The following is the text of a report prepared for the purpose of incorporation in the prospectus received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

30 June 2009

The Directors
Chigo Holding Limited
BNP Paribas Capital (Asia Pacific) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Chigo Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2008 (the "Track Record Period") for inclusion in the prospectus of the Company dated 30 June 2009 (the "Prospectus").

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 24 April 2006. Through a group reorganisation as more fully explained in the paragraph headed "Corporate reorganisation" in Appendix V to the Prospectus (the "Group Reorganisation"), the Company has since 1 September 2006 become the holding company of the Group.

As at the date of this report, the Company has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group	Principal activity
廣東志高空調有限公司 (Guangdong Chigo Air-Conditioning Co., Ltd.) ("Guangdong Chigo")	People's Republic of China (the "PRC") 1 September 2006 for a term of 50 years as a wholly foreign owned enterprise ("WFOE")	Registered capital — RMB353,140,000	100%	Manufacture and sales of air-conditioners
Chigo Development Holding Limited ("Chigo Development")*	British Virgin Islands ("BVI") 16 May 2006	Shares — US$0.01	100%	Investment holding
Chigo Electric Co., Limited ("Chigo Electric")	Hong Kong 28 July 2003	Ordinary shares — HK$100,000	100%	Inactive
志高空調（蕪湖）有限公司 (Chigo Air-Conditioning (Wuhu) Co., Ltd.) ("Wuhu Chigo")	PRC 20 December 2006 for a term of 10 years as a limited liability enterprise	Registered capital — RMB30,000,000	100%	Factories under construction for manufacture and sales of air-conditioners

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group	Principal activity
志高空調（九江）有限公司 (Chigo Air-Conditioning (Jiu Jiang) Co., Ltd.) ("Chigo Jiu Jiang")	PRC 1 June 2007 for a term of 10 years as a limited liability enterprise	Registered capital — RMB45,000,000	100%	Factories under construction for manufacture and sales of air-conditioners
Mid-Sky Enterprises Limited	Mauritius 24 April 2007	Ordinary shares — US$10	100%	Inactive
Sapience Enterprises Limited	Mauritius 24 April 2007	Ordinary shares — US$10	100%	Inactive

* *Directly held by the Company.*

Guangdong Chigo, formerly known as 廣東志高空調有限公司 (Guangdong Chigo Air-Conditioning Co., Ltd.) ("Guangdong Chigo Limited"), was established on 16 June 1997 as a PRC domestic enterprise. In 2000, pursuant to the approval from the relevant PRC authorities, Guangdong Chigo Limited was converted into a joint stock limited company with a new company name known as 廣東志高空調股份有限公司 (Guangdong Chigo Air-Conditioning Joint Stock Co., Ltd.) ("Guangdong Chigo JSC"). On 2 August 2006, the shareholders of Guangdong Chigo JSC passed a resolution to convert its status from a joint stock limited company into a limited liability company. Accordingly, its name was changed to 廣東志高空調有限公司, Guangdong Chigo, which was approved by the relevant PRC authorities on 4 August 2006. Pursuant to a sale and purchase agreement dated 7 August 2006, the then owners of Guangdong Chigo transferred the entire equity interest in Guangdong Chigo to Chigo Development. On 1 September 2006, pursuant to the approval from the relevant PRC authorities, Guangdong Chigo was converted into a WFOE.

The PRC statutory financial statements of the following subsidiaries for each of the three years ended 31 December 2008 or since their respective dates of establishment, where this is a shorter period, were prepared in accordance with relevant accounting principles and financial regulations applicable to PRC enterprises and were audited by the following certified public accountants registered in the PRC.

Name of company	Financial period	Name of auditor
Guangdong Chigo	Each of the two years ended 31 December 2007	廣州市增信會計師事務所有限公司 Guangzhou Zengxin Certified Public Accountants Co., Ltd.
	Year ended 31 December 2008	廣州恒意會計師事務所有限公司 Guangzhou Hengyi Certified Public Accountants Co., Ltd.
Wuhu Chigo	From 20 December 2006 (date of establishment) to 31 December 2007	佛山市眾聯會計師事務所有限公司 Foshan Zhonglian Certified Public Accountants Co., Ltd.
	Year ended 31 December 2008	佛山市眾聯會計師事務所有限公司 Foshan Zhonglian Certified Public Accountants Co., Ltd.

Name of company	Financial period	Name of auditor
Chigo Jiu Jiang	From 1 June 2007 (date of establishment) to 31 December 2008	佛山市眾聯會計師事務所有限公司 Foshan Zhonglian Certified Public Accountants Co., Ltd.

We have acted as the auditor of the Company since its date of incorporation. No statutory audited financial statements have been prepared for those subsidiaries which were incorporated in BVI and Mauritius as they were incorporated in jurisdictions where there are no statutory audit requirements. No statutory audited financial statements have been prepared for Chigo Electric since its date of incorporation as it has not yet commenced business.

Guangdong Chigo held four other subsidiaries which had been dissolved. They are Flavordigit Services Limited ("Flavordigit"), Yee Shun Services Limited ("Yee Shun"), 佛山市志高空調進出口有限公司 ("Chigo Air-Conditioning") and 佛山市志高國際貨物運輸代理有限公司 ("Chigo International"). Flavordigit which was incorporated in the BVI and principally engaged in the provision of technical support to group company in the PRC was dissolved in January 2008. Yee Shun which was incorporated in BVI and principally engaged in the provision of product assurance services to group company in the PRC was also dissolved in January 2008. Chigo Air-Conditioning and Chigo International remained inactive since their respective date of establishment and were dissolved in July 2006. The financial information of Flavordigit, Yee Shun, Chigo Air-Conditioning and Chigo International were included in the consolidated financial information of the Group during the Track Record Period.

No audited financial statements have been prepared for Flavordigit and Yee Shun as they were incorporated in a country where there are no statutory audit requirements. Also, no statutory financial statements have been prepared for Chigo Air-Conditioning and Chigo International as they were inactive during the Track Record Period.

We have audited the consolidated financial statements of the Group for the Track Record Period prepared under Hong Kong Financial Reporting Standards ("HKFRSs") (the "Underlying Financial Statements") in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have examined the Underlying Financial Statements for the Track Record Period in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" as recommended by the HKICPA.

The consolidated balance sheets of the Group as at 31 December 2006, 31 December 2007 and 31 December 2008 and the consolidated income statements and cash flow statements of the Group for the Track Record Period have been prepared from the Underlying Financial Statements, on the basis set out in note 1 to section F below, for the purpose of preparing our report for inclusion in the Prospectus. No adjustments are considered necessary to adjust the Underlying Financial Statements in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 to section F below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006, 31 December 2007 and 31 December 2008 and of the consolidated profit and cash flows of the Group for the Track Record Period.

A. CONSOLIDATED INCOME STATEMENTS

	Section F Notes	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000
Turnover		4,535,062	5,716,408	5,920,583
Cost of goods sold		(3,699,918)	(4,659,817)	(4,940,650)
Gross profit		835,144	1,056,591	979,933
Other income		10,750	49,310	49,071
Selling and distribution costs		(351,436)	(525,604)	(500,336)
Administrative expenses		(149,403)	(136,532)	(183,694)
Other expenses		(4,221)	(26,378)	(49,197)
Net gain (loss) in fair value changes of derivative financial instruments		—	44,214	(83,978)
Fair value changes in respect of embedded conversion option derivatives of other borrowings		(35,258)	—	—
Finance costs	8	(42,171)	(91,567)	(114,065)
Profit before taxation	9	263,405	370,034	97,734
Taxation	11	(42,450)	2,869	(2,446)
Profit for the year		220,955	372,903	95,288
Dividends	12	94,705	—	—
Earnings per share — Basic	13	61.9 cents	87.2 cents	22.3 cents

B. CONSOLIDATED BALANCE SHEETS

	Section F Notes	At 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000
Non-current assets				
Property, plant and equipment	14	423,671	333,539	372,595
Land use rights	15	44,947	85,938	84,124
Intangible assets	16	3,288	3,169	2,812
Prepaid lease payments		14,791	64,565	103,831
Deposits made on acquisition of property, plant and equipment		1,053	17,679	10,557
Deferred tax assets	18	6,503	9,372	9,921
		494,253	514,262	583,840
Current assets				
Inventories	19	774,294	1,595,528	1,422,838
Trade and other receivables	20	896,068	1,124,796	1,499,119
Land use rights	15	963	1,815	1,815
Taxation recoverable		—	1,795	13,662
Derivative financial instruments	21	—	43,515	3,408
Pledged bank deposits	22	894,590	1,115,022	1,006,067
Bank balances and cash	22	298,988	74,767	260,834
		2,864,903	3,957,238	4,207,743
Current liabilities				
Trade and other payables	23	1,787,392	2,248,741	2,031,918
Warranty provision	24	16,834	35,123	35,302
Amount due to ultimate holding company	25	207,671	28,250	28,250
Amount due to a director	26	102,286	47,216	15,580
Dividend payable		95,768	100,000	—
Taxation payable		89,014	75,833	75,683
Derivative financial instruments	21	—	12	82,294
Short-term bank loans	28	225,981	688,730	1,077,986
		2,524,946	3,223,905	3,347,013
Net current assets		339,957	733,333	860,730
Total assets less current liabilities		834,210	1,247,595	1,444,570
Non-current liabilities				
Government grant	29	24,000	64,482	63,174
Deferred tax liabilities	18	—	—	2,995
		24,000	64,482	66,169
Net assets		810,210	1,183,113	1,378,401
Capital and reserves				
Share capital	30	1	1	1
Reserves		810,209	1,183,112	1,378,400
Total equity		810,210	1,183,113	1,378,401

