

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

OVERVIEW

The Group was founded in 1994, and has become one of the top air-conditioner brands in the PRC in terms of sales volume. The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products, with more than 97% of its turnover for the year ended 31 December 2008 derived from the sale of air-conditioners and air-conditioner parts and components.

The Group has developed strong recognition of its CHIGO brand, which is evidenced by its accreditation by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) as "China Top Brand Product" (中國名牌產品), and by the Trademark Office of the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局商標局) as "Famous Trademark in China" (中國馳名商標). According to the annual research report on residential air-conditioners in the 2008 refrigeration year published by the State Information Center (國家信息中心), the domestic residential air-conditioner market is dominated by the top 10 manufacturers who accounted for over 80% of the PRC market in terms of sales volumes. The top five domestic air-conditioner manufacturers (including the Group) accounted for approximately 62.2% of the PRC market. According to the Information Resources Development Department of the State Information Center (國家信息中心資源開發部), among the top five domestic air-conditioner manufacturers, the Group ranked fourth in the PRC in terms of sales volume, which was approximately 7.6%, in 2008.

The table below sets forth the ranking and market share (in each case, as measured by sales volumes) of the Group's CHIGO brand air-conditioners in the PRC market in recent years, which evidences the continuous improvement and development of the Group.

	2000	2001	2002	2003	2004	2005	2006	2007*	2008*
Ranking (note)	Outside 15	Outside 15	12	9	5	4	4	4	4
Market share (note) (by sales volume)	Not disclosed	Not disclosed	2.5%	3.6%	5.6%	6.0%	6.7%	6.8%	7.6%

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Note: Save where otherwise indicated with “*”, the above figures were extracted from the “Air-conditioning Industry Market Analysis Report” (空調行業市場分析報告) published by the Information Resources Development Department of the State Information Center (國家信息中心資源開發部) in May 2007, representing the sales volume of air-conditioners in the PRC market of each refrigeration year referred thereto.

* These figures were extracted from confirmation letters issued by the Information Resources Development Department of the State Information Center in July 2008 and April 2009, respectively, representing the sales volume of air-conditioners in the PRC market of each full year referred thereto.

The Directors also believe that the Group’s products and services are consistently of a high quality, as evidenced by the awards and certifications received by the Group such as the “China Energy Conservation Product Certification” (中國節能產品認證) in 2004 from the China Certification Centre (中國認證中心). In August 2007, the Group received the Global Human Settlements Award for Global Green Environment-Protection Energy-Saving Air-Conditioning from Friends of United Nations (The Organization Committee of Global Forum on Human Settlements).

The Group sells its air-conditioning products and air-conditioner parts and components both domestically in the PRC and to overseas markets. The Group sold approximately 48.6% and 51.4% of its products in the PRC market and overseas, respectively, in the year ended 31 December 2008, and, during such period, in the PRC market, the Group’s air-conditioning products were sold under CHIGO brand and 現代 HYUNDAI brand, whereas in the overseas markets the Group’s air-conditioning products were sold both under the CHIGO brand and on an OEM basis.

For the three years ended 31 December 2008, sales of air-conditioners accounted for approximately 96.4%, 96.7% and 90.3%, respectively, and sales of air-conditioner parts and components accounted for approximately 0.6%, 1.3% and 7.0%, respectively, of the Group’s total turnover. Other than air-conditioners, the Group also manufactures and sells air-curtains, water coolers, dehumidifiers and wine refrigerators. The Group also sources and resells small household electrical appliances, and licenses its CHIGO brand name to OEM manufacturers who sell these products. Pursuant to the Group’s licensing arrangements with its OEM manufacturers, the Group may grant a licence to an OEM manufacturer for the manufacture of small household electrical appliances under the CHIGO brand, in return for a trademark licensing fee. Under such arrangements, the OEM manufacturers are not allowed to use the Group’s CHIGO brand in any products other than the designated small household electrical appliances. Monthly sales targets would be given to the OEM manufacturers for the sale of the small household electrical appliances manufactured under the CHIGO brand. Customer services would be provided by the OEM manufacturers. The licensing fees from the OEM manufacturers under such arrangements accounted for, on average, not more than 0.06% of the Group’s total turnover for the three years ended 31 December 2008.

