Investing in the Shares involves certain risks. You should carefully consider each of the risks described below and all of the other information contained in this prospectus, including the accountants' report included in Appendix I to this prospectus, before deciding to purchase any Shares. You should be aware that the Group's principal operations are located in the PRC, and they are subject to a legal and regulatory environment that in some respects differs significantly from that in other countries.

If any of the following risks occurs, the Group's business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of the Shares could decline, and your investment would be adversely affected.

RISKS RELATING TO THE GROUP

Certification of the Group's products

The Group's products have passed national mandatory certifications in the PRC and were accredited with various certifications by domestic and foreign authoritative organisations. Such certifications include China Compulsory Certification (3C certification) (中國國家强制性產品認證證書), China National Industrial Product Manufacture Certification (全國工業產品生產許可證), the CE Certification of the European Community, UL Certification, GS Certifications of Germany, the Energy Safe Victoria certification of Australia. These certifications are often designated by the Group's PRC and overseas customers as requirements in respect of the quality of the Group's products. 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 to attract new customers and strengthening the competitiveness of the Group in the PRC and overseas markets. Some of these certifications are subject to renewal every year in accordance with the standards set out by the relevant issuing organisations and authorities. In the event of non-renewal, or a delay in renewal or revocation of any of these certifications, or that the Group cannot comply with any new standards that may be promulgated in the future, or the Group experiences delay in implementing measures to comply with any such new standards, or that the Group needs to incur significant expenditure in complying with such new standards, the business, financial condition and results of operations of the Group may be adversely affected.

Potential claims over defective products

Manufacturers and sellers of defective products in the PRC may be liable for any loss and injury caused by such products. According to the principal laws and regulations governing this area, such as the PRC Civil Law, where a sub-standard product causes property damage or physical injury to any person, the manufacturer or seller of such sub-standard product may be subject to civil liabilities under the PRC Civil Law for such damage or injury. The PRC Civil Law was supplemented by the Product Quality Law. The Product Quality Law is intended to protect the legitimate rights and interests of end-users and consumers and to strengthen the supervision and control of the quality of products. Under the Product Quality Law, manufacturers are responsible for the quality of the products they produce and the products must meet certain minimum standards. Further, the Consumers' Protection Law gives protection to legal rights and interests of consumers in respect of the safety of people and property in the purchase or use of goods or services. The Consumers' Protection Law shall be observed by operators in the PRC in respect of goods produced or sold by them and in the provision of services.

The Group may also be liable for loss and injury due to defective products under the relevant laws of all possible jurisdictions other than the PRC which may have an adverse effect on the Group's financial condition and results of operations.

There is no assurance that additional regulatory requirements will not be imposed by the PRC or other government authorities outside the PRC. The Group may be required to incur extra expenditures to maintain insurance policies to cover the Group's product liability exposure.

Material disruptions of the Group's operations and/or the Group's markets

The Group's manufacturing operations, as well as its trading operations, could be disrupted for reasons beyond its control. The cause of disruptions may include extreme weather conditions (such as tropical cyclones and other storm systems), fire, natural catastrophes (such as earthquakes), raw material and/or component supply disruptions, equipment and system failures, labour shortages, workforce actions or environmental issues ("Natural and Other Causes").

Any such disruption of the Group's operations could cause it to stop, limit or delay its production, delay or prevent the delivery of its products to the customers, prevent it from meeting customers' orders, increase its costs of production or require it to make unplanned capital expenditure. Losses arising from such disruptions may not be covered by the Group's insurance policies, and the Group's business and results of operations could be materially and adversely affected. In addition, such Natural and Other Causes may affect the political and economic conditions of the Group's markets, which could in turn materially and adversely affect the Group's business and results of operations.

Reliance on major customers

The Group's products are sold to independent household appliances retail chain operators and regional distributors (including contractors) in the PRC. In overseas markets, the Group's products are mainly sold to independent distributors and OEM air-conditioning products manufacturers. For each of the three years ended 31 December 2008, the Group's five largest customers accounted for approximately 18.1%, 18.2% and 21.8%, respectively, of the Group's total turnover. For the same periods, the Group's single largest customer accounted for about 6.1%, 7.0% and 8.8%, respectively, of the Group's turnover.

The Group has not entered into any long-term sales agreement or commitment with its customers mentioned above (who are distributors and retail chain operators, but not end-users). There is no assurance that such customers will continue to purchase or maintain their purchase volumes of the Group's products in the future. The demand for the Group's products by such customers and other customers may change due to a number of factors, some of which may be outside the Group's control such as changes in their businesses, personnel and sourcing policies and, for the Group's regional distributors in the PRC, their own contractual relationships with resellers and retailers. In the event that any of the Group's customers ceases to purchase from the Group or reduces the purchase volume of orders placed with the Group, and the Group is unable to obtain replacement orders, the Group's business and results of operations may be adversely affected.

Seasonal fluctuations and weather conditions

In the past, the Group has generally experienced a high degree of seasonality patterns in its business. With the diversification of the Group's overseas sales markets and technological advancement in the Group's products, the Directors believe that the Group's sales of air-conditioners have become less susceptible to seasonal fluctuations in recent years. However, seasonal fluctuations in the Group's sales of air-conditioners still exist. Demands for air-conditioners are usually higher during summer each year, resulting in the Group's sales during March, April, May, June, July and August being proportionally higher than those in the other six months of the year. For the three years ended 31 December 2008, the Group's sales in the six-month period from March through August accounted for approximately 67.8%, 63.7% and 70.5%, respectively, of the sales in the whole year. Accordingly, the Group's operations, including its sales, working capital and operating cashflow, are exposed to the risks associated with seasonal factors and abnormal changes in weather conditions that may adversely affect the Group's results of operations and financial condition.

Economic downturn

During the Track Record Period, the European and American markets represented major overseas markets for the exports of the Group's products and recorded a continued growth. For the three years ended 31 December 2008, the Group generated approximately 18.3%, 23.4% and 27.6%, respectively, of its total sales to overseas customers from its customers in the European market and approximately 18.8%, 18.5% and 20.0%, respectively of its total sales to overseas customers from its customers in the American market. For the same period, the Group's turnover attributable to its European customers were RMB321.0 million, RMB544.1 million and RMB840.0 million, respectively, while the Group's turnover to its American customers were RMB329.1 million, RMB432.0 million and RMB609.4 million, respectively. However, recently, concerns over the availability and cost of credit, the US mortgage market, energy costs, inflation, and a declining US real estate market have contributed to increased volatility and diminished expectations for the economy and the market going forward. These factors, combined with declining business and consumer confidence and increased unemployment in the United States and Europe, have precipitated an economic slowdown and fears of recession. Initially, the concerns on the part of market participants were focused on the sub-prime segment of the mortgage-backed securities market. However, these concerns have expanded to include a broad range of mortgage-backed, asset-backed and other fixed income securities. The PRC and international equity markets have also been experiencing heightened volatility. These events and the continuing upheavals have resulted in economic slowdown and decrease in consumer confidence, which in turn have affected and may continue to affect consumers' demand for the Group's products.