C. BALANCE SHEETS

	Section F Notes	At 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000
Non-current asset				
Investment in a subsidiary	17	235,379	235,379	335,379
Current assets				
Amounts due from subsidiaries	17	95,769	100,001	1
Bank balances		—	27	23
		95,769	100,028	24
Current liabilities				
Amounts due to subsidiaries	17	—	732	2,788
Dividend payable		95,768	100,000	—
		95,768	100,732	2,788
Net current assets (liabilities)		1	(704)	(2,764)
Net assets		235,380	234,675	332,615
Capital and reserves				
Share capital	30	1	1	1
Reserves	31	235,379	234,674	332,614
Total equity		235,380	234,675	332,615

D. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Share compensation reserve RMB'000 (Note b)	Statutory surplus reserve RMB'000 (Note c)	Statutory welfare fund RMB'000 (Note d)	Retained profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	53,140	—	—	1,967	24,958	12,479	440,879	533,423	2,950	536,373
Capital contributions to Guangdong Chigo	300,000	—	—	—	—	—	—	300,000	—	300,000
Transfer upon the Group Reorganisation	(353,140)	—	(26,408)	—	—	—	—	(379,548)	—	(379,548)
Issue of shares	1	—	—	—	—	—	—	1	—	1
Issue of shares pursuant to a subscription agreement	—	96,850	—	—	—	—	—	96,850	—	96,850
Issue of shares upon exercise of embedded conversion option derivatives of other borrowings	—	133,234	—	—	—	—	—	133,234	—	133,234
Dissolution of subsidiaries	—	—	—	—	—	—	—	—	(2,950)	(2,950)
Profit for the year and total recognised income	—	—	—	—	—	—	220,955	220,955	—	220,955
Transfers	—	—	—	—	23,908	(12,479)	(11,429)	—	—	—
Dividend declared *(Note e)*	—	(17,520)	—	—	—	—	(77,185)	(94,705)	—	(94,705)
At 31 December 2006	1	212,564	(26,408)	1,967	48,866	—	573,220	810,210	—	810,210
Profit for the year and total recognised income	—	—	—	—	—	—	372,903	372,903	—	372,903
Transfers	—	—	—	—	39,125	—	(39,125)	—	—	—
At 31 December 2007	1	212,564	(26,408)	1,967	87,991	—	906,998	1,183,113	—	1,183,113
Profit for the year and total recognised income	—	—	—	—	—	—	95,288	95,288	—	95,288
Transfers	—	—	—	—	24,428	—	(24,428)	—	—	—
Dividend waived *(Note f)*	—	17,520	—	—	—	—	82,480	100,000	—	100,000
At 31 December 2008	1	230,084	(26,408)	1,967	112,419	—	1,060,338	1,378,401	—	1,378,401

Notes:

(a) Special reserve represents the difference between the consideration paid for the acquisition of the entire interest in Guangdong Chigo by Chigo Development and the then paid-in capital of Guangdong Chigo upon Group Reorganisation.

(b) Share compensation reserve represents the difference of fair value of certain Guangdong Chigo JSC's shares transferred to the Group's certain employees by the shareholders, Mr. Li Xinghao ("Mr. XH Li") and Mr. Li Longyi ("Mr. LY Li") and the consideration paid by the employees in obtaining those shares.

(c) As stipulated by the relevant laws and regulations in the PRC, Guangdong Chigo JSC is required to set aside 10% of its profit after taxation for the statutory surplus reserve (except where the reserve has reached 50% of Guangdong Chigo JSC's registered capital) in 2005 and the period up to August 2006. According to the Articles of Association of Guangdong Chigo JSC, statutory surplus reserve can be used to (i) make up prior year losses; (ii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory surplus reserve does not fall below 25% of Guangdong Chigo JSC's registered capital; or (iii) expand production operation.

Since 1 September 2006, Guangdong Chigo JSC became a WFOE, Guangdong Chigo. As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, Guangdong Chigo is required to maintain a statutory surplus reserve fund which is non-distributable. Appropriation to such reserve is made out of net profit after taxation of the statutory financial statements of Guangdong Chigo and the allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied for conversion into capital by means of capitalisation issue.

(d) As stipulated by the relevant laws and regulations in the PRC, Guangdong Chigo JSC is required to set aside 5% to 10% of its profit after taxation for the statutory welfare fund. The statutory welfare fund, which is to be used for the welfare of the staff and workers of Guangdong Chigo JSC, is of a capital nature. Pursuant to a notice in respect of the financial treatments under new Company Law issued by the Minister of Finance, no accrual of statutory public welfare fund is required from 2006. The unutilised statutory welfare fund as at 31 December 2005 was transferred to statutory surplus reserve in 2006.

(e) The amount of dividend declared of RMB17,520,000 recognised in the share premium account represents the deemed distribution immediately upon the share subscription by the subscribers and convertible note holders to offset the subscription proceeds as explained in note 12 to section F, representing approximately 18.5% of the enlarged share capital on 20 November 2006.

(f) The amount of dividend waived of RMB17,520,000 recognised in the share premium account represents the dividend waived by the subscribers and convertible note holders on 6 June 2008 as explained in note 12 to section F.

E. CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Profit before taxation	263,405	370,034	97,734
Adjustments for:			
Interest income	(6,559)	(31,641)	(33,379)
Interest expenses	42,171	91,567	114,065
Depreciation	44,930	48,471	55,303
Amortisation of intangible assets	48	234	357
Amortisation of government grant	—	(918)	(1,308)
Operating lease rentals in respect of land use rights	554	1,407	1,814
Loss on disposal of property, plant and equipment	—	3,033	807
Net (gain) loss in fair value changes of derivative financial instruments	—	(44,214)	83,978
Provision for warranty	20,867	36,337	16,659
Allowance for doubtful debts	738	1,025	3,869
Recovery of doubtful debts	—	(750)	(201)
Fair value changes in respect of embedded conversion option derivatives of other borrowings	35,258	—	—
Net exchange gain on other borrowings	(2,949)	—	—
Operating cash flows before movements in working capital	398,463	474,585	339,698
(Increase) decrease in inventories	(195,312)	(821,234)	172,690
Increase in trade and other receivables	(136,384)	(229,003)	(377,991)
Change in derivative financial instruments	—	711	38,411
Increase (decrease) in trade and other payables	399,514	461,349	(216,823)
Decrease in warranty provision	(16,847)	(18,048)	(16,480)
Cash from (used in) operations	449,434	(131,640)	(60,495)
PRC income tax paid	(17,341)	(14,976)	(12,017)
Net cash from (used in) operating activities	432,093	(146,616)	(72,512)

	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Investing activities			
Interest received	6,559	31,641	33,379
Purchase of property, plant and equipment	(80,987)	(62,564)	(86,873)
Proceeds from disposal of property, plant and equipment	—	503	150
Purchase of intangible assets	—	(115)	—
Purchase of land use rights	(26,649)	(43,250)	—
Prepaid lease payments made	(14,791)	(49,774)	(39,266)
Deposits paid on acquisition of property, plant and equipment	(1,053)	(17,137)	(1,321)
(Increase) decrease in pledged bank deposits	(245,730)	(220,432)	108,955
Government grant received	24,000	41,400	—
Net cash (used in) from investing activities	(338,651)	(319,728)	15,024
Financing activities			
Interest paid	(45,425)	(87,335)	(114,065)
Capital contributions to Guangdong Chigo	300,000	—	—
Payment for exchange in capital of Guangdong Chigo upon Group Reorganisation	(379,548)	—	—
Proceeds from issue of shares	96,850	—	—
Advance from (repayment to) ultimate holding company	207,672	(179,421)	—
Advance from (repayment to) a director	3,824	46,130	(31,636)
Bank loans raised	347,861	1,476,784	2,050,551
Repayment of bank loans	(397,950)	(1,014,035)	(1,661,295)
Net cash from financing activities	133,284	242,123	243,555
Net increase (decrease) in cash and cash equivalents	226,726	(224,221)	186,067
Cash and cash equivalents at 1 January	72,262	298,988	74,767
Cash and cash equivalents at 31 December	298,988	74,767	260,834
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	298,988	74,767	260,834

F. NOTES TO THE FINANCIAL INFORMATION

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

In preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company underwent a Group Reorganisation. On 16 May 2006, Chigo Development was incorporated in the British Virgin Islands where 1 share of US$0.01 each was allotted and issued to the Company. Pursuant to a sale and purchase agreement dated 7 August 2006, the then owners of Guangdong Chigo, Mr. XH Li and Mr. LY Li, transferred the entire equity interest in Guangdong Chigo to Chigo Development for a cash consideration of RMB379,548,000. Pursuant to the approval from the relevant PRC authorities, the Company has become the holding company of the Group since 1 September 2006.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated income statements and the consolidated cash flow statements for the year ended 31 December 2006 include the results and cash flows of the companies now comprising the Group which have been prepared by applying the principles of merger accounting, as if the group structure upon the completion of the Group Reorganisation had been in existence throughout the year ended 31 December 2006, or since their respective dates of incorporation/establishment or acquisition where this is a shorter period.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA issued a number of new Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT"s) (hereinafter collectively referred to as the "new HKFRSs") which are effective for the Group's and the Company's accounting periods beginning on 1 January 2008. For the purposes of preparing and presenting Financial Information of the Track Record Period, the Group and the Company have adopted all these new HKFRSs consistently throughout the Track Record Period.

