bidding results announcement of the "China Central Government Agency Air-conditioner Collective Procurement Project 2012-2013" (2012-2013年度中央國家機關空調集中採購專案), the Chigo multi-split air-conditioning system, leveraged on its advantages such as high efficiency, energy conservation, environmental friendliness and comfort, defeated numerous rival brands and won a contract for the project. Following its successful bidding in 2011, Chigo was once again included in the procurement list of "commercial air-conditioners" with its outstanding technology and quality.

JUNE

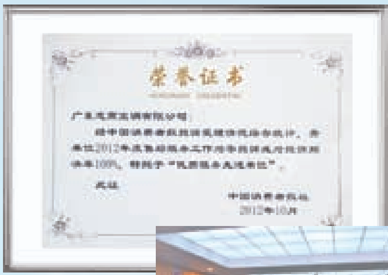
In June, Chigo air-conditioners topped the "List (first batch) of Nominated Enterprises with Energy-Efficient and People-Benefiting Air-Conditioners and Flat-Panel TVs Worth Promoting for 2012" (2012節能惠民工程高效節能空調及平板電視入圍推廣企業目錄(第一批)) with 1,106 models of products being nominated, which was a manifestation of the absolute leading position of Chigo in the field of high-efficiency and energy-conservation air-conditioners.

AUGUST

In August, the icongo inverter air-conditioner, launched by Chigo at the beginning of this year, received “Industrial Design Innovation” award for its pioneering and highly-praised endeavor in embedding cloud computing technology in air-conditioners in the campaign of “2012 China Household Electric Appliance Selection for Innovation” (2012中國家用電器創新成果評選) held by China Household Electric Appliance Research Institute.

OCTOBER

In October, the grand opening of the Certification and Awarding Ceremony for the Export Inspection Exempted Enterprises held by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China took place at the office of Guangdong Chigo again. As such, Chigo has not only continuously defended the qualification of export inspection exemption, which was regarded as the “Honor of the Utmost Product Quality” (最高品質榮譽) among export enterprises, but has also become the only enterprise in the industry with a full range of split air-conditioners being granted the qualification of “export inspection exemption” (出口免驗) currently.



In October, after strict assessment by the Complaint Center of China Consumer News and ccn.com.cn, Chigo air-conditioner won the honor of "Advanced Group of High-Quality Service for 2012".

NOVEMBER

In November, the 2012 National Promotion Conference for Customer Satisfied Projects (2012年全國實施使用者滿意工程推進大會), sponsored by China Association for Quality, was convened. The household floor standing type and the household wall split type inverter air-conditioners of Chigo were awarded the honor of “Customer Satisfied Products of Advanced Group of National Customer Satisfied Projects” (2012年全國實施使用者滿意工程先進單位使用者滿意產品), making us one of the two enterprises being awarded such honor in the industry.

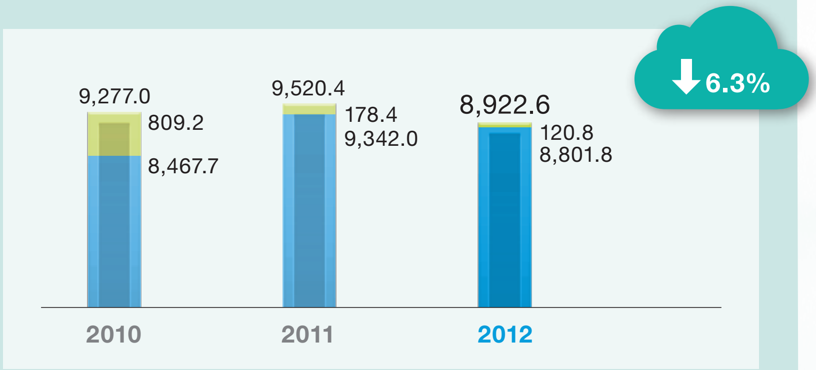
DECEMBER

In December, Chigo split inverter air-conditioners were granted the UL Certification Mark for the United States. Chigo has now become the third air-conditioner manufacturer in the world with UL Certification on split inverter air-conditioners.

FINANCIAL HIGHLIGHTS

TURNOVER AND GROSS RECEIPTS[1]

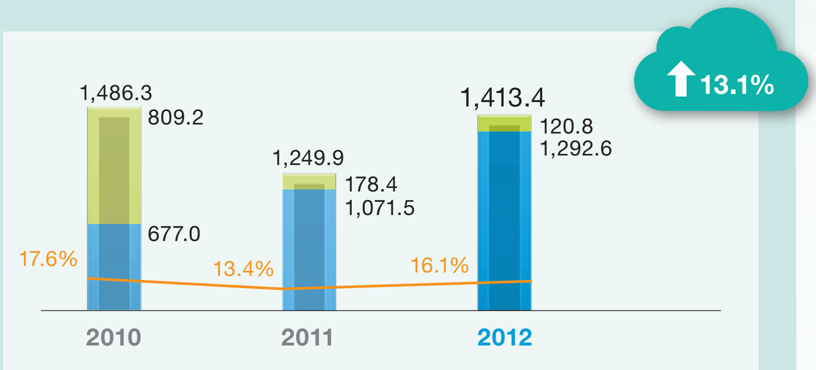
- **Turnover decreased by 5.8% in 2012**
- Government subsidies for energy-saving products amounted to RMB120.8 million
  Gross receipts decreased by 6.3%



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

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

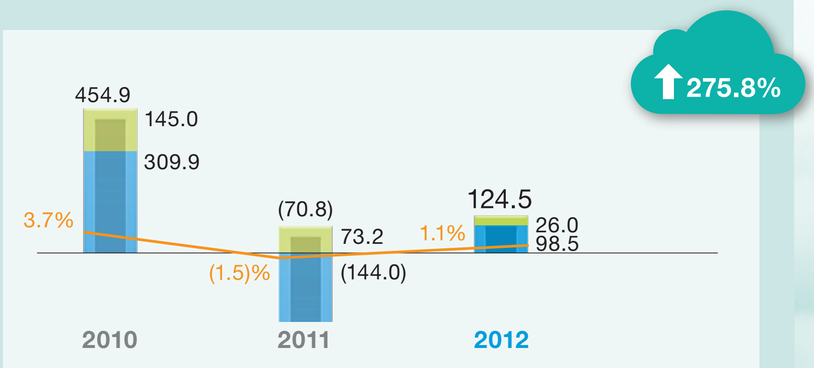
- **Consolidated segment results of operation increased by 13.1%**
  Gross margin (calculated as consolidated segment results to turnover) increased from 13.4% to 16.1%



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

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

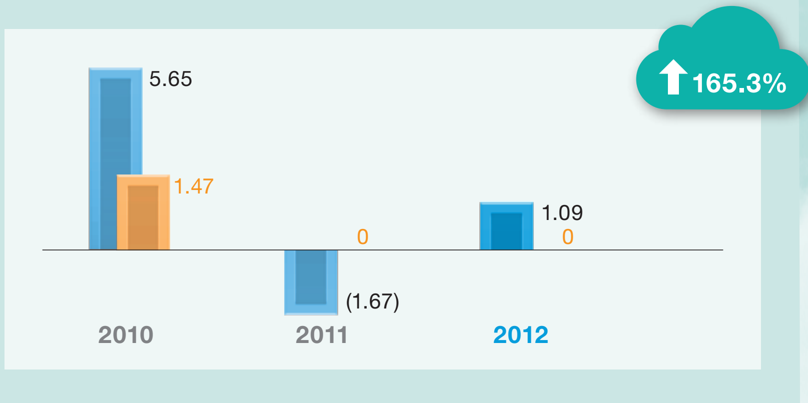
- Due to decrease in cost of goods sold and improvement in results of operation
  Net Profit increased by 168.4%
  Net profit margin improved to 1.1%
- Underlying profit[3] amounting to RMB124.5 million and increased by 275.8%



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

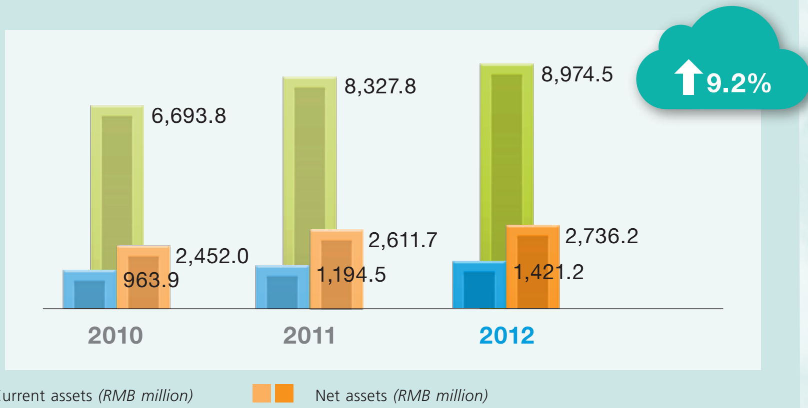
EARNINGS PER SHARE (EPS) AND DIVIDEND PER SHARE (DPS)

- Net profit increased
  Basic earnings per share increased by 165.3%
- No final dividend was declared for the year ended 31 December 2012



TOTAL ASSETS AND NET ASSETS

- Non-current assets increased by 19.0% and current assets increased by 7.8%
  Total consolidated assets increased by 9.2%
- As the Group recorded a net profit for the year
  Net assets increased by 4.8%



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).

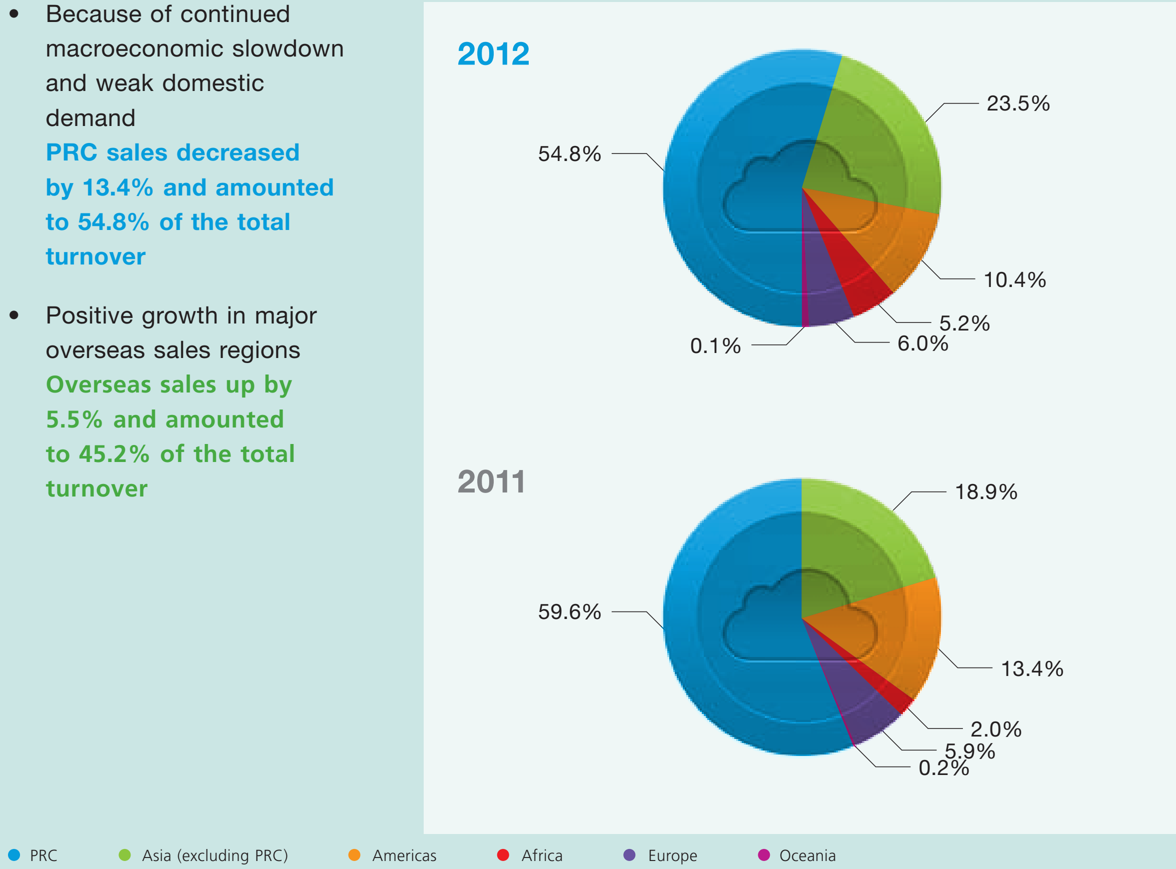
Note 3: Underlying profit (loss) reflects the underlying business performance of the Group and represents the profit (loss) for the year excluding the impacts of one-off items and the non-cash fair value changes.