Therefore, in light of the global financial crises which adversely affected the global economy especially in the United States and Europe, there can be no assurance that the Group can in the near future continue to experience any increase in turnover from its customers in these two markets. In addition, from 1 January 2009 and up to 31 March 2009, the Group experienced slow down in settlement from its PRC and overseas customers. The Company believes that these customers were affected by the economic downturn and were experienced slower sales and longer inventory turnover which affected their cash flows and have requested longer settlement period with the Group than the usual terms of settlement. 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. There can be no assurance that the Group will not experience similar or even more severe delay in payment, cancellation of orders or price reduction in the near future. Accordingly, the Group's operations, including its sales, working capital and operating cashflow, are exposed to the risks associated with economic downturn that may adversely affect the Group's results of operations and financial condition.

Reliance on regional distributors for sales of the Group's products

The Group's products are sold through independent distributors in both the PRC and overseas markets. Sales through distributors accounted for approximately 84.5%, 84.2% and 84.3% of the Group's turnover for the three years ended 31 December 2008, respectively. For further details about the Group's distributorship sales, please refer to the section headed "Business — Sales and distribution" in this prospectus.

The Group has not entered into any long-term sales agreement or commitment with its distributor customers. Further, the Group relies on its regional distributors for each province to distribute its CHIGO brand products and, in some cases, there is only one distributor for one province. There is no assurance that the Group will be able to maintain its business relationship with its distributor customers. If any or a significant number of them terminates or does not renew their agreements with the Group, the Group may not be able to replace them with new distributors in a timely manner, or the replacement distributor(s) may not be able to manage the same network of resellers or a network of resellers of a similar scale. As a result, the Group's business, financial condition and results of operations may be materially and adversely affected.

Reliance on major suppliers

For the three years ended 31 December 2008, the Group's five largest raw materials, parts and components suppliers accounted for approximately 33.1%, 37.0% and 32.8% of the Group's total purchases, respectively. For the same periods, the Group's single largest raw materials, parts and components supplier accounted for about 10.7%, 11.3% and 10.5% of the Group's total purchases, respectively. The Group has not entered into any long-term agreement or commitment with its existing suppliers and there is no assurance that these suppliers will continue to supply raw materials and components to the Group in the future. Any disruption in the supply of such materials and components from the suppliers of the Group may have an adverse impact on the Group's results of operations and prospects.

The Group does not manufacture compressors, which is a key component for air-conditioners. During the Track Record Period, the Group sourced compressors from over 10 suppliers. During the same period, the average unit price of compressors sourced by the Group increased by approximately 3.5% from 2006 to 2007 and 3.5% further from 2007 to 2008. For the three years ended 31 December 2008, compressors accounted for approximately RMB1,035.6 million, RMB1,271.2 million and RMB1,417.3 million, respectively, representing approximately 28.0%, 27.3% and 28.7%, respectively, of the Group's total cost of goods sold. The Group has not entered into any long-term agreement with its existing suppliers of compressors and there is no assurance that the Group would not have difficulty in obtaining compressors in the quantities, or at the cost, required by its operations. Its business, financial condition and results of operations could be adversely affected if it were unable to find alternative supplies of compressors of the same quantity at competitive prices or if it were unable to pass the increase in costs of compressors to its customers.

Foreign currency forward contracts, copper forward contracts and copper swap contracts

The Group's operating activities are carried out in the PRC and its expenses are principally denominated in RMB, whereas approximately 38.7%, 40.7% and 51.4% of the Group's total turnover for the three years ended 31 December 2008, respectively, was derived from overseas sales and are denominated in foreign currencies. Thus, the Group has significant exposures to foreign currency fluctuations. Since 2007, the Group entered into certain foreign currency forward contracts to hedge against part of its exposure to potential variability of foreign currency risk arising from changes in foreign currency exposure. As there were no foreign currency forward contracts entered into prior to 2007, there was no net gain or loss in foreign currency forward contracts recorded in the year ended 31 December 2006. The Group recognised a net gain on fair value changes of these foreign currency forward contracts of approximately RMB43.0 million for the year ended 31 December 2007 and a net loss on fair value changes of these foreign currency forward contracts of RMB61.0 million for the year ended 31 December 2008. For the same periods, the total value of these foreign currency forward contracts was approximately RMB43.5 million and unrealised loss of RMB59.4 million, respectively. The management regularly monitors the Group's foreign currency exposure and will consider entering into hedging arrangements should the need arise. Please see "Financial information — Market risks — Foreign currency risk" for further details.

In addition, the Group is susceptible to fluctuations in the prices and supply of raw materials. Copper is one of the major raw materials required by the Group for the production of the Group's air conditioners. On average, the Group required approximately 20,000 tonnes of copper for its production per year during the Track Record Period. During the Track Record Period, the cost of copper increased significantly by approximately 45.7% from the beginning of 2006 to the end of 2006 and then remained relatively high throughout 2007 with a slight decrease of 0.7% at the end of 2007 as compared to 2006 and then decreased substantially by 42.4% at the end of 2008 as compared to 2007. While the Group may be able to partially offset these fluctuations with a flexible pricing policy, the Group bears the risk of fluctuation in the costs of materials such as copper. Accordingly, the rising price for copper has affected and is expected to continue to affect the Group's cost of goods sold in the form of higher raw materials prices. Therefore, the Group entered into copper forward contracts to hedge against fluctuation in copper price since 2007. As there were no copper forward contracts entered into prior to 2007, there was no net gain or loss in copper forward contracts recorded in the financial year ended 31 December 2006. During the two years ended 31 December 2008, the Group entered into certain copper forward contracts in an aggregate contract amount of RMB27.8 million and RMB433.1 million, respectively to hedge against its exposure to volatile copper prices. For the year ended 31 December 2007, the Group recognised a net gain in fair value changes on copper forward contracts of approximately RMB1.3 million and for the year ended 31 December 2008, the Group recognised a net gain in fair value changes on copper forward contracts of RMB0.5 million, respectively. As of 31 December 2008, there was no copper forward contracts outstanding. Please see "Financial information — Market risks — Commodities risk" for further details.

The Group entered into a copper swap contract with a licensed bank in the PRC on 16 September 2008 to purchase a notional quantity of (i) 50 metric tonnes of copper per month if the floating price is above the agreed fixed price of US$5,850 per metric tonne; or (ii) 100 metric tonnes of copper per month if the floating price is below the agreed fixed price of US$5,850 per metric tonne for a period of one year effective from 1 October 2008 until 30 September 2009, subject to the stipulated maximum aggregate profit of US$75,000 (or equivalent to RMB512,000). Since the entering into of the copper swap contract, the price of copper continued to decrease because the global demand for copper was adversely affected by the financial crisis in 2008. The monthly market floating prices of copper per metric tonne from October 2008 until May 2009 fluctuated between the range of US$3,071.98 (being the lowest recorded in December 2008) and US$4,925.70 (being the highest recorded in October 2008) per metric tonne and were below the agreed fixed price of US$5,850 per metric tonne. As the average market floating prices of copper were below the agreed fixed price of US$5,850 per metric tonne from October 2008 to May 2009, the Group was obliged to settle at the end of every month, without any physical delivery of coppers notionally purchased, pursuant to the copper swap contract, the losses being the difference between the floating market price and the agreed fixed price calculated based on a notional quantity of copper of 100 metric tonnes. Therefore, the Group recorded a total realised loss of approximately US$0.6 million (or equivalent to approximately RMB4.0 million) from October 2008 to December 2008 and an unrealised loss of approximately US$2.9 million (or equivalent to approximately RMB19.5 million) as at 31 December 2008. The realised loss from the Copper Swap Contract from January 2009 to May 2009 was approximately US$1.0 million (or equivalent to approximately RMB6.8 million). The Group expected that, if the average market floating price remains below the agreed fixed price until the end of the copper swap contract, the total potential further loss from the copper swap contract from June 2009 to the September 2009, which is the expiry date of the copper swap contract, will be approximately US$0.6 million (or equivalent to approximately RMB4.0 million). Since September 2008 until the Latest Practicable Date, the Group did not enter into any other copper swap contract.