The HKICPA has issued the following new and revised Standards, Amendments and INTs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvement to HKFRS[1]
HKFRSs (Amendments)	Improvement to HKFRS 2009[2]
HKAS 1 (Revised)	Presentation of financial statements[3]
HKAS 23 (Revised)	Borrowing costs[3]
HKAS 27 (Revised)	Consolidated and separate financial statements[4]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[3]
HKAS 39 (Amendment)	Eligible hedged items[4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[3]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[3]
HKFRS 3 (Revised)	Business combinations[4]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[3]
HKFRS 8	Operating segments[3]
HK(IFRIC)*-INT 9 & HKAS 39 (Amendments)	Embedded derivatives[5]
HK(IFRIC)-INT 13	Customer loyalty programmes[6]
HK(IFRIC)-INT 15	Agreements for the construction of real estate[3]
HK(IFRIC)-INT 16	Hedges of a net investment in a foreign operation[7]
HK(IFRIC)-INT 17	Distribution of non-cash assets to owners[4]
HK(IFRIC)-INT 18	Transfer of assets from customers[8]

* IFRIC represents the International Financial Reporting Interpretations Committee.

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual period beginning on or after 1 July 2009.

[2] Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2009.

[4] Effective for annual periods beginning on or after 1 July 2009.

[5] Effective for annual periods ending on or after 30 June 2009.

[6] Effective for annual periods beginning on or after 1 July 2008.

[7] Effective for annual periods beginning on or after 1 October 2008.

[8] Effective for transfers assets from customers received on or after 1 July 2009.

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. The adoption of HKAS 27 (revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. HKAS 23 (revised) eliminates the option to expense all borrowing cost when incurred, effective from the Group's financial year beginning 1 January 2009 on a prospective basis. The directors of the Company anticipate that the application of the other new or revised Standards, Amendments and INTs will have no material impact on the results and the financial position of the Group and the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain financial instruments which are measured at fair values and in accordance with accounting policies set out below which conform with HKFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investment in a subsidiary

Investment in a subsidiary is stated at cost less any identified impairment loss on the Company's balance sheet.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

The cost of buildings is depreciated over the shorter of the unexpired lease term of the land on which the buildings are located or their estimated useful lives of 8 to 30 years after the date of completion.

Depreciation is provided to write off the cost of other property, plant and equipment, using the straight line method, over their estimated useful lives as follows:

Furniture, fixtures and equipment	3–6 years
Motor vehicles	5 years
Plant and machinery	5–10 years

Land use rights

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

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

Inventories

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

Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the year in which it is incurred.

Patents

Purchased patents are stated at cost less accumulated amortisation and any identified impairment losses. Amortisation is calculated on a straight line basis over its estimated useful economic life, starting from the time when the patent is available for use.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL").

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis.

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in the profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimate future cash flows of the financial assets have been affected.

For certain categories of loans and receivables, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30–90 days and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and amounts due from subsidiaries, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable and amounts due from subsidiaries are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Convertible instruments

Other borrowings raised by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the other borrowings is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the raising of other borrowings are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the other borrowings using effective interest method.

Embedded conversion option derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives financial instruments

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Other financial liabilities

Other financial liabilities including bank loans, trade and other payables, amounts due to subsidiaries, ultimate holding company and a director and dividend payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company and Guangdong Chigo JSC are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the year in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Operating leases

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

Government grants and subsidies

Government grants and subsidies are recognised as income over the periods necessary to match them with the related costs. Grants and subsidies related to depreciable assets are presented as deferred income and are released to income statement in the same period as those expenses are charged in the income statement and are reported separately as "other income".

Retirement benefit costs

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies detailed in note 3 to section F, the management has made the following estimation that have significant effect on the amounts recognised in the Financial Information. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at each balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

Warranty obligation

The Group provides free repairing services for its products and free replacement of the major components of its products for three to six years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation. The costs are estimated by the management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results. When a material defect is subsequently tested and identified, further warranty provision may arise. The carrying amount of warranty provision at 31 December 2006, 31 December 2007 and 31 December 2008 were RMB16,834,000, RMB35,123,000 and RMB35,302,000 respectively. Details of the movements are disclosed in note 24 to section F.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of bank loans, other borrowings, bank deposits, cash and cash equivalents and equity attributable to equity holders of the Company, comprising share capital, reserves and retained profits as disclosed in the Financial Information.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues of the Company as well as the raising of bank loans.

6. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3 to section F.

Categories of financial instruments

	The Group		
	At 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Loans and receivables (including cash and cash equivalents)	2,058,071	2,255,971	2,758,928
Fair value through profit or loss — held for trading	—	43,515	3,408
	2,058,071	2,299,486	2,762,336
Financial liabilities			
Amortised cost	2,394,125	2,880,746	2,953,627
Fair value through profit or loss — held for trading	—	12	82,294
	2,394,125	2,880,758	3,035,921

At 31 December 2006, 31 December 2007 and 31 December 2008, all the Company's financial assets are loans and receivables and all its financial liabilities are carried at amortised cost.

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, other borrowings, derivative financial instruments, amounts due to ultimate holding company and a director and short-term bank loans. The Company's major financial instruments include amounts due from/to subsidiaries and dividend payable. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's and the Company's principal financial assets are trade and other receivables, amounts due from subsidiaries, derivative financial instruments, pledged bank deposits and bank balances, which represent the Group's and the Company's maximum exposure to credit risk in relation to financial assets, details of which are disclosed in respective notes.

The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits and bank balances is limited because majority of the counterparties are state-owned banks with good reputation or banks with good credit rating.

The Group is also exposed to credit risk arising from the failure to discharge of obligation by the counterparties in foreign currency forward contracts and commodity forward contracts. However, the directors of the Company consider such risk is minimal as those contracts were entered with state-owned banks with good reputation or banks with good credit rating.

Other than concentration of credit risk on liquid funds, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers which spread across diverse industries and geographical areas.

Foreign currency risk

The Group has certain transactions that denominated in foreign currencies, hence exposures to foreign currency risk. During the years ended 31 December 2006, 31 December 2007 and 31 December 2008, approximately 39%, 41% and 51% respectively, of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst all of the costs are denominated in the group entity's functional currency. The Group also has certain monetary items denominated in foreign currencies at 31 December 2006, 31 December 2007 and 31 December 2008 which have exposed the Group to foreign currency risk. The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at each balance sheet date are disclosed in respective notes. During the year ended 31 December 2006, 31 December 2007 and 31 December 2008, the Group has entered into certain foreign currency forward contracts to hedge against part of its exposure on potential variability of foreign currency risk arising from changes in foreign exchange rates. The management monitors foreign currency exposure and will consider further hedging significant foreign currency exposure should the need arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheets are as follows:

	The Group					
	At 31 December					
	2006		2007		2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
United States dollars	146,661	—	301,851	21,705	724,063	7,592
Euro	—	—	3,981	—	2,179	—
Hong Kong dollars	35	—	1,202	—	688	—

The Group mainly exposes to currency of United States dollars, Euro and Hong Kong dollars. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, the trade and other receivables, bank balances and short-term bank loans and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number indicates a decrease in profit for the year where the RMB strengthens against the relevant currencies. There would be an equal and opposite impact on the profit for the year where the RMB weakens against the relevant currencies.

	The Group		
	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
United States dollars	(7,333)	(14,007)	(35,824)
Euro	—	(199)	(109)
Hong Kong dollars	—	(60)	(34)

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

Liquidity risk management

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities.

The following tables detail the remaining contractual maturity for the non-derivative financial liabilities, copper swap contract with net settlement and forward contracts with gross settlement of the Group as at 31 December 2006, 31 December 2007 and 31 December 2008 and those of the Company as at 31 December 2006, 31 December 2007 and 31 December 2008. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The tables include both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash (inflows)/outflows are presented. Whereas they require gross settlement, the undiscounted gross (inflows) and outflows on these derivatives are shown in the tables. For foreign currency forward contracts with predetermined exercisable period with gross settlement, the tables have been drawn up based on the assumption that the Group will exercise such contracts on the maturity of the exercisable period.

