

## HISTORY AND BUSINESS DEVELOPMENT

### CORPORATE DEVELOPMENT

Guangdong Chigo was the major operating subsidiary of the Company during the three years ended 31 December 2008, and is currently the major contributor to the Group's results of operations.

#### Guangdong Chigo

The predecessor of Guangdong Chigo was Nanhai Chigo Air-Conditioning Appliances Factory (南海市志高空調電器廠) ("Nanhai Chigo Factory"), which was a collectively-owned enterprise established by 南海市里水鎮豐崗村經濟合作社 (the Economic Cooperative Entity of Fenggang Village, Lishui Town, Nanhai City) (the "Co-operative Entity") on 18 February 1994 with a registered capital of RMB3,000,000. Nanhai Chigo Factory was principally engaged in the manufacture of air-conditioners and parts. On 19 February 1994, the Co-operative Entity issued a certificate, which provided that all the investment capital of Nanhai Chigo Factory was contributed by Mr. XH Li, and the property of Nanhai Chigo Factory belonged to, and all its rights and liabilities were borne by, Mr. XH Li.

On 16 June 1997, Nanhai Chigo Factory was converted into 南海市志高空調有限公司 (Nanhai Chigo Air-Conditioning Co., Ltd.) ("Nanhai Chigo Limited"), which was a limited liability company with a registered capital of RMB12.0 million and was owned as to 90% by Mr. XH Li and as to 10% by Mr. Li Xingji. Mr. Li Xingji is the brother of Mr. XH Li. On 18 September 1997, the name of Nanhai Chigo Limited was changed to 廣東志高空調有限公司 (Guangdong Chigo Air-Conditioning Co., Ltd.) ("Guangdong Chigo Limited").

On 20 March 1999, 49 promoters (including Mr. XH Li) entered into a promoters' agreement in relation to the establishment of Guangdong Chigo Limited as a joint stock limited company. On 28 February 2000, the Guangdong Province People's Government Office issued an approval (《關於同意設立廣東志高空調股份有限公司的覆函》(粵辦函[2000]161號)), approving the establishment of Guangdong Chigo Limited as a joint stock limited company. Further, on 7 March 2000, 廣東省經濟體制改革委員會 (Commission for Restructuring the Economic System of Guangdong Province) issued an approval (《關於同意設立廣東志高空調股份有限公司的批覆》(粵體改[2000]022號)), approving the conversion of Guangdong Chigo Limited into Guangdong Chigo Air-Conditioning Joint Stock Co., Ltd. ("Guangdong Chigo JSC"). The share capital of Guangdong Chigo JSC was RMB53.14 million divided into 53,140,000 shares of RMB1.00 each, which was owned as to 90.85% by Mr. XH Li and the remaining 9.15% shareholding interests were transferred, by way of gift, by Mr. XH Li to 49 natural persons, all of whom were then employees of Guangdong Chigo JSC. On 25 September 2000, the scope of business of Guangdong Chigo Limited was expanded to cover the provision of after sales services for air-conditioners. The Nanhai Administration for Industry and Commerce issued a business licence on 20 February 2001, whereupon Guangdong Chigo JSC was established as a joint stock limited company. The reason for such conversion was due to the increase of share capital of Guangdong Chigo JSC and pursuant to the then effective PRC Company Law, a limited liability company was not allowed to have more than 50 shareholders. On 30 July 2001, the business scope of Guangdong Chigo JSC was further expanded to include import and export business activities.