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

OPERATION HIGHLIGHTS

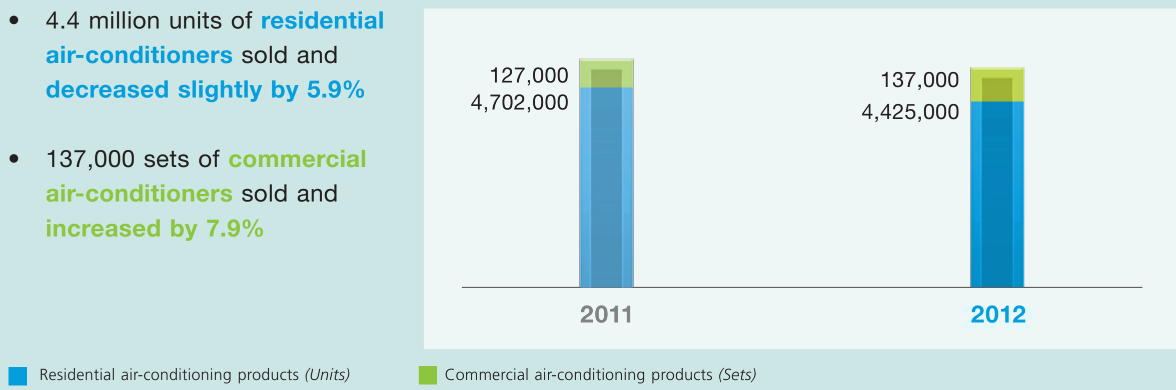
PRC AND OVERSEAS SALES

- Because of continued macroeconomic slowdown and weak domestic demand
  PRC sales decreased by 13.4% and amounted to 54.8% of the total turnover
- Positive growth in major overseas sales regions
  Overseas sales up by 5.5% and amounted to 45.2% of the total turnover



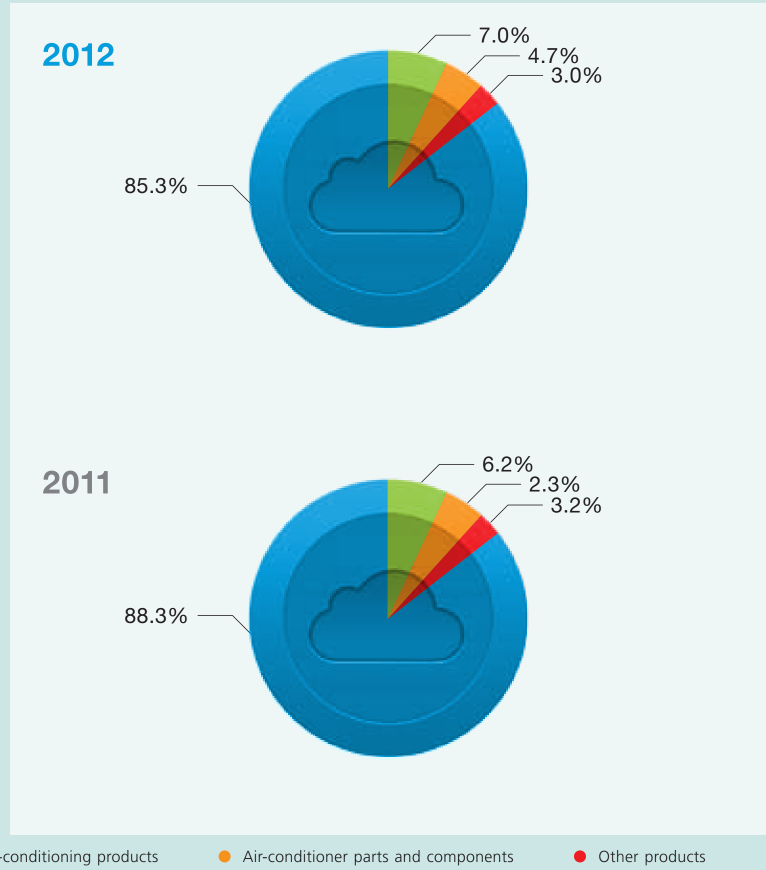
UNIT SALES VOLUME

- 4.4 million units of **residential air-conditioners** sold and **decreased slightly by 5.9%**
- 137,000 sets of **commercial air-conditioners** sold and **increased by 7.9%**



MAJOR PRODUCTS TYPE

- Both average selling price and sales volume decreased
  Sales of residential air-conditioners decreased by 9.0% to 85.3% of the total turnover
  Sales of commercial air-conditioners up by 6.7% to 7.0% of the total turnover
- Sales of **air-conditioners parts and components increased substantially by 91.3%** and sales of **other products decreased by 11.8%**



AVERAGE SELLING PRICE (ASP)

- Since the average cost of productions had decreased, the ASP of the residential air-conditioning products decreased at a slower rate by **3.8%**. The ASP of the **commercial air-conditioning products remained stable.**

TO MAKE THE BEST AIR-CONDITIONERS IN THE WORLD

Li Xinghao
Chairman and Chief Executive Officer

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 2012.

OVERVIEW

The year 2012 was challenging for the Group and yet filled with innovative breakthroughs. Despite the industry-wide downward spiral, the Group delivered satisfactory results through ongoing efforts in promoting the development of its core business, thus achieving a turnaround from loss to profit in 2012. Meanwhile, 廣東志高精密機械有限公司 (Guangdong Chigo Precision Machinery Co., Ltd.), a wholly-owned subsidiary specialising in the compressor business, was established during the year with an aim to enhance the technological innovation and optimise the layout of production chain of the Group in order to lay a solid foundation for our further development in the future.

ELIMINATING BOTTLENECK, TURNING LOSS INTO PROFIT

In 2012, the air-conditioner industry in China underwent an adjustment period, posting negative growth year-on-year in retail sales, and the overall industry performance fell short of expectation. The overarching cause of the dwindled sales was the marketing headwinds encountered by air-conditioner manufacturers in domestic market in 2012. With unpromising macroeconomic environment, toughened national policies on real estate industry and more prudent expenditure by consumers, the demand in air-conditioner market was suppressed. In addition, the subsequent new subsidy policies put forth by the PRC Government during mid-2012 contributed less-than-expected stimulation to the demand. Moreover, the capricious weather also put a dent in the sales of air-conditioning products. As a result, the overall domestic sales performance of the industry entered a trajectory of substantial adjustment. In respect of export sector, the overall air-conditioner industry recorded a sliding export volume due to various factors such as the financial crisis outbreak in European market, the crawling economic recovery in North American market and the upside fluctuation of RMB exchange rate during the year.

Facing the pressures from the domestic and overseas markets, the management of the Group assessed the situation and made appropriate adjustments in marketing strategies in a bid to enhance the Group's operation efficiency and profitability. Affected by the overall environment, the Group made great stride to turn loss into profit in spite of the slight drop in sales revenue and volume. During the year, the Group recorded a commendable achievement with total turnover amounting to approximately RMB8,801.8 million and profit attributable to shareholders reaching RMB92.1 million.

The improvements benefited from the great efforts made by the Group's PRC sales team in adjusting product mix, launching new products and maintaining the average selling price. The Group also strived to expand our distribution network and increase the number of outlets in the PRC market. By the end of 2012, our products have covered the entire China with the number of local distributors amounting to 389. The total sales in China accounted for 54.8% of the total turnover, representing the major income source of the Group in 2012.

In the meantime, the sales in overseas market exhibited excellent performance. The Company adjusted the sales strategies in different regional markets, underscoring the development in the emerging market with evident growth, so as to boost gross profit margin in overseas market. As a result, the Group's sales increased 5.5% year-on-year, defending the annual sales target of the Group.

The Group also made breakthroughs in cost control and technological innovation. In 2012, the Group established Guangdong Chigo Precision Machinery Co., Ltd., a wholly-owned subsidiary which specialises in the compressor business, embodying the great importance attached by the management to technological innovation and the layout of production chain. The establishment of the subsidiary will further integrate the production process and sharpen the competitiveness of the Group in the future.

DEVELOPMENT STRATEGIES FOR 2013

Despite the faltering domestic and global economy in 2012, the management of the Group still considered the year as an opportunity to consolidate its market position. The Group will continue to ensure the maximisation of the shareholders' interests and the increase in sales and profitability, invest in strengthening technological innovation, and optimise production structure and product mix, specifically focusing on the promoting of the "icongo air-conditioner", paving the way for an aggressive marketing strategy when economic condition improves in the near future.

Thanks to the economic recovery, domestic consumers will gradually regain their confidence in 2013. Despite the continuous curb on the real estate market imposed by the PRC government, the consumer demand for air-conditioners in the coming year is expected to ignite a lasting growth as subsidised housing projects are coming close to completion in 2013 and the purchasing power in third– and fourth-tier cities are surging, which creates an opportunity for the Group to become industry pioneer.

We plan to further sharpen the Group's competitive edge in the following aspects:

PROMOTING TECHNOLOGICAL INNOVATION

As the key brand of technological innovation currently being developed by the Group, the "icongo air-conditioner" embeds advanced intelligent elements in the air-conditioning technology, not only bringing convenience to customers, but also leading air-conditioner into the era of information technology. Since technological innovation will become an inevitable trend in the future, the Group will be dedicated to the wider promotion of the "icongo air-conditioner" technology.

STRENGTHENING PRODUCTION INTEGRATION

The Group will commence the compressor business from the second half of this year. In February 2013, the Group also acquired copper business in China. After the completion of the compressor production lines and copper business acquisitions this year, the Group will possess an entire vertically integrated production chain. The addition of the two self-manufactured core components will comprehensively improve our cost effectiveness and competitiveness.

ENHANCING OPERATION EFFICIENCY

The Group achieved encouraging performance by successfully turning loss into profit against the industry-wide slump in 2012. In the coming year, we will continue to enhance the operation efficiency by raising the proportion of profit-generating products, exploring international markets with pronounced growth and taking measures to reduce cost.

ACKNOWLEDGEMENT

Lastly, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and suppliers, banks and outstanding staff for their supports and trust. The Group is confident in its future prospect and believes that Chigo will build on the past glories to achieve further progress, bringing continuous returns for the shareholders.

Li Xinghao
Chairman and Chief Executive Officer
Hong Kong, 27 March 2013

BUSINESS REVIEW

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. During the year ended 31 December 2012, 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.

After rapid growth in the past few years, the Chinese air-conditioning industry entered into a period of adjustment in 2012. Overall performance of the air-conditioning market was not satisfactory and retail sales of air-conditioning products recorded a year-on-year negative growth. In relation to the reasons for the decline, the first was that air-conditioning manufacturers had to face a hindrance to sales in domestic market during 2012. Because of continued macroeconomic slowdown, coupled with stringent national policies imposing on the real estate sector, the property market was weak and housing turnover shrank. As a result, generation of new demand for air-conditioning market was suppressed and the domestic sales of air-conditioning products was affected. In addition, due to the macroeconomic conditions entering into a steady growth stage from the previous rapid growth stage, consumers became more cautious on spending and expenditure, so the release of domestic spending power had been repressed.

Meanwhile, during the two-year period of 2009-2011, the demand for air-conditioning products was driven by a number of state subsidy policies, and temporary overconsumption effect in the market was noted. The subsidy policies had exited gradually since 2011, the PRC government introduced a new successive policy in mid-2012. However, the driving force is slightly worse than expected. In addition, changing weather in 2012 was not favourable to the sales of air-conditioning products, therefore, domestic sales showed a larger adjustment.

As for exports, the air-conditioning manufacturers also faced many severe trials and struggled for better business environment. Air-conditioning industry as a whole recorded a decline in exports during 2012, which was primarily due to the impact of the economic crisis within the member countries of the Euro zone after another on the major European market. Though the North American market seems to show signs of economic recovery, the pace of the recovery was still slow. Furthermore, the exchange rate of the Renminbi fluctuated from low to high during 2012, which was not favourable to air-conditioning exports. Faced with the dual pressures of the domestic and international markets, air-conditioning industry was forced to accelerate the adjustment and transformation.

In 2012, the business of the Group was inevitably influenced by the falling trend in the whole industry. However, the management of the Group was able to assess the situation and made appropriate adjustments to its marketing strategies. Instead of clinging to sales volume oriented strategy, the management of the Group is more pragmatic and run the business with the aims to enhancing the operational efficiency of the Group and improving its profit margins. In 2012, the consolidated sales and sales volume of the Group both went down slightly. Fortunately, as compared to the decline in industry as a whole, the Group had already performed better than its peers. Besides, the Group also achieved a profit turnaround in 2012 from a significant loss in the previous year.

Though the Group recorded a negative growth in PRC sales for the year ended 31 December 2012, the situation had improved in the second half of the year. Total PRC sales reached 54.8% of the total turnover and was the main source of income of the Group in 2012. It was the effort of the PRC sales team to improve the gross margin by adjusting to the product mix, launching innovative products and maintaining the average selling price of the products.

Overseas sales team achieved excellent performance in the first half of 2012 and brought the Group a growth in total sales for the whole year. In addition, the Group also thrived by adjusting sales to different regional markets, focusing on the major high-growth markets, to push up the gross margin of overseas sales. As a result, the overall profitability of the Group improved satisfactorily during the year.

During the year under review, the sales and volume of commercial air-conditioning products increased year-on-year and accounted for a higher portion of the Group's sales. Besides, the average price of commercial air-conditioning products was maintained in the year so that the commercial air-conditioning subsidiary commenced to make operating profit this year.

The management also attaches great importance to technological innovation and production chain layout of the Group. During 2012, the Group established a wholly-owned subsidiary, Guangdong Chigo Precision Machinery Co., Ltd., which specialises in the compressor business with an aim to providing further integration of production, and enhancing the competitiveness of the Group in the future.