		The Group					
	Weighted average interest rate	**Less than 3 months**	**Over 3 months but not more than 6 months**	**Over 6 months but not more than 1 year**	**Over 1 year**	**Total undiscounted cash flows**	**Carrying amount**
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities							
At 31 December 2006							
Trade and other payables	—	1,209,707	552,712	—	—	1,762,419	1,762,419
Amount due to ultimate holding company	—	207,671	—	—	—	207,671	207,671
Amount due to a director	—	102,286	—	—	—	102,286	102,286
Dividend payable	—	—	—	100,000	—	100,000	95,768
Short-term bank loans	6.0	62,869	3,412	168,410	—	234,691	225,981
		1,582,533	556,124	268,410	—	2,407,067	2,394,125
At 31 December 2007							
Trade and other payables	—	1,069,051	929,008	18,491	—	2,016,550	2,016,550
Amount due to ultimate holding company	—	28,250	—	—	—	28,250	28,250
Amount due to a director	—	47,216	—	—	—	47,216	47,216
Dividend payable	—	100,000	—	—	—	100,000	100,000
Short-term bank loans	6.3	347,505	175,182	184,171	—	706,858	688,730
		1,592,022	1,104,190	202,662	—	2,898,874	2,880,746
At 31 December 2008							
Trade and other payables	—	1,022,743	799,260	9,808	—	1,831,811	1,831,811
Amount due to ultimate holding company	—	28,250	—	—	—	28,250	28,250
Amount due to a director	—	15,580	—	—	—	15,580	15,580
Short-term bank loans	5.9	555,205	134,479	417,183	—	1,106,867	1,077,986
		1,621,778	933,739	426,991	—	2,982,508	2,953,627
Swap contract — net settlement							
At 31 December 2008							
Copper swap contract		6,508	6,508	6,509	—	19,525	19,525
Forward contracts — gross settlement							
At 31 December 2007							
Foreign currency forward contracts							
— inflow		(171,127)	(381,748)	(382,446)	(305,400)	(1,240,721)	(1,210,703)
— outflow		165,366	366,134	367,934	297,289	1,196,723	1,167,188
		(5,761)	(15,614)	(14,512)	(8,111)	(43,998)	(43,515)

	Weighted average interest rate	Less than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
		The Group					
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Copper forward contracts							
—inflow		(5,718)	—	—	—	(5,718)	(5,718)
—outflow		5,730	—	—	—	5,730	5,730
		12	—	—	—	12	12
At 31 December 2008							
Foreign currency forward contracts							
— inflow		(356,083)	(600,827)	(781,881)	—	(1,738,791)	(1,729,962)
— outflow		362,308	619,720	816,383	—	1,798,411	1,789,323
		6,225	18,893	34,502	—	59,620	59,361

	Weighted average interest rate	Less than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Total undiscounted cash flows	Carrying amount
		The Company				
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivatives financial liabilities						
At 31 December 2006						
Dividend payable	—	—	—	100,000	100,000	95,768
At 31 December 2007						
Amounts due to subsidiaries	—	732	—	—	732	732
Dividend payable	—	100,000	—	—	100,000	100,000
		100,732	—	—	100,732	100,732
At 31 December 2008						
Amounts due to subsidiaries	—	2,788	—	—	2,788	2,788

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing pledged bank deposits and bank balances at prevailing market interest rates. The Group's fair value interest rate risk relates primarily to its fixed rate bank loans subject to negotiations at each renewal date. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing pledged bank deposits and bank balances at the respective balance sheet dates and assumed that the amount of assets outstanding at the balance sheet dates was outstanding for the whole year.

If interest rates on pledged bank deposits and bank balances had been 50 basis points higher and all other variables were held constant, the potential effect on profit for the year is as follows:

	The Group		
	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Increase in profit for the year	4,838	2,505	945

There will be an equal and opposite impact on the profit for the year where there had been 50 basis points lower.

Other price risk

The Group was exposed to other price risk arising from the outstanding foreign currency forward contracts as at 31 December 2007 and 31 December 2008. The fair value of these foreign currency forward contracts was calculated using the forward pricing model and option pricing model. Details of these foreign currency forward contracts are set out in note 21 to section F.

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

	The Group		
	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
United States dollar forward rate	—	(33,870)	(88,033)
Euro forward rate	—	(3,537)	—
Hong Kong dollar forward rate	—	(20,976)	(1,709)

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

The Group was also exposed to copper price risk from the outstanding copper swap contract as at 31 December 2008. If the copper price had been 50% higher while all other variables were held constant, the profit for the year would increase as follows:

	The Group		
	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Higher by 50%	—	—	8,367

If the copper price had been 50% lower while all other variables were held constant, the profit for the year would decrease as follows:

	The Group		
	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Lower by 50%	—	—	8,881

The management consider that the price risks of copper forward contracts are not significant to the Group.

Fair value of financial instruments

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transaction as input.

The fair value of the conversion option derivatives embedded in other borrowings is estimated using option pricing model (the Black-Scholes model) and discounted cash flow analysis and the inputs into the model are disclosed in note 27 to section F.

The fair value of foreign currency forward contracts is estimated using forward pricing model and option pricing model based on forward exchange rates from observable current market transaction as input. The fair value of copper swap contract is measured by reference to the valuation provided by counterparty financial institutions for these instruments. The fair value of commodity forward contracts that are traded on active liquid markets are determined with reference to quoted market bid prices.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values at the respective balance sheet dates.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

The geographical market is considered by the directors as the Group's primary reporting segment.

Business segments

The Group's operation is regarded as a single segment, being an enterprise engaged in the manufacture and sales of air-conditioners.

Geographical segments

Segment information regarding the Group's sales by geographical market and other analysis by geographical area is presented below.

Turnover

Turnover represents the fair value of the consideration received and receivable for goods sold by the Group to outside customers during the Track Record Period.

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
TURNOVER			
PRC	2,781,257	3,387,304	2,878,527
Asia (excluding PRC)	892,630	1,061,361	1,273,875
Europe	321,046	544,098	839,951
Americas	329,118	432,044	609,449
Africa	170,114	249,406	294,026
Others	40,897	42,195	24,755
	4,535,062	5,716,408	5,920,583
RESULTS			
Profit from operations			
— PRC	210,581	254,289	229,426
— Asia (excluding PRC)	88,690	104,308	71,596
— Europe	36,859	57,530	38,049
— Americas	35,621	44,864	33,103
— Africa	14,503	22,138	17,288
— Others	3,728	3,931	1,614
	389,982	487,060	391,076
Unallocated other income	9,508	31,641	33,374
Unallocated corporate expenses	(58,656)	(101,314)	(128,673)
Net gain (loss) in fair value changes of derivative financial instruments	—	44,214	(83,978)
Fair value changes in respect of embedded conversion option derivatives of other borrowings	(35,258)	—	—
Finance costs	(42,171)	(91,567)	(114,065)
Profit before taxation	263,405	370,034	97,734
Taxation	(42,450)	2,869	(2,446)
Profit for the year	220,955	372,903	95,288

The following is an analysis of the carrying amount of segment assets by location of customers at each balance sheet date.

	The Group		
	At 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
PRC	726,406	746,250	778,008
Asia (excluding PRC)	40,524	91,148	377,523
Europe	12,141	13,192	106,455
Americas	41,208	93,352	145,924
Africa	35,164	64,629	53,059
Others	6,706	5,164	13,090
	862,149	1,013,735	1,474,059
Unallocated corporate assets	2,497,007	3,457,765	3,317,524
	3,359,156	4,471,500	4,791,583
LIABILITIES			
PRC	21,540	132,335	178,446
Asia (excluding PRC)	—	54,209	23,086
Europe	—	25,019	5,693
Americas	—	26,687	5,829
Africa	—	21,594	12,186
Others	—	505	739
	21,540	260,349	225,979
Unallocated corporate liabilities	2,527,406	3,028,038	3,187,203
	2,548,946	3,288,387	3,413,182

The following is an analysis of the amount of allowances for doubtful debts by location of customers at each balance sheet date.

	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
PRC	738	1,025	2,517
Asia (excluding PRC)	—	—	78
Europe	—	—	1,271
Americas	—	—	3
	738	1,025	3,869

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

The goods sold to various geographical market were principally produced from the same production facilities situated in the PRC. Moreover, all of the Group's assets and liabilities at 31 December 2006, 31 December 2007 and 31 December 2008 were located in the PRC.

8. FINANCE COSTS

	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank borrowings wholly repayable within five years	(32,505)	(87,335)	(114,065)
Effective interest on other borrowings	(8,603)	—	—
Imputed interest on dividend payable	(1,063)	(4,232)	—
	(42,171)	(91,567)	(114,065)

9. PROFIT BEFORE TAXATION

	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation has been arrived at after charging:			
Directors' remuneration *(note 10 to section F)*	1,186	1,182	1,182
Other staff's retirement benefits scheme contributions	2,342	11,213	14,137
Other staff costs	171,932	255,535	343,324
	175,460	267,930	358,643
Less: Staff costs included in research and development costs	(4,681)	(6,371)	(9,190)
	170,779	261,559	349,453
Allowance for doubtful debts included in other expenses	738	1,025	3,869
Amortisation of intangible assets included in administrative expenses	48	234	357
Auditor's remuneration	1,910	2,426	2,400
Depreciation	44,930	48,471	55,303
Loss on disposal of property, plant and equipment	—	3,033	807
Net exchange losses included in other expenses	6,432	26,103	29,771
Operating lease rentals in respect of			
— land use rights	554	1,407	1,814
— rented premises	4,022	3,979	7,658
Provision for warranty	20,867	36,337	16,659
Research and development costs	6,017	9,937	12,665
and after crediting:			
Amortisation of government grant	—	918	1,308
Government subsidies*	4,191	7,555	6,595
Interest income	6,559	31,641	33,379
Net exchange gain on other borrowings included in other expenses	2,949	—	—
Recovery of doubtful debts included in other expenses	—	750	201

* The government subsidies provided by the PRC government to the Group were paid as an incentive for research and development on new environmental friendly products. There are no conditions and contingencies attached to the receipt of the government subsidies and they are non-recurring in nature.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Directors' fees	—	—	—
Other emoluments for executive directors			
— basic salaries and allowances	1,181	1,176	1,176
— retirement benefits scheme contributions	5	6	6
	1,186	1,182	1,182

The five highest paid individuals included 3 directors for each of the three years ended 31 December 2008, details of whose emoluments are set out above. The emoluments of the remaining 2 highest paid individuals for each of the three years ended 31 December 2008 are as follows:

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Employees			
— basic salaries and allowances	372	1,069	1,334
— retirement benefits scheme contributions	1	7	1
	373	1,076	1,335

During the Track Record Period, no emoluments were paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Track Record Period.