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On 18 July 2003, eight shareholders of Guangdong Chigo JSC entered into equity transfer agreements with Mr. LY Li, whereby such eight shareholders transferred 2,280,000 shares of Guangdong Chigo JSC to Mr. LY Li, representing approximately 4.29% of the then registered share capital of Guangdong Chigo JSC and the number of shareholders of Guangdong Chigo JSC was reduced to 41, and, at the shareholders' meeting, the registered capital of Guangdong Chigo JSC was increased to RMB353.1 million. The total consideration of RMB4,296,000 for the above share transfer which was equivalent to the proportional registered capital of Guangdong Chigo JSC to be transferred, was fully paid by Mr. LY Li in cash. After the share transfer, Guangdong JSC was owned as to 90.85% by Mr. XH Li and as to 4.39% by Mr. LY Li. On 28 April 2004, the business scope of Guangdong Chigo JSC was further changed to include the manufacture of domestic electrical appliances, audio and video equipment, commercial air-conditioners, gas water heaters, gas appliances, plastic raw materials and products, computers and their external devices, electrical equipment and commercial trading within China. Between 13 June 2004 and 8 November 2004, certain then shareholders entered into 174 equity transfer agreements to sell shares to various then employees of Guangdong Chigo JSC at an aggregate consideration of RMB16,419,364, and, as a result, the number of shareholders of Guangdong Chigo JSC was increased to 211. The consideration, which was equivalent to the proportional registered capital of Guangdong Chigo JSC to be transferred, was fully paid by the relevant shareholders. After the shares transfer, Guangdong JSC was owned as to 90.85% by Mr. XH Li and as to 0.15% by Mr. LY Li. Between 29 December 2004 and 19 March 2005, Mr. XH Li and Mr. LY Li together with six other shareholders of Guangdong Chigo JSC entered into 20 equity transfer agreements to sell or transfer shares to various then employees of Guangdong Chigo JSC at an aggregate consideration of RMB4.8 million which was equivalent to the proportional registered capital of Guangdong Chigo JSC to be transferred, and was fully paid by the then relevant employees of Guangdong Chigo JSC. After the share transfer, Guangdong Chigo JSC was owned as to 90.29% by Mr. XH Li and as to 0.54% by Mr. LY Li. After the entering into of five equity transfer agreements between 30 March 2005 and 13 May 2005, whereby four shareholders of Guangdong Chigo JSC agreed to sell their shares at an aggregate consideration of RMB550,000 which was equivalent to the proportional registered capital of Guangdong Chigo JSC to be transferred, and was fully paid by the then relevant shareholders, the number of shareholders of Guangdong Chigo JSC was further increased to 219. After the share transfer, Guangdong Chigo JSC was owned as to 90.29% by Mr. XH Li and as to 0.54% by Mr. LY Li.

Between 12 December 2005 and 7 March 2006, all the shareholders of Guangdong Chigo (except for Mr. XH Li and Mr. LY Li) entered into certain equity transfer agreements with Mr. XH Li, whereby such shareholders sold all their respective shareholdings in Guangdong Chigo JSC to Mr. XH Li at a consideration of RMB32,393,658 which was equivalent to the proportional registered capital of Guangdong Chigo JSC to be transferred. On 4 August 2006, as part of the Reorganisation, Guangdong Chigo JSC was converted to a limited liability company, namely Guangdong Chigo and was owned as to 99.46% by Mr. XH Li and as to 0.54% by Mr. LY Li.

In August 2006, as part of the Reorganisation, Chigo Development Holding acquired the entire equity interest in Guangdong Chigo from Mr. XH Li and Mr. LY Li at a consideration of RMB379,548,470. The consideration was determined with reference to the appraised value of the shares of Guangdong Chigo JSC. Guangdong Chigo became a wholly foreign-owned enterprise on 1 September 2006.

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Mr. LY Li, the elder son of Mr. Li Xingji, who is the brother of Mr. XH Li (being a Controlling Shareholder), joined the Group in July 1998 and is currently the head of the information management department and the secretary to the board of Guangdong Chigo. Mr. LY Li was appointed as a Director in order to facilitate the administrative procedures in connection with the incorporation of the Company. However, Mr. LY Li was not part of the management team of the Group and the Company is of the view that it is necessary to restructure the board composition of the Company for the purpose of the Global Offering. As a result thereof, Mr. LY Li resigned as a Director on 25 February 2008.

The Group has obtained all relevant government approvals for the above share transfers in relation to Guangdong Chigo.

### **Chigo Electric**

Japan Tachiair Electronic (HK) Co. Limited (日本太極風(香港)電子有限公司) (“JTE”) was established on 28 July 2003 in Hong Kong to engage in the business of general trading. It was owned as to 60% by Mr. XH Li and as to 40% by Ms. Li Siu He, the daughter of Mr. XH Li. On 31 January 2005, pursuant to the relevant government approvals, Mr. XH Li and Ms. Li Siu He transferred the entire issued share capital of JTE to Guangdong Chigo (then known as Guangdong Chigo JSC) at a consideration which was determined with reference to the face value of the shares of Chigo Electric. On 16 February 2005, JTE was renamed as Chigo Electric. Accordingly, Chigo Electric is a wholly-owned subsidiary of Guangdong Chigo and it has not commenced any business operations since its incorporation.

### **Chigo Wuhu**

志高空調(蕪湖)有限公司 (Chigo Air-conditioning (Wuhu) Co., Ltd.), a wholly-owned subsidiary of Guangdong Chigo, was established on 20 December 2006 in the PRC by Guangdong Chigo to engage in the business of manufacturing and sale of commercial air-conditioning products. It has commenced construction of the production facility for the manufacture of air-conditioners which is expected to commence operations in the first half of 2011.

### **Chigo Jiu Jiang**

志高空調(九江)有限公司 (Chigo Air-conditioning (Jiu Jiang) Co., Ltd.), a wholly-owned subsidiary of Guangdong Chigo, was established on 1 June 2007 in the PRC by Guangdong Chigo to engage in the business of manufacturing and sale of commercial air-conditioning products. It has commenced construction of the production facility for the manufacture of air-conditioners which is expected to commence operations in the first half of 2011.

### **Mid-sky Enterprises**

Mid-sky Enterprises was incorporated on 24 April 2007 in the Republic of Mauritius. It is a wholly-owned subsidiary of Guangdong Chigo and is currently an inactive company.

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### **Sapience Enterprises**

Sapience Enterprises was incorporated on 24 April 2007 in the Republic of Mauritius. It is a wholly-owned subsidiary of Guangdong Chigo and is currently an inactive company.

As part of the Reorganisation of the Group, the following companies were either dissolved or disposed of by the Group or their assets were transferred to the Group:

### **Chigo International**

On 6 July 2006, Chigo International (in which Guangdong Chigo held a 51% interest) was dissolved. Chigo International did not commence any business activities before dissolution. As Chigo International was then a non wholly-owned subsidiary of Guangdong Chigo, its results were included in the Group's results for the year ended 31 December 2005.

### **Foshan Hing Lung**

In order to ensure that superior quality after sales services are provided to the Company's customers, Guangdong Chigo entered into an asset and business transfer agreement with Foshan Hing Lung on 5 November 2006 whereby Guangdong Chigo acquired all the assets of Foshan Hing Lung, an enterprise wholly owned by Mr. XH Li, at a consideration of RMB150,649.92, which was determined with reference to the net asset value of Foshan Hing Lung as of 28 February 2006 as audited by an accounting firm in the PRC adjusted by the amount receivable and payable, business contracts and other assets of Foshan Hing Lung as from 28 February 2006 up to the completion date of the acquisition. The assets disposed of comprise account receivables and the business operation of Foshan Hing Lung at a carrying value of RMB150,649.92. Upon completion of the said acquisition, Foshan Hing Lung was dissolved on 10 November 2006. Prior to the dissolution of Foshan Hing Lung, it mainly engaged in the installation of air-conditioning parts and components and the maintenance of domestic electrical appliances. As Guangdong Chigo has only acquired the assets of Foshan Hing Lung but not any equity interest in the company, the results of Foshan Hing Lung were not included in the track record results of the Group.

### **Chigo Air-conditioning**

On 6 July 2006, Chigo Air-conditioning (in which Guangdong Chigo held a 90% interest) was dissolved. Chigo Air-conditioning did not commence any business activities before dissolution. As Chigo Air-conditioning was then a non wholly-owned subsidiary of Guangdong Chigo, its results were included in the Group's results for the year ended 31 December 2005.

### **Yee Shun**

Yee Shun was incorporated on 8 September 2000 in BVI to engage in the business of the provision of product assurance services to Guangdong Chigo, involving quality control and inspection services for air-conditioning products. It was a wholly-owned subsidiary of Guangdong Chigo. Due to the development of the relevant expertise in product assurance service by Guangdong Chigo in late 2006, Yee Shun ceased to provide services to Guangdong Chigo from January 2007 onwards and it was eventually dissolved on 14

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January 2008. Pursuant to a sale and purchase agreement dated 30 November 2007, Yee Shun disposed of all of its assets to Sapience Enterprises, which was established with an intention to develop the overseas market with a focus in Africa. However, as the African market has been relatively volatile and the Company is still in the initial stage of approaching potential customers, Sapience Enterprises has remained inactive since incorporation. The assets disposed of comprise account receivables due from Guangdong Chigo to Yee Shun, then a wholly-owned subsidiary of the Group, at a carrying value of RMB61,658,964.62.