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The following table sets out the amount and percentage of the Group's total turnover, made through the Group's sales of CHIGO brand, HYUNDAI brand and OEM air-conditioners, air-conditioner parts and components, and other products for the three years ended 31 December 2008:

	Year ended 31 December					
	2006		2007		2008	
	<i>RMB'000</i>	<i>% of</i>	<i>RMB'000</i>	<i>% of</i>	<i>RMB'000</i>	<i>% of</i>
		<i>Turnover</i>		<i>Turnover</i>		<i>Turnover</i>
CHIGO brand						
air-conditioners	2,740,543	60.4	3,404,391	59.5	2,899,778	49.0
HYUNDAI brand						
air-conditioners	201,381	4.4	163,803	2.9	116,558	2.0
OEM air-conditioners	1,430,389	31.6	1,959,106	34.3	2,330,942	39.3
Air-conditioner parts and components	24,821	0.6	72,410	1.3	415,608	7.0
Other products	137,928	3.0	116,698	2.0	157,697	2.7
Total	<u>4,535,062</u>	<u>100.0</u>	<u>5,716,408</u>	<u>100.0</u>	<u>5,920,583</u>	<u>100.0</u>

For the three years ended 31 December 2008, the Group sold in aggregate approximately 2,719,800, 2,941,900 and 2,956,800 units of residential air-conditioners, respectively. During the same periods, the Group sold in aggregate approximately 45,600, 129,100 and 86,200 sets of commercial air-conditioning products, respectively.

The Group's domestic sales network is geographically divided into six sales regions covering 30 out of 31 provinces, municipalities and autonomous regions in the PRC. The Group has an extensive sales and distribution network in the PRC and it sells its products through independent regional distributors (經銷商) (who in turn may further distribute the Group's products through their resellers (分銷商)) and household appliances retail chain operators. For overseas sales of the Group's products, the Group sells its products to overseas distributors and air-conditioning products manufacturers in other Asian countries, the European market, the American market, the Middle East and African markets and other markets. The Group is a manufacturer and sells its products to the distributors, household appliances retail chain operators and manufacturers as described aforesaid, and, in this respect, the Group has limited direct contacts with the end-users of the Group's products. However, the Group works closely with such distributors (and, with respect to the PRC market, the regional distributors' resellers), household appliances retail chain operators and manufacturers in collecting market information and the relevant data. In addition, with respect to the PRC market, the Group also (i) maintains a network of product monitoring centres, which are charged with the responsibility of collecting market information and working closely with the Group's household appliances retail chain operator customers and distributor customers (and their resellers), and (ii) cooperates with the household appliances retail chain operators for the promotion of the Group's product by staffing sales representatives employed by the Group at the sales counters in their retail chain stores, thus allowing the Group to closely monitor market conditions.

The Group's vertically integrated manufacturing base, comprising seven production and support facilities, enables the Group to manufacture in-house eight of its 10 major component categories (the details of the major components are set out in the paragraph headed "Production – Parts and components" in the "Business" section of this prospectus) and more than 65% of the total number of parts (including those parts used in the manufacture of the aforesaid major components) used in the manufacture of the Group's three main residential air-conditioner series (out of a total of 33 series) in terms of production volume (namely, its 3,500W and 5,100W wall-mounted type and 5,100W floor-

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standing type residential air-conditioners, which represented approximately 30% of the Group's total production volume of residential air-conditioners for the year ended 31 December 2008), which, the Group believes, enables it to control its production costs and coordinate procurement, production and delivery more efficiently. This vertical integration has effectively reduced the Group's production costs and improved the Group's profit margin by reducing the need to pay outside suppliers, and saved time by reducing the need to secure procurement of such parts and components from such suppliers.