11. TAXATION

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
The (charge) credit comprises:			
PRC income tax for the year	(43,887)	—	—
Deferred taxation			
— current year	1,437	5,909	(2,446)
— attributable to change in tax rate	—	(3,040)	—
	1,437	2,869	(2,446)
	(42,450)	2,869	(2,446)

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Pursuant to the relevant laws and regulations in the PRC, Guangdong Chigo JSC was subject to PRC Enterprise Income Tax ("EIT") of 33% up to August 2006 when it was converted into a WFOE Guangdong Chigo. Afterwards, it was subjected to PRC Foreign Enterprise Income Tax ("FEIT") of 33%, but entitled to the tax holiday as detailed below from August 2006 onwards.

Pursuant to the approval documents issued by the Guangdong Provincial Commission of Science and Technology on 14 May 2002 and 24 May 2004, Guangdong Chigo JSC was endorsed as a High and New Technology Enterprise and allowed with a reduced EIT rate of 15% for the period from 14 May 2003 to 13 May 2006 ("Tax Reduction Period") and had paid its tax liability accordingly. However, pursuant to the relevant tax laws and regulations issued by the State Administration of Taxation ("SAT") of the PRC, enterprises entitled to the reduction should be situated within a High and New Technology Industry Development Zone endorsed by the PRC

Central Government. During the Tax Reduction Period, Guangdong Chigo JSC was situated in areas outside any High and New Technology Industry Development Zone and accordingly, would be subject to potential additional tax liability, equivalent to the reduced portion of EIT at 18% on the profits of the relevant periods, if the relief is clawed back. Hence, for the year ended 31 December 2006, EIT was accrued at the tax rate of 33% despite the tax reduction. Guangdong Chigo JSC has recognised the reduced portion of EIT liabilities of RMB18,027,000 for the year ended 31 December 2006.

According to the letter issued by Guangdong Foshan Provincial Local Tax Bureau on 25 August 2006 and pursuant to Rule 52 "The regulations of charging and managing taxes in the PRC", should the relevant PRC tax authorities claw back the relief of the reduced EIT rate of 15% in determining the amount of EIT of Guangdong Chigo JSC, no tax penalties would be levied except for the additional tax attributable to the relief of 18% previously given to Guangdong Chigo JSC.

Effective from August 2006, pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises in the PRC ("FEIT Law"), Guangdong Chigo, should be qualified as Production Enterprise and entitled to exemption from FEIT for two years commencing from its first profit making year of operation and thereafter a 50% relief from FEIT for the following three years. Since Guangdong Chigo commenced its operations in the second half of 2006 when it became a WFOE, i.e. less than 6 months in the year of establishment, it could defer its first exemption year to 2007, provided that Guangdong Chigo elected not to commence its first profit making year in 2006 and paid FEIT for 2006. The FEIT exemption and reduction was approved by the relevant PRC tax authorities on 15 May 2007. Guangdong Chigo has selected the financial year of 2007 as its first profit making year.

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT Law") was passed at the Fifth session of the Tenth National People's Congress of the PRC, the income tax rate for both domestic and foreign-investment enterprise will be unified at 25% effective from 1 January 2008. Guangdong Chigo which is currently entitled to exemption and reduction from the standard income tax rate from 1 January 2007 would continue to enjoy such treatment until the exemption and reduction period expires, but not beyond 2012. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised.

According to a joint circular of Ministry of Finance and SAT, Cai Shui [2008] No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to EIT at 10% and withheld by the PRC entity, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Rules. Deferred tax liability on the undistributed profits earned during the year ended 31 December 2008 has been accrued at the tax rate of 10% on the expected dividend stream of 30% which is determined by the directors of the Company.

No provision for Hong Kong Profits Tax has been made as the Group's Hong Kong operations had no assessable profit during the Track Record Period.

Taxation for the Track Record Period is reconciled to profit before taxation as follows:

	Year ended 31 December					
	2006		2007		2008	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Profit before taxation	263,405		370,034		97,734	
Tax at the applicable income tax rate	(86,924)	(33.0)	(122,111)	(33.0)	(24,434)	(25.0)
Effect of expenses not deductible for tax purposes *(note a)*	(15,387)	(5.8)	(2,236)	(0.6)	(1,283)	(1.3)
Tax effect of assessing profits by the deemed-profit method *(note b)*	5,563	2.1	—	—	—	—
Tax effect of tax exemption *(note c)*	54,188	20.6	130,383	35.2	25,762	26.4
Decrease in opening deferred tax asset resulting from a decrease in applicable tax rate	—	—	(3,040)	(0.8)	—	—
Withholding tax on undistributed earnings	—	—	—	—	(2,995)	(3.1)
Others	110	—	(127)	—	504	0.5
Tax effect and effective tax rate for the year	(42,450)	(16.1)	2,869	0.8	(2,446)	(2.5)

Note a: The amounts mainly represent the fair value changes of conversion option derivatives of other borrowings, effective interest on other borrowings, imputed interest on dividend payable, exchange losses and entertainment expenses not deductible for income tax purposes.

Note b: During the year ended 31 December 2006, the Group had an operating subsidiary, Yee Shun which was principally engaged in the provision of product assurance services to group company in the PRC. For this non-PRC incorporated company, its taxable profits would be determined by the PRC authorities using a deemed profit ratio at 10% of the turnover, irrespective whether it is profitable and what actual profits it has achieved. The deemed-profit method applied by Yee Shun was in accordance with Article 16 of the Implementation Rules for the PRC Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises (the "Implementation Rules"), applicable from July 1991 to December 2007. The PRC SAT further promulgated GuoShuiFa [1995] No. 197 and GuoShuiFa [2000] No. 38 to elaborate on the viability of the deemed-profit-method, and whereby the 10% deemed ratio basically fell within the acceptable range. Since Yee Shun is a non-PRC company where there is no mandatory requirement to compile or submit its audited financial statements, it was generally considered as eligible for applying the deemed-profit method. During the year ended 31 December 2007, Yee Shun's product assurance service functions was consolidated with the Guangdong Chigo's research and development headquarters in Foshan and thereafter ceased its operation. During the year ended 31 December 2006, enterprise income tax of RMB743,000 at 33% of the deemed profits of the gross service income were charged.

Note c: During the year ended 31 December 2006, the Group had an operating subsidiary, being Flavordigit which was principally engaged in the provision of technical support to other group company in the PRC. Flavordigit remained as a non-resident without any establishment in the PRC, as defined under Articles 3 and 4 of the Implementation Rules. According to an official circular of the PRC SAT GuoShuiFa [2005] No. 45, which was developed on Article 19 of the PRC Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises, its profits were exempted from the PRC corporate income tax as the income arising from provision of technical support would not fall into the situations where the Circular No. 45 denied an exemption. During the year ended 31 December 2007, Flavordigit's technical support functions was consolidated with the Guangdong Chigo's research and development headquarters in Foshan and thereafter ceased its operation. The tax exemption for the years ended 31 December 2007 and 31 December 2008 represented Guangdong Chigo's FEIT exemption and reduction approved by the relevant PRC tax authorities.

12. DIVIDENDS

Pursuant to the subscription agreement entered into between the Company, the subscribers and convertible note holders on 17 November 2006, the Company was required to distribute a dividend of HK$100,000,000 (equivalent to RMB100,000,000) to its then shareholders before the listing of the Company's shares on the Stock Exchange or 30 June 2007 whichever is earlier ("Promised Distributions"). On 22 November 2006, the Company has recognised the respective dividend payable of RMB94,705,000 which represents the fair value of the Promised Distributions to the respective shareholders. On 6 June 2008, the Company, the subscribers and convertible note holders have entered into a dividend wavier agreement whereby the subscribers and convertible note holders agreed to waive the Promised Distributions.

The rates of dividends and number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data and on the assumption that the Group Reorganisation and the capitalisation issue as detailed in the paragraph headed "Resolutions in writing of all of the Shareholders passed on 19 June 2009" in Appendix V to the Prospectus had been effective on 1 January 2006:

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Earnings			
Profit for the year attributable to equity holders of the Company for the purpose of basic earnings per share	220,955	372,903	95,288
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share	357,079,623	427,500,000	427,500,000

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Plant and machinery *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
THE GROUP						
COST						
At 1 January 2006	63,304	29,819	16,531	180,828	171,484	461,966
Additions	31,529	8,808	8,005	31,838	1,152	81,332
Disposals	—	—	—	—	(15,902)	(15,902)
Transfers	82,046	—	—	50,189	(132,235)	—
At 31 December 2006	176,879	38,627	24,536	262,855	24,499	527,396
Additions	434	13,588	2,627	40,644	5,782	63,075
Disposals	(112,509)	(9,147)	(2,865)	(11,027)	—	(135,548)
Transfers	79	—	—	—	(79)	—
At 31 December 2007	64,883	43,068	24,298	292,472	30,202	454,923
Additions	134	8,370	3,982	58,976	23,854	95,316
Disposals	(60)	(813)	(90)	(1,861)	—	(2,824)
Transfers	—	30	—	3,943	(3,973)	—
At 31 December 2008	64,957	50,655	28,190	353,530	50,083	547,415
DEPRECIATION						
At 1 January 2006	4,957	17,444	9,521	26,873	—	58,795
Provided for the year	5,796	9,007	1,240	28,887	—	44,930
At 31 December 2006	10,753	26,451	10,761	55,760	—	103,725
Provided for the year	3,676	6,224	2,107	36,464	—	48,471
Eliminated on disposals	(9,872)	(7,353)	(2,561)	(11,026)	—	(30,812)
At 31 December 2007	4,557	25,322	10,307	81,198	—	121,384
Provided for the year	2,160	7,512	2,452	43,179	—	55,303
Eliminated on disposals	—	(691)	(59)	(1,117)	—	(1,867)
At 31 December 2008	6,717	32,143	12,700	123,260	—	174,820
NET BOOK VALUES						
At 31 December 2006	166,126	12,176	13,775	207,095	24,499	423,671
At 31 December 2007	60,326	17,746	13,991	211,274	30,202	333,539
At 31 December 2008	58,240	18,512	15,490	230,270	50,083	372,595

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

15. LAND USE RIGHTS

	The Group		
	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Carrying value			
At 1 January	19,815	45,910	87,753
Additions during the year	26,649	43,250	—
Charged to income statement during the year	(554)	(1,407)	(1,814)
At 31 December	45,910	87,753	85,939
Analysed for reporting purposes as:			
Current asset	963	1,815	1,815
Non-current asset	44,947	85,938	84,124
	45,910	87,753	85,939

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

16. INTANGIBLE ASSETS

	The Group		
	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Carrying value			
At 1 January	360	3,288	3,169
Additions during the year	2,976	115	—
Charged to income statement during the year	(48)	(234)	(357)
At 31 December	3,288	3,169	2,812

Patents represented the exclusive rights in connection with certain product design. The cost of patents has been amortised on a straight line basis over its estimated useful life of 10 years.