### **Flavordigit Services**

Flavordigit Services was incorporated on 18 July 2000 in BVI to engage in the business of the provision of technical support services to Guangdong Chigo, involving research and development of technology in connection with the efficiency and effectiveness of production, product design and development of air-conditioning products. It was a wholly-owned subsidiary of Guangdong Chigo. Due to the development of the relevant expertise in technical support service by Guangdong Chigo in late 2006, Flavordigit ceased to provide services to Guangdong Chigo from January 2007 onwards and it was eventually dissolved on 14 January 2008. Pursuant to a sale and purchase agreement dated 30 November 2007, Flavordigit Services disposed of all of its assets to Mid-sky Enterprises, which was established with an intention to develop the overseas market with a focus in Africa. However, as the African market has been relatively volatile and the Company is still in the initial stage of approaching potential customers, Mid-sky Enterprises has remained inactive since incorporation. The assets disposed of comprise accounts receivable due from Guangdong Chigo to Flavordigit, then a wholly-owned subsidiary of the Group, at a carrying value of RMB462,133,955.26.

### **REORGANISATION**

The Company was incorporated in the Cayman Islands on 24 April 2006 as a company with limited liability. The companies comprising the Group underwent a reorganisation in preparation for the listing of the Shares on the Stock Exchange. As a result, the Company became the holding company of the Group. The major steps of the Reorganisation are described in details in the paragraph under the heading “Corporate reorganisation” in Appendix V to this prospectus.

The Controlling Shareholders have made all necessary registrations and/or filings with the local SAFE with respect to their interests in the Group under the requirements of the “Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investment Undertaken by Domestic Residents Through Overseas Special Purpose Vehicles” (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知). As the acquisition of Guangdong Chigo by Chigo Development Holding had been completed before the effective date of the “Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors” (關於外國投資者併購境內企業的規定) on 8 September 2006, such rules are not applicable to the acquisition of Guangdong Chigo by Chigo Development Holding.

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### BUSINESS DEVELOPMENT

#### (a) Products, business development and sales

In 1995, the Group launched its residential air-conditioner products under the CHIGO brand in China.

In November 1996, the Group started to source compressors from Mitsubishi Electric (Guangzhou) Compressor Co., Ltd.

In 2001, the Group started to export air-conditioners on an OEM basis as well as air-conditioner parts and components to overseas markets.

In May 2002, Guangdong Chigo was granted an exclusive right to manufacture, distribute and sell air-conditioners under the 現代 HYUNDAI brand in the PRC until 31 August 2003. The term of the agreement was subsequently extended to 31 August 2010.

In 2002, the Group started to export air-conditioners under the CHIGO brand to overseas markets. The Group also started to manufacture and sell commercial air-conditioning products to overseas markets and the PRC.

In 2003, the Group started to co-operate with the three nation-wide household appliances retail chain operators for the sale of the Group's residential air-conditioners in the PRC market.

According to "The market research report on air-conditioners in the 2004 refrigeration year" (2004 (冷凍) 年度空調器市場調查報告) issued by the State Information Center (國家信息中心) in September 2004, the Group's sales of its CHIGO brand air-conditioners ranked fifth in the industry, amongst the PRC domestic air-conditioner manufacturers identified in such report.

In December 2004, CHIGO brand air-conditioners was one of the first products to be included in the "Government sourcing list for energy saving products" (節能產品政府採購清單) announced by the PRC Ministry of Finance and National Development and Reform Commission.

In 2005, the Group launched its European market expansion plan, as well as commencing discussion with the Vaillant group (a leading European heating technology group) with a view to forming a strategic business relationship which was subsequently formed in 2006 by Vaillant group investing into the Company through its wholly-owned subsidiary Saunier.

In April 2006, the Group launched the first generation of its new innovative product, "三超王" ("San Chao Wang") series of residential air-conditioners, which was designed to surpass the highest national standards, in terms of quiet level, energy efficiency and air purification ability and featuring each of these high standards in one single air-conditioner product. The Group's "三超王" ("San Chao Wang") split type air-conditioner (model KF-26GW/K(K61A)+1) had an EER of 3.9, which exceeded the national energy efficiency grade 1 standard (being the highest energy efficiency standard) of EER 3.40. The said model also had a noise level of 23.5dB(A), which surpassed the national standard of 45dB(A) by

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47.8%, and it was able to remove more than 90% of the germs naturally occurring in indoor conditions, as accredited by the Chinese Centre for Disease Control and Prevention (中國疾病預防控制中心).

In March 2007, the Group launched its second generation of “三超王” (“San Chao Wang”) series residential air-conditioners, which was an improved version of the first generation.

In September 2007, the Group launched the third generation of “三超王” (“San Chao Wang”) series residential air-conditioners. The “三超王” (“San Chao Wang”) split type air-conditioner (model KF-28GW/M(M71A)+1) has an EER of 4.29, surpassing the national energy efficiency grade 1 standard of 3.40 by 26.2%. The inverter type air-conditioner (model KFR-28GW/X1DBP) of this generation has a noise level of 20.0dB(A), surpassing the national standard of 45dB(A) by 55.6%. The move touch technology (動感技術), which is also employed in this series, causes the cooling or heating effect, and the volume and direction of air flow of air-conditioners, to be adjusted automatically as a result of motion in the room in which the unit is located.

### **(b) Production and production facilities**

In 1994, the Group commenced the construction of its first factory in Foshan, Guangdong province, the PRC. In the same year, the Group’s first two production lines of residential air-conditioners commenced production.

In 1997, the Group’s third and fourth production lines of residential air-conditioners commenced production.

In October 2000, the number of the Group’s production lines of residential air-conditioners increased to six.

In December 2002, there was an addition of four production lines for residential air-conditioners. The Group’s production facilities for assembly of air-conditioning products expanded to a total site area of approximately 37,000 sq.m.

In 2003, the Group’s vacuum box-type helium leakage detecting equipment (真空箱式氮檢漏設備實驗室) was put into operation. The Group’s commercial air-conditioning manufacturing plant, which had three production lines, commenced production in July 2003.

In 2004, two additional production lines commenced production in the Group’s residential air-conditioning manufacturing plant and one additional production line commenced production in the Group’s commercial air-conditioning manufacturing plant.

In December 2007, the aggregate number of the Group’s production lines had increased to a total of 23, comprising 16 production lines for the manufacture of residential air-conditioners (eight of which were for the manufacture of outdoor units and eight were for the manufacture of indoor units) and seven production lines for the manufacture of commercial air-conditioning products. The Group’s production facilities for assembly of air-conditioning products further expanded to a total site area of approximately 50,000 sq.m.

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### (c) Technology and accreditation

In January 2001, the Group was awarded the “Certificate for Product Exemption from Quality Surveillance Inspection” (產品質量免檢證書) for its wall mounted type air-conditioners by the China State Bureau of Quality and Technical Supervision of the PRC (中華人民共和國國家質量技術監督局).

In December 2001, the Group received ISO9001:2000 quality management system standard certification.

In January 2003, all the floor standing type and window type air-conditioners of the Group were exempted from inspection 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).

In September 2004, the CHIGO brand was accredited with “China Top Brand Product” (中國名牌) by 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).

In November 2004, the Group introduced new lines of products integrating its then latest energy saving technology (365全節能技術) with an EER which exceeded the energy saving standards imposed by China Energy Conservation Product Certification (中國節能產品認證), National Energy Efficiency Grade 1 (國家1級能效) and European energy efficiency label.

In August 2005, the State Development and Reform Commission and General Administration of Quality Supervision, Inspection and Quarantine of the PRC announced that the CHIGO KF-28GW/G model of air-conditioners achieved an EER of 4.15, and attained the international advanced level.