There can be no assurance that the Group will record any gain, or will not record any loss, in foreign currency forward contracts, copper forward contracts and copper swap contract in the future, or that the Group will enter into such contracts in a timely manner in the future to hedge against the foreign currency or raw materials price fluctuations. If there has been any material changes in the foreign currency exchange rates or raw material prices, and the Group fails to correctly predict the trend or direction of such fluctuations when entering into foreign currency forward contracts, copper forward contracts or copper swap contract, the Group may suffer a loss, which may have an adverse effect on the Group's financial position.

Limited direct contacts with end-users

The Group currently sells its products in the PRC through its household appliances retail chain operator customers and regional distributor customers. This sales and distribution network is managed by the Group's head office sales centre (營銷中心), which is supported by its product monitoring centres (產品管理中心) and customer services centres (客户服務中心) located outside the Group's head office.

Since the Group is a manufacturer, the Group's business model of dealing with the regional distributors and household appliances retail chain operators has limited the Group's direct contact with end-users and access to market information. There is no assurance that the Group's growth in sales is not a reflection of the accumulation of inventory at the regional distributors, resellers and household appliances retail chain operators, or that such growth accurately reflects the markets' demand for the Group's products.

Reliance on senior management team and talented personnel

The Group has experienced a rapid growth during the Track Record Period. The Group's development has resulted in an increase in responsibilities for its management and employees. Key members of the management, in particular, Mr. Li Xinghao, Mr. Lei Jianghang, Mr. Huang Guoshen and Dr. Ding Xiaojiang, are essential to the Group's continuing success. There can be no assurance that the Group will be able to manage its expansion by retaining its existing executives, research and development and technical personnel, or by recruiting additional experienced and competent executives and engineers in the future, as competition for such personnel may be intense. If the Group were unable to retain any of its senior management team or key personnel, and were unable to recruit and retain such personnel in a timely manner, its results of operations would be adversely affected.

Shortage of electricity

The Group's production plants are mainly located in Guangdong province, the PRC, which has been proned to electricity shortages in recent years. With the continuing development in its economy, there is a constant growth in the province's electricity consumption. For the three years ended 31 December 2008, water and electricity costs incurred by the Group amounted to approximately RMB18.3 million, RMB22.3 million and RMB28.4 million, respectively, representing approximately 0.5%, 0.5% and 0.6% of the Group's total cost of goods sold, respectively. As the Group's operations require stable supplies of electricity, any disruption in electricity supply could lead to lengthy production shutdowns and the obsolescence of work in progress, as well as increased costs related to recommencement of operations. For discussion of the utilities costs incurred by the Group, please refer to the section headed "Financial information — Certain income statement items — Costs of goods sold — Utilities" of this prospectus.

Limited insurance coverage

The Group may be liable to pay for damages arising from loss and injury due to defective products or other causes which are not covered by the Group's existing insurance policies and this may have an adverse effect on the Group's financial condition, reputation and results of operations. For details of the insurance policies maintained by the

Group, please refer to the "Business — Insurance" section of this prospectus. In addition, as a result of market conditions, premiums and deductibles for the Group's existing insurance policies may increase substantially and, in some instances, its existing insurance may become unavailable or available only for reduced amounts of coverage.

Potential risk of increase in warranty claims

The Group typically sells its air-conditioning products with warranty terms ranging from one to six years. For details of the Group's product warranties, please refer to the section headed "Business — Customer services — Product warranty" of this prospectus. For the three years ended 31 December 2008, warranty provisions made by the Group amounted to approximately RMB16.8 million, RMB35.1 million and RMB35.3 million, respectively. The Group estimates the necessary provisions required for product warranty for domestic sales by reference to historical domestic sales and the actual repair and maintenance costs. If the Group experiences an increase in warranty claims or if the Group's repair and replacement costs associated with warranty claims increase significantly, the Group may have to accrue a greater liability for potential warranty claims. Moreover, an increase in the frequency of warranty claims could substantially increase the Group's costs and harm the Group's reputation and brand. The Group's business, financial condition, results of operations and prospects may suffer materially if the Group experiences a significant increase in warranty claims relating to the Group's products.

Sustainability of growth

For the three years ended 31 December 2008, the Group's turnover amounted to RMB4,535.1 million, RMB5,716.4 million and RMB5,920.6 million, respectively, representing a year-over-year growth rate from 2006 to 2007 and 2007 to 2008 of 26.0% and 3.6%, respectively. The Directors attributed such increases in turnover to the Group's reputation amongst its customers and end users, and its market share. However, in terms of the sale of residential air-conditioners and commercial air-conditioning products, for the three years ended 31 December 2008, the Group failed to continuously sustain a significant growth in turnover as the Group's turnover attributable to residential air-conditioners and commercial air-conditioning products experienced an increase of 26.4% in 2007 as compared to 2006, increased from RMB4,372.3 million in 2006 to RMB5,527.3 million in 2007 and then experienced a decrease of 3.3% in 2008 as compared to 2007, decreased from RMB5,527.3 million in 2007 to RMB5,347.3 million in 2008. The decrease in turnover in 2008 was partly attributable to the world economy downtown. In addition, 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 were 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. 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. There can be no assurance that the Group will not experience similar or even more severe delay in payment, cancellation of orders or price reduction in the near future. Accordingly, there can be no assurance that the Group could sustain any growth rate in the turnover all the time and to the extent that the Group may experience any stagnant or negative growth in the future such as those experienced in 2008, its profitability would be adversely affected.

Future dividend policy

The Company is a holding company incorporated in the Cayman Islands and its operations are conducted through its subsidiaries in the PRC. Its ability to pay dividends will depend on the earnings of its subsidiaries and their distribution of funds to the Company. If the subsidiaries incur any debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to the Company. As a result, the Company's ability to pay dividends or other distributions and to service its indebtedness will be restricted. The ability of these subsidiaries to make distributions to the Company is subject to applicable legal and other restrictions, including the amount of distributable earnings, cash flow conditions, restrictions contained in their constitutional documents and other applicable arrangements. The ability of the Company to pay dividends is also subject to the requirements of the Companies Law and the judgment of the Board as to the declaration of dividends. PRC laws require that dividends be paid only out of the net profit calculated according to PRC GAAP, which differs from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested PRC enterprises, such as the Company's PRC subsidiaries, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. These restrictions could reduce the amount of distributions that the Company receives from its subsidiaries which in turn would restrict the Company's ability to pay dividends to its shareholders.