At 31 December 2008, certain patents with a carrying value of approximately RMB189,000 were pledged to a bank to secure the credit facilities granted to the Group.

17. INVESTMENT IN A SUBSIDIARY/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	The Company		
	At 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Unlisted shares, at cost	—	—	—
Capital contributions	235,379	235,379	335,379
	235,379	235,379	335,379

The amounts due from subsidiaries are unsecured, interest-free and expected to recover within 12 months from the respective balance sheet dates.

The amounts due to subsidiaries are unsecured, interest-free and are repayable on demand.

18. DEFERRED TAXATION

The following is the deferred tax recognised and movements thereon during the Track Record Period:

	Accelerated accounting depreciation *RMB'000*	Warranty provision *RMB'000*	Withholding tax on undistributed earnings *RMB'000*	Total *RMB'000*
THE GROUP				
At 1 January 2006	838	4,228	—	5,066
Credited to income statement during the year	110	1,327	—	1,437
At 31 December 2006	948	5,555	—	6,503
(Charged) credited to income statement during the year	(127)	6,036	—	5,909
Effect of change in tax rate	(230)	(2,810)	—	(3,040)
At 31 December 2007	591	8,781	—	9,372
Credited (charged) to income statement during the year	504	45	(2,995)	(2,446)
At 31 December 2008	1,095	8,826	(2,995)	6,926

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

	The Group		
	At 31 December		
	2006 *RMB'000*	2007 *RMB'000*	2008 *RMB'000*
Deferred tax assets	6,503	9,372	9,921
Deferred tax liabilities	—	—	(2,995)
	6,503	9,372	6,926

At 31 December 2008, the Group has unrecognised deferred tax liability of RMB6,988,000 in relation to withholding tax on undistributed earnings of RMB69,877,000 due to the retention of undistributed earnings by the subsidiary in the PRC determined by the directors of the Company.

19. INVENTORIES

	The Group		
	At 31 December		
	2006 *RMB'000*	2007 *RMB'000*	2008 *RMB'000*
Raw materials	158,561	658,390	560,996
Work in progress	137	8,029	9,071
Finished goods	615,596	929,109	852,771
	774,294	1,595,528	1,422,838

At 31 December 2006, 31 December 2007 and 31 December 2008, certain inventories with a carrying value of RMB24,431,000, RMB379,663,000 and RMB583,773,000 respectively were pledged to certain banks to secure the credit facilities granted to the Group.

20. TRADE AND OTHER RECEIVABLES

	The Group		
	At 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	420,318	652,682	864,557
Bills receivables	441,831	361,053	609,502
	862,149	1,013,735	1,474,059
Deposits paid to suppliers	30,164	54,878	2,703
Prepayments	1,411	3,736	4,389
Other loan receivables	—	22,618	11,183
Other receivables	2,344	29,829	6,785
	896,068	1,124,796	1,499,119

Payment terms with customers are mainly on credit. Invoices are normally payable from 30 days to 90 days from date of issuance, while invoices to long-established customers are normally payable within 270 days. The following is an aged analysis of trade receivables and bills receivables at the balance sheet date:

	The Group		
	At 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Age			
0–30 days	171,269	245,503	560,414
31–60 days	186,739	173,832	182,974
61–90 days	284,747	173,073	144,663
91–180 days	143,372	320,917	307,374
181 to 365 days	76,022	100,410	248,517
Over 1 year	—	—	30,117
	862,149	1,013,735	1,474,059

At 31 December 2006, 31 December 2007 and 31 December 2008, included in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB33,112,000, RMB34,820,000 and RMB203,711,000 respectively which are past due at the reporting date for which the Group has not provided for impairment loss.

Aging of trade receivables which are past due but not impaired is as follows:

	The Group		
	At 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Age			
31–60 days	1,653	181	5,880
61–90 days	1,852	164	5,319
91–180 days	15,758	8,177	39,796
181–365 days	13,849	26,298	122,599
Over 1 year	—	—	30,117
	33,112	34,820	203,711

The Group does not hold any collateral over these balances. The average age of these receivables at 31 December 2006, 31 December 2007 and 31 December 2008 are 149 days, 277 days and 231 days respectively.

In determining the recoverability of the trade receivables, the Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

Movement in the allowance for doubtful debts is as follows:

	The Group		
	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	974	1,712	201
Allowances recognised on receivables	738	1,025	3,869
Amounts written-off as uncollectible	—	(1,786)	—
Amounts recovered during the year	—	(750)	(201)
At 31 December	1,712	201	3,869

At 31 December 2006, 31 December 2007 and 31 December 2008, the allowance for doubtful debts represent individually impaired trade receivables which have been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

Included in trade and other receivables are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	The Group		
	At 31 December		
	2006	**2007**	**2008**
	RMB'000 equivalent	*RMB'000 equivalent*	*RMB'000 equivalent*
United States dollars	136,720	290,663	698,024
Euro	—	3,981	1,740
Hong Kong dollars	—	10	—

21. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group				
	At 31 December				
	2006	**2007**		**2008**	
		Assets	**Liabilities**	**Assets**	**Liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Derivatives not under hedge accounting					
— foreign currency forward contracts	—	43,515	—	3,408	62,769
— copper forward contracts	—	—	12	—	—
— copper swap contract	—	—	—	—	19,525
	—	43,515	12	3,408	82,294

At 31 December 2007, the Group has the following foreign currency forward contracts with predetermined maturity dates. Their major terms are as follows:

Notional amount	Maturity	Forward contract rates
10 contracts to sell EUR7,117,437	From 22 August 2008 to 25 September 2008	EUR1/RMB10.2851 to EUR1/RMB10.3062
9 contracts to sell US$13,500,000	From 28 January 2008 to 29 September 2008	US$1/RMB7.2560 to US$1/RMB7.4250

In addition, at 31 December 2007, the Group has the following foreign currency forward contracts with predetermined exercisable period. Their major terms are as follows:

Notional amount	Exercisable period	Forward contract rates
27 contracts to sell US$87,400,000	From 9 April 2007 to 29 May 2009	US$1/RMB6.8500 to US$1/RMB7.5662
16 contracts to sell HK$468,000,000	From 26 July 2007 to 22 August 2008	HK$1/RMB0.9499 to HK$1/RMB0.9664

At 31 December 2008, the Group has the following foreign currency forward contracts with predetermined maturity dates. Their major terms are as follows:

Notional amount	Maturity	Forward contract rates
12 contracts to sell US$19,500,000	From 21 January 2009 to 27 July 2009	US$1/RMB6.4125 to US$1/RMB6.6875

In addition, at 31 December 2008, the Group has the following foreign currency forward contracts with predetermined exercisable period. Their major terms are as follows:

Notional amount	Exercisable period	Forward contract rates
41 contracts to sell US$238,029,307	From 16 March 2008 to 30 December 2009	US$1/RMB6.2711 to US$1/RMB7.0500
1 contract to sell HK$38,750,000	From 10 November 2008 to 10 March 2009	HK$1/RMB0.8466

The fair value of the above contracts were determined based on the valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent valuer to the Group.

The fair value of the foreign currency forward contracts with predetermined maturity dates are determined using the forward pricing model based on the difference between the predetermined forward rate on the respective date of which the contracts were entered and the market forward rate at each balance sheet date. The inputs into the model at the respective dates were as follows:

	At 31 December 2007	At 31 December 2008
RMB risk-free interest rate	3.6697%	1.0743%
EUR/RMB market forward rate	EUR/RMB10.1686 to EUR/RMB10.2317	—
US$/RMB market forward rate	US$1/RMB6.8977 to US$1/RMB7.2730	US$1/RMB6.8254 to US$1/RMB6.8544

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

	At 31 December 2007	At 31 December 2008
Volatility	5.2500%	14.3700%
RMB risk-free interest rate	3.6697%	1.0743%
HKD risk-free interest rate	2.7241%	0.2956%
USD risk-free interest rate	3.2858%	0.3433%
Spot price for USD forward contracts	RMB7.2971	RMB6.8277
Spot price for HKD forward contracts	RMB0.9356	RMB0.8804
US$/RMB market forward rate	US$1/RMB6.7349 to US$1/RMB7.3033	US$1/RMB6.8224 to US$1/RMB6.8823
HK$/RMB market forward rate	HK$1/RMB0.8890 to HK$1/RMB0.9367	HK$1/RMB0.8822

Also, at 31 December 2007, the Group has entered into the following copper forward contract. Its major terms are as follows:

Contract amount		Maturity	Forward price
Currency	Quantity		
RMB	Copper 100 Metric tonne	31 March 2008	RMB57,300/Metric tonne

The fair value of the copper forward contract is determined based on open market fair value at 31 December 2007.