OPERATION REVIEW

SALES FROM MAJOR PRODUCT GROUPS AND GROSS MARGINS

	Year ended 31 December					
	2012		2011		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
Residential air-conditioners						
– split type	**7,193.1**	**81.7**	7,917.3	84.8	-724.2	-9.1
– window type	**280.5**	**3.2**	293.6	3.1	-13.1	-4.5
– portable type	**32.7**	**0.4**	34.6	0.4	-1.9	-5.5
	7,506.3	**85.3**	8,245.5	88.3	-739.2	-9.0
Commercial air-conditioners	**618.9**	**7.0**	579.8	6.2	+39.1	+6.7
Air-conditioners parts and components	**410.1**	**4.7**	214.4	2.3	+195.7	+91.3
Others	**266.5**	**3.0**	302.3	3.2	-35.8	-11.8
	8,801.8	**100.0**	9,342.0	100.0	-540.2	-5.8

Residential air-conditioning products are the major source of income for the Group and accounted for 85.3% of the total turnover. Turnover derived from sales of residential air-conditioners decreased by 9.0% during the year ended 31 December 2012, principally because of the drop in number of units sold and the slight decrease in the average sales prices of air-conditioning products following the decrease in average cost of goods sold during the year. As the average sales price maintained and sales volume continued to improve during the year, turnover derived from commercial air-conditioners rose by 6.7% and contributed 7.0% of the total turnover to the Group. After a drop in 2011, sales of air-conditioner parts and components rebounded to its normal level and increased substantially by 91.3% during the year, principally due to increased sales to external manufacturers in Africa and South America. Sales of the other products decreased by 11.8% as the Group had outsourced some of the sideline production to external manufacturers to save cost and improve efficiency.

Although the sales of residential air-conditioning products dropped for the year ended 31 December 2012, its gross margin (including government subsidies for energy-saving products) improved steadily to 15.5% for the reporting period from 13.7% in 2011.

The Group's commercial unit continued to improve the profit margin of the commercial air-conditioning products substantially from 6.7% in 2011 to 22.0% during the year.

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

	Year ended 31 December					
	2012		2011		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
PRC sales						
CHIGO brand	**4,455.4**	**50.6**	5,175.0	55.4	-719.6	-13.9
HYUNDAI brand	**65.0**	**0.7**	94.8	1.0	-29.8	-31.4
Air-conditioner parts and components	**52.7**	**0.6**	51.5	0.5	+1.2	+2.3
Other products	**252.8**	**2.9**	251.0	2.7	+1.8	+0.7
	4,825.9	**54.8**	5,572.3	59.6	-746.4	-13.4
Overseas sales						
CHIGO brand	**616.0**	**7.0**	595.9	6.4	+20.1	+3.4
OEM	**2,988.8**	**34.0**	2,959.6	31.7	+29.2	+1.0
Air-conditioner parts and components	**357.4**	**4.1**	162.9	1.7	+194.5	+119.4
Other products	**13.7**	**0.1**	51.3	0.6	-37.6	-73.3
	3,975.9	**45.2**	3,769.7	40.4	+206.2	+5.5
	8,801.8	**100.0**	9,342.0	100.0	-540.2	-5.8

During the year ended 31 December 2012, 98.7% of air-conditioning products sold in China were under CHIGO brand. Sales of CHIGO brand products dropped by 13.9% due to the overall decrease in demand for air-conditioning products in China. Sales of parts and components and other products in China remained steady and increased slightly by 2.3% and 0.7% respectively during the year.

For exports, sales of CHIGO brand products continued to increase year-on-year by 3.4% for the year under review. More sales of parts and components were generated from African and Latin American markets which increased substantially by 119.4% this year. Export sales of other products dropped by 73.3% which also resulted from the outsourcing of some of the sideline production.

SALES AND DISTRIBUTION

	Year ended 31 December					
	2012		2011		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
PRC						
Household appliances retail chain operators	**1,214.8**	**13.8**	1,431.2	15.3	-216.4	-15.1
Regional distributors	**3,611.1**	**41.0**	4,141.1	44.3	-530.0	-12.8
PRC Total	**4,825.9**	**54.8**	5,572.3	59.6	-746.4	-13.4
Overseas						
Regional distributors	**987.1**	**11.2**	810.1	8.7	+177.0	+21.8
OEM manufacturers	**2,988.8**	**34.0**	2,959.6	31.7	+29.2	+1.0
Overseas Total	**3,975.9**	**45.2**	3,769.7	40.4	+206.2	+5.5
Total Turnover	**8,801.8**	**100.0**	9,342.0	100.0	-540.2	-5.8

During the year ended 31 December 2012, the Group's PRC sales from household appliances retail chain operators decreased by 15.1%. Sales generated from regional distributors also decreased by 12.8% and accounted for 74.8% of the PRC sales in 2012 (2011: 74.3%). As more sales got through the regional distribution channel, percentage of domestic sales through the household appliances retail chain operators dropped to 25.2% (2011: 25.7%) in the same period.

For overseas sales, OEM customers generated more sales during the year. Approximately 75.2% and 24.8% (2011: 78.5% and 21.5% respectively) of overseas sales are distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2012. Increased sales for overseas distributors was mainly due to continuous increase in sales of CHIGO brand products overseas.

UNITS SOLD VOLUME AND AVERAGE SALES PRICES

	Year ended 31 December		
	2012	2011	Change %
Residential air-conditioning products sold ('000 units)	**4,425**	4,702	–5.9
Commercial air-conditioning products sold ('000 sets)	**137**	127	+7.9
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,724**	RMB1,792	-3.8
Average sales price – commercial air-conditioning product (per set)	**RMB4,523**	RMB4,549	-0.6

During the year ended 31 December 2012, the Group's sales volume of residential air-conditioning products decreased slightly by 5.9% to approximately 4.4 million units. Meanwhile, sales of commercial air-conditioners rose by 7.9% to approximately 137,000 sets within the reporting period.

During the year, the Group aimed at maintaining average sales price in order to improve profit margins of the products. Since the average cost of productions had decreased, the average sales prices per unit of the residential air-conditioning products decreased at slower rate by 3.8%. The average sales prices per set of the commercial air-conditioning products remained stable and decreased slightly by 0.6% during the year ended 31 December 2012.

BREAKDOWN OF COST OF GOODS SOLD

During the two years ended 31 December 2012, breakdown of the Group's total cost of goods was shown as follows:

	Year ended 31 December					
	2012		2011			
	RMB million	**% of cost of goods sold**	RMB million	% of cost of goods sold	Change RMB million	Change %
Raw materials, parts and components:						
Compressors	**1,890.6**	**25.2**	2,056.8	24.9	-166.2	-8.1
Copper	**2,108.1**	**28.1**	2,415.9	29.2	-307.8	-12.7
Plastic chips	**522.9**	**6.9**	484.5	5.8	+38.4	+7.9
Aluminum	**469.8**	**6.3**	561.5	6.8	-91.7	-16.3
Steel plates	**458.4**	**6.1**	550.9	6.7	-92.5	-16.8
Others (note)	**1,368.5**	**18.2**	1,584.9	19.2	-216.4	-13.7
Total	**6,818.3**	**90.8**	7,654.5	92.6	-836.2	-10.9
Direct labour cost	**287.7**	**3.8**	274.1	3.3	+13.6	+5.0
Utilities	**64.4**	**0.9**	58.5	0.7	+5.9	+10.1
Production cost	**206.0**	**2.7**	163.7	2.0	+42.3	+25.8
Others	**132.8**	**1.8**	119.7	1.4	+13.1	+10.9
Total cost of goods sold	**7,509.2**	**100.0**	8,270.5	100.0	-761.3	-9.2

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

During the year ended 31 December 2012, the cost of goods sold decreased by 9.2% as the result of decline in the Group's turnover and decrease in costs of major raw materials and components. Among the raw materials, parts and components, copper is the major one and recorded a decrease of 12.7%.

Due to the rising trend of labour costs in China, direct labour cost increased by 5.0% during the year ended 31 December 2012. Production cost also increased by 25.8% due to the increases in depreciation charge and cost of low-value consumables.

FINANCIAL REVIEW

TURNOVER

	Year ended 31 December					
	2012		2011		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
Geographic region						
PRC sales	**4,825.9**	**54.8**	5,572.3	59.6	-746.4	-13.4
Asia (excluding PRC)	**2,064.9**	**23.5**	1,767.0	18.9	+297.9	+16.9
Americas	**920.8**	**10.4**	1,247.7	13.4	-326.9	-26.2
Africa	**458.1**	**5.2**	184.5	2.0	+273.6	+148.3
Europe	**525.4**	**6.0**	549.2	5.9	-23.8	-4.3
Oceania	**6.7**	**0.1**	21.3	0.2	-14.6	-68.5
Overseas sales	**3,975.9**	**45.2**	3,769.7	40.4	+206.2	+5.5
Total turnover	**8,801.8**	**100.0**	9,342.0	100.0	-540.2	-5.8

During the year ended 31 December 2012, the Group's total turnover was approximately RMB8,801.8 million (2011: RMB9,342.0 million) and decreased by RMB540.2 million, or 5.8% as compared to the corresponding period in 2011. The decrease was principally due to the decrease in domestic sales of air-conditioning products during the year.

The PRC government had introduced a new subsidy for energy-saving products in mid-2012, the Group received RMB120.8 million (2011: RMB178.4 million) as part of the receipts in relation to sales of products during the reporting period. Gross receipts (sum of turnover and government subsidies for high energy-saving products) received by the Group in relation to its principal operation amounted to RMB8,922.6 million (2011: RMB9,520.4 million) and decreased by 6.3% or RMB597.8 million as compared to 2011.

PRC SALES

During the year ended 31 December 2012, the Group received less subsidies for energy-saving products as compared to the corresponding period in 2011 because of the decrease in PRC sales. The Group's PRC sales also decreased by RMB746.4 million or 13.4% to RMB4,825.9 million (2011: RMB5,572.3 million). However, the situation had improved in the second half of 2012. During the year ended 31 December 2012, domestic sales remained the main source of revenue of the Group and amounted to 54.8% of the total turnover (2011: 59.6%).

OVERSEAS SALES

The Group's overseas sales continued to perform well during 2012. Overseas sales achieved RMB3,975.9 million in 2012 (2011: RMB3,769.7 million) representing a year-on-year increase of 5.5% or RMB206.2 million.

The increase in the Group's overseas sales in 2012 was mainly contributed by the increases of 16.9% and 148.3% in sales in the Asian (excluding PRC) and African markets respectively. Among the overseas markets of the Group, Asia (excluding PRC) and Americas remained the two major markets, which accounted for overseas markets of the Group 23.5% and 10.4% (2011: 18.9% and 13.4% respectively) of the Group's turnover during the year ended 31 December 2012.

Since the Group's overseas sales had increased at a faster rate, overseas sales continued to rise slightly to 45.2% (2011: 40.4%) of the Group's total turnover for the year ended 31 December 2012.

COST OF GOODS SOLD

The Group recorded a drop in turnover and raw materials costs decreased relatively faster than the turnover in 2012. Cost of goods sold decreased to RMB7,509.2 million (2011: RMB8,270.5 million), a decrease of RMB761.3 million or 9.2% as compared to that of 2011. The decrease in cost of goods sold was mainly caused by the decreases in the Group's turnover and major raw material and component costs, especially copper and compressors during the year ended 31 December 2012.

GROSS PROFIT

The Group recorded a gross profit of RMB1,292.6 million for the year ended 31 December 2012 (2011: RMB1,071.5 million) which increased by RMB221.1 million or 20.6% as compared to 2011. However, part of the Group's gross receipts for energy-saving products sales was received in form of government subsidy under the "Promotion of energy efficient appliances scheme" which decreased to RMB120.8 million (2011: RMB178.4 million) for the year ended 31 December 2012. 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 2012 totaled RMB1,413.4 million (2011: RMB1,249.9 million) representing an increase of RMB163.5 million or 13.1% from that of 2011.

As the consolidated segment results of operation increased, the Group's gross margin (calculated as consolidated segment results to turnover) increased from 13.4% in 2011 to 16.1% for the year ended 31 December 2012 accordingly.

Despite the Group's domestic sales and the government subsidies for energy-saving products decreased, the consolidated segment results increased. As such, gross margin of PRC sales of the Group increased to 17.5% in 2012 (2011:14.7%). The gross margin of overseas sales of the Group continued to improve in 2012 to 14.3% (2011:11.4%). Among the overseas sales regions, Americas and Oceania contributed most to the profitability of the Group and achieved gross margins of 17.0% and 29.2% respectively in 2012.

GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

For the year ended 31 December 2012, the Group was entitled to the government subsidies for high energy-saving products of RMB120.8 million (2011: RMB178.4 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 RMB63.1 million (2011: RMB61.8 million) and increased by RMB1.3 million or 2.1% including mainly the interest income and non-operating income.

SELLING AND DISTRIBUTION COSTS

The Group's other selling and distribution costs decreased to RMB711.7 million (2011: RMB760.7 million), a decrease of RMB49.0 million or 6.4% for the year ended 31 December 2012. The decrease was mainly due to better cost control in respect of (i) salary and allowance of sales personnel; (ii) transportation cost; and (iii) advertising and promotion costs during the year.

ADMINISTRATIVE EXPENSES

Other administrative expenses of the Group decreased by RMB34.0 million or 10.6% to RMB288.0 million (2011: RMB322.0 million) for the year ended 31 December 2012. The decrease in administrative expenses was primarily due to the decreases in (i) salaries, benefits and social insurance charges relating to administrative staff; (ii) professional fees and (iii) cost of consumables during the year.

EQUITY-SETTLED SHARE BASED PAYMENTS

The Group recorded an equity-settled share based payments of RMB26.1 million (2011: RMB22.8 million) for the year ended 31 December 2012 in relation to the share options granted by the Company to certain employees and customers in 2011. This non-cash expense increased by RMB3.3 million or 14.5% during the year.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs decreased to RMB77.0 million (2011: RMB82.2 million) by 6.3% or RMB5.2 million during the year. The decrease was due to cost control and overall decrease in expenses of the Group.

OTHER EXPENSES

Other expenses was mainly non-operating expenses which increased by RMB1.9 million or 119.9% during the year ended 31 December 2012 and amounted to RMB3.4 million.

OTHER GAINS AND LOSSES

Other gains and losses decreased by RMB25.2 million or 63.6% to RMB14.4 million (2011: RMB39.6 million) in 2012. The decrease was mainly due to decrease in the net exchange losses during the year.