Uncertain protection and possible infringement of the Group's intellectual property rights

The Group's intellectual property rights for its product design and production methodology are important to its success. Should it fail or be unable to assert its intellectual property rights, there might be an adverse impact on its business.

Intellectual property rights

The Group is the registered owner of a number of trademarks and patents in connection with its business, further details of which are set out in the paragraph headed "Intellectual property rights of the Group" in Appendix V to this prospectus. There is no guarantee that applications for registration of trademarks and patents by the Group will eventually be granted by the respective authorities. It is also not practicable for the Group to comply fully with, and seek every clearance under, the relevant laws of all possible jurisdictions for the protection and enforceability of its intellectual property rights.

Infringement

It may be possible for other third parties to copy or otherwise obtain and use the Group's intellectual property rights without authorisation. In addition, there are countries, including but not limited to the PRC, where protection of trademarks and other intellectual property rights may not be effective or may be limited. There can be no assurance that any steps taken by the Group will successfully prevent misappropriation or infringement of its intellectual property rights.

It is also possible that during the course of its business, the Group could be found liable for having infringed third parties' intellectual property rights. Whilst every effort is made to avoid such infringement, should the Group be found to have infringed the rights of others, the Group could be exposed to liabilities including damages and other sanctions.

If potentially infringing conduct is discovered or claims on use or infringement of intellectual property are brought against the Group, it may need to defend its intellectual property rights in legal proceedings. Defending such claims, should they arise, would divert the Group's financial and human resources from the core activities related to its operations. In addition, if the Group loses its intellectual property rights as a result of these proceedings, the Group's business operations, financial position and prospects may be adversely affected.

Failure to capture overseas markets

The Group intends to explore business opportunities in overseas markets when they arise. In extending its business overseas, the Group faces risks which include differences in legal and regulatory requirements, intellectual property rights protection, potential tax consequences, fluctuations in currency exchange rates, differences in legal burdens in complying with foreign laws and regulations, changes in political and economic conditions, and potentially more litigious market and business environments. There is no assurance that the Group will be able to gain or maintain a foothold in the selected overseas markets and the deployment of human and financial resources in pursuit of such expansion plans could have a material adverse effect on the Group's results of operations and profitability.

Potential loss of preferential tax treatments

Guangdong Chigo is subject to a reduced enterprise income tax rate of 15% due to its status as an "advanced technology enterprise" certified by the Science and Technology Bureau of Guangdong province (廣東省科學技術廳) on 14 May 2002, and such status was reviewed and recognised by the Science and Technology Bureau of Guangdong province on 24 May 2004 and 23 May 2006, pursuant to the relevant laws and regulations of the Guangdong provincial government, and Guangdong Chigo's payment of enterprise income tax at such reduced rate was also approved and acknowledged by the local tax bureau of Foshan, Guangdong province (廣東省佛山市地方稅務局). However, under PRC tax laws and regulations, advanced technology enterprises are eligible for such favourable enterprise income tax rate if they are registered, and only with respect to the products manufactured, in the advanced technology industry development zones approved by the central government. As Guangdong Chigo's manufacturing facilities are not located within any advanced technology industry development zone approved by the central government, there is no assurance that the central tax authority, which has the final authority to assess the enterprise income tax rate applicable to Guangdong Chigo, would not take a view contrary to that of the Guangdong provincial government or the local tax bureau of Guangdong province. In the event that the central tax authority were to determine that Guangdong Chigo is not entitled to the reduced enterprise income tax rate of 15% on the basis that its manufacturing facilities are not located in any advanced technology industry development zone approved by the central government or otherwise, Guangdong Chigo may be retrospectively liable for payment of the applicable amount of enterprise income tax, which would amount to approximately RMB71.0 million as of 31 August 2006. Accordingly, Guangdong Chigo has been in discussion with the local tax bureau of Foshan, Guangdong province (廣東省佛山市地方稅務局) with a view to arranging for the payment of the said taxation liability. The Directors believe that the Group has made adequate and sufficient provision regarding the potential enterprise income tax of RMB71.0 million. As of the Latest Practicable Date, Guangdong Chigo has not been notified by or received assessment from the central tax authority regarding the enterprise income tax rate applicable to it.

On 1 September 2006, as part of the Reorganisation, Guangdong Chigo became a wholly foreign-owned enterprise with limited liability. In accordance with the Income Tax Law of the PRC on Foreign Investment Enterprises and approval by the local tax bureau, Guangdong Chigo is entitled to a tax concession period during which it is fully exempted from PRC income tax for two years commencing 2007, followed by a 50% reduction in the PRC income tax for the next three years.

If, whether as a result of any change in the government policy or law, there is any revocation of or unfavourable change to the above preferential tax treatments currently enjoyed by Guangdong Chigo, the tax liability of the Group may be materially increased with an adverse effect on the Group's financial condition and results of operations.

A newly enacted PRC tax law may affect tax exemptions on dividends received by the Company

The Company was incorporated under the laws of the Cayman Islands and holds its interest in Guangdong Chigo through Chigo Development Holding. The newly enacted PRC Enterprise Income Tax Law (中華人民共和國企業所得税法) and its implementation rules were enacted on 16 March 2007 and 6 December 2007, respectively, and they became effective on 1 January 2008. Before the introduction of the new law and the related regulations, dividends derived from the Group's business operations in the PRC were exempt from income tax under the PRC law. Under the new law and the related regulations, if the Company is deemed to be a non-PRC resident without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends paid to the Company by its PRC subsidiaries, unless it is entitled to reduction or elimination of such tax, by tax treaties. If the Company is deemed to be a PRC resident enterprise, the Company shall pay enterprise income tax originating both within and outside the PRC, and the rate of enterprise income tax shall be 25%.

The PRC tax law may affect dividends payable by the Company to its foreign investors and gain of the sale of the Shares

Under the new PRC Enterprise Income Tax Law (中華人民共和國企業所得税法) and the implementation regulations, the sources of the investment income (such as dividends and other distributions) of "non-resident enterprises" are determined by the location of the enterprise that makes such payment. The source of the dividends payable to the Company's investors is Cayman Islands, therefore, the Company's PRC legal counsels have confirmed that investors in Shares do not have to pay any tax with respect to the dividends declared by the Company under the relevant PRC laws if the Company is considered a PRC non-resident enterprise.

However, as the PRC Enterprise Income Tax Law was implemented only recently, there has not been any precedent that the local tax authorities can make reference to for the purpose of determining what constitutes a "de facto management body", and no further clarification is provided by the local tax authorities. If the Group's operational organisation within the PRC is considered as a "de facto management body", the Company may be categorised as a PRC resident enterprise under the PRC Enterprise Income Tax Law. Under such circumstances, the Company may be required to pay income tax on its income derived within or outside the PRC. As a consequence, dividends payable to the Shareholders and gains on the sale of Shares may be subject to taxes under the new PRC Enterprise Income Tax Law.