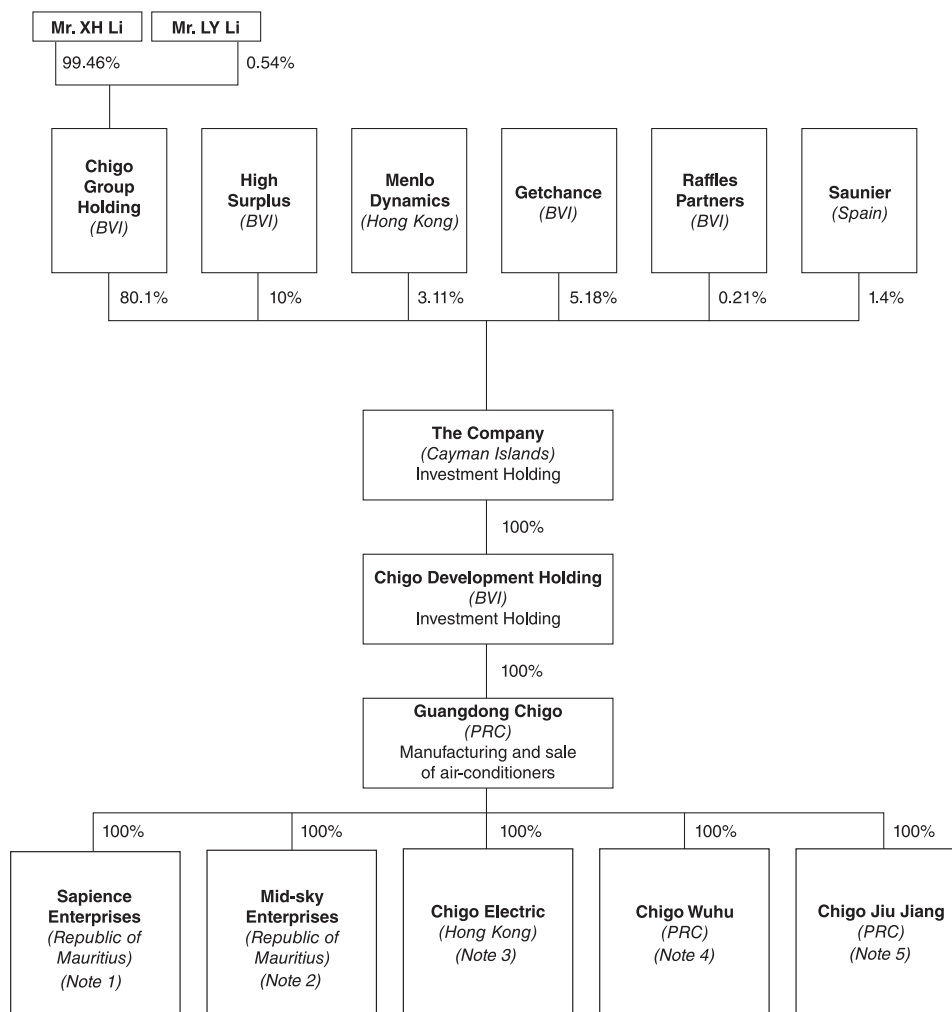
In June 2006, the Group also obtained ISO14001:2004 certificate for its environmental management standards. In addition, the design and manufacture of air-conditioners by the Group has been audited and was formed to be meeting RoHS Compliance Verification Audit Requirements.



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## CORPORATE STRUCTURE

Set out below is the shareholding structure of the Group immediately after the Reorganisation before the completion of the Global Offering:

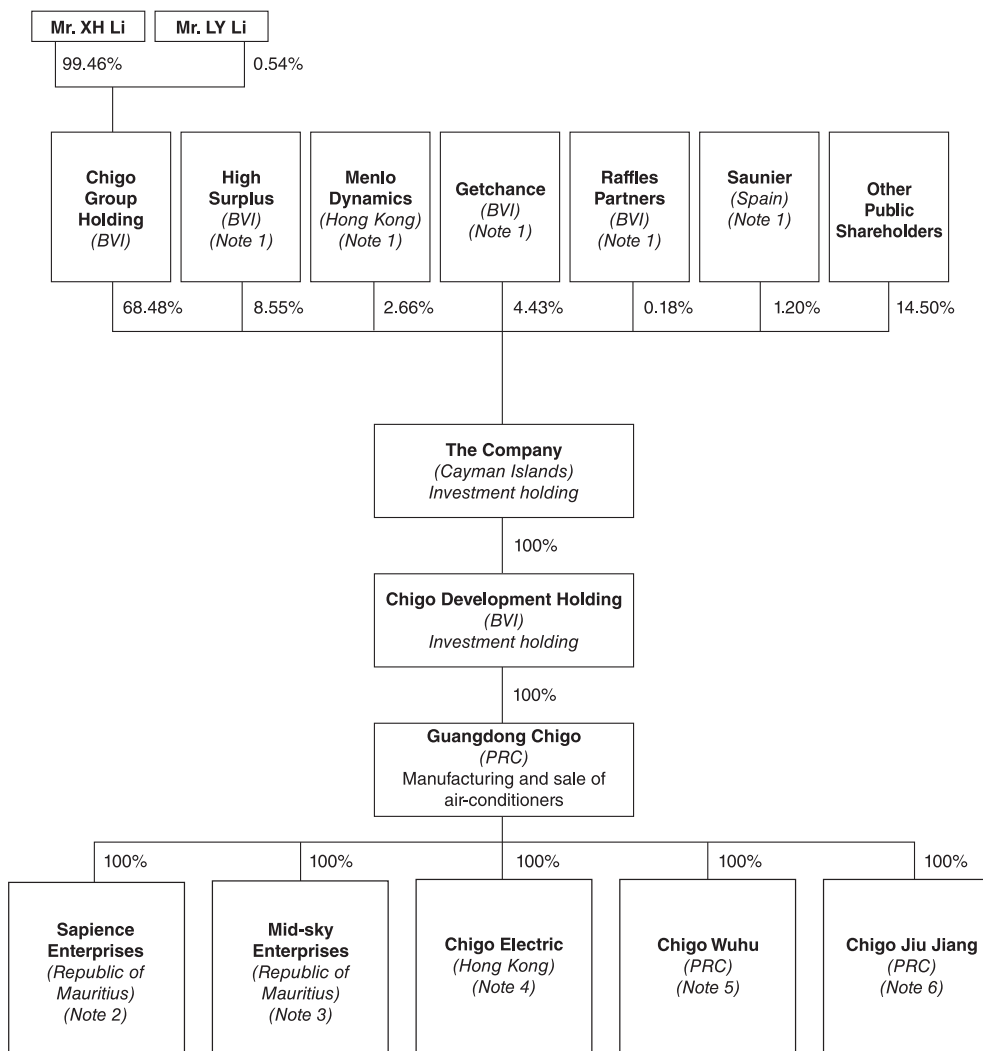


**Notes:**

1. Sapience Enterprises was established on 24 April 2007. It is currently an inactive company.
2. Mid-sky Enterprises was established on 24 April 2007. It is currently an inactive company.
3. Chigo Electric was established on 28 July 2003. It is currently an inactive company.
4. Chigo Wuhu was established on 20 December 2006 in the PRC as a limited liability company. Chigo Wuhu is expected to operate factories for the manufacture and sale of air-conditioners which are currently in progress of construction.
5. Chigo Jiu Jiang was established on 1 June 2007 in the PRC as a limited liability company. Chigo Jiu Jiang is expected to operate factories for the manufacture and sales of air-conditioners which are currently in progress of construction.

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The following chart sets out the shareholding and corporate structure of the Group immediately following the completion of the Global Offering and the Capitalisation Issue, assuming the Over-allotment Option is not exercised.



**Notes:**

1. Each of High Surplus Enterprises Limited, Menlo Dynamics Company Limited, Getchance Holdings Limited, Raffles Partners Asset Management Limited and Saunier Duval Clima, S.A.U. is an independent third party and a public Shareholder.
2. Sapience Enterprises was established on 24 April 2007. It is currently an inactive company.
3. Mid-sky Enterprises was established on 24 April 2007. It is currently an inactive company.
4. Chigo Electric was established on 28 July 2003. It is currently an inactive company.
5. Chigo Wuhu was established on 20 December 2006 in the PRC as a limited liability company. Chigo Wuhu operates factories for the manufacture and sales of air-conditioners which are currently in progress of construction.
6. Chigo Jiu Jiang was established on 1 June 2007 in the PRC as a limited liability company. Chigo Jiu Jiang operates factories for the manufacture and sales of air-conditioners which are currently in progress of construction.