As at 31 December 2008, the Group has an outstanding OTC Asian Style copper swap contract ("Copper Swap Contract"). Under the Copper Swap Contract, the Group will deliver copper at the unweighted arithmetic mean of copper price on each day during each calendar month ("floating price") and receive copper at a fixed price on a monthly basis. At the end of each calendar month, when floating price moves favorable to the Group (i.e. floating price is higher than the fixed price), the Group is required to buy the agreed notional amount of copper (i.e. 50 metric tonnes) at the fixed price. However, when floating price moves unfavorable to the Group (i.e. floating price is lower than the fixed price), the Group is required to buy 2 times the agreed notional amount of copper (i.e.100 metric tonnes) at the fixed price. The contract specified the maximum aggregate profit the Group can earn. Once the maximum stipulated profit is reached for the contract, the contract will be knocked out (i.e. obligation to deliver outstanding copper to the Group by the counterparty will automatically cease). However, there is no similar knock-out features for losses. As at 31 December 2008, the Copper Swap Contract has remaining 9 monthly settlements. Total realised and unrealised losses amounted to approximately RMB3,992,000 and RMB19,525,000 has been recognised in the consolidated income statement for the year ended 31 December 2008 respectively.

Such contract is settled on a net basis, the estimated undiscounted net cash outflows on this contract are shown in note 6. The fair value of the Copper Swap Contract is measured by reference to the valuation provided by counterparty financial institutions for this instrument at 31 December 2008.

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry at the prevailing market interest rate ranging from 0.72% to 1.8% per annum, 0.72% to 1.98% per annum and 0.36% to 3.78% per annum at 31 December 2006, 31 December 2007 and 31 December 2008 respectively.

Certain pledged bank deposits and bank balances and cash of RMB1,183,602,000, RMB1,177,409,000 and RMB1,239,735,000 at 31 December 2006, 31 December 2007 and 31 December 2008 respectively were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

Included in pledged bank deposits and bank balances and cash are the following amounts denominated in currency other than the functional currency of the relevant group companies.

	The Group		
	At 31 December		
	2006	**2007**	**2008**
	RMB'000 equivalent	*RMB'000 equivalent*	*RMB'000 equivalent*
United States dollars	9,941	11,188	26,039
Euro	—	—	439
Hong Kong dollars	35	1,192	688

23. TRADE AND OTHER PAYABLES

	The Group		
	At 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	229,050	396,949	280,537
Bills payables	1,491,050	1,554,675	1,488,464
	1,720,100	1,951,624	1,769,001
Customers' deposits	4,706	225,226	192,951
Payroll and welfare payables	16,199	9,115	7,201
PRC business tax payable	20,267	6,965	7,156
Other payables	26,120	55,811	55,609
	1,787,392	2,248,741	2,031,918

The Group normally receives credit terms of 30 days to 180 days from its suppliers. The following is an aged analysis of trade payables and bills payables at the balance sheet date:

	The Group		
	At 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Age			
0 to 90 days	1,225,896	1,279,907	1,200,759
91 to 180 days	491,943	648,437	558,434
181 to 365 days	2,261	11,985	7,090
1–2 years	—	11,295	2,718
	1,720,100	1,951,624	1,769,001

24. WARRANTY PROVISION

	The Group		
	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
CARRYING VALUE			
At 1 January	12,814	16,834	35,123
Additional provision for the year	20,867	36,337	16,659
Utilisation of provision	(16,847)	(18,048)	(16,480)
At 31 December	16,834	35,123	35,302

The warranty provision represents management's best estimate of the Group's liability under 3–6 years warranty granted on air-conditioning products, based on prior experience and industry average for defective products.

25. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount was unsecured, interest-free and was repayable on demand. It was fully repaid on 26 June 2009.

26. AMOUNT DUE TO A DIRECTOR

The amount represented an amount due to a director of the Company, Mr. XH Li which was unsecured, interest-free and was repayable on demand. It was fully repaid on 26 June 2009.

27. OTHER BORROWINGS

On 30 March 2005, the Group entered into a number of loan agreements (the "Loan Agreements") with certain independent private investors, Getchance Holdings Limited, Menlo Dynamics Company Limited and Raffles Partners Asset Management Limited ("Investors"). Pursuant to the Loan Agreements, the Investors provided a loan of HK$82,000,000 (approximately RMB86,100,000) (the "Loan Amount") to the Group, which are denominated in Hong Kong dollars and repayable within one year. The loans were unsecured, guaranteed by the director of the Company, Mr. XH Li and carried interest at the best lending rate plus 1.5% per annum offered by Hong Kong Bank quoted at the maturity date. On the same date, Mr. XH Li and other 218 individual shareholders of Guangdong Chigo JSC (being the employees of Guangdong Chigo JSC, including Mr. LY Li) also entered into a capital contribution agreement ("Capital Contribution Agreement") with the Investors. Pursuant to the Capital Contribution Agreement, the Investors would contribute a capital to Guangdong Chigo JSC of amount equivalent to the Loan Amount and subscribe for a defined percentage of the enlarged paid-in capital of Guangdong Chigo JSC in accordance with a conversion formula and specific conditions that Guangdong Chigo JSC required to fulfill. The loans were deemed to be renewed at its maturity date of 30 March 2006 and was extended until 17 November 2006 as the Group continued to retain the funds from the original loan agreement and pay interest until 17 November 2006.

On 17 November 2006, the Group entered into a new share subscription agreement (the "Subscription Agreement") with the Investors. Pursuant to the Subscription Agreement, the Investors subscribed for 8,500 ordinary shares representing 8.5% of the enlarged issued capital of the Company at the time of issue satisfied by the proceeds from the Loan Agreements. In the opinion of the directors, the funds provided by the Investors were considered as convertible loans and contained two components, liability component and conversion option derivatives, with the following original features:

Grant date	:	31 March 2005
Principal	:	HK$82,000,000 (approximately RMB86,100,000)
Maturity date	:	30 March 2006 (subsequently extended to 22 November 2006)
Coupon rate	:	Prime rate +1.5% (compound daily)
Conversion period	:	Before 30 June 2006 or later date subsequent to the Global Offering at discretion of the Investors
Effective interest rate	:	13.78%

On 22 November 2006, the Investors have exercised their convertible right and convert the loans into ordinary shares of the Company pursuant to the Subscription Agreement.

The movement of the liability component and conversion option derivatives of the other borrowings for the Track Record Period are detailed below:

	Liability component *RMB'000*	Conversion option derivatives *RMB'000*
THE GROUP		
At 1 January 2005	—	—
Other borrowings raised on 30 March 2005	83,147	2,953
Interest charged	8,123	—
Fair value changes	—	12,640
Currency realignment	(1,621)	—
At 31 December 2005	89,649	15,593
Interest charged	8,603	—
Interest paid	(12,920)	—
Fair value changes	—	35,258
Currency realignment	(2,949)	—
Converted by holders	(82,383)	(50,851)
At 31 December 2006, 31 December 2007 and 31 December 2008	—	—

The Black-Scholes option pricing model has been used to estimate the fair value of the conversion option derivatives of the other borrowings. The inputs into the model at the respective dates were as follows:

		At 30 March 2005	At 31 December 2005	At 22 November 2006
Equity value per share	:	RMB1.72	RMB2.56	RMB4.46
Exercise price	:	RMB2.18	RMB2.21	RMB2.77
Expected volatility	:	30%	36%	N/A
Expected life	:	1 year	1/4 year	Nil
Risk-free rate	:	2.59%	2.74%	N/A
Expected dividend yield	:	Nil	Nil	N/A

The share price was determined with reference to the respective implied equity value per share at the respective dates using discounted cash flow approach and market approach. The following table shows the assumptions used at each respective relation date:

		At 30 March 2005	At 31 December 2005	At 22 November 2006
Discount rate	:	17.5%	15.5%	15%
Terminal growth	:	2%	2%	2%

The discount cash flow approach uses cash flow projections based on a 6 years financial budgets approved by management and applying a perpetuity growth rate of 2% per annum thereafter. The growth rates are based on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. Another key assumption for the valuation is the budgeted gross margin, which is determined based on the past performance and management's expectation for the market development.

The market approach uses enterprise value/revenue and enterprise value/earnings before interest, tax, depreciation and amortisation as well as multiples of other industry participants in the white goods manufacturing industry as metrics.

The expected volatility was determined based on the adjusted average one year daily share price movements of other industry participants in the white goods manufacturing industry. The expected life has been based on the maturity date at 30 March 2006 being one year from the execution of the Loan Agreements for the valuation at 30 March 2005 and 31 December 2005 while there was no expected life for the valuation at 22 November 2006.