Shortage of labour supply

As a result of the rapid economic growth in the PRC and the increase in demand for labour in the Pearl River Delta, factories in the Pearl River Delta have been facing a shortage of labour supply in recent years. As of 31 December 2008, the Group's production plant (located in Guangdong province, the PRC) employed 9,204 staff. For the three years ended 31 December 2008, the cost of labour amounted to RMB175.5 million, RMB267.9 million and RMB358.6 million, respectively, which accounted for approximately 3.9%, 4.7% and 6.1% of the Group's total sales. In the event that the Group cannot maintain sufficient labour for its production activities, the productivity as well as the profitability of the Group may be adversely affected.

Insufficiency of capital resources to implement business strategies

The Group's operations are capital intensive, and the Group regularly makes capital expenditures to expand its operations, maintain its equipment and increase its operating efficiency. The Group's total capital expenditures were approximately RMB88.2 million in 2008. In addition to the capital expenditure mentioned in the "Future plans and use of proceeds" section of this prospectus, the Group expects to spend approximately RMB130.0 million in 2009 and RMB121.0 million in 2010 on capital expenditures, including general expenditure such as replacement of existing machines for regular maintenance purposes. These capital expenditures will be financed by the Group's internal resources and/or bank loans. Depending on market conditions and opportunities, it intends to further expand its production capacity in the future. If the Group cannot obtain additional funds when required, it may not be able to fund the necessary capital expenditures, including to upgrade or purchase additional plant and equipment, or to develop its business strategies fully or at all. If the Group is unable to satisfy its capital needs, it may be subject to creditors' actions or be forced to adopt alternative strategies that may include reducing production or delaying capital expenditures, selling assets, refinancing its indebtedness or seeking equity capital. Any of the above could impede the implementation of its business strategies or prevent it from entering into transactions that would otherwise benefit its business on commercially reasonable terms or at all and adversely affect the Group's financial condition and results of operations.

Construction of production facilities

The Group is constructing and plans to construct a number of production facilities in Jinjiang and Wuhu, the PRC, primarily for production of commercial air-conditioners. The time involved in the construction of the production facilities could be adversely affected by the Group's failure to receive the necessary regulatory approval or to obtain sufficient funding, by technical difficulties, by human or other resources constraints, or for other reasons. Moreover, these projects may exceed the cost levels originally anticipated. If the Group's new production facilities construction plans experience delays or even cancellations, or if the start-up period for any of the new production facilities turns out to be substantially longer than expected or the production capacity of any of the new production facilities fails to reach the originally designed levels, or if the costs involved in the construction of any of the new production facilities substantially exceed the original plans, the Group may not be able to attain the desired production capacity or obtain the intended economic benefits, such as economies of scale, in full or in a timely manner, which may adversely affect the Group's business, results of operations and/or financial condition.

The interests of the Company's Controlling Shareholders may conflict with the best interests of the other Shareholders

The Controlling Shareholders will beneficially own an aggregate of 68.48% of the Company's issued share capital immediately following the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised). The Company's Controlling Shareholders will, subject to the Articles and relevant laws and regulations, be able to exercise a controlling influence on the Company's management, policies and business by controlling the composition of the Board, determining the timing and amount of its dividend payments, approving significant corporate transactions, and approving its annual budgets. No assurance can be given that the Controlling Shareholders will not cause the Group to enter into transactions or take, or fail to take, other actions or make decisions that conflict with the best interests of the other Shareholders.

The Group's indebtedness and rising interest rates

As of 31 December 2008, the Group's total bank borrowings amounted to approximately RMB1,078.0 million, all of which represented bank borrowings due within less than a year. As of such date, the Group's total borrowings as a percentage of total assets, or gearing ratio, was 22.5%. If the Group incurs additional indebtedness, the risks that it faces as a result of its already substantial indebtedness and leverage could intensify. The Group's liquidity depends on cash from operations and its access to further financial resources to fulfill its short-term payment obligations, which will be affected by the Group's future operating performance, prevailing economic conditions, and financial, business and other factors, many of which are beyond its control.

The Group is exposed to interest rate risk resulting from fluctuations in interest rates, but the Group has not hedged any of its interest rate risk. Increases in interest rates would increase interest expenses relating to the Group's outstanding borrowings and increase the cost of new debt including rolled over short term loans. A significant increase in prevailing interest rates could substantially increase the Group's finance costs, which could adversely affect its financial condition and results of operations. An increase or decrease of the Group's effective interest rate by 50 basis points would increase or decrease, respectively, the Group's interest expenses under the borrowings by approximately RMB5.4 million on an annualised basis, based on total borrowings of RMB1,078.0 million as of 31 December 2008.

Certain recent adverse financial developments have impacted the global financial markets. These developments include a general slowing of economic growth both in the US and globally, substantial volatility in equity securities markets, and volatility and tightening of liquidity in credit markets. While it is difficult to predict for how long these conditions will exist and which markets and businesses of the Company may be affected, these developments could continue to present risks for an extended period of time for the Company, including a slowdown in Group's sales to customers, increase in interest expenses on the Group's bank borrowings, or reduction of the amount of banking facilities currently available to the Group. If this economic downturn continues, the Group's business, financial condition and results of operations will be adversely affected.

Environmental matters

The Group is required to comply with the environmental protection laws, rules and regulations promulgated by the national and local governments of the PRC. These laws, rules and regulations govern the level of fees payable to the government entities providing environmental services and prescribe the standard for the discharge of solid wastes, sewages and smokes. In addition, these laws, rules, and regulations empower local governments to impose sanctions on those companies which fail to comply with these requirements. Sewages and solid wastes are released during the process of manufacturing air-conditioners. The Group has devised and carried out an environmental protection plan and has installed environmental protection facilities to treat waste materials. Based on confirmation from the local environmental protection authority and advice from the PRC legal counsel on environmental protection rules and regulations, the Directors confirmed that the Group's environmental protection systems and facilities are adequate for the Group to comply with the current applicable national and municipal environmental protection regulations in the PRC. However, the central, provincial and local governments may impose additional requirements which would require the Group to incur additional expenditures on environmental matters, or to effect changes to its manufacturing processes, or which the Group cannot comply with promptly or at all, and as a result the Group's operations may be disrupted and its results of operations may be adversely affected.

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 availability of credit and capital to companies is significantly influenced by levels of investor confidence and so any factors that impact market confidence could affect the price or availability of funding for companies. Since the second half of 2007, global credit and capital markets, particularly in the United States and Europe, have experienced difficult conditions.

These challenging market conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and lack of market confidence. These factors, combined with declining business and consumer confidence and increased unemployment in the United States, Europe and elsewhere in the world, have precipitated a global economic slowdown. Given the dramatic change in the overall credit environment and economy, it is difficult to predict for how long these conditions will exist and the extent to which the Group may be affected. Furthermore, there can be no assurance that measures implemented by governments around the world to stabilise the credit and capital markets and new financial and economic policies, rules and regulations in jurisdictions where the Group operates will improve market confidence and the overall credit environment and economy. There can be no assurance that the Group's strategy to develop strategic relationship with large-sized customers and to further develop the customer base for higher-end air-conditioning products in the European market will be implemented smoothly in light of the challenging market conditions in this market. In addition, there can also be no assurance that the Group will be able to continue to expand technical co-operation with its air-conditioning products manufacturers in the American market as planned. As a result, 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, prospect and future expansion plan.