NET GAIN IN FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group recorded a net gain of approximately RMB42.2 million (2011: RMB36.1 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 2012 as exchange rate of RMB against USD appreciated favourably to the Group.

FINANCE COSTS

In 2012, the Group utilised less short-term bank loans to finance its working capital requirement. During most of the time in 2012, the Group had a debenture of RMB800 million outstanding which was due to expire in September 2012. After the expiry of the original debenture, the Group issued a new debenture of RMB800 million during the year for general working capital purpose. The new debenture was issued for a maturity period of 365 days and with a fixed coupon rate of 5.9% per annum. Since the average balance of bank and other borrowings was higher in 2012 than that of the corresponding period in 2011, interest on bank and other borrowings increased by RMB57.1 million or 27.9% to RMB261.9 million (2011: RMB204.8 million) for the year ended 31 December 2012.

TAXATION

During the reporting period, the Group recorded a substantial increase in profit before taxation and was subject to higher tax rate starting from 2012. Besides, as the deferred tax charge increased in the year under review, the Group's tax charge increased to RMB37.7 million (2011: RMB7.9 million) by RMB29.8 million or 377.2% for the year ended 31 December 2012.

PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

As a result of the foregoing, the Group recorded a profit of RMB98.5 million for the year ended 31 December 2012 (2011: a loss of RMB144.0 million), representing an increase of RMB242.5 million or 168.4% as compared to the corresponding period in 2011. Since the Group had recorded a profit in the reporting period, the Group's net margin improved from a net loss of 1.5% in 2011 to a net profit margin of 1.1% for the year ended 31 December 2012 accordingly.

FINANCIAL POSITION

	As at 31 December			
	2012 **RMB million**	2011 RMB million	Change RMB million	Change %
Non-current assets	**1,421.2**	1,194.5	+226.7	+19.0
Current assets	**8,974.5**	8,327.8	+646.7	+7.8
Current liabilities	**7,604.2**	6,856.9	+747.3	+10.9
Non-current liabilities	**55.3**	53.7	+1.6	+3.0
Net assets	**2,736.2**	2,611.7	+124.5	+4.8

As at 31 December 2012, the Group's total consolidated assets increased by RMB873.4 million or 9.2% to RMB10,395.7 million (31 December 2011: RMB9,522.3 million). The increase was mainly in the current assets such as trade and other receivables (increased by RMB755.3 million), bank balances and cash (increased by RMB374.5 million) and non-current assets such as property, plant and equipment (increased by RMB173.4 million). Total consolidated liabilities of the Group as at 31 December 2012 amounted to RMB7,659.5 million (31 December 2011: RMB6,910.6 million) and increased by RMB748.9 million or 10.8% as compared to that of 31 December 2011. The major liabilities increased in the period were trade and other payables (increased by RMB627.5 million) and borrowings related to bills discounted with recourse (increased by RMB381.6 million).

As the Group recorded a net profit for the year, the Group's net assets increased by 4.8% or RMB124.5 million to RMB2,736.2 million at the end of 2012 (31 December 2011: RMB2,611.7 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The funding policy of the Group is to secure sufficient funding for meeting its working capital requirement and smooth operations. The Group will also apply different equity and debt instruments of different tenors to obtain funding from the capital and financial markets in Hong Kong or in the PRC to achieve these objectives.

As the principal operation and production base of the Group are located in the PRC, financial resources are centralised in the headquarters of the Group for efficient allocation. The Group also utilises different banking services and products provided by the financial institutions in the PRC and Hong Kong to facilitate its cash management and treasury activities.

The management, with the assistance of the Group's finance and treasury departments, will closely monitor the market conditions and the needs of the Group to implement the funding and treasury policies.

As at 31 December 2012, the Group had current assets amounting to RMB8,974.5 million (31 December 2011: RMB8,327.8 million) and current liabilities amounting to RMB7,604.2 million (31 December 2011: RMB6,856.9 million). The Group's working capital decreased by RMB100.6 million or 6.8% from RMB1,470.9 million as at the end of 2011 to RMB1,370.3 million at the end of 2012. Although the Group's current liabilities increased relatively faster, the current ratio maintained at 1.2 times as both at 31 December 2011 and 2012.

At the end of 2012, the balance of short-term bank loans owed by Group was RMB1,521.1 million (31 December 2011: RMB1,798.0 million) and decreased by RMB276.9 million or 15.4%. 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.

As the amounts of short-term bank loans and debentures decreased as at the end of 2012, the gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased to 22.4% as at 31 December 2012 (31 December 2011: 27.4%).

Ability of the Group to service finance costs, as indicated by interest cover, improved during the reporting period. The finance costs has been increased as the average balance of borrowings increased. However, the Group improved substantially in profit before taxation and interest in 2012, interest cover of the Group increased to 1.6 times for the year ended 2012 as compared to 0.3 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 total financial exposure of the Group to these foreign currency forward contracts was approximately RMB31.9 million (31 December 2011: RMB16.1 million) as at the year end.

As at 31 December 2012, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue and all of the issued shares were ordinary shares.

Since the Group had recorded a net profit for the year, the shareholders' equity increased to RMB2,736.2 million as at 31 December 2012 (31 December 2011: RMB2,611.7 million).

Other than the above, there were no other equity or debt instruments issued by the Company during the reporting period and at the end of 2012.

CASH FLOWS

	Year ended 31 December	
	2012	2011
	RMB million	RMB million
Operating cash flows	**522.9**	236.3
Movements in working capital and taxation	**662.0**	(1,200.7)
Net cash from (used in) operating activities	**1,184.9**	(964.4)
Net cash used in investing activities	**(263.8)**	(381.6)
Net cash (used in) from financing activities	**(546.5)**	1,399.9
Net increase in cash and cash equivalents	**374.6**	53.9
Cash and cash equivalents at 31 December	**923.9**	549.3

For the year ended 31 December 2012, the Group generated operating cash flows of RMB522.9 million (2011: RMB236.3 million). As the Group's inventories decreased by RMB429.0 million and cash of RMB381.6 million generated from bills discounted with recourse which increased the working capital, net cash from operating activities reached RMB1,184.9 million. Part of the cash generated to reduce bank borrowings by RMB276.9 million and pay finance costs of RMB372.2 million and part of the balance was used to finance (i) the purchase of property, plant and equipment; and (ii) prepaid lease payments in aggregate amount of RMB295.6 million for the future business expansion and development of the Group.

As a result of the foregoing, the Group generated surplus cash of RMB374.6 million during the year ended 31 December 2012 (2011: net cash inflow of RMB53.9 million) and had bank balances and cash amounted to RMB923.9 million at the end of 2012 (31 December 2011: RMB549.3 million). Majority of the bank balances and cash were amounts dominated in Renminbi and certain amounts were dominated in US dollar.

MATERIAL ACQUISITIONS AND DISPOSALS, SIGNIFICANT INVESTMENTS

During the year ended 31 December 2012, 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 2012, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB946.9 million (31 December 2011: approximately RMB998.6 million) were pledged to certain banks for securing the banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND COPPER PRICE

During the year ended 31 December 2012, approximately 45.2% 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 was only subject to limited fluctuation 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 2012. The Directors believe that the Group's exposure to exchange rate fluctuations is minimal in this aspect.

The Group had entered into certain copper future contracts with net settlement during the year ended 31 December 2012 with for the purposes of hedging against part of its risk on the fluctuation of copper price and monitoring closely the trend of market price of copper. As at 31 December 2012, there was no copper future contract outstanding.

Other than the foreign currency forward contracts copper future contracts entered into by the Group, the Group did not have any other financial instruments used for hedging purpose during the year ended 31 December 2012. The management of the Group will monitor foreign currency and copper price exposures from time to time and will consider further hedging should the need arise.

CAPITAL COMMITMENTS

As at 31 December 2012, 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 RMB37.9 million (31 December 2011: approximately RMB104.7 million). The Group expects that the capital commitments will be funded by internal resources and/or external finance from financial institutions.

CONTINGENT LIABILITIES

Pending litigation

In June 2012, Chigo Air-conditioning (Jiujiang) Co., Limited ("**Chigo Jiujiang**"), an indirect wholly-owned subsidiary of the Company, received a notice calling for responses concerning a case of civil legal proceedings. The legal action was brought against Chigo Jiujiang by a construction company (the "**Plaintiff**") in relation to the construction work of Chigo Jiujiang's factory in Jiangxi claiming for damages of approximately RMB16.2 million in relation to, allegedly, certain construction cost being past due, retention monies being withheld and default in payment of compensation.

The Plaintiff was also granted a freezing order by the Jiangxi Provincial Jiujiang City Intermediate People's Court over Chigo Jiujiang's bank deposits. As at the date of this announcement, bank deposits of Chigo Jiujiang amounting to approximately RMB6.2 million has been frozen.

Chigo Jiujiang has already filed an application to the court disputing over the extent of construction work done and the quality of such work. Based on the legal advice obtained, the management believes that there is no ground for the Plaintiff to make the claim. As the case is still undergoing legal proceeding, no provision was made by the Group for this pending litigation.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 December 2012.

EMPLOYEES AND REMUNERATION

As at 31 December 2012, the Group employed 14,066 employees (31 December 2011: 14,540 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages including fixed salary and discretionary bonuses 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.

OUTLOOK AND FUTURE PLANS

Although the air-conditioning market has entered a period of adjustment in 2012 and the industry experienced negative growth in sales volume and turnover, the management believes that this is an opportunity for the Group to consolidate its market position. Even in the global and domestic economic slowdown in 2012, flexible sales strategy enabled the Group to stabilise sales, improve profitability and to free up resources to strengthen technological innovation and realise its goal of further production integration. The Group keeps accumulating strength and is ready to take offensive marketing strategy once the economic conditions improve in the near future.

Currently, the market view on the growth of air-conditioning industry in 2013 is still mixed. However, the management of the Group believes that with the negative sales growth in 2012, the effects of overconsumption of air-conditioning is diminishing. In addition, as the economy recovers, the domestic consumer confidence will improve gradually. Though the real estate market is still under the control of national policy, with the gradual completion of the social security housing in 2013 and huge purchasing power from tier three and tier four cities, for consumer demand for air-conditioning products in the coming year, a good foundation has already been laid. Having the above ideas in mind, the management has set the plan below:

- PROMOTE TECHNOLOGY INNOVATION

  "iCongo 雲空調" could be described as a revolutionary product in the industry which is a series of world's first air-conditioning product combining advanced smart technology with air-conditioner. "iCongo 雲空調" not only marks its leading technology, but also created the way forward for the future development of the Group. In the coming year, the Group will focus on promotion of this technology.

- STRENGTHEN THE INTEGRATION OF PRODUCTION

  The Group has established its compressor business and expects to have the new business unit commence operation in the second half of this year. In February 2013, the Group also acquired a new copper business in China. The Group expects that the acquisition will be funded by internal resources. Following the completion of the compressor production line and the completion of the acquisition of the copper business later this year, the Group owns a very vertically integrated production chain. The management believes that the incorporation of the two new self-manufactured core components into the Group will enhance cost efficiency and competitiveness of the Group.

- IMPROVE OPERATION EFFICIENCY

  The Group successfully accomplished a profit turnaround in 2012. Entering 2013, the management aims to further improve the operation efficiency of the Group by various means of increasing the portion of profitable products, exploring high-growth international markets and implementing cost-cutting measures.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. LI XINGHAO

Mr. Li, aged 58, 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 19 years of experience in the air-conditioning industry. 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 the vice president of China Household Electrical Appliances Association (中國家用電器協會) and the Chairman of Guangdong Credit Association (廣東省信用協會).

DR. ZHENG ZUYI

Dr. Zheng, aged 57, 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 48, 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 35, 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 11 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 46, 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 59, 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 managing vice 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 53, 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. During the period between May 2006 and November 2012, he held various positions as director and chief accountant of Hubei Tri-Ring Group (湖北三環集團). Currently, he is the deputy general manager and financial controller of 湖北久之洋紅外系統股份有限公司 (Hubei Jiuzhiyang Infrared System Company Limited) and is an external supervisor 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 40, 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 三菱電機壓縮公司 (Mitsubishi Electric Compressor Company) and had been sent to Japan for training for a year. Thereafter, he joined a well-known air-conditioning corporation in China. Mr. Cheng has ample experience in development and management, and sales of air-conditioning products. 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 41, 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 further 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 48, 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 46, 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 REPORT

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 CORPORATE GOVERNANCE CODE

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 (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (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 2012, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provisions A.2.1 and A.6.7 of the CG Code.

CODE PROVISION A.2.1

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 2012, 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 19 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.

CODE PROVISION A.6.7

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Two independent non-executive directors of the Company were unable to attend the Annual General Meeting of the Company held on 25 May 2012 as they had other business engagements.

THE BOARD OF DIRECTORS

BOARD COMPOSITION

The Board comprised four executive Directors and three independent non-executive Directors. The following are the current 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 31 to 32 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.

The Board is responsible for performing the corporate governance duties set out in the CG code and had adopted the terms of reference in relation to its corporate governance functions ("Corporate Governance Functions") on 29 March 2012.

During the year under review, the Board had performed the following Corporate Governance Functions:

(a) reviewed the Company's policies and practices on corporate governance;

(b) reviewed and monitored the training and continuous professional development of the Directors and the Company Secretary;

(c) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;

(d) reviewed and monitored the Model Code for Securities Transactions by the Directors of Listed Issuers; and

(e) reviewed the Company's compliance with the CG Code and disclosure in the corporate governance report.

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.