The quality control management of the Group received the ISO9001:2000 quality management system certification in December 2001. The Group's products have been accredited with over 400 certifications by various domestic and overseas authoritative organisations. Such certifications include China Compulsory Certification (3C certification) (中國國家強制性產品認證證書), China National Industrial Product Manufacture Certification (全國工業產品生產許可證), CE Certification, UL Certification, GS Certification and Energy Safe Victoria (Australia) certification. The Group also obtained ISO14001:2004 certification for its environmental management standards in June 2006. In addition, the design and manufacture of air-conditioners by the Group has been audited, and was found to be meeting the RoHS Compliance Verification Audit Requirements. These certifications are often designated by the Group's PRC and overseas customers as requirements in respect of the Group's products they purchase. Therefore, the obtaining of such certifications is essential for the Group to make its PRC and overseas sales. These certifications also signify the quality of the Group's products, and they are important in helping the Group attract and secure new customers and strengthening the competitiveness of the Group in the PRC and overseas markets.

The Group has an established strategic relationship with the Vaillant group (a leading European heating technology group, which, through its wholly-owned subsidiary Saunier, invested in the Company in December 2006). Apart from Saunier, the Group also has four other investors, namely, High Surplus, Menlo Dynamics, Getchance and Raffles Partners. For details of the share purchase agreement entered into between Saunier, Chigo Group Holding and Mr. XH Li, and the four subscription agreements entered into between the Company and High Surplus, Menlo Dynamics, Getchance and Raffles Partners, please refer to the "Strategic investor and other investors" section of this prospectus.

Production capacity

Approximately 93.1%, 89.7% and 85.0% of the Group's turnover was generated from the sales of residential air-conditioners in 2006, 2007 and 2008, respectively. Since the setup and the manufacturing processes for residential air-conditioners are more

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standardised and measurable, the production capacities and utilisation rates of the Group's production lines during the Track Record Period are presented in the table set out below.

	Year ended 31 December		
	2006	2007	2008
No. of production lines for residential air-conditioners ⁽¹⁾	14	16	16
Theoretical production capacity (units) ⁽²⁾	3,339,623	4,418,296	4,610,338
Actual production volume (units) ⁽³⁾	2,774,124	3,078,296	2,822,460
Utilisation rate (%)	83.1%	69.7%	61.2%

Notes:

- (1) These production lines comprise designated lines for manufacturing indoor air-conditioner units and outdoor air-conditioner units. Some of these production lines can be adjusted to manufacture different types of residential air-conditioners.
- (2) The theoretical production capacity of the Group's production facilities during the Track Record Period is calculated by aggregating the maximum output per day of the bottleneck process for each of the residential air-conditioner production lines based on a number of assumptions, including the number of operating hours per day, the product type being produced, and the actual number of working days for each of 2006, 2007 and 2008.
- (3) The actual production volume of residential air-conditioners included those of the split type air-conditioners, the window type air-conditioners and the portable type air-conditioners.

The fluctuation of utilisation rates of the Group's production lines for residential air-conditioners throughout the Track Record Period was due to the changes in the theoretical production capacity and actual production volume of the Group's residential air-conditioners. The theoretical production capacity varied over the Track Record Period as the actual number of working days varied over the period, and due to the increase in the number of production lines and the improvement in production efficiency. The increase in theoretical production capacity from approximately 3,339,623 units in 2006 to approximately 4,418,296 units in 2007 was primarily due to the increase in number of production lines from 14 to 16 between the two periods. The increase in theoretical production capacity from approximately 4,418,296 units in 2007 to approximately 4,610,338 units in 2008 was mainly due to the decrease in the number of portable-type air-conditioners being produced and the increase in the number of split type air-conditioners being produced during the period. The average time in producing a portable-type air-conditioner is relatively longer than that of a split type air-conditioner. This shift in the types of products produced raised the theoretical production capacity of the Group in 2008. The increase in actual production volume of residential air-conditioners in 2007 was mainly due to the increase in production lines and the sales plan which reflected an increase in actual sales of the Group during that period. The decrease in actual production volume of residential air-conditioners in 2008 was mainly a result of the decrease in actual sales of the Group during that period. As production was driven by sales plan, the Group adjusted its production volumes of the residential air-conditioners according to the actual sales orders received. In 2008, affected by the economic downturn towards the end of the year, both the actual operating hours and the actual production volume of residential air-conditioners decreased.

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The commercial air-conditioning products are manufactured according to the specifications of the orders placed. The setup and the time required for the production of commercial air-conditioning products therefore vary significantly and thus it is not practicable for the Group to present the theoretical production capacity for its commercial air-conditioning products. The Group had five, seven and seven production lines for the manufacture of commercial air-conditioning products in 2006, 2007 and 2008, respectively, and the Group's actual production volume of commercial air-conditioning products during these periods is set out below.

	Year ended 31 December		
	2006	2007	2008
Actual production volume of commercial air-conditioning products (units)	110,880	155,268	158,331

The Group plans to expand its production capacity for the manufacture of commercial air-conditioning products at its facilities in Wuhu, Anhui province, the PRC and Jiujiang, Jiangxi province, the PRC, with the proceeds of the Global Offering. It is expected that with the completion of the manufacturing capacity expansion project in the first half of 2011, the number of production lines for the manufacture of the Group's commercial air-conditioning products will be increased from seven to nine.

COMPETITIVE STRENGTHS

The Group believes that it has the following competitive strengths:

- High quality products leading to strong brand recognition and increase in market share;
- Strong parts and components manufacturing capabilities strengthening the Group's vertically integrated production process and supply chain management;
- Extensive distribution networks in the PRC and overseas markets;
- Strong emphasis on product research and development; and
- Experienced and dedicated management team.

BUSINESS STRATEGIES

The Group aims to become a top air-conditioner manufacturer in the PRC and intends to focus on the following principal strategies to strengthen its market position:

- Further strengthen vertical integration and quality control in the production process;
- Expand manufacturing and distribution capabilities for commercial air-conditioning products;
- Strengthen research and development capability and diversify product offerings with advanced features;

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- Strategic cooperation; and
- Enhance brand awareness.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the Group's consolidated income statement data for the three years ended 31 December 2008, and the Group's consolidated balance sheet data for the three years ended 31 December 2008, respectively, as extracted from the accountants' report set out in Appendix I to this prospectus. The results were prepared on the basis of the presentation as set out in the above-mentioned accountants' report.

Summary of consolidated income statement data

	Year ended 31 December		
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	4,535,062	5,716,408	5,920,583
Cost of goods sold	<u>(3,699,918)</u>	<u>(4,659,817)</u>	<u>(4,940,650)</u>
Gross profit	835,144	1,056,591	979,933
Other income	10,750	49,310	49,071
Selling and distribution costs	(351,436)	(525,604)	(500,336)
Administrative expenses	(149,403)	(136,532)	(183,694)
Other expenses	(4,221)	(26,378)	(49,197)
Net gain (loss) in fair value changes of derivative financial instruments	—	44,214	(83,978)
Fair value changes in respect of embedded conversion option derivatives of other borrowings	(35,258)	—	—
Finance costs	<u>(42,171)</u>	<u>(91,567)</u>	<u>(114,065)</u>
Profit before taxation	263,405	370,034	97,734
Taxation	<u>(42,450)</u>	<u>2,869</u>	<u>(2,446)</u>
Profit for the year	<u>220,955</u>	<u>372,903</u>	<u>95,288</u>
Dividends	<u>94,705</u>	<u>—</u>	<u>—</u>
Earnings per share			
— Basic	<u>61.9 cents</u>	<u>87.2 cents</u>	<u>22.3 cents</u>

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Summary of consolidated balance sheet data

	The Group		
	As at 31 December		
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	423,671	333,539	372,595
Land use rights	44,947	85,938	84,124
Intangible assets	3,288	3,169	2,812
Prepaid lease payments	14,791	64,565	103,831
Deposits made on acquisition of property, plant and equipment	1,053	17,679	10,557
Deferred tax assets	6,503	9,372	9,921
	<u>494,253</u>	<u>514,262</u>	<u>583,840</u>
Current assets			
Inventories	774,294	1,595,528	1,422,838
Trade and other receivables	896,068	1,124,796	1,499,119
Land use rights	963	1,815	1,815
Taxation recoverable	—	1,795	13,662
Derivative financial instruments	—	43,515	3,408
Pledged bank deposits	894,590	1,115,022	1,006,067
Bank balances and cash	298,988	74,767	260,834
	<u>2,864,903</u>	<u>3,957,238</u>	<u>4,207,743</u>
Current liabilities			
Trade and other payables	1,787,392	2,248,741	2,031,918
Warranty provision	16,834	35,123	35,302
Amount due to ultimate holding company	207,671	28,250	28,250
Amount due to a director	102,286	47,216	15,580
Dividend payable	95,768	100,000	—
Taxation payable	89,014	75,833	75,683
Derivative financial instruments	—	12	82,294
Short-term bank loans	225,981	688,730	1,077,986
	<u>2,524,946</u>	<u>3,223,905</u>	<u>3,347,013</u>
Net current assets	<u>339,957</u>	<u>733,333</u>	<u>860,730</u>
Total assets less current liabilities	<u>834,210</u>	<u>1,247,595</u>	<u>1,444,570</u>
Non-current liabilities			
Government grant	24,000	64,482	63,174
Deferred tax liabilities	—	—	2,995
	<u>24,000</u>	<u>64,482</u>	<u>66,169</u>
Net assets	<u>810,210</u>	<u>1,183,113</u>	<u>1,378,401</u>
Capital and reserves			
Share capital	1	1	1
Reserves	810,209	1,183,112	1,378,400
Total equity	<u>810,210</u>	<u>1,183,113</u>	<u>1,378,401</u>

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The Group's financial performance deteriorated for the year ended 31 December 2008 as compared to the year ended 31 December 2007

Despite recording a significant growth in the year ended 31 December 2007 as compared with the year ended 31 December 2006, the Group's key performance indicators in the year ended 31 December 2008 deteriorated as compared with the year ended 31 December 2007, which was mainly due to:

- (i) the global financial crisis and economic downturn in the second half of 2008 and the unusual cooler weather conditions in the PRC, which had an adverse impact on the PRC sales of the Group's air-conditioners;
- (ii) an increase in cost of goods sold, which was mainly due to an increase in the costs of raw materials; and
- (iii) the incurrence of a net loss in fair value changes of foreign currencies forward contracts and of a copper swap contract.

A brief summary of the certain factors affecting the abovementioned key performance indicators are set out below:

Effect of economic downturn and a cooler summer in the PRC impacting on PRC sales and the Group's financial condition

- The PRC sales of the Group's air-conditioners decreased from approximately RMB3,257.8 million in 2007 to approximately RMB2,680.0 million in 2008, and the inventory turnover ratio of the Group's products as at 31 December 2008 increased to 111.5 days as compared to 92.8 days as at 31 December 2007, which were principally due to the economic downturn and a generally cooler summer in the PRC in 2008 which led to slower sales of the Group's products and which in turn also led to an increase in time for inventory to turn into sales.
- With the economic slow down in the PRC, certain of the Group's regional distributors in the PRC required longer periods to settle their purchases from the Group and in respect thereof, the Group has made a provision in the amount of RMB3.9 million in 2008.

As a result, the Group's debtor turnover ratio as at 31 December 2008 increased to 76.7 days from 59.9 days as at 31 December 2007. For a detailed discussion of the debtor turnover ratio and ageing analysis of the trade receivables, including but not limited to the subsequent settlement of trade receivables up to 31 May 2009, please refer to the section headed "Financial information — Analysis of financial position — Analysis of major balance sheet items and financial ratios — Trade and other receivables and debtor turnover days" in this prospectus.

- The Group's gearing ratio increased from 15.4% as at 31 December 2007 to 22.5% as at 31 December 2008 due to the increase in short-term bank loans of the Group from RMB688.7 million as at 31 December 2007 to

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RMB1,078.0 million as at 31 December 2008 in order to fund its working capital requirement, and slower collection of trade receivables as certain of the Group's customers were affected by the economic downturn in 2008.