Acts of God, acts of war, natural disasters and other disasters could materially and adversely affect the Group's business

The Group's business is subject to the general and social conditions in the PRC and other jurisdictions in which the Group's distributors, suppliers and customers are located. Natural disasters, acts of God and other disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihood as well as living and consumption patterns of the people of the PRC or such other jurisdictions. Some cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. The Group's business, financial condition and results of operations may be materially and adversely affected if these natural disasters occur.

Acts of war and terrorist attacks may cause damage or disruption to the Group, the Group's employees, facilities, the Group's distribution channels, the distribution channels operated by the Group's distributors, markets, suppliers and customers, any of which may materially and adversely impact on the Group's revenue, cost of sales, financial condition and results of operations or Share price. Potential war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that the Group cannot currently predict.

RISKS RELATING TO THE INDUSTRY

Competition from both domestic and foreign companies

The Group faces intense competition from domestic air-conditioners manufacturers in the PRC. The Group's major competitors are large PRC-based air-conditioner manufacturers, some of which may have certain advantages over the Group, including greater financial, technical and raw materials resources, greater economies of scale, broader brand name recognition and more established relationships in certain markets. As some of the Group's competitors have certain advantages over the Group, it may be easier for them to obtain raw materials and components from suppliers which are also suppliers to the Group. Increased competition may also force the Group to lower prices, lead to a decrease in the Group's sales and ultimately may have a material impact on the Group's business, financial position and results of operations.

The Directors believe that the Group is competitive on the basis of product quality, production cost, product development, customer service and distribution capacity. According to the Information Resources Development Department of the State Information Center (國家信息中心資源開發部), the market share of the Group's CHIGO brand air-conditioners in the PRC in terms of sales volume in 2008 was approximately 7.6%. However, there can be no assurance that these competitive strengths which exist now can be maintained in the future. If the Group is not able to maintain its competitive strengths or the competition faced by the Group is intensified unexpectedly, the Group's financial condition and results of operations could be adversely affected.

The Group also faces competition from foreign-invested manufacturers in the PRC. A number of foreign companies have established air-conditioner manufacturing enterprises in the PRC, and others may do so in the future, in which case the Group may face increasing competition from such manufacturers, which may have substantially greater access to financial resources, higher levels of vertical integration, longer operating histories and be better established in their markets than is the case for the Group. If the Group is unable to distinguish its products from those of its competitors by providing high quality products at reasonable prices that appeal to consumer's tastes and preferences, it may not be able to compete effectively. In addition, as part of China's obligation subsequent to its accession to the WTO, China has reduced its import tariffs. As a consequence, the Group expects stronger competition in the PRC from foreign-invested producers, which could adversely affect its business, financial condition and results of operations.

Fluctuations in price and supply of raw materials, parts and components

The Group's operations consume substantial amounts of compressors, copper and aluminium. Any substantial increase in the costs of these raw materials, parts and components, particularly compressors (which accounted for a substantial part of the Group's costs of sales during the Track Record Period) could adversely affect the Group's business, financial condition and results of operations.

The Group's total costs for copper and aluminium were approximately 32.7%, 29.4% and 30.8% of the Group's costs of sales for the three years ended 31 December 2008, respectively. During the Track Record Period, the price of copper and the price of aluminium experienced significant fluctuations. The growth rate in the price of copper was approximately 24.9% from January 2006 to April 2008 and dropped by approximately 42.8% in 31 December 2008 as compared to January 2006, while the decline rates in the price of aluminium were approximately 4.7% and 25.2% from January 2006 to April 2008 and from January 2006 to December 2008, respectively.

As the Group has not entered into any long-term supply contracts in relation to these raw materials, parts and components, the Group may not be able to source such raw materials, parts and components at prices acceptable to the Group, or at all, if the supply from the Group's existing suppliers is substantially reduced or there are significant increases in their prices. The resulting loss of production volume could materially and adversely affect the Group's ability to deliver products to the Group's customers in a timely manner and harm the Group's reputation. In addition, the Group may be unable to adjust the prices for its products to fully recover significant increases in the prices of raw materials, parts or components, or to always benefiting from its vertically integrated supply chain management capability (as referred to in the paragraph headed "Business — Competitive strengths — Strong parts and components manufacturing capabilities strengthening the Group's vertically integrated production process and supply chain management") which recorded, for example, decreases of 21.8% as from 2005 to 2006 and 11.0% as from 2006 to 2007, respectively, in the average quantity of copper used in the manufacture of the evaporators and condensers of the Group's main residential air-conditioners in terms of production volume when the cost of copper increased significantly by approximately 45.7% from the beginning of 2006 to the end of 2006 and then decreased slightly at the rate of 0.7% at the end of 2007 as compared to the end of 2006. The occurrence of any of these could adversely affect the Group's business, financial condition and results of operations.

Potential risk of imposition of anti-dumping and other export duties and of minimum EER standard

For the three years ended 31 December 2008, sales derived from export of air-conditioners to overseas countries either under the Group's own CHIGO brand or on an OEM basis (including air-conditioner parts and components) accounted for approximately 38.3%, 40.1% and 50.6%, respectively, of the Group's total turnover. During the same periods, the Group's export sales under the CHIGO brand amounted to approximately RMB282.2, RMB310.4 million and RMB336.4 million, respectively, and the Group's export sales on an OEM basis amounted to approximately RMB1,430.4 million, RMB1,959.1 million and RMB2,330.9 million, respectively.

Governments of overseas countries such as the US and the European Union may impose anti-dumping duties on products exported from other counties if such exported products are being sold at less than fair value and the US or the European Union domestic manufacturers are materially injured or are threatened with material injury by importing such products to the US or the European Union. For the three years ended 31 December 2008, sales to members of the European Union amounted to approximately RMB207.1 million, RMB348.2 million, and RMB646.0 million, representing approximately 4.6%, 6.1% and 10.9% of the Group's total turnover, respectively.

If anti-dumping duties are imposed on the Group's products, it could significantly increase the prices of the Group's products in the relevant market, which, in turn, could result in a loss of the Group's competitive advantage, and if the Group cannot pass these increases to its customers due to competitive pricing pressures, the Group's financial conditions and results of operations could be adversely affected. The ongoing annual administrative review process will also be a significant challenge for the Group's management, financial and administrative systems and resources.

Apart from anti-dumping duties, new standards imposed or to be imposed by, among others, the European Union are also likely to push up the export costs of the Group. The European Union implemented the WEEE and RoHS directives in August 2005 and July 2006, respectively. Under the WEEE and RoHS, Chinese electronic and electrical equipment enterprises will be charged extra recycling fees for their exports to the markets of the European Union members. If, and to the extent that, the Group is unable to pass along these export costs to its customers due to competition and marketing pressures, the Group's profit margins may be decreased and its business may be adversely affected.