RELATIONSHIP WITH SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012 and the date of this report, Chigo Group Holding Limited owned 4,322,234,210 shares, representing approximately 51.25% of shareholding in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance. The following Director of the Company is a director or employee of such substantial shareholder:

Name of Director	**Relationship with substantial shareholder**
Li Xinghao	Director of Chigo Group Holding Limited

NUMBER OF BOARD AND GENERAL MEETINGS AND DIRECTORS' ATTENDANCE

The Board meetings and committee meetings are conducted on a regular basis and on an ad hoc basis, as required. The articles of association of the Company allow the Directors to participate in any meeting of the Board by means of a conference telephone or other communications equipment. Before the Board or committee meetings, members of the Board will receive information about the businesses and matters to be discussed.

During the year ended 31 December 2012, Board meetings and committee meetings were held. The Directors also attended the general meeting of the Company held on 25 May 2012. 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	Number of general meetings attended/held
Executive Directors					
Mr. Li Xinghao	8/8	N/A	1/1	N/A	1/1
Dr. Zheng Zuyi *(note 1)*	7/8	N/A	N/A	N/A	1/1
Mr. Lei Jianghang *(note 2)*	1/8	N/A	N/A	N/A	0/1
Dr. Ding Xiaojiang	8/8	N/A	N/A	N/A	0/1
Mr. Huang XingKe	8/8	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Mr. Wan Junchu	8/8	2/2	1/1	1/1	0/1
Mr. Zhang Xiaoming	8/8	2/2	1/1	1/1	0/1
Mr. Fu Xiaosi	8/8	2/2	1/1	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.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT ("CPD")

All Directors are encouraged to participate in CPD to develop and refresh their knowledge and skills. During the year under review, Directors had participated in different CPD and each Directors provided their records of training to the Company respectively. A summary of training received by Directors during the year is as follows:

Directors	**Types of CPD**
Li Xinghao	2,5
Zheng Zuyi	4,5
Ding Xiaojiang	4,5
Huang Xingke	4,5
Wan Junchu	3,5
Zhang Xiaoming	5
Fu Xiaosi	1,3,5

Notes:
1. Attending conferences for different regulations (including but not limit to accounting, tax and Listing Rules).
2. Participating as speaker/presenter on corporate management and other relevant topics.
3. Attending seminars on directors' training, corporate governance and Listing Rules.
4. Attending seminars and business delegation relating to director training, professional performance training and corporate management.
5. Reading related journals or/and learning materials.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate insurance coverage for directors' and officers' liabilities incurred by them in discharge of their duties while holding office as the Directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2012, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer of the Company which deviated from Code Provision A.2.1 of the CG Code and is explained in the paragraph headed "Compliance with the Corporate Governance Code" above.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In accordance with the articles of association of the Company, Mr. Zhang Xiaoming and Mr. Fu Xiaosi will hold office until the forthcoming annual general meeting and, being eligible, will offer themselves 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, duties and the prevailing market conditions. During the year ended 31 December 2012, the total remuneration paid to the independent non-executive Directors was approximately RMB480,000 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, being the Director with appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the Audit Committee.

During the year ended 31 December 2012, the Audit Committee had:

- held two committee meetings and reviewed the Company's annual results for the year ended 31 December 2011 and interim results for the six months ended 30 June 2012 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 general review of the remuneration policies of the Group was held during the year ended 31 December 2012. The Remuneration Committee had also assessed the performance of executive directors, approved the terms of executive directors' service contracts and made recommendations to the Board on the remuneration packages of the newly appointed Director.

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 2012 in relation to the nomination of the newly appointed Director and the policy for the nomination of directors had been discussed and determined in the meeting. The Nomination Committee will conduct meeting when it is necessary.

COMPANY SECRETARY

The Company Secretary of the Company is Mr. Leung Hon Man. The Company Secretary is responsible for assisting the Board by ensuring good information flow and communications within the Board as well as Board policy and procedures are followed. During the year ended 31 December 2012, Mr. Leung had taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

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 53 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 2012, 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 adopted a Shareholder's Communication Policy and 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.

SHAREHOLDERS' RIGHTS

Under the Articles of Association, the Shareholder's Communication Policy and procedures for shareholders to propose a person for election as a director adopted by the Company, the shareholders of the Company enjoy, among others, the following rights:

PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING

Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR PROPOSING A PERSON FOR ELECTION AS A DIRECTOR

If a shareholder wishes to propose a person (the "Candidate") for election as a director of the Company at a general meeting, he/she shall deposit a written notice (the "Notice") at (i) the Head Office and Principal Place of Business of the Company in Hong Kong or (ii) the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited.

The Notice (i) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information.

The period for lodgment of the Notice shall commence on the day after the despatch of the notice of general meeting and end no later than seven (7) days prior to the date of such general meeting.

PROCEDURES FOR MAKING ENQUIRIES

Shareholders should direct their questions about their shareholdings to the Company's Registrar.

If the Shareholders and the investors make a request for the Company's information, the Company will provide such information provided that it is publicly available.

Shareholders and the investors may communicate with the Company through designated contacts, email addresses and enquiry lines of the Company.

The following are the contact information of the Company and the share registrar:

THE COMPANY – HONG KONG
Unit 08, 19th Floor
Greenfield Tower (South Tower)
Concordia Plaza
No.1 Science Museum Road
Tsimshatsui, Kowloon
Hong Kong
Please contact our Company Secretary at:
Telephone: (852) 2997 7449
Facsimile: (852) 2997 7446
Email: ir@china-chigo.com.hk

THE COMPANY – PRC
Shengli Industrial District, Lishui Town
Nanhai, Foshan, Guangdong
China
Post Code: 528244
Please contact our Investment and Securities Department at:
Telephone: (86) 757 8878 3289
Facsimile: (86) 757 8562 8012

PRINCIPAL SHARE REGISTRAR
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

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 2012 amounted to HKD2,680,000 and HKD1,108,500 respectively. The non-audit services provided during the period were interim financial statements review and taxation services.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

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 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income statement on page 55 of this annual report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2012 (31 December 2011: nil).

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 115.

SHARE CAPITAL AND DEBENTURE OF THE COMPANY

During the year ended 31 December 2012, no new shares had been issued in relation to the exercise of share options and unlisted warrants (had been expired on 31 May 2012) respectively.

As at 31 December 2012 and the date of this report, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue. All of the issued shares were ordinary shares.

Details of movements during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements.

During most of the time in 2012, the Group had a debenture of RMB800 million outstanding which was due to expire in September 2012. After the expiry of the original debenture, the Group issued a new debenture of RMB800 million during the year for general working capital purpose. The new debenture was issued for a maturity period of 365 days and with a fixed coupon rate of 5.9% per annum.

RESERVES

Details of movement in the reserves of the Group during the year ended 31 December 2012 are set out in the Consolidated Statement of Changes in Equity on page 58.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2012, 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 (2011: RMB938,187,000) 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 31 to 32 of this report.

In accordance with Article 83(3) of the Articles, each of Mr. Zhang Xiaoming, Mr. Fu Xiaosi and Mr. Huang Xingke 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 11 to the consolidated financial statements.

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

As at 31 December 2012, the interests of the Directors and chief executive 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 2012	Approximate percentage of shareholding *(note 1)*
Mr. Li Xinghao *(note 2)*	Held by controlled corporation	4,322,234,210	51.25
Dr. Zheng Zuyi	Beneficial owner	4,632,000	0.05
Dr. Ding Xiaojiang	Beneficial owner	6,530,750	0.08
Mr. Huang Xingke	Beneficial owner	161,000	0.00
		4,333,557,960	51.38

Notes:

1. Based on 8,434,178,000 shares of the Company is issue as at 31 December 2012.

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 2012	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 32 to the consolidated financial statements.

Name of Director	Capacity	Number of share options held as at 31 December 2012	Number of underlying shares
Mr. Li Xinghao	Beneficial owner	8,000,000	8,000,000
Dr. Zheng Zuyi	Beneficial owner	50,000,000	50,000,000
Dr. Ding Xiaojiang	Beneficial owner	10,000,000	10,000,000
Mr. Huang Xingke	Beneficial owner	25,000,000	25,000,000
Mr. Wan Junchu	Beneficial owner	1,000,000	1,000,000
Mr. Zhang Xiaoming	Beneficial owner	1,000,000	1,000,000
Mr. Fu Xiaosi	Beneficial owner	1,000,000	1,000,000
		96,000,000	96,000,000

Other than as disclosed above, none of the Directors, the chief executive 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 2012.

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

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, and the Company had 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 37 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 32 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	Reclassified 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	1,500,000	–	–	–	(1,500,000)	–
	2011.11.17 – 2012.11.16	0.301	1,535,150	–	–	–	(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
			11,035,150	–	–	–	(3,035,150)	8,000,000
Zheng Zuyi *(note 1)*	2010.11.17 – 2012.11.16	0.301	–	–	–	–	–	–
	2011.11.17 – 2012.11.16	0.301	–	–	1,535,150	–	(1,535,150)	–
	2013.9.23 – 2018.9.22	0.45	–	–	15,000,000	–	–	15,000,000
	2016.9.23 – 2018.9.22	0.45	–	–	35,000,000	–	–	35,000,000
			–	–	51,535,150	–	(1,535,150)	50,000,000
Ding Xiaojiang	2010.11.17 – 2012.11.16	0.301	1,500,000	–	–	–	(1,500,000)	–
	2011.11.17 – 2012.11.16	0.301	1,535,150	–	–	–	(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
			13,035,150	–	–	–	(3,035,150)	10,000,000
Huang Xingke	2010.11.17 – 2012.11.16	0.301	880,000	–	–	–	(880,000)	–
	2011.11.17 – 2012.11.16	0.301	913,490	–	–	–	(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
			26,793,490	–	–	–	(1,793,490)	25,000,000
Wan Junchu	2010.11.17 – 2012.11.16	0.301	480,000	–	–	–	(480,000)	–
	2011.11.17 – 2012.11.16	0.301	485,730	–	–	–	(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
			1,965,730	–	–	–	(965,730)	1,000,000
Zhang Xiaoming	2010.11.17 – 2012.11.16	0.301	–	–	–	–	–	–
	2011.11.17 – 2012.11.16	0.301	485,730	–	–	–	(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
			1,485,730	–	–	–	(485,730)	1,000,000

	Exercise period	Exercise Price (HKD)	Underlying shares exercisable under the share options: Outstanding at beginning of the year	Granted during the year	Reclassified 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	–	–	–	–	–	–
	2011.11.17 – 2012.11.16	0.301	485,730	–	–	–	(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
			1,485,730	–	–	–	(485,730)	1,000,000
Lei Jianghang *(note 2)*	2010.11.17 – 2012.11.16	0.301	–	–	–	–	–	–
	2011.11.17 – 2012.11.16	0.301	1,457,190	–	(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)	–	–	–
			6,457,190	–	(6,457,190)	–	–	–
Sub-total			**62,258,170**	**–**	**45,077,960**	**–**	**(11,336,130)**	**96,000,000**
Category 2: Employees								
Employees	2010.11.17 – 2012.11.16	0.301	56,471,308	–	–	–	(56,471,308)	–
	2011.11.17 – 2012.11.16	0.301	321,985,442	–	(77,960)	–	(321,907,482)	–
	2013.9.23 – 2018.9.22	0.45	204,642,000	–	(13,500,000)	–	(6,434,000)	184,708,000
	2016.9.23 – 2018.9.22	0.45	477,608,000	–	(31,500,000)	–	(15,016,000)	431,092,000
Sub-total			**1,060,706,750**	**–**	**(45,077,960)**	**–**	**(399,828,790)**	**615,800,000**
Category 3: Customers								
Customers	2010.11.17 – 2012.11.16	0.301	137,950	–	–	–	(137,950)	–
	2011.11.17 – 2012.11.16	0.301	137,950	–	–	–	(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			**13,525,900**	**–**	**–**	**–**	**(275,900)**	**13,250,000**
Total			**1,136,490,820**	**–**	**–**	**–**	**(411,440,820)**	**725,050,000**

Notes:

1. Zheng Zuyi was appointed as Director on 4 January 2012.

2. Lei Jianghang resigned as Director on 4 January 2012.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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
Skyworth TV Holdings Limited	Beneficial owner	425,000,000	5.04

Notes:

1. Based on 8,434,178,000 shares of the Company in issue as at 31 December 2012.

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 2012.

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 32 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 36 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 2012 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 2012.

FIXED ASSETS

Details of the movement in fixed assets during the year are set out in note 15 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately RMB1,150,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

During the year, the Group's purchases attributable to the five largest suppliers combined and the largest supplier accounted for 37.2% and 14.1% respectively of the Group's total purchases for the year.

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the subsequent event after the reporting period of the Group are set out in notes 39 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Friday, 24 May 2013 to Monday, 27 May 2013 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, 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 Thursday, 23 May 2013.