Deterioration in gross profit

- The Group's gross profit for the year ended 31 December 2008 deteriorated by 7.3% (as compared to 2007), which was principally due to:
 - (i) lower turnover from the sales of residential and commercial air-conditioning products as a result of the downturn of the property market in the PRC in 2008; and
 - (ii) higher cost of goods sold due to an increase in the cost of goods sold, especially the costs of raw materials, which increased at a rate higher than the increase in the Group's sales over the same period.

As a result, the Group's overall gross profit margin decreased from 18.5% in the year ended 31 December 2007 to 16.6% in the year ended 31 December 2008.

Deterioration in net profit and a net loss in fair value changes

- The Group's net profit for the year ended 31 December 2008 deteriorated by 74.4% (as compared to 2007), which was principally due to:
 - (i) a decrease in gross profit, driven primarily by significant increases in cost of goods sold that outpaced the increase in turnover;
 - (ii) an increase in finance costs because of an increase in bank borrowings as a result of slower receivable turnover and slower sales;
 - (iii) an increase in the Group's administrative expenses such as the increased bank handling fees as a result of a significant number of bank transactions;
 - (iv) an increase in the Group's other expenses as a result of net exchange losses incurred because of the impact of depreciation of the US dollar relative to the Renminbi, as most overseas sales were denominated in US dollars, and an increase in the provision for doubtful trade receivables as the receivable turnover had slowed down especially in relation to the regional distributors in the PRC following the economic downturn; and
 - (v) the incurrence of a net loss in fair value changes of foreign currencies forward contracts because the Renminbi remained relatively stable in the second half of 2008 as against other foreign currencies and a realised loss and a net loss in fair value changes of a copper swap contract due to the decrease in market price of copper which moved unfavourable to the Group's position after its entering into the copper swap contract.

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As a result of the foregoing, the Group's net profit margin decreased from 6.5% for the year ended 31 December 2007 to 1.6% for the year ended 31 December 2008.

For additional financial information of the Group during the Track Record Period and certain other related information, please refer to the section headed "Financial information" in this prospectus and the accountants' report as set out in Appendix I to this prospectus and to the sections headed "Risk factors – Risks relating to the Group – Seasonal fluctuations and weather conditions", "Risk factors – Risks relating to the Group – Economic downturn" and "Risk factors – Risks relating to the Group – Prolonged disruptions to the global credit and capital markets and the global economy may materially and adversely affect the Group's liquidity, results of operations, financial condition, prospects and future expansion plans".

The Group's operations and financial condition in 2009 may be affected by the recent economic downturn

The effects of the economic crisis which occurred in 2008 may continue to affect different economies and markets in 2009 as well as the Group's results and operations and financial condition in 2009. From 1 January 2009 and up to 31 March 2009, the Group experienced slow down in settlement with some of its PRC and overseas customers of approximately RMB69.7 million. As a result, the Group's unaudited debtor turnover ratio as at 31 March 2009 increased to 113.8 days as compared to 76.7 days as at 31 December 2008.

The Company believes that these customers were affected by the economic downturn and experienced slower sales and longer inventory turnover which affected their cash flows and they have requested longer settlement period with the Group than the usual terms of settlement. Despite the aforesaid, these customers continued to settle gradually with the Group the outstanding amounts owing to the Group and as at 31 March 2009 none of them had defaulted in settlement of these deferred payment.

The Group will continue to regularly monitor the progress of payment by these customers to ensure full settlement of the outstanding amounts and make the necessary provisions for doubtful debts in accordance with the applicable accounting standards. Please refer to the credit control procedures as set out in the section headed "Financial Information – Analysis of financial position – Analysis of major balance sheet items and financial ratios – Trade and other receivables and debtor turnover days" in this prospectus.

For overseas customers, the Group experienced only five cancellation of orders in the first quarter of 2009 which amounted to approximately RMB16.9 million in aggregate. There was also an overseas customer who demanded for a 12% price reduction on sales during the abovementioned period which amounted to approximately RMB2.0 million.

However, as such cancellation orders or price reduction were not substantial in value as compared to the Group's turnovers during the Track Record Period nor were they from the major overseas customers of the Group, even if they may have some

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impact on the Group's turnover from overseas customers in 2009, the Directors believe that such cancellation of orders or price reduction were not expected to materially and adversely affect the Group's overseas sales in 2009.

Nevertheless, there can be no assurance that the Group will not experience similar or even more severe delay in payment, cancellation orders or price reduction in the near future. Please refer to "Risk factors – Risks relating to the Group – Seasonal fluctuations and weather conditions", "Risk factors – Risks relating to the Group – Economic downturn" and "Risk factors – Risks relating to the Group – Sustainability of growth" in this prospectus.

USE OF PROCEEDS

The Directors believe that the Global Offering will raise and strengthen the Group's corporate profile and capital base, and will provide funding for achieving the Group's business strategies and carrying out its future plans.

The net proceeds of the Global Offering are estimated to be approximately HK\$93.8 million, before exercise of the Over-allotment Option, after deducting underwriting commissions and other estimated expenses and assuming an Offer Price of HK\$1.885 per Share, being the mid-point of the stated range of the Offer Price, or approximately HK\$113.6 million if the Over-allotment Option is exercised in full, after deducting underwriting commission and other estimated expenses and assuming the same mid-point Offer Price. The Directors intend to use such net proceeds as follows:

- approximately 60.0% of the net proceeds, or approximately HK\$56.3 million, to expand the Group's manufacturing capacity for the production of commercial air-conditioning products. These expansion projects have commenced but were slowed down in view of the economic downturn, and the Group adjusted the construction work schedule in accordance with its business needs. It is expected that the manufacturing capacity expansion project will commence in the second half of 2009 and will be completed in the first half of 2011, after which, the number of production lines for the manufacture of the Group's commercial air-conditioning products will be increased from seven to nine;
- approximately 30.0% of the net proceeds, or approximately HK\$28.1 million, for advertising and marketing activities including those relating to (i) the promotion of the Group's brand name and products through nationwide television media as well as outdoor advertising media, published media and the internet; (ii) further cooperation with regional distributors with a view to enhancing their promotional stores; (iii) promotional activities targeted at end-users; (iv) the production of promotional gifts; and (v) participating in trade shows; and
- the remaining amount as funding for working capital.

In the event that the Over-allotment Option is exercised in full, the Group will receive additional net proceeds of approximately HK\$19.8 million, which the Directors intend to use for advertising and marketing activities.

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In the event that the Offer Price is fixed at the highest or the lowest point of the indicative Offer Price range, the net proceeds of the Global Offering to the Group will be approximately HK\$120.7 million and HK\$66.8 million, respectively, and the Group will adjust its allocation of the net proceeds for the above purposes on a pro rata basis.

The remittance of the net proceeds of the Global Offering into the PRC shall be subject to the approvals from the relevant PRC authorities including the foreign exchange registration and/or the Ministry of Commerce or its authorised local bureau, but, as the Offer Price and the final amount of the proceeds of the Global Offering have yet to be determined, the application for such approvals and/or registration is not practicable prior to the completion of the Global Offering. The Group will apply for the requisite approvals and the foreign exchange registration after the completion of the Global Offering. To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if the Group is unable to effect any part of its development plan as intended or if the Group is unable to obtain the requisite approvals or to complete the foreign exchange registration, it may hold such funds in short-term deposits with banks and/or financial institutions in Hong Kong for so long as it deems to be in the best interests of the Group. In such event, the Company will comply with the appropriate disclosure requirements under the Listing Rules.

OFFER STATISTICS

	Based on the Minimum Indicative Offer Price of HK\$1.50 per Offer Share	Based on the Maximum Indicative Offer Price of HK\$2.27 per Offer Share
Market capitalisation of the Shares ⁽¹⁾	HK\$750 million	HK\$1,135 million
Unaudited pro forma adjusted net tangible asset per Share ⁽²⁾	HK\$3.25	HK\$3.36

Notes:

- (1) The calculation of market capitalisation is based on 500,000,000 Shares expected to be in issue following the completion of the Global Offering and Capitalisation Issue but taking no account of any Shares which may be issued pursuant to the Over-allotment Option and the options which may be granted pursuant to the Share Option Scheme.
- (2) The unaudited pro forma adjusted net tangible asset per Share is calculated after making the adjustments referred to in the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus and on the basis of a total of 500,000,000 Shares expected to be in issue following the completion of the Global Offering.

DIVIDEND POLICY

Subject to the availability of the Company's cash and distributable reserves, the Group's investment requirements and the Group's cashflow, working capital and other requirements, the Directors currently intend to declare and recommend dividends which would amount to not less than 30% of the net profit, if any, from ordinary activities for the first financial year subsequent to the Global Offering.

SUMMARY

The above intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay a dividend in such manner or declare and pay any dividend at all, either in the first financial year subsequent to the Global Offering or thereafter. Particulars of the dividend policy to be adopted by the Group following the Listing are set out in the subsection headed “Dividends” under the section headed “Financial information” of this prospectus. The dividend policy is subject to review by the Directors at any time and the Company may determine not to pay any dividends as a result of such review.

RISK FACTORS

The operation of the Group involves certain risks which prospective investors should evaluate in connection with an investment in the Offer Shares. These risks can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering. These risks are described in the section headed “Risk factors” and are listed below:

Risks relating to the Group

- Certification of the Group’s products
- Potential claims over defective products
- Material disruptions of the Group’s operations and/or the Group’s markets
- Reliance on major customers
- Seasonal fluctuations and weather conditions
- Economic downturn
- Reliance on regional distributors for sales of the Group’s products
- Reliance on major suppliers
- Foreign currency forward contracts, copper forward contracts and copper swap contracts
- Limited direct contacts with end-users
- Reliance on senior management team and talented personnel
- Shortage of electricity
- Limited insurance coverage
- Potential risk of increase in warranty claims
- Sustainability of growth
- Future dividend policy

SUMMARY

- Uncertain protection and possible infringement of the Group's intellectual property rights
- Failure to capture overseas markets
- Potential loss of preferential tax treatments
- A newly enacted PRC tax law may affect tax exemptions on dividends received by the Company
- The PRC tax law may affect dividends payable by the Company to its foreign investors and gain of the sale of the Shares
- Shortage of labour supply
- Insufficiency of capital resources to implement business strategies
- Construction of production facilities
- The interests of the Company's Controlling Shareholders may conflict with the best interests of the other Shareholders
- The Group's indebtedness and rising interest rates
- Environmental matters
- Prolonged disruptions to the global credit and capital markets and the global economy may materially and adversely affect the Group's liquidity, results of operations, financial condition, prospects and future expansion plans
- Acts of God, acts of war, natural disasters and other disasters could materially and adversely affect the Group's business

Risks relating to the industry

- Competition from both domestic and foreign companies
- Fluctuations in price and supply of raw materials, parts and components
- Potential risk of imposition of anti-dumping and other export duties and of minimum EER standard
- Technological changes, need for new product introductions and potentially long new product cycles
- China's accession to the WTO may intensify competition in China's air-conditioner industry

Risks relating to the PRC

- Political structure and economic considerations

SUMMARY

- Foreign exchange considerations
- Legal and other regulatory considerations
- Service of process and enforcement of judgments in the PRC may be difficult to obtain and effect
- The Labour Contract Law and other labour-related regulations in the PRC
- Potential recurrence of severe acute respiratory syndrome (SARS), pandemic influenza, avian influenza (including H5N1) or influenza A (H1N1) (also sometimes referred to as swine influenza) or other widespread public health problem

Risks relating to the Global Offering

- There has been no prior public market for the Shares
- The trading price of the Shares may be volatile
- The sale or availability for sale of substantial amounts of the Shares could adversely affect their trading price
- The liquidity and market prices of the Shares following the Global Offering may be volatile
- Dilution of Shareholders' interest as a result of additional equity fund raising
- Potential unreliability of facts and statistics with respect to information obtained from official government sources
- Forward-looking statements