The residential air-conditioners manufactured by the Group have an EER range of between 1 to 5 (for split type residential air-conditioners) and between 3 to 5 (for window type residential air-conditioners). As the Group generally manufactures and supplies domestic air-conditioners to the PRC market based on market demand and consumer preference, the Group estimates that around half of its residential air-conditioners sold in the PRC market in 2008 had an EER of 4 or 5. There is no assurance that the PRC

Government would not impose some national minimum EER standard for residential air-conditioners which may create uncertainty on the demand side of the market, and in which case the Group's business and results of operations may be affected.

Technological changes, need for new product introductions and potentially long new product cycles

Markets for air-conditioners are characterised by technological change and the need for frequent introduction of new products and models on a timely and cost-effective basis. The Group's success depends in part on its ability to enhance its existing products and to develop on a timely and cost-effective basis new and competitively priced products that offer technologies, features and appearances that meet the requirements of the end users. With customers' requirements continually changing, the Group's products would become obsolete if the Group did not have the ability to modify existing products and introduce new products. The Group's business could be adversely affected if the Group were to incur delays in developing new products or enhancements, or if such products or enhancements did not gain market acceptance. In addition, there can be no assurance that the products or technologies developed by others will not render the Group's products uncompetitive or obsolete.

Products that appear to be promising at the early phases of development may fail to achieve broad market acceptance for numerous reasons, including potential customers' migration to other products that are incompatible with the Group's products and the Group's failure to anticipate or respond adequately to changes in technology or preferences of customers or end-users.

In the event that there is insufficient demand for the Group's products by the Group's customers and end-users, the raw materials and parts and components which are required for the manufacture of the Group's products may also become obsolete, and as a result, the Group's results of operations may be adversely affected.

China's accession to the WTO may intensify competition in China's air-conditioner industry

China acceded to the WTO in December 2001. Following the accession, China lowered tariffs on certain imported air-conditioners as part of its obligations under the WTO framework. The reduction or removal of tariffs on imported air-conditioners may make the price of such products more competitive with domestic air-conditioners. In addition, an increasing number of foreign-invested air-conditioner manufacturers may establish entities in China to engage in the manufacture or distribution of air-conditioners in China, which would increase the number of suppliers of air-conditioners in the market and intensify the competition with domestic manufacturers. If the domestic air-conditioner manufacturers are unable to distinguish their products from imported products or products produced domestically by foreign-invested air-conditioner manufacturers, they may lose market share and their results of operations may be adversely affected.

RISKS RELATING TO THE PRC

Political structure and economic considerations

The economy of the PRC differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development ("OECD") in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the economy of the PRC was a planned economy. Since that time, increasing emphasis has been placed on the utilisation of market forces in the development of the PRC's economy. Annual and five year plans are adopted by the PRC government in connection with the development of the economy. State-owned enterprises still account for a substantial portion of the PRC's industrial output, but in general, the PRC government is reducing the level of direct control which it exercises over the economy, and there is an increasing degree of liberalisation and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "socialist market economy" and enterprise reform. Limited price reforms have been undertaken, with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to refinement, change or reversal based upon the outcome of such experiments. There can be no assurance that the PRC government will continue to pursue a policy of economic reform, in the present form of such policy or otherwise. The Group may not in all or any cases be able to capitalise on the economic reform measures adopted by the PRC government.

The Group's operations and financial results could be adversely affected by political, economic and social conditions or changes in the policies of the PRC government, such as changes in laws and regulations (or the interpretation or implementation thereof), measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions. Furthermore, a significant portion of the economic activity in the PRC is export-driven at present and, therefore, is affected by the developments in the economies of the PRC's principal trading partners and other export driven economies.

Foreign exchange considerations

The Group's Renminbi denominated revenue is substantial. For the three years ended 31 December 2008, domestic sales, which are denominated in Renminbi, accounted for approximately 61.3%, 59.3% and 48.6%, respectively, of the Group's turnover. Conversion of Renminbi into any other currency is strictly regulated by the PRC government. The current foreign exchange regulatory scheme in the PRC provides for more relaxed foreign exchange controls for current account transactions, including trade and service related foreign exchange transactions and payment of dividends. Following the completion of the Global Offering, the Group will be able to pay dividends in foreign currencies, without prior approval from SAFE, by complying with certain procedural requirements. However, conversion of Renminbi for payment of capital account transactions, such as payment of capital equipment and repayment of various international loans, is subject to prior approval by SAFE. If the Group is unable to obtain SAFE's consent to convert Renminbi into foreign currencies for capital account transactions, the Group's possible capital expenditure plan and subsequently, the Group's ability to grow its business could be affected. Moreover, there can be no assurance that the foreign exchange policies regarding payment of dividends in foreign currencies will continue indefinitely in the future.

The value of Renminbi may fluctuate due to a number of factors. Since 1994, the conversion of Renminbi into foreign currencies in the PRC, including HK and US dollars, has been based on exchange rates published by the PBOC, which were set daily based on the previous day's interbank foreign exchange market rates in the PRC. However, on 21 July 2005, the PBOC announced a reform of its exchange rate system and revalued the Renminbi from RMB8.27 = US$1.00 to RMB8.11 = US$1.00, resulting in an approximately 2.0% appreciation of Renminbi against the US dollar. Under the reform, Renminbi is no longer effectively linked to US dollars but instead is allowed to trade in a tight 0.3% band against a basket of foreign currencies. This change in policy has since resulted in an appreciation of the RMB against the US dollar. The mid-price of the RMB rose to RMB6.83 = US$1.00 on 31 December 2008, bringing the total appreciation to approximately 18.7% since the reform of the exchange rate system in July 2005. Exchange rate fluctuations could adversely affect the Group's results of operations and financial condition and could result in foreign exchange gains or losses because the Group has foreign currency-denominated revenues, primarily from sales to foreign enterprises, as well as foreign currency indebtedness and other obligations, expenses and other requirements, including repayment of bank loans and payment for procurement of raw materials and machineries, operating expenses and dividends.

Prospective investors should also note that fluctuations in the exchange rate of Renminbi may affect sales of export goods. In the event that Renminbi appreciates and to the extent that the Group were unable to absorb the increment, the Group's products are likely to become more expensive, and its export sales are likely to be adversely affected.

Legal and other regulatory considerations

As substantially all of the Group's production activities are conducted through its factories in the PRC and a substantial amount of its sales are derived from the PRC market, the Group's operations are governed to a large extent by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial laws. However, due to the fact that these laws and regulations have not been fully developed, because of the limited volume of published cases and their non-binding nature, and as a result of other factors (including the influence political considerations can have in legal matters) the implementation of PRC laws and regulations involves a degree of uncertainty. The Group cannot predict the future development of the PRC legal system, including any promulgation of new laws, change to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws, and the effect it may have on the Group.

Service of process and enforcement of judgments in the PRC may be difficult to obtain and effect

Substantially all of the Group's assets are located in the PRC, and most of the Directors and executive officers reside in the PRC. As a result, it may be difficult for investors to effect service of process upon the Directors and the Group's executive officers. The PRC has not entered into any treaty providing for the reciprocal recognition and enforcement of judgments with many regions or countries, including the United Kingdom and the United States. As a result, recognition and enforcement in the PRC of judgments of courts in those jurisdictions may be difficult or impossible.

The Labour Contract Law and other labour-related regulations in the PRC

The "Labour Contract Law of the PRC" (《中華人民共和國勞動合同法》) (the "Labour Contract Law") was promulgated on 29 June 2007 and became effective on 1 January 2008 to further protect employees' interest. The "Labour Contract Law of the PRC Implementation Rules" (《中華人民共和國勞動合同法實施條例》) became effective on 18 September 2008, is currently an important governing document of the labour law, which has the effect as an administrative regulation. The Labour Contract Law may impose greater liabilities on employers and significantly affect the cost of an employer's decision to reduce its workforce. For example, (1) if the labour contract is to be renewed after two fixed-term labour contracts have been concluded consecutively with the same employer, and the employee is not under any of the circumstances as stipulated in Article 39 and paragraphs (1) and (2) of Article 40 of the Labour Contract Law, if the employee proposes or agrees to renew or conclude a labour contract, a labour contract without a fixed term shall be concluded unless the employee proposes to conclude a fixed-term labour contract; and (2) except under the circumstances where the employee does not agree to renew the labour contract with the same or more favorable terms, the employer shall give the employee economic compensation if the fixed-term labour contract is terminated upon expiration. In the event the Group decides to significantly change or decrease its workforce in the PRC, the Labour Contract Law could adversely affect its ability to enact such changes in a manner that is most advantageous to the Group's circumstances or in a timely and cost effective manner, and accordingly the Group's results of operations could be adversely affected. Under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to paid annual leaves ranging from 5 to 15 days, depending on their length of service. Employees who waive such annual leave entitlements at the request of employers shall be compensated with three times their normal salaries for each waived annual leave entitlement. As a result of these new protective labour measures, the Group's labour costs may increase. The Group cannot assure that any disputes, work stoppages or strikes will not arise in the future.

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

The outbreak of SARS in early 2003 substantially affected businesses in Asia, including the businesses of the Group. The World Health Organization declared that the SARS outbreak had been contained on 5 July 2003, but a number of isolated cases of SARS were still reported in the PRC in April 2004. Currently, the Directors are unable to predict the potential impact of another possible SARS outbreak or an outbreak of other serious contagious diseases. Should another outbreak of SARS or another serious contagious disease take place, the financial condition and results of operations of the Group may be adversely affected as a result of a general adverse impact on the economy or otherwise.

In recent year, certain Asian countries, including the PRC, have also encountered incidents concerning the H5N1 strain of avian influenza. This disease, which is spread through poultry populations, is capable in certain circumstances of being transmitted to humans and could be fatal. Furthermore, recently, the outbreak of disease in people caused by a new influenza virus of influenza A (H1N1) (also sometimes referred to as swine influenza) origin started in America and spread internationally, and most people do not have immunity to this virus. If any of the Group's employees are identified as a possible source of spreading pandemic, avian or swine influenza or any other similar epidemic, it may be required to quarantine employees suspected of being infected, as well as others that have come into contact with those employees. The Group may also be required to disinfect its affected operating facilities, which could adversely affect its operations.

In addition, any outbreak of any widespread public health problem may affect economic activities in economies locally and internationally, which in turn may affect the financial condition and results of operations of the Group.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Shares

Prior to the Global Offering, there was no public market for the Shares. The initial Offer Price range to the public for the Offer Shares was the result of negotiations between the Company and the Joint Global Coordinators (on behalf of the Underwriters). You should not view the Offer Price that the Company and the Joint Global Coordinators establish as any indication of the price that will prevail in the trading market. The market price for the Shares may decline below the Offer Price. The Company has applied to list and deal in the Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active and liquid trading market for the Shares will develop or be sustained following the Global Offering or in the future.

The trading price of the Shares may be volatile

The trading price of the Shares may be volatile and could fluctuate widely in response to factors beyond the Group's control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in the PRC that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for the Shares. Recently, a number of PRC companies and companies with PRC operations have listed their securities, or are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC companies and companies with PRC operations listed in Hong

Kong and consequently may impact the trading performance of the Shares. These broad market and industry factors may significantly affect the market price and volatility of the Shares, regardless of the Group's actual operating performance.

In addition to market and industry factors, the price and trading volume of the Shares may be highly volatile for specific business reasons. In particular, factors such as variations in the Group's revenues, earnings and cash flow could cause the market price of the Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of the Shares.

The sale or availability for sale of substantial amounts of the Shares could adversely affect their trading price

Sales of a substantial amount of the Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of the Shares and could materially impair the Group's future ability to raise capital through offerings of the Shares or securities relating to the Shares.

In connection with the Global Offering, the Group, each of the Controlling Shareholders, Mr. LY Li, Saunier and the Investors has agreed, among other things, not to sell the Shares for six months after the Listing Date without the prior written consent of the Sponsor and the Joint Global Coordinators. However, the Sponsor and the Joint Global Coordinators may release these securities from these restrictions at any time. The Group cannot predict what effect, if any, significant future sales will have on the market price of the Shares.

The liquidity and market prices of the Shares following the Global Offering may be volatile

The price and trading volume of the Shares may be highly volatile. The market price of the Shares may fluctuate substantially in response to, among others, the following factors:

- fluctuations in the Group's quarterly or annual results of operations;
- changes in financial estimates by securities analysts;
- announcements of technological innovations by the Group or its competitors;
- investors' perception of the Group and the international investment environment;
- developments in the global air-conditioner manufacturing industry;
- changes in pricing made by the Group, its competitors or providers of alternative products or services;
- the depth and liquidity of the market for the Shares; and
- general economic and other factors.

Dilution of Shareholders' interest as a result of additional equity fund raising

The Group may need to raise additional funds in the future to finance expansion of or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to Shareholders' existing interests, the percentage ownership of the Shareholders may be reduced, and Shareholders may experience subsequent dilution, and in addition, such new securities may have preferred rights, options and pre-emptive rights senior to the Offer Shares.

Potential unreliability of facts and statistics with respect to information obtained from official government sources

The Group believes the facts and statistics in this prospectus relating to the PRC, its economy and the air-conditioner industry derived from official government sources are generally reliable. However, the Group cannot guarantee the quality or reliability of such information. These facts and figures have not been independently verified by the Group, the Sponsor or the Underwriters and, therefore, the Group, the Sponsor and the Underwriters make no representation as to their accuracy or completeness. Further, there can be no assurance that these sources have stated or compiled such facts and figures on the same basis or with the same degree of accuracy or completeness as may be the case elsewhere. In all cases, you should not rely unduly on these facts and statistics.

Forward-looking statements

Included in this prospectus are various forward-looking statements which can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "continue", "believe" or other similar words. These statements are forward-looking and reflect the current expectations of the Board which are founded on the past or existing circumstances in which the Group's businesses are operating. Moreover, these statements are subject to a number of risks and uncertainties, including but not limited to, changes in economic and political movements in the countries to which the Group offers its goods and services, changes in technology and changes in market demand. Accordingly, the forward-looking statements described in this prospectus may or may not materialise.