AUDITOR

The consolidated financial statements for the two years ended 31 December 2011 and 2012 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 1-2, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 27 May 2013 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, 27 March 2013

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 55 to 114, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 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.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	**2012 RMB'000**	2011 RMB'000
Turnover		**8,801,814**	9,342,025
Cost of goods sold		**(7,509,206)**	(8,270,515)
Gross profit		**1,292,608**	1,071,510
Government subsidies for high energy-saving products	*8*	**120,750**	178,393
Other income		**63,128**	61,832
Selling and distribution costs			
– equity-settled share based payments		**(5,952)**	(6,587)
– other selling and distribution costs		**(711,664)**	(760,702)
Administrative expenses			
– equity-settled share based payments		**(20,115)**	(16,247)
– other administrative expenses		**(288,040)**	(321,970)
Research and development costs		**(77,001)**	(82,151)
Other expenses		**(3,397)**	(1,545)
Other gains and losses		**(14,449)**	(39,563)
Net gain in fair value changes of derivative financial instruments		**42,168**	36,056
Loss in fair value changes of warrants		**–**	(50,370)
Finance costs	*9*	**(261,870)**	(204,804)
Profit (loss) before taxation	*10*	**136,166**	(136,148)
Taxation	*12*	**(37,712)**	(7,875)
Profit (loss) for the year and total comprehensive income (expense) for the year		**98,454**	(144,023)
Profit (loss) for the year and total comprehensive income (expense) for the year attributable to:			
– owners of the Company		**92,055**	(137,914)
– non-controlling interests		**6,399**	(6,109)
		98,454	(144,023)
Earnings (loss) per share	*14*		
– Basic and diluted		**1.09 cents**	(1.67) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	*15*	**955,813**	782,389
Land use rights	*16*	**203,874**	208,900
Intangible assets	*17*	**1,461**	1,830
Prepaid lease payments	*18*	**170,724**	105,710
Deposits made on acquisition of property, plant and equipment		**79,061**	83,618
Deferred tax assets	*19*	**10,313**	12,040
		1,421,246	1,194,487
Current assets			
Inventories	*20*	**2,289,096**	2,740,968
Trade and other receivables	*21*	**4,755,882**	4,000,606
Land use rights	*16*	**5,026**	5,026
Prepaid lease payments	*18*	**11,055**	9,497
Taxation recoverable		**10,809**	8,202
Derivative financial instruments	*22*	**31,856**	15,534
Pledged bank deposits	*23*	**946,887**	998,571
Bank balances and cash	*23*	**923,860**	549,348
		8,974,471	8,327,752
Current liabilities			
Trade and other payables	*24*	**4,171,585**	3,544,103
Warranty provision	*25*	**30,606**	36,980
Taxation payable		**85,702**	55,734
Derivative financial instruments	*22*	**–**	607
Borrowings related to bills discounted with recourse	*26*	**989,393**	607,842
Short-term debentures	*27*	**805,800**	813,589
Short-term bank loans	*28*	**1,521,132**	1,798,015
		7,604,218	6,856,870
Net current assets		**1,370,253**	1,470,882
Total assets less current liabilities		**2,791,499**	2,665,369
Non-current liabilities			
Government grants	*30*	**40,056**	41,344
Deferred tax liabilities	*19*	**15,226**	12,329
		55,282	53,673
Net assets		**2,736,217**	2,611,696

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	**2012 RMB'000**	2011 RMB'000
Capital and reserves			
Share capital	*31*	**71,906**	71,906
Reserves		**2,634,021**	2,515,899
Equity attributable to owners of the Company		**2,705,927**	2,587,805
Non-controlling interests		**30,290**	23,891
Total equity		**2,736,217**	2,611,696

The consolidated financial statements on pages 55 to 114 were approved and authorised for issue by the Board of Directors on 27 March 2013 and are signed on its behalf by:

LI XINGHAO
CHAIRMAN
AND
CHIEF EXECUTIVE OFFICER

ZHENG ZUYI
VICE CHAIRMAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	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 2011	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
Recognition of equity-settled share based payments	**–**	**–**	**–**	**–**	**26,067**	**–**	**–**	**26,067**	**–**	**26,067**
Share options lapsed	**–**	**–**	**–**	**–**	**(22,449)**	**–**	**22,449**	**–**	**–**	**–**
Transfers	**–**	**–**	**–**	**–**	**–**	**11,387**	**(11,387)**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**3,618**	**11,387**	**11,062**	**26,067**	**–**	**26,067**
Profit for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**92,055**	**92,055**	**6,399**	**98,454**
At 31 December 2012	**71,906**	**938,187**	**(26,408)**	**63,535**	**30,465**	**200,172**	**1,428,070**	**2,705,927**	**30,290**	**2,736,217**

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 2012

	2012 RMB'000	2011 RMB'000
Operating activities		
Profit (loss) before taxation	**136,166**	(136,148)
Adjustments for:		
Interest income	**(34,405)**	(20,785)
Interest expenses	**261,870**	204,804
Depreciation of property, plant and equipment	**102,961**	81,760
Amortisation of intangible assets	**369**	369
Amortisation of government grants	**(1,288)**	(1,568)
Amortisation of land use rights	**5,026**	5,318
Release of prepaid lease payments	**11,261**	7,746
Write-off/loss on disposal of property, plant and equipment	**249**	5,197
Loss on disposal of land use rights	**–**	872
Net gain in fair value changes of derivative financial instruments	**(42,168)**	(36,056)
Loss in fair value changes of warrants	**–**	50,370
Provision for warranty	**22,739**	22,990
Write down on inventories	**22,887**	20,757
Allowance for doubtful debts	**18,718**	11,250
Recovery of doubtful debts	**(7,544)**	(3,364)
Equity-settled share based payments	**26,067**	22,834
Operating cash flows before movements in working capital	**522,908**	236,346
Decrease in inventories	**428,985**	62,084
Increase in trade and other receivables	**(766,450)**	(1,628,517)
Change in derivative financial instruments	**25,239**	40,826
Increase (decrease) in trade and other payables	**627,482**	(151,371)
Decrease in warranty provision	**(29,113)**	(22,608)
Increase in borrowings related to bills discounted with recourse	**381,551**	535,570
Cash from (used in) operations	**1,190,602**	(927,670)
Taxation paid	**(22,317)**	(36,685)
Taxation refund	**16,590**	–
Net cash generated from (used in) operating activities	**1,184,875**	(964,355)
Investing activities		
Interest received	**34,405**	20,785
Purchase of property, plant and equipment	**(215,322)**	(251,296)
Proceeds from disposal of property, plant and equipment	**22,306**	8,719
Prepaid lease payments paid	**(77,833)**	(29,151)
Deposits paid on acquisition of property, plant and equipment	**(79,061)**	(83,618)
Withdrawal of pledged bank deposits	**276,417**	278,180
Placement of pledged bank deposits	**(224,733)**	(325,261)
Net cash used in investing activities	**(263,821)**	(381,642)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 **RMB'000**	2011 RMB'000
Financing activities		
Interest paid	**(261,659)**	(182,415)
Proceeds from issue of short-term debentures	**800,000**	800,000
Repayment of short-term debentures	**(800,000)**	–
Expenses incurred in connection with the issue of short-term debentures	**(8,000)**	(8,800)
Bank loans raised	**2,299,548**	1,925,014
Repayment of bank loans	**(2,576,431)**	(1,319,730)
Dividends paid	**–**	(70,313)
Proceeds from issue of shares	**–**	226,150
Capital contributions from non-controlling interests in a newly established subsidiary	**–**	30,000
Net cash (used in) from financing activities	**(546,542)**	1,399,906
Net increase in cash and cash equivalents	**374,512**	53,909
Cash and cash equivalents at 1 January	**549,348**	495,439
Cash and cash equivalents at 31 December	**923,860**	549,348
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**923,860**	549,348

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 Group has applied the following amendments to HKFRSs:

Amendments to HKAS 12	Deferred tax: Recovery of underlying asset; and
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets

The application of the amendments to HKAS 12 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.

AMENDMENTS TO HKFRS 7 DISCLOSURES – TRANSFERS OF FINANCIAL ASSETS

The Group has applied for the first time the amendments to HKFRS 7 "Disclosures – Transfers of financial assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bills receivables. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 26). The relevant disclosures have been made regarding the transfer of these bills receivables on application of the amendments to HKFRS 7 (see note 21). In accordance with the transitional provisions set out in the amendments to HKFRS 7 (see note 21), the Group has not provided comparative information for the disclosures required by the amendments.

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 HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]

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

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

AMENDMENTS TO HKAS 32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES AND AMENDMENTS TO HKFRS 7 DISCLOSURES – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for the Group's annual period beginning on 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual period beginning on 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 will result in more disclosures in the consolidated financial statements.

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.

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

HKFRS 9 FINANCIAL INSTRUMENTS *(Continued)*

- 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.

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 2012, the directors of the Company anticipate that the application of HKFRS 9 is not expected to have material impact on the consolidated financial statements.

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of HKFRS 10 and HKFRS 12 are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK (SIC) – INT 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

The directors anticipate that these five standards will be adopted in the Group's annual period beginning 1 January 2013. The directors of the Company anticipated that the application of these five standards 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.

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 will result in more extensive disclosures in the consolidated financial statements.

AMENDMENTS TO HKAS 1 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'.

The amendments to HKAS 1 also 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's annual period beginning on 1 January 2013. The directors of the Company anticipated that the application of the amendments of HKAS 1 is expected to have no 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 and trademarks

Purchased patents and trademarks 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVENTORIES

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity (Continued)

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.

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 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.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT

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

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.

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 before tax' 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

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 the initial recognition of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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.

LEASING

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

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 on a systematic and rational basis 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 2012, the carrying amount of warranty provision is RMB30,606,000 (2011: RMB36,980,000). Details of the movements are disclosed in note 25.

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 2012, the carrying amount of trade receivables is RMB2,857,113,000, net of allowance for doubtful debts of RMB22,424,000 (2011: RMB2,247,184,000, net of allowance for doubtful debts of RMB11,250,000).

INCOME TAXES

There are certain non-deductible expenses for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

No deferred tax assets have been recognised on unused tax losses and certain deductible temporary differences arising from the Group's subsidiaries in PRC due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax assets would be recognised in profit or loss for the period. Details of the tax losses for the year ended 31 December 2012 are disclosed in note 19.

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

CATEGORIES OF FINANCIAL INSTRUMENTS

	2012 **RMB'000**	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**6,434,538**	5,324,441
Fair value through profit or loss – held for trading	**31,856**	15,534
	6,466,394	5,339,975
Financial liabilities		
Amortised cost	**7,104,926**	6,248,916
Fair value through profit or loss		
– held for trading	**–**	607
	7,104,926	6,249,523

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 and short-term bank loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

CREDIT RISK

As at 31 December 2012, 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 46% (2011: 40%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, mainly in United States dollars 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 2011 and 31 December 2012, 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:

	2012		2011	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
United States dollars ("USD")	**621,714**	**319,704**	960,568	101,686
Hong Kong dollars ("HKD")	**89**	**–**	6,831	24,450
Euro	**4,594**	**–**	12,434	–

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 a decrease in profit for the year (2011: A negative number indicates an increase in loss for the year) where the RMB strengthens against the relevant currencies. There would be an equal and opposite impact on the profit for the year (2011: loss for the year) where the RMB weakens against the relevant currencies.

	2012 RMB'000	2011 RMB'000
USD	**(15,427)**	(42,944)
HKD	**13**	881
Euro	**(232)**	(621)

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, bank balances and variable rate bank loans 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, bank balances and variable rate bank loans 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, bank balances and variable rate bank loans had been 30 basis points higher and all other variables were held constant, the potential effect on profit/loss for the year is as follows:

	2012 RMB'000	2011 RMB'000
Increase in profit for the year (2011: decrease in loss for the year)	**5,612**	4,644

There will be an equal and opposite impact on the profit for the year (2011: loss 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 22.

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.

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Other price risk (Continued)

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 profit for the year would decrease (2011: the loss for the year would increase) as follows:

	2012 **RMB'000**	2011 RMB'000
USD forward rate	**98,203**	69,908

There will be an equal and opposite impact on the profit for the year (2011: loss 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 29.

The sensitivity analysis includes the outstanding number of warrants as at 31 December 2011 and adjust for a higher/lower in share price, holding other variables constant.

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 ended 31 December 2011 would not be material.

These warrants were expired on 31 May 2012.

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. 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 %	On demand and 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	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities							
As at 31 December 2012							
Trade and other payables	–	2,499,473	1,274,007	7,148	7,973	3,788,601	3,788,601
Borrowings related to bills discounted with recourse*	–	895,401	89,045	4,947	–	989,393	989,393
Short-term debentures	5.90	–	–	847,200	–	847,200	805,800
Short-term bank loans	6.31	608,497	201,946	740,854	–	1,551,297	1,521,132
		4,003,371	1,564,998	1,600,149	7,973	7,176,491	7,104,926
Foreign currency contracts assets – gross settlement							
As at 31 December 2012							
Foreign currency contracts							
– inflows		(470,682)	(817,418)	(608,759)	–	(1,896,859)	(1,875,267)
– outflows		465,917	804,539	596,298	–	1,866,754	1,845,464
		(4,765)	(12,879)	(12,461)	–	(30,105)	(29,803)
Foreign currency contracts assets – net settlement							
As at 31 December 2012							
Foreign currency contracts		(137)	(934)	(1,010)	–	(2,081)	(2,053)

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

	Weighted average interest rate %	On demand and 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		–	–	(163,804)	(163,804)	(163,804)
– outflows		–	–	164,429	164,429	164,411
		–	–	625	625	607
Foreign currency contracts assets – gross settlement						
At 31 December 2011						
Foreign currency contracts						
– inflows		(333,872)	(569,416)	(362,144)	(1,265,432)	(1,252,167)
– outflows		324,598	564,843	360,380	1,249,821	1,236,633
		(9,274)	(4,573)	(1,764)	(15,611)	(15,534)

* The amounts included above for borrowings related to bills discounted with recourse are the maximum amounts the Group could be required to pay for the discounted bills if the bills receivables are not paid at maturity. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that these amount will be settled by the counterparties who issued the relevant bills which have been discounted to the banks.

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 2 based on the degree to which the fair value is observable.

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

	At 31 December 2012		
	Level 1	**Level 2**	**Total**
	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL			
Derivative financial assets			
– foreign currency contracts	–	31,856	31,856

6. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

	At 31 December 2011		
	Level 1	**Level 2**	**Total**
	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

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

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 chief executive officer ("CEO"), 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.

7. SEGMENT INFORMATION *(Continued)*

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	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Mainland China (the "PRC")	**4,825,947**	5,572,276	**844,853**	819,276
Asia (excluding PRC)	**2,064,919**	1,767,031	**271,659**	189,515
Americas	**920,828**	1,247,713	**156,856**	166,107
Africa	**458,079**	184,463	**67,098**	26,895
Europe	**525,406**	549,192	**70,956**	42,482
Oceania	**6,635**	21,350	**1,936**	5,628
	8,801,814	9,342,025	**1,413,358**	1,249,903
Unallocated other income			**63,128**	61,832
Unallocated expenses			**(737,416)**	(841,138)
Staff costs included in selling and distribution costs and administrative expenses			**(363,334)**	(375,938)
Charitable donations			**(1,150)**	(439)
Allowance for doubtful debts			**(18,718)**	(11,250)
Net gain in fair value changes of derivative financial instruments			**42,168**	36,056
Loss in fair value changes of warrants			**–**	(50,370)
Finance costs			**(261,870)**	(204,804)
Profit (loss) before taxation			**136,166**	(136,148)

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.

7. SEGMENT INFORMATION *(Continued)*

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	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
PRC	**4,825,947**	5,572,276	**1,410,933**	1,182,447
Asia (excluding PRC)	**2,064,919**	1,767,031	**–**	–
Americas	**920,828**	1,247,713	**–**	–
Africa	**458,079**	184,463	**–**	–
Europe	**525,406**	549,192	**–**	–
Oceania	**6,635**	21,350	**–**	–
	8,801,814	9,342,025	**1,410,933**	1,182,447

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.

Revenue from major products

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

	2012 RMB'000	2011 RMB'000
Residential air-conditioners		
– split type	**7,193,119**	7,917,335
– window type	**280,517**	293,580
– portable type	**32,748**	34,586
	7,506,384	8,245,501
Commercial air-conditioners	**618,872**	579,811
Air-conditioners' parts and components	**410,068**	214,392
Others	**266,490**	302,321
	8,801,814	9,342,025

7. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION *(Continued)*

Information about major customers

For the year ended 31 December 2012 and 31 December 2011, none of the Group's customer had individually 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 2012 and 31 December 2011 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. On 25 May 2012, the PRC government announced a new Energy-Saving Scheme which is effective for the period form 1 June 2012 to 31 May 2013 (the "New Energy-Saving Scheme").

During the year, the Group was entitled to these government subsidies of RMB116,740,000 (2011: RMB178,393,000) in respect of high energy-saving products sold in 2011 under the Energy-Saving Scheme and RMB4,010,000 (2011: Nil) in respect of high energy-saving products sold under the New Energy-Saving Scheme.

9. FINANCE COSTS

	2012 **RMB'000**	2011 RMB'000
Interests on:		
Bank loan wholly repayable within five years	**108,445**	77,618
Short-term debentures	**73,614**	22,389
Other borrowings wholly repayable within five years	**79,811**	104,797
	261,870	204,804

10. PROFIT (LOSS) BEFORE TAXATION

	2012 RMB'000	2011 RMB'000
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration *(note 11)*	**3,906**	2,700
Other staff's retirement benefits scheme contributions	**37,830**	32,634
Other staff's equity-settled share based payments	**24,006**	20,158
Other staff costs	**609,621**	616,554
	675,363	672,046
Less: Staff costs included in research and development costs	**(43,940)**	(47,663)
	631,423	624,383
Allowance for doubtful debts included in other gains and losses	**18,718**	11,250
Amortisation of intangible assets included in administrative expenses	**369**	369
Auditor's remuneration	**2,173**	2,090
Cost of inventories recognised as an expense including write down on inventories of RMB22,887,000 (2011: RMB20,757,000)	**7,486,467**	8,247,525
Depreciation of property, plant and equipment	**102,961**	81,760
Loss on disposal of land use rights	**–**	872
Net exchange losses included in other gains and losses	**3,275**	31,677
Operating lease rentals in respect of		
– land use rights	**5,026**	5,318
– rented premises	**36,731**	17,389
Provision for warranty included in cost of goods sold	**22,739**	22,990
Release of prepaid lease payments	**11,261**	7,746
Share-based payments to certain customers of the Group	**–**	1,845
Write-off/loss on disposal of property, plant and equipment	**249**	5,197
and after crediting:		
Amortisation of government grants	**1,288**	1,568
Government subsidies included in other income*	**4,655**	11,316
Interest income	**34,405**	20,785
Reversal of doubtful debts included in other gains and losses	**7,544**	3,364
Sales of scrap materials	**8,491**	13,664

* 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.

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

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

	2012					2011				
	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	–	361	4	324	689	–	374	4	161	539
– Mr. Lei Jianghang (resigned on 1 April 2012)	–	–	–	202	202	–	301	3	90	394
– Mr. Huang Xingke	–	499	4	1,011	1,514	–	505	4	319	828
– Dr. Ding Xiaojiang	–	–	–	404	404	–	315	3	183	501
– Mr. Zheng Zuyi (appointed on 4 January 2012)	–	614	3	–	617	–	–	–	–	–
Independent non-executive directors										
– Mr. Wan Junchu	120	–	–	40	160	120	–	–	34	154
– Mr. Zhang Xiaoming	120	–	–	40	160	120	–	–	22	142
– Mr. Fu Xiaosi	120	–	–	40	160	120	–	–	22	142
	360	1,474	11	2,061	3,906	360	1,495	14	831	2,700

The five highest paid individuals included one (2011: one) director of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2011: four) highest paid employees are as follows:

	2012 RMB'000	2011 RMB'000
Employee		
– basic salaries and allowances	2,559	2,765
– retirement benefits scheme contributions	10	7
– equity-settled share based payments	2,638	1,710
	5,207	4,482

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

Their emoluments were within the following bands:

	Number of employees	
	2012	2011
Up to HKD1,000,000	**2**	3
HKD1,000,001 to HKD1,500,000	**1**	1
HKD1,500,001 to HKD2,000,000	**1**	–

Mr. Li Xinghao is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

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.

12. TAXATION

	2012	2011
	RMB'000	RMB'000
The (charge) credit comprises:		
PRC withholding tax	**–**	(6,935)
PRC income tax		
– current year	**(33,088)**	(8,026)
Deferred taxation *(note 19)*	**(4,624)**	7,086
	(37,712)	(7,875)

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) except that one of the subsidiaries was officially endorsed as a High-New Technology Enterprise till 31 December 2013. Pursuant to the EIT Law, a High-New Technology Enterprise shall be entitled to a preferential tax rate of 15% till 31 December 2013.

Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiaries 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 ("Tax Holiday"). 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. The Tax Holiday has expired for this subsidiary at the end of 2011.

12. 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.

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

	2012 **RMB'000**	2011 RMB'000
Profit (loss) before taxation	**136,166**	(136,148)
Tax at the applicable income tax rate of 25%	**(34,042)**	34,037
Effect of expenses not deductible for tax purposes (i)	**(50,210)**	(67,749)
Effect of income not taxable for tax purposes (ii)	**32,332**	44,990
Tax effect of deductible temporary differences not recognised	**(8,346)**	(8,744)
Tax effect of tax losses not recognised	**(934)**	(9,739)
Utilised tax loss previously not recognised	**5,075**	–
Tax effect of a subsidiary with preferential tax rate	**21,310**	–
PRC withholding tax on undistributed earnings	**(2,897)**	(670)
Tax charge and effective tax rate for the year	**(37,712)**	(7,875)

(i) Effect of expenses not deductible for tax purposes includes amounts of non-deductible expenses incurred in respect of the manufacture of high energy-saving products.

(ii) Effect of income not taxable for tax purposes includes amounts of non-taxable government subsidies for high energy-saving products.

13. DIVIDENDS

	2012 **RMB'000**	2011 RMB'000
Dividends recognised as distributions during the year – 2011 final dividend of nil HK cents (2011: 2010 final dividend of HK1.00 cents (equivalent to RMB0.84 cents)) per share paid	**–**	70,313

No dividend was paid or proposed during 2012, nor has any dividend been proposed since the end of the reporting period.

14. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the earnings for the year attributable to owners of the Company of RMB92,055,000 (2011: loss of RMB137,914,000) and on the weighted average number of 8,434,178,000 (2011: 8,272,809,000) shares in issue during the year on the assumption that the bonus issue on 4 January 2011 has been effective on 1 January 2011.

The computation of diluted earnings (loss) per share does not assume the exercise of the Company's outstanding share options and warrants because the exercise price of those share options and warrants was higher than the average market price for shares during the years ended 31 December 2012 and 31 December 2011.

15. 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 2011	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
Additions	250	16,610	6,070	129,665	146,345	298,940
Write-off/disposals	–	(4,876)	(918)	(43,723)	(3,451)	(52,968)
Transfers	9,458	–	–	2,560	(12,018)	–
At 31 December 2012	256,054	140,490	50,092	689,092	202,088	1,337,816
DEPRECIATION						
At 1 January 2011	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
Provided for the year	8,511	16,019	4,925	73,506	–	102,961
Eliminated on write-off/disposals	–	(3,332)	(453)	(26,628)	–	(30,413)
At 31 December 2012	25,610	77,484	24,654	254,255	–	382,003
CARRYING VALUES						
At 31 December 2012	230,444	63,006	25,438	434,837	202,088	955,813
At 31 December 2011	229,247	63,959	24,758	393,213	71,212	782,389

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

16. LAND USE RIGHTS

	2012 RMB'000	2011 RMB'000
Analysed for reporting purposes as		
– non-current assets	**203,874**	208,900
– current assets	**5,026**	5,026
	208,900	213,926

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.

17. INTANGIBLE ASSETS

	2012 RMB'000	2011 RMB'000
CARRYING VALUE		
At 1 January	**1,830**	2,199
Charged to profit or loss	**(369)**	(369)
At 31 December	**1,461**	1,830

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.

18. PREPAID LEASE PAYMENTS

	2012 RMB'000	2011 RMB'000
Analysed for reporting purposes as		
– non-current assets	**170,724**	105,710
– current assets	**11,055**	9,497
	181,779	115,207

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.

19. 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 2011	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)
Charged to profit or loss	(133)	(1,594)	(2,897)	(4,624)
At 31 December 2012	2,662	7,651	(15,226)	(4,913)

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

	2012 RMB'000	2011 RMB'000
Deferred tax assets	**10,313**	12,040
Deferred tax liabilities	**(15,226)**	(12,329)
	(4,913)	(289)

At 31 December 2012, the Group has unrecognised deferred tax liability of RMB56,952,000 (2011: RMB50,192,000) in relation to PRC withholding tax on undistributed earnings of RMB569,520,000 (2011: RMB501,918,000) 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 RMB23,972,000 (2011: RMB40,536,000) available for offset against future profits. Besides, the Group has deductible temporary differences of RMB73,514,000 (2011: RMB47,778,000) relating to write-down on inventories, allowance on doubtful debts and payroll, welfare payables and unrealised gain/loss on financial derivatives at 31 December 2012. No deferred tax asset has been recognised in relation to such tax losses and deductible temporary differences as it is uncertain that future taxable profit stream 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 subsidised 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.

20. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	**626,047**	616,749
Work in progress	**43,601**	48,206
Finished goods	**1,619,448**	2,076,013
	2,289,096	2,740,968

21. TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**2,857,113**	2,247,184
Bills receivables	**1,673,590**	1,500,910
	4,530,703	3,748,094
Deposits paid to suppliers	**145,484**	132,267
Prepayments	**1,922**	7,680
Advances to staff	**19,072**	22,795
Value-added tax recoverable	**44,695**	84,137
Other receivables	**14,006**	5,633
	4,755,882	4,000,606

At the end of the reporting date, bills receivables outstanding amounted to RMB989,393,000 (2011: RMB607,842,000) 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 receivable 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 dates at the end of the reporting period which approximated the respective revenue recognition dates.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

	2012 **RMB'000**	2011 RMB'000
Age		
0 – 30 days	**2,015,737**	1,067,568
31 – 60 days	**479,221**	656,726
61 – 90 days	**430,879**	599,771
91 – 180 days	**1,579,846**	1,394,851
181 – 365 days	**25,020**	29,178
	4,530,703	3,748,094

Include in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB544,203,000 (2011: RMB353,611,000) 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:

	2012 **RMB'000**	2011 RMB'000
Age		
31 – 60 days	**8,123**	10,562
61 – 90 days	**33,557**	43,156
91 – 180 days	**486,857**	285,814
181 – 365 days	**15,666**	14,079
	544,203	353,611

The Group does not hold any collateral over these balances. The average age of these receivables is 120 days (2011: 77 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.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts is as follows:

	2012 **RMB'000**	2011 RMB'000
At 1 January	**11,250**	3,364
Allowances recognised on receivables	**18,718**	11,250
Amounts recovered during the year	**(7,544)**	(3,364)
At 31 December	**22,424**	11,250

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB22,424,000 (2011: RMB11,250,000) 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:

	2012 **RMB'000**	2011 RMB'000
USD	**506,592**	786,387
Euro	**2,223**	5,578

TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2012 that were transferred to banks by discounting those receivables on a full recourse basis. If the bills receivables are not paid out at maturity, the Group is required to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable discounted to banks with full recourse RMB'000
Carrying amount of transferred assets included in trade receivables	994,928
Carrying amount of associated liabilities	989,393

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2012		2011	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Derivatives not under hedge accounting – foreign currency contracts	**31,856**	**–**	15,534	607

At 31 December 2012, the Group has the following foreign currency contracts with predetermined exercisable period and maturity dates. Their major terms are as follows:

Notional amount	Exercisable period	Forward contract rates
65 contracts to sell USD297,000,000 (gross settlement)	From 5 February 2013 to 9 October 2013	USD1/RMB6.3013 to USD1/RMB6.4768

Notional amount	Maturity	Forward contract rates
19 contracts to sell USD19,000,000 (net settlement)	From 5 March 2013 to 20 August 2013	USD1/RMB6.3540 to USD1/RMB6.4820

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

22. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The fair value of the above contracts where determined based on the valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent valuer of 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:

	2012	2011
Volatility	**2.2500%**	4.3200%
RMB risk-free interest rate	**2.9210%**	2.6994%
USD risk-free interest rate	**0.1407%**	0.1298%
Spot price for USD foreign currency contracts	**RMB6.2306**	RMB6.2950
USD/RMB market forward rate	**USD1/RMB6.2457 to USD1/RMB6.3356**	USD1/RMB6.2978 to USD1/RMB6.3334

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:

	2012
RMB risk-free interest rate	2.9210%
USD/RMB market forward rate	USD1/RMB6.3094 to USD1/RMB6.3216

23. 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 0.35% to 0.5% (2011: 0.36% to 0.5%) per annum.

At 31 December 2012, pledged bank deposits represents deposits pledged to banks to secure issuance of bills payables amounting to RMB3,017,270,000 (2011: RMB2,466,798,000) which carry interest at market rates ranged from 2.4% to 3.6% (2011: 2.5% to 3.5%) per annum.

Certain pledged bank deposits and bank balances and cash of RMB1,561,449,000 (2011: RMB1,360,049,000) 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.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH *(Continued)*

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:

	2012 RMB'000 equivalent	2011 RMB'000 equivalent
USD	**115,122**	174,181
HKD	**89**	6,831
Euro	**2,368**	6,856

24. TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	**612,675**	356,379
Bills payables	**3,040,022**	2,563,161
	3,652,697	2,919,540
Customers' deposits	**250,352**	441,133
Payroll and welfare payables	**40,360**	30,609
Other tax payables	**27,182**	25,742
Accruals	**57,593**	17,149
Other payables	**143,401**	109,930
	4,171,585	3,544,103

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.

	2012 RMB'000	2011 RMB'000
Age		
0 – 90 days	**2,363,569**	1,500,005
91 – 180 days	**1,274,007**	1,404,743
181 – 365 days	**7,148**	14,260
1 – 2 years	**7,973**	532
	3,652,697	2,919,540

25. WARRANTY PROVISION

	2012 RMB'000	2011 RMB'000
CARRYING VALUE		
At 1 January	**36,980**	36,598
Additional provision for the year	**22,739**	22,990
Utilisation of provision	**(29,113)**	(22,608)
At 31 December	**30,606**	36,980

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.

26. 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 5.80% to 7.00% (2011: 6.00% to 8.88%) per annum at the end of reporting period.

During the year ended 31 December 2012, the Group discounted bills receivables with recourse in the aggregated amounts of RMB9,348,983,000 (2011: RMB9,465,454,000) to banks for short-term financing of which the associated borrowings are amounted to RMB989,393,000 (2011: RMB607,842,000) as at 31 December 2012 and the relevant cash flows are presented as operating cash flows in the consolidated statement of cash flows for the year ended as the management considered the cash flows are in substance the receipts from trade customers.

27. SHORT-TERM DEBENTURES

On 27 September 2012, 廣東志高空調有限公司 Guangdong Chigo Air-Conditioning Co., Ltd. ("Guangdong Chigo"), 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 5.9% per annum and a fair 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 365 days.

On 5 September 2011, Guangdong Chigo issued short-term debentures in aggregate principal amount of RMB800,000,000 (the "Matured Debenture"). The Matured Debenture, with a fixed coupon rate of 7.9% per annum and a face value of RMB100 each, were listed and transferable on the inter-bank debenture market in the PRC, at 100% of its face value and had been fully settled during the year ended 31 December 2012.

The principle coupon interest will be repaid upon maturity.

27. SHORT-TERM DEBENTURES *(Continued)*

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

	2012 RMB'000	2011 RMB'000
Carrying value at 1 January	**813,589**	–
Repayment of debentures and interests thereon	**(863,200)**	–
Proceeds from issue of debentures	**800,000**	800,000
Transaction costs	**(8,000)**	(8,800)
Net proceeds	**742,389**	791,200
Interest expense	**63,411**	22,389
Carrying value at 31 December 2012	**805,800**	813,589

28. SHORT-TERM BANK LOANS

	2012 RMB'000	2011 RMB'000
Short-term bank loans		
– unsecured	**1,480,986**	1,087,500
– secured by bank deposits and "Chigo" trademark	**40,146**	185,515
– jointly guaranteed by Mr. Li Xinghao and third parties	**–**	375,000
– guaranteed by Mr. Li Xinghao	**–**	150,000
	1,521,132	1,798,015

At the end of the reporting period, Mr. Li Xinghao, being a director and ultimate controlling party of the Company, has no longer given personal guarantee to certain banks for banking facilities (2011: RMB300,000,000).

Also, at the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB3,318,993,000 (2011: RMB2,917,255,000).

28. SHORT-TERM BANK LOANS *(Continued)*

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

	2012 RMB'000 equivalent	2011 RMB'000 equivalent
HKD	–	24,450
USD	**319,704**	101,686

Average interest rates paid were as follows:

	2012	2011
Bank loans	**6.31%**	5.63%

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 2012 and 31 December 2011.

29. 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.

29. WARRANTS *(Continued)*

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.

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.

During the year ended 31 December 2012, no further outstanding warrants were exercised and these warrants were expired on 31 May 2012.

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 31) 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 (2012: Nil).

30. 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.

During the year ended 31 December 2012, 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 RMB1,053,000 (2011: RMB1,165,000) and RMB944,000 (2011: RMB944,000) respectively and the government grant which was recognised as other income was RMB828,000 (2011: RMB1,108,000) and RMB460,000 (2011: RMB460,000) respectively. As at 31 December 2012, an amount of RMB40,056,000 (2011: RMB41,344,000) remains unamortised.

31. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HKD'000	'000	HKD'000
Ordinary shares of HKD0.01 each				
– 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 and 31 December 2012	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at	
– 31 December 2012 and 2011 as	71,906

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").

31. SHARE CAPITAL *(Continued)*

During the year ended 31 December 2011, 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.

In addition, during the year ended 31 December 2011, 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.

32. EQUITY-SETTLED SHARE BASED PAYMENTS

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. 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 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 725,050,000 (2011: 1,136,490,820), representing 8.6% (2011: 13.5%) 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 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.

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

EQUITY-SETTLED SHARE OPTION SCHEME *(Continued)*

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

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share	Number of share options								
					Outstanding at 1.1.2011	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2011	Reclassified during the year	Lapsed during the year	Outstanding at 31.12.2012
				HKD									
Directors	17.11.2009	17.11.2009 – 16.11.2010	17.11.2010 – 16.11.2012	0.301	676,692	–	6,084,000	(2,400,000)	–	4,360,692	(692)	(4,360,000)	–
		17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	0.301	689,125	–	6,208,353	–	–	6,897,478	78,652	(6,976,130)	–
	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	–	15,300,000	–	–	–	15,300,000	13,500,000	–	28,800,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	–	35,700,000	–	–	–	35,700,000	31,500,000	–	67,200,000
Employees	17.11.2009	17.11.2009 – 16.11.2010	17.11.2010 – 16.11.2012	0.301	12,379,308	–	111,420,000	(67,328,000)	–	56,471,308	–	(56,471,308)	–
		17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	0.301	32,822,148	–	295,393,104	–	(6,229,810)	321,985,442	(77,960)	(321,907,482)	–
	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	(13,500,000)	(6,434,000)	184,708,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	–	480,058,000	–	–	(2,450,000)	477,608,000	(31,500,000)	(15,016,000)	431,092,000
Customers#	17.11.2009	17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	0.301	27,590	–	248,310	–	–	275,900	–	(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	–	–	3,942,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	–	9,308,000	–	–	–	9,308,000	–	–	9,308,000
					46,594,863	750,000,000	419,353,767	(69,728,000)	(9,729,810)	1,136,490,820	–	(411,440,820)	725,050,000
Exercisable at end of the year										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.

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

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 from the date of grant, 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 ended 31 December 2011, the weighted average share price at the date of exercise was HKD0.80. No share options are exercised during the current year.

The Group recognised the total expense of RMB1,672,000 (2011: RMB831,000), RMB24,395,000 (2011: RMB20,158,000) and nil (2011: RMB1,845,000) for the year ended 31 December 2012 in relation to share options granted by the Company to the Group's directors, employees and certain customers of the Group respectively.

33. CONTINGENT LIABILITIES

In June 2012, a PRC subsidiary received a notice calling for responses concerning a civil legal proceeding. The legal action was brought by a construction company in relation to the construction work of the PRC subsidiary's factory in Jiangxi claiming for damages of approximately RMB16,200,000 in relation to, allegedly certain construction cost being past due, retention monies being withheld and default in paying compensation. The PRC subsidiary has already filed an application to the court disputing over the extend of construction work done and the quality of such work. Based on the opinion from the Group's legal counsel, the directors of the Company resist this claim and, the directors of the Company are of the view that the claim will not have significant financial impact to the Group.

34. 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:

	2012 RMB'000	2011 RMB'000
Within one year	**25,515**	10,802
In the second to fifth year inclusive	**68,698**	7,557
After five years	**13,523**	7,085
	107,736	25,444

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

35. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**37,872**	104,711

36. 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.

37. 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 RMB980,000 (2011: RMB999,000) 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 11.

38. 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
			2012	2011	
Guangdong Chigo	PRC as a wholly foreign owned enterprise for a term of 50 years commencing 1 September 2006	Registered capital – RMB996,140,000	**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%	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 joint stock limited company	Shares – RMB100,000,000	**70%**	70%	Manufacture and sales of commercial air-conditioners
廣東志高精密機械有限公司 Guangdong Chigo Precision Machinery Co., Ltd.	PRC as a limited liability enterprise for a term of 10 years commencing 9 May 2012	Registered capital – RMB10,000,000	**100%**	–	Manufacture and sales of compressors

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 27).

39. SUBSEQUENT EVENT

On 20 February 2013, a wholly-owned subsidiary of the Company, Chigo (Hong Kong) Investment Limited ("Chigo Hong Kong") has entered into a sales and purchase agreement with Chigo Group pursuant to which Chigo Hong Kong has conditionally agreed to acquire 100% equity interest in a company, 廣東志高科創銅業有限公司 (Guangdong Chigo Kechuang Copper Co., Limited) ("Kechuang Copper") which is wholly owned by Chigo Group at a consideration of RMB38,000,000 ("the Consideration"). The completion of the transaction is conditional upon the satisfaction of necessary legal procedures on equity transfer arrangement under respective PRC laws.

Kechuang Copper is registered as an entity that principally engaged in the manufacturing and sale of copper products. On 20 February 2013, Kechuang Copper's major assets are land use rights and construction in progress with no operation commenced. The director of the Company are in opinion that the acquisition of Kechuang Copper will (i) enable the Group to further vertically integrate its production line and maintain its leading role in the air-conditioning industry; (ii) secure a stable supply of core raw material and component to the Group and enhance business growth of the Group in the future; and (iii) provide room for the Group to control production cost and process and in turn enhance its operation yield and efficiency.

The transaction of the acquisition is not yet completed as at the date of this report.

FINANCIAL SUMMARY

For the year ended 31 December 2012

	Year ended 31 December				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	**2012** **RMB'000**
RESULTS					
Turnover	5,920,583	6,005,495	8,467,723	9,342,025	**8,801,814**
Profit (loss) before taxation	97,734	342,530	313,558	(136,148)	**136,166**
Taxation	(2,446)	(27,751)	(3,705)	(7,875)	**(37,712)**
Profit (loss) for the year	97,288	314,779	309,853	(144,023)	**98,454**
Profit (loss) attributable to					
– owners of the Company	97,288	314,779	309,853	(137,914)	**92,055**
– non-controlling interests	–	–	–	(6,109)	**6,399**
	97,288	314,779	309,853	(144,023)	**98,454**

	As at 31 December				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	**2012** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	4,791,583	5,565,690	7,657,693	9,522,239	**10,395,717**
Total liabilities	(3,413,182)	(3,719,746)	(5,205,685)	(6,910,543)	**(7,659,500)**
Net assets	1,378,401	1,845,944	2,452,008	2,611,696	**2,736,217**
Equity attributable to owners of the Company	1,378,401	1,845,944	2,452,008	2,587,805	**2,705,927**
Non-controlling interests	–	–	–	23,891	**30,290**
	1,378,401	1,845,944	2,452,008	2,611,696	**2,736,217**

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

FINANCIAL SUMMARY

For the year ended 31 December 2012

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012 **RMB'000**	2011 RMB'000
Non-current asset		
Investment in a subsidiary	**588,081**	558,592
Amounts due from subsidiaries	**482,327**	447,568
	1,070,408	1,006,160
Current assets		
Other receivables	**82**	–
Amounts due from subsidiaries	**4,657**	16,527
Bank balances and cash	**694**	5,224
	5,433	21,751
Current liabilities		
Amounts due to subsidiaries	**5,333**	4,273
Accruals and other payables	**99**	99
	5,432	4,372
Net current assets	**1**	17,379
Net assets	**1,070,409**	1,023,539
Capital and reserves		
Share capital	**71,906**	71,906
Reserves	**998,503**	951,633
	1,070,409	1,023,539