28. SHORT-TERM BANK LOANS

	The Group		
	At 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Short-term bank loans			
— secured	36,200	101,242	115,565
— unsecured	52,536	153,359	7,592
— secured and jointly guaranteed by directors and third parties	76,000	59,700	97,110
— jointly guaranteed by directors and third parties	50,000	335,000	857,719
— guaranteed by directors	11,245	39,429	—
	225,981	688,730	1,077,986

The director of the Company Mr. XH Li has given personal guarantee to certain banks for banking facilities granted to Guangdong Chigo amounting to RMB445,460,000 and RMB975,460,000 and RMB1,993,839,000 as at 31 December 2006, 31 December 2007 and 31 December 2008, respectively. All guarantees given by third parties and directors will be fully released or replaced by the Company's guarantee on or before the day of listing of the Company's shares on the Main Board of the Stock Exchange.

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

	The Group		
	At 31 December		
	2006	**2007**	**2008**
	RMB'000 equivalent	*RMB'000 equivalent*	*RMB'000 equivalent*
United States dollars	—	21,705	7,592

On 30 November 2005, Mr. XH Li entered into a financing and share subscription agreement ("Financing and Share Subscription Agreement) with an independent lender, Profit Excel Limited ("Profit Excel"), a wholly-owned subsidiary of New World Liberty China Ventures Ltd. ("New World Liberty") (the "Lender"). Pursuant to the Financing and Share Subscription Agreement, the Group could obtain a loan facility of up to RMB100,215,000 guaranteed by Mr. XH Li through an assigned financial institution nominated and undertaken by Profit Excel and Profit Excel had the right to convert the loan facility into redeemable convertible preference shares of the Company with undetermined subscription and conversion terms which subject to subsequent negotiation and finalisation at conversion. On 2 December 2005, pursuant to the Financing and Share Subscription Agreement, the Group received a bank loan of RMB85,100,000 from an assigned financial institution which carried interest at 8% per annum. The bank loan was subsequently repaid on 22 November 2006 and on the same date, another wholly-owned subsidiary of New World Liberty, High Surplus Enterprises Limited ("High Surplus") entered into a new share subscription agreement for subscription of ordinary shares of the Company (details are disclosed in note 30(c) to section F). In the opinion of the directors, the Financing and Share Subscription Agreement did not carry any embedded conversion option as there were no defined terms of convertible instruments converted into the Company's shares at date of inception.

Average interest rates paid were as follows:

	The Group		
	At 31 December		
	2006	**2007**	**2008**
Bank loans	6.0%	6.3%	5.9%

All the bank loans are fixed rate borrowings, subject to negotiation at renewal or drawndown date and denominated in RMB at 31 December 2006, 31 December 2007 and 31 December 2008.

29. GOVERNMENT GRANT

During the years ended 31 December, 2006 and 31 December 2007, the Group received government grants of RMB24,000,000 and RMB41,400,000, respectively, from the relevant PRC local authorities for the investment in economic development zones located in Anhui province and Jiangxi provinces in the PRC. They were granted as an incentive for obtaining land use rights amounted to RMB24,000,000 and RMB41,400,000 during the years ended 31 December 2006 and 31 December 2007 respectively, by the Group for the construction of production facilities in the economic development zones.

During the year ended 31 December 2008, the related amortisation expense of land use right which has been charged to the income statement amounted to RMB1,310,000 (2006: Nil; 2007: RMB956,000) and the government grant which was recognised as other income was RMB1,308,000 (2006: Nil; 2007: RMB918,000). As at 31 December 2006, 31 December 2007 and 31 December 2008, an amount of RMB24,000,000, RMB64,482,000 and RMB63,174,000 respectively remains unamortised.

30. SHARE CAPITAL

The paid in capital at 1 January 2006 represented the fully paid registered capital of Guangdong Chigo JSC.

The share capital at 31 December 2006, 31 December 2007 and 31 December 2008 represented the share capital of the Company.

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
On 24 April 2006 (date of incorporation), 31 December 2006, 31 December 2007 and 31 December 2008	5,000,000	50
Issued and fully paid:		
Issue of share on 24 April 2006 (date of incorporation)	1	—
Issue of shares	81,499	1
Issue of shares pursuant to a subscription agreement	10,000	—
Issue upon exercise of embedded conversion option	8,500	—
At 31 December 2006, 31 December 2007 and 31 December 2008	100,000	1

The movements in the Company's authorised and issued share capital during the period from 24 April 2006 (date of incorporation) to 31 December 2008 are as follows:

(a) The Company was incorporated in the Cayman Islands on 24 April 2006 with an authorised share capital of HK$50,000 divided into 5,000,000 ordinary shares of HK$0.01 each. On 24 April 2006, one subscriber share of HK$0.01 each was issued at nil paid pursuant to the Group Reorganisation.

(b) On 20 November 2006, 81,499 new ordinary shares of HK$0.01 each of the Company were allotted and issued at par.

(c) On 22 November 2006, pursuant to a subscription agreement entered into between the Company and a third party, High Surplus dated 17 November 2006, High Surplus subscribed for 10,000 new ordinary shares of HK$0.01 each of the Company at a subscription price of HK$96,400,000 (equivalent RMB96,850,000).

(d) Also, on 22 November 2006, the Company issued 8,500 new ordinary shares of HK$0.01 each of the Company upon exercise of embedded conversion option derivatives of other borrowings by the holders pursuant to the Subscription Agreement as explained in note 27 to section F.

All the shares issued by the Company during the period subsequent to the date of incorporation rank pari passu with the then existing shares in all respects.

31. RESERVES OF THE COMPANY

THE COMPANY	Share premium *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
Profit for the period and total income recognised for the period	—	100,000	100,000
Arising from issue of shares pursuant to a subscription agreement	96,850	—	96,850
Arising from issue of shares upon exercise of embedded conversion option derivatives of other borrowings	133,234	—	133,234
Dividend declared	(17,520)	(77,185)	(94,705)
At 31 December 2006	212,564	22,815	235,379
Loss for the year and total expense recognised for the year	—	(705)	(705)
At 31 December 2007	212,564	22,110	234,674
Loss for the year and total expense recognised for the year	—	(2,060)	(2,060)
Dividend waived	17,520	82,480	100,000
At 31 December 2008	230,084	102,530	332,614

32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, certain non-cash transactions have taken place as follows:

(i) the Group acquired intangible assets from Mr. XH Li for an aggregate consideration of RMB2,976,000, which was settled through current account with Mr. XH Li;

(ii) the repayment of paid in capital to the minority owners of subsidiaries on dissolution of RMB2,950,000 was settled through current account with Mr. XH Li, and

(iii) the Investors exercised their conversion rights and converted the loan with carrying amount of RMB133,234,000 to 8,500 new ordinary shares of the Company pursuant to the Subscription Agreement.

During the years ended 31 December 2006 and 31 December 2007, proceeds from the disposal of property, plant and equipment to Mr. XH Li amounted to RMB15,902,000 and RMB101,200,000 respectively, were settled through the current account with Mr. XH Li.

33. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	The Group		
	At 31 December		
	2006 *RMB'000*	2007 *RMB'000*	2008 *RMB'000*
Within one year	3,619	2,949	3,441
In the second to fifth year inclusive	7,460	6,516	5,777
After five years	14,072	12,675	11,277
	25,151	22,140	20,495

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

The Company has no significant operating lease commitments at the respective balance sheet dates.

34. CAPITAL COMMITMENTS

	The Group		
	At 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure contracted for but not provided in the Financial Information in respect of acquisition of property, plant and equipment	2,738	31,934	13,936

The Company has no significant capital commitments at the respective balance sheet dates.

35. CONTINGENT LIABILITIES

The Group and the Company has no significant contingent liabilities at the respective balance sheet dates.

36. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate in Mandatory Provident Fund (the "MPF") in Hong Kong. The assets of the MPF are held separately from those of the Group in fund under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF Scheme.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

37. RELATED PARTY TRANSACTIONS

Save as the transactions and balances disclosed in notes 25 to 28 and 32 of section F in this Financial Information, during the Track Record Period, the Group has the following significant transactions with related parties:

		The Group		
Relationship of related parties	**Nature of transactions**	**Year ended 31 December**		
		2006	**2007**	**2008**
		RMB'000	*RMB'000*	*RMB'000*
Companies controlled by Mr. XH Li, a beneficial shareholder of the Company	Messing expenses	1,041	547	919
	Repairs and maintenance	270	—	—
Mr. XH Li	Proceeds from disposal of property, plant and equipment	15,902	101,200	—
	Purchase of patents	2,976	—	—

During the year ended 31 December 2007, certain operating lease rentals commitments in respect of land use rights on which those disposed property, plant and equipment are situated, amounting to RMB933,000, were transferred to Mr. XH Li.

The above transactions except for messing expenses will be discontinued after listing of the shares of the Company on the Stock Exchange.

The director of the Company, Mr. XH Li, has given guarantee to certain banks during the Track Record Period and details are set out in note 28 to section F.

The details of remuneration of key management personnel, represents emolument of directors of the Company paid during the Track Record Period are set out in note 10 to section F.

G. ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is Chigo Group Holding Limited, a company which is incorporated in BVI.

H. SUBSEQUENT EVENTS

On 19 June 2009, shareholders' resolutions were passed to approve the matters set out in the paragraph headed "Resolutions in writing of all of the Shareholders passed on 19 June 2009" in Appendix V to the Prospectus, which mainly includes:

(a) The authorised share capital of the Company was increased from HK$50,000 to HK$500,000,000 by the creation of 49,995,000,000 additional shares.

(b) Conditional on the share premium account of the Company being credited as a result of the issue of the shares by the Company pursuant to the proposed listing of the Company's shares, the directors of the Company were authorised to capitalise an amount of HK$4,274,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 427,400,000 shares. Such shares to be allotted and issued to the Company's shareholders as of 19 June 2009 on a pro rata basis.

I. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2008.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong