ANNUAL REPORT 2010 年報

CHIGO • FOR LOW CARBON CITIES

CHIGO HOLDING LIMITED
志高控股有限公司

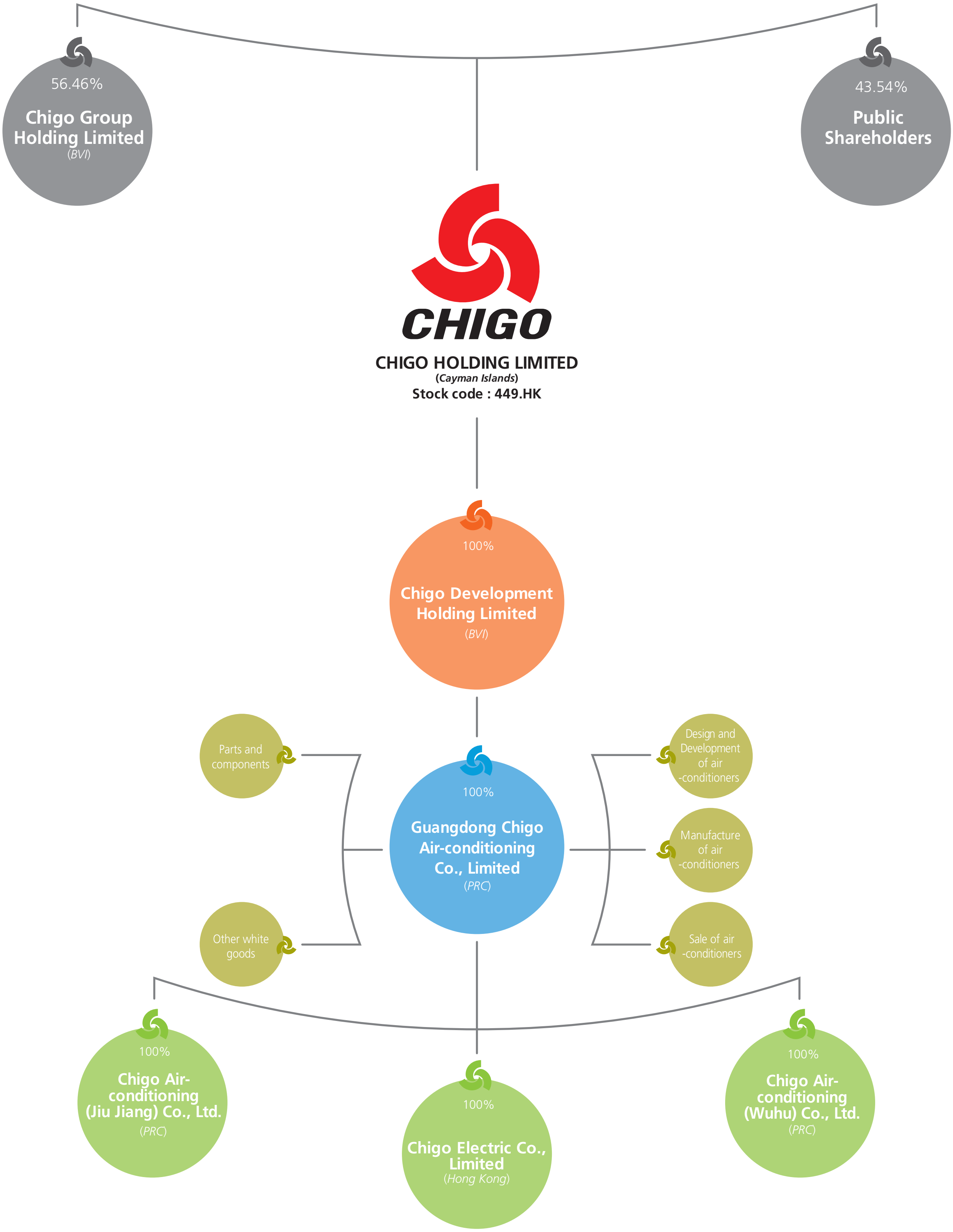
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 449

CONTENTS

GROUP STRUCTURE

(as at 31 December 2010)



Chigo Holding Limited (the "Company") and its subsidiaries (together with the Company "Chigo" or the "Group") were founded in 1994, and become one of the top air-conditioner brands in the People's of Republic of China (the "PRC"). The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products.

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Mr. Lei Jianghang *(Vice Chairman)*
Dr. Ding Xiaojiang
Mr. Huang Xingke *(appointed on 6 September 2010)*
Mr. Huang Guoshen *(resigned on 6 September 2010)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Junchu
Mr. Zhang Xiaoming
Mr. Fu Xiaosi

COMPANY SECRETARY

Mr. Leung Hon Man

REGISTERED OFFICE OF THE COMPANY

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 08, 19th Floor
Greenfield Tower (South Tower)
Concordia Plaza
No.1 Science Museum Road
Tsimshatsui, Kowloon
Hong Kong

HEADQUARTERS OF THE GROUP

Shengli Industrial District, Lishui Town
Nanhai, Foshan, Guangdong
China
Post Code: 528244

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Bank of China, Foshan Nanhai Lishui Branch
China Construction Bank, Foshan Nanhai Lishui Branch
China Citic Bank, Foshan Branch
Guangdong Development Bank, Nanhai Branch
Agricultural Bank of China, Foshan Nanhai Lishui Branch
China Everbright Bank, Shenzhen Huali Road Branch

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER AS TO HONG KONG LAW

Reed Smith Richards Butler

LISTING INFORMATION

Listing:	Main Board of The Stock Exchange of Hong Kong Limited
Stock code:	449
Listing date:	13 July 2009
Board lot size:	2,000 shares
As at 31 December 2010:	
No of shares issued:	786,445,000 shares
Market capitalisation:	HKD786 million (HKD7.86 billion as adjusted for the bonus issue completed on 4 January 2011)

CORPORATE WEBSITES

www.china-chigo.com
www.irasia.com/listco/hk/chigo/index.htm

CORPORATE CONTACT INFORMATION FOR SHAREHOLDERS AND INVESTORS

HONG KONG

Please contact our Company Secretary at:
Telephone: (852) 2997 7449
Facsimile: (852) 2997 7446
Email: ir@china-chigo.com.hk

PRC

Please contact our Investment and Securities Department at:
Telephone: (86) 757 8878 3289
Facsimile: (86) 757 8562 8012

KEY EVENTS IN 2010

April

20 April 2010 - Chigo signed agreement with the Executive Board for Shenzhen 26th Summer Universiade (the World University Games) and becomes the sole supplier of air conditioners for the 2011 Universiade Shenzhen, including stadiums, athlete villages.

August

10 August 2010 - Chigo announced the launch of its remarkable inverter air-conditioner "San Chao Wang" series of "Super Inverter" with a seasonal energy efficiency ratio reaching 8.36.

December

20 December 2010 – Chigo launched the world's first antimicrobial copper air-conditioner in association with the International Copper Association.

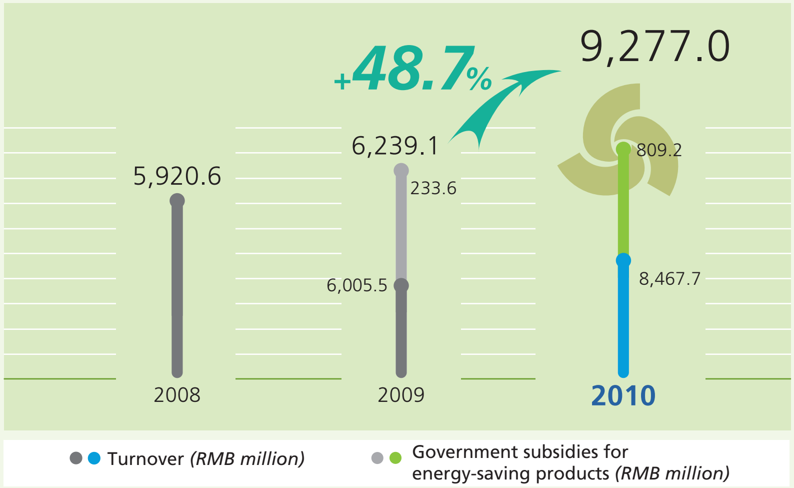
December

28 December 2010 – Chigo celebrated its 16th Anniversary. More than 20,000 guests, including employees, suppliers and dealer representatives of CHIGO, also some distinguished government officials, attended the Grand Ceremony.

FINANCIAL HIGHLIGHTS

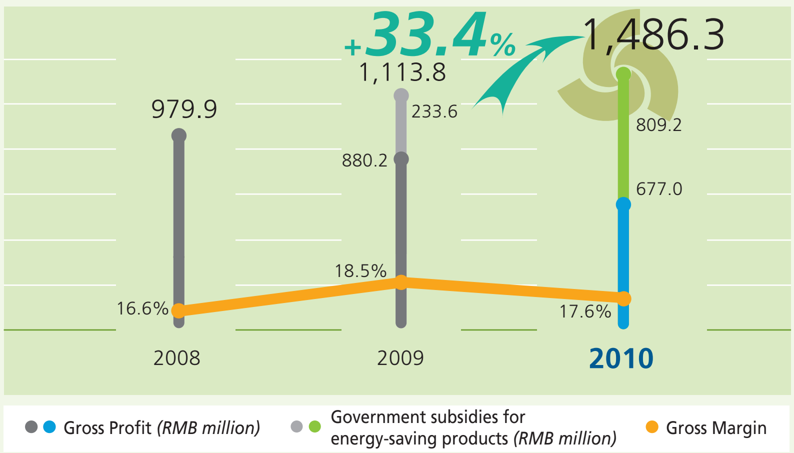
TURNOVER AND GROSS RECEIPTS[1]

- Strong growth in 2010
  Turnover up by 41.0%
- Government subsidies for energy-saving products amounted to RMB809.2 million
  Gross receipts up by 48.7%



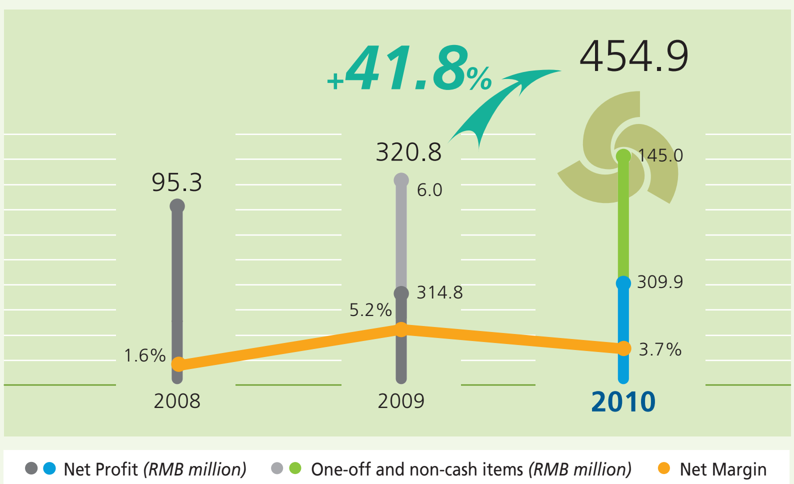
GROSS PROFIT, SEGMENT RESULTS[2] AND GROSS MARGIN[5]

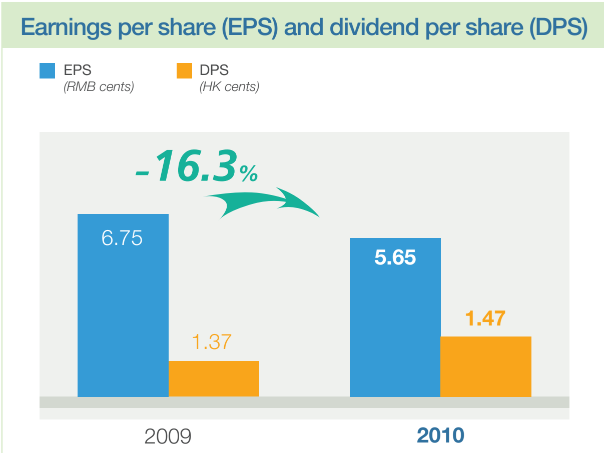
- **Consolidated segment results of operation up 33.4%**
  Gross margin (calculated as consolidated segment results to turnover) decreased slightly from 18.5% to 17.6%



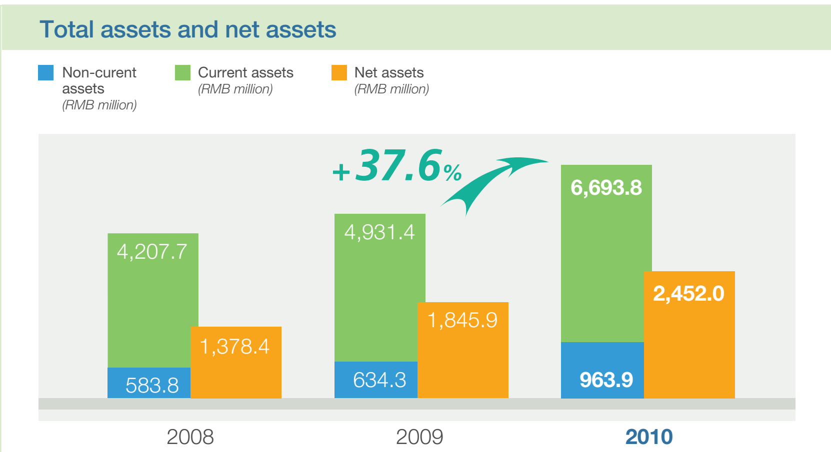
PROFIT FOR THE YEAR AND NET MARGIN

- Significant one-off items and non-cash fair value changes
  Net Profit down 1.6%
  Net margin down from 5.2% to 3.7%
- **Underlying profit[3] up 41.8% to RMB454.9 million**





- Net profit decreased slightly and weighted average number of shares increased
  Basic earnings per share down by 16.3%
- Final dividend[4] of HK1.00 cents (RMB0.84 cents) per share
  Dividend payout ratio of approximately 30% for 2010



- Non-current assets increased by 52.0% and current assets increased by 35.7%
  Total consolidated assets increased by 37.6%
- Net profit for the year together with net proceeds from the open offer
  Net assets increased by 32.8%

Note 1: Gross receipts represent the total turnover of the Group plus the government subsidies for energy-saving products.

Note 2: Segment results represent the gross profits and government subsidies for energy-saving products by each segment. Consolidated segment results represent the total of all the segments results (including the government subsidies for energy-saving products).

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

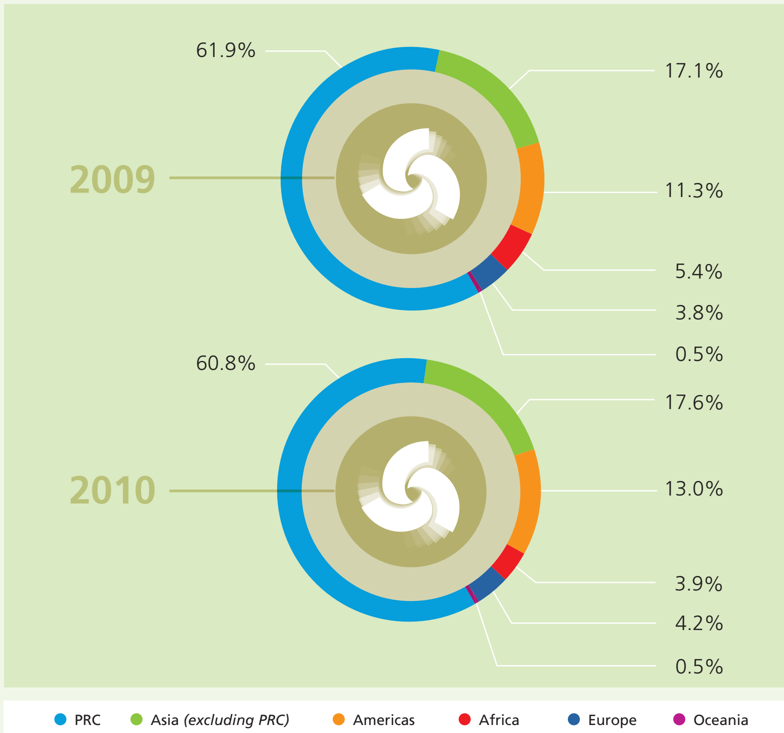
Note 4: Final dividend per share for the year ended 31 December 2009 and interim dividend per share for the six months ended 30 June 2010 have been retrospectively adjusted for the effects of (i) open offer on the basis of one new share of the Company for two ordinary shares and (ii) the bonus issue on the basis of nine new shares for one ordinary shares announced in 2010 and calculated based on the weighted average number of ordinary shares for the two years ended 31 December 2010.

Note 5: For a meaningful comparison of profitability, gross margins for the two financial years are calculated as the percentage of consolidated segment results of operation to turnover.

OPERATION HIGHLIGHTS

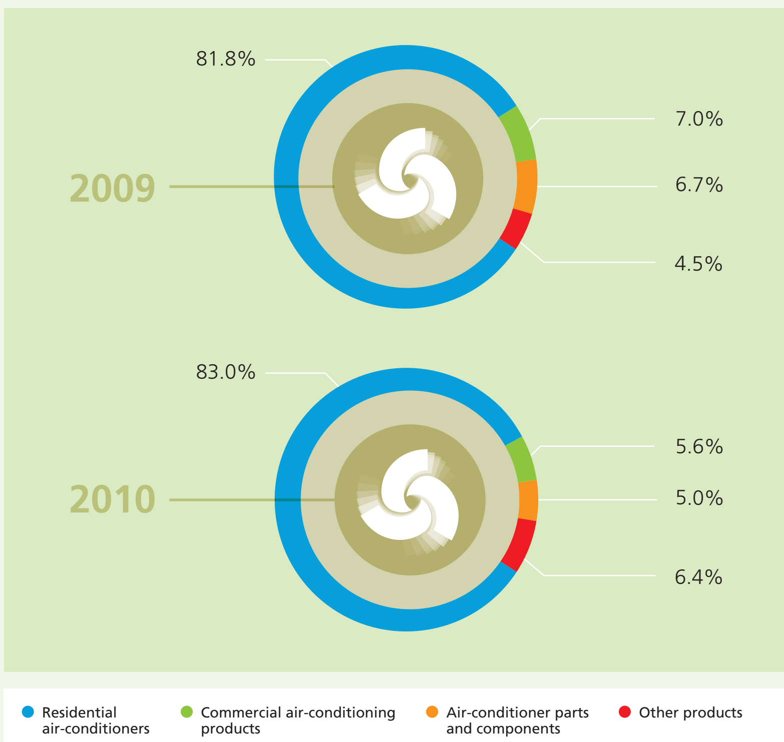
PRC AND OVERSEAS SALES

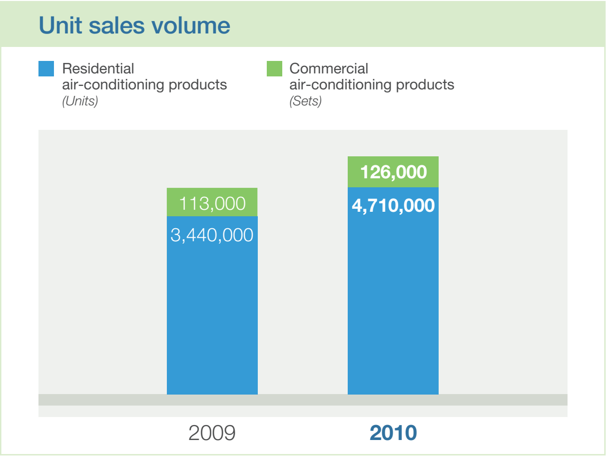
- Benefitted from strong demand and government supportive policies
  PRC sales up by 38.4% and amounted to 60.8% of the total turnover
- Positive growth in all overseas sales regions
  Overseas sales up by 45.2% and amounted to 39.2% of the total turnover



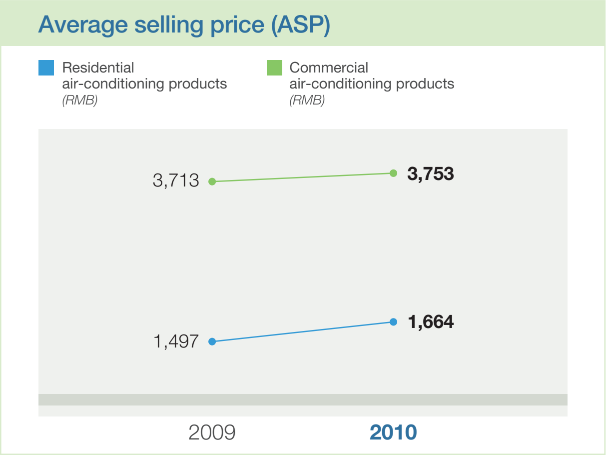
MAJOR PRODUCTS TYPE

- Both average selling price and sales volume increased
  Sales of residential air-conditioners up by 43.0% to 83.0% of the total turnover
  Sales of commercial air-conditioners up by 13.0% and decreased relatively to 5.6% of the total turnover
- Increased sales of other white goods products
  Other products sales up by 102.4%





- 4.7 million units of **residential air-conditioners** sold and **increased by 36.9%**
- 126,000 sets of **commercial air -conditioners** sold and **increased by 11.5%**



- Average selling prices per unit/set of the residential and commercial products increased by **11.2%** and **1.1%** respectively mainly due to the increase in raw material costs.

TO MAKE THE BEST

AIR-CONDITIONER IN THE WORLD

CHAIRMAN'S STATEMENT

Li Xinghao
Chairman of the Board

On behalf of the board of directors of Chigo Holding Limited, I am pleased to present the audited annual results of the Company and its subsidiaries for the year ended 31 December 2010.

2010 marked a new chapter for Chigo. By virtue of its pioneering energy-saving products and versatile business strategies, the Group succeeded in expanding its market share significantly with a substantial growth exceeding 40% in sales last year. The Group was ranked third under the category of domestic sales of air-conditioners on the "National Appliance Market Sales List", newly released by China Industrial Information Issuing Center of National Bureau of Statistics of China, consolidating its leading position in the industry.

During the year under review, the government reinforced various preferential policies, such as "Household Appliances to the Countryside Policy", "Replacement of Household Electrical Appliance Programme" and "Promotion of Energy Efficient Appliances Scheme", to boost market demand for residential air-conditioning products and hence creating a favorable business environment. Seizing the moment and the opportunity, the Group strived to realize its ultimate aim - "to make the best air-conditioner in the world". Utilizing avant-garde research and innovation power, the Group launched several groundbreaking products to keep on dominating the market of high-end energy-efficient air-conditioners. In addition to the successful launch of the highest energy efficiency ratio (EER) inverter air-conditioners (championing the world with a EER of 8.36), the Group has reached another milestone by unveiling the world's only residential air-conditioner equipped with CU+ antimicrobial technology with the co-operation of the International Copper Association. This revolutionary product serves as a perfect combination of the highest energy-saving air-conditioner and an effective air purifier, turning a new page in the air-conditioning industry.

CHAIRMAN'S STATEMENT

RESULTS OF OPERATION

In 2010, the Group recorded a robust increase in its annual results, with the turnover significantly increased to approximately 8,467.7 million (RMB, the same hereinafter) (2009: approximately 6,005.5 million), representing a remarkable increase of 41%. The boost in turnover generated an increase in the government's subsidies for energy-saving products to 809.2 million (2009: approximately 233.6 million), representing a substantial increase of 246%. After consolidating the sales and the government's subsidies, the Group's total revenue was approximately 9,276.9 million (2009: approximately 6,239.1 million), representing an increase of 49%.

To entice and nurture talents in the competitive market, I have given away parts of my shares in Chigo personally to certain employees and customers as gifts in my own name in June 2010, thus the Company expected to incur a one-off item amounting to 61.6 million under the accounting policy. Due to this one-off item and the non-cash fair value changes, the net profit of the Group slightly decreased to approximately 309.9 million (2009: approximately 314.8 million). The gross margin dropped slightly from 18.5% in 2009 to 17.6% in 2010. Excluding the one-off expenses, the fundamentals of the Company remained strong, with the underlying profit recorded a remarkable increase exceeding 41%, reaching a high of 454.9 million (2009: 320.8 million).

During the period under review, Chigo seized the opportunities to strengthen the sales and production of energy-efficient products by responding promptly and proactively to the various preferential policies launched by the government. By diversifying sales to other white goods products, the Group has successfully expanded the business, as well as fostering brand awareness.

SALES BY PRODUCTS AND GEOGRAPHIC REGIONS

In 2010, both of the Group's residential and commercial air-conditioning products recorded an encouraging growth. With the demand for household appliances soared as a result of the government's preferential policies, and the average selling price of the products driven up due to the increase in the costs of raw materials and components, the turnover of residential air-conditioners soared by 43% during the period. Moreover, as growth is recorded in both the number of sets sold and the average selling price, the turnover of commercial air-conditioning products had also increased by 13%. Furthermore, the Group significantly increased the sales in other white goods such as refrigerators and washing machines, thus the sales of other products recorded a more than double growth.

On the other hand, the Company proactively developed overseas markets during the period with encouraging sales growth recorded in various geographical regions. In 2010, the overseas sales reached 3,318.9 million, accounting for 39.2% of the total sales and representing an increase of 45.2%. Brilliant results were achieved in Europe and Asia (excluding China) with a growth exceeding 45% recorded in both regions, whilst sales in America displayed an increase of 60%.

SALES NETWORK

In 2010, Chigo continued to strengthen its distribution network in both domestic and overseas markets. For domestic market, the Group not only continued to cooperate with household appliance retail chain operators, but also expanded its regional network. The turnover of regional distributors recorded a significant increase of more than 60%. The Group's distribution and sales network spread over all the 31 provinces, municipalities and autonomous regions. At the same time, it also worked closely with more than 300 regional distributors and the three largest household appliance retail chain operators in China, with the total sales outlets amounting to

10,000. In addition, the Group took initiatives to develop new and potential distribution channels in order to increase its market share. The Group had already started operating its authorised electrical appliance stores "志高生活館" in various places including Beijing. The Business-to-consumer (B2C) Internet sales platform "志高商城" had also commenced operation. In addition, we had over 3,000 customer service points nationwide to provide comprehensive after-sales service to our customers.

For overseas market, we mainly focused on exporting air-conditioning products, parts and components to overseas countries and regions. The Group is currently providing a total of over 1,500 types of air-conditioning products to more than 180 countries. The overseas sales in 2010 showed an encouraging growth, standing strong at the third place in the national export sales list.

R&D CAPACITY AND QUALITY

While vigorously expanding its market share, Chigo has always insisted on building an international brand with exceptional quality and groundbreaking technology. The Group has long been standing firm with the ultimate goal - "making the best air-conditioner in the world". Chigo is armed with a top scientific research team. After obtaining the government's approval for establishing the Post-doctoral Scientific Research Workstation in 2006, the Group formed a technical advisory committee comprising 50 PhDs from the Chinese Academy of Science, Tsinghua University, Peking University, Fudan University and other authoritative scientific research institutes and colleges. With the set up of the first Academician and Expert Workstation in the industry in 2009, Chigo embraced an incomparable scientific research capability.

Owing to its industry-leading research and development team, the Group is able to hold its world EER record in both fixed frequency and inverter air-conditioners categories. The Group had also secured a strategic partnership with the International Copper Association in 2010. The two parties jointly launched the world's only residential air-conditioner equipped with CU+ antimicrobial technology, once again consolidating the Group's position as an industrial technology pioneer. The world's first CU+ antimicrobial residential air-conditioner is equipped with the highest energy efficiency ratio of 8.36 and powerful antimicrobial technology. This groundbreaking product performed as a high-efficient energy-saving air-conditioner and a strong purifier, another signature product demonstrating Chigo's world-leading research power in air-conditioning technology.

PROSPECT

2010 is a year of glory and achievement for Chigo. Looking ahead, we are convinced that 2011 will be another milestone for Chigo. With its innovative energy-saving products and a flexible, comprehensive sales plan, we expect to further enlarge Chigo's market share with a target to be a 100-billion enterprise within 5 to 10 years, and to be included in the world's Top 500.

Moreover, in order to meet the internal sales target, the Group has a series of plans to realize the production capacity to reach 10 million units of air-conditioners within the next 2 years. The Group had already raised fund in late 2010 and commenced the expansion project. It is expected that the additional production capacity could be sufficient to meet the target capacity in the next 2 to 3 years.

At the same time, the Group also foresees prodigious market potential of central air-conditioning products and plans to expand the business in 2011 to establish strong brand awareness for its central air-conditioning products. At the beginning of 2011, the Group has established a subsidiary to focus on the development of central air-conditioning business. In addition, the Group had recruited a number of experienced high caliber personnel and formed elite sales and technical teams for the central air-conditioning division. It is expected that the product sales and profitability of the Group could be further enhanced.

The newly developed sales channels, namely "志高生活館" - the authorised electrical appliance stores and "志高商城" - B2C Internet sales platform, have achieved initial success. The Company is committed to exploring the above sales channels in the year to come and setting up 5,000 authorised electrical appliance stores within 5 years to further expand the sales network. In addition, the Group will strive to enhance inverter air-conditioner marketing and achieve systematic development in the inverter air-conditioner business by means of its remarkable inverter air-conditioner technology and advantages of high-end products such as "三超王" ("San Chao Wang") series of "Super Inverter".

Embracing the concept of "making a better life for human being", Chigo spared no effort in improving its research and development capability and sales performance in pursuit of progress and breakthrough. We will be dedicated to developing more energy-saving and environmental friendly products to contribute to the national environment betterment apart from continuing our efforts on productivity upgrade and sales growth. With the united efforts of all the staff, we will be bound to accomplish the target of growing into a 100-billion enterprise and reward our shareholders with the highest returns.

ACKNOWLEDGEMENT

The continual development of Chigo relied on the support and efforts made by various parties. On behalf of the Board, I would like to take this opportunity to thank our clients, suppliers, business partners and shareholders for their tremendous support and to express our gratitude to our staff for their hard work and contribution made over the past year.

Li Xinghao
Chairman and Chief Executive Officer
Foshan, 18 March 2011

TO MAKE THE BEST

AIR-CONDITIONER IN THE WORLD

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. During the year ended 31 December 2010, the turnover of the Group was mainly derived from the sales of air-conditioners and air-conditioner parts and components. The Group's products were sold both in the People's Republic of China ("**PRC**" or "**China**") and overseas markets.

The Group only reported a slight growth in turnover for two consecutive years before 2010. In 2010, the Group showed a very encouraging performance on sales and achieved a more than 40% growth in top line. The success of the Group was attributable to its ability to develop advanced energy-saving products and proactive business strategy to grasp market opportunities ahead of its peers.

During the year, national policies of the PRC such as "Household Appliances to the Countryside", "Replacement of Household Electrical Appliance Programme" and "Promotion of Energy Efficient Appliances Scheme" boosted demand for residential air-conditioning products. On the other hand, domestic competition among brands became fiercer during the year. The Group, being one of the leading air-conditioners manufacturers, used its advantage in energy-saving technology to capture the market trend and pushed its dollar and volume sales to the next level. Diversification to other white goods product lines also helped enhancing the Group's brand awareness and increasing sales.

On the export front, the Group saw recovery and increase in orders from overseas customers. Export sales of the Group in 2010 had climbed over its 2008's high point. Though the profit of overseas sales had been hit by the soaring of raw material costs in the first half of 2010, the profit margin bounced back swiftly with the leadership of the management and the efforts of the overseas sales division.

The Group's net profit slide down a bit in 2010 because of certain significant one-off items and the non-cash fair value changes. In spite of this, the underlying profit of the Group's business excluding the impacts of one-off items and the non-cash fair value changes showed a strong growth of 41% from that of the previous year. In view of the overall performance of the Group in 2010, the management is satisfied that the goal set at the beginning of the year was met.

The Group will continue to focus on its principal business in the air-conditioning products and look forward to reinforcing the CHIGO brand in the coming year. The Group will further develop the products for refrigeration and washing machine to capture the market development and growth and create more value for the Company and its shareholders.

OPERATION REVIEW

SALES FROM MAJOR PRODUCT GROUPS AND GROSS MARGINS

	Year ended 31 December					
	2010		2009		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
Residential air-conditioners						
– split type	**6,750.7**	**79.7**	4,620.3	76.9	+2,130.4	+46.1
– window type	**238.7**	**2.8**	264.9	4.4	-26.2	-9.9
– portable type	**40.7**	**0.5**	30.3	0.5	+10.4	+34.3
	7,030.1	**83.0**	4,915.5	81.8	+2,114.6	+43.0
Commercial air-conditioners	**472.1**	**5.6**	417.7	7.0	+54.4	+13.0
Air-conditioners parts and components	**420.1**	**5.0**	402.8	6.7	+17.3	+4.3
Others	**545.4**	**6.4**	269.5	4.5	+275.9	+102.4
	8,467.7	**100.0**	6,005.5	100.0	+2,462.2	+41.0

Turnover derived from sales of residential air-conditioners increased substantially by 43.0% during the year ended 31 December 2010, principally because of the increases in both (i) unit sales of residential air-conditioning products and (ii) the average sales prices of air-conditioning products followed the increase in cost of raw materials and components during the year. As the number of sets of commercial air-conditioners sold and the average sales price both increased during the year, turnover derived from this product group increased by 13.0% accordingly. Additionally, turnover derived from sales of air-conditioner parts and components increased slightly by 4.3% during the year, principally due to the decrease in export sales of the products. Sales of other products increased sharply by 102.4% as the Group broadened its product range and increased sales of other white goods products, such as refrigerators and washing machines substantially in 2010.

In 2010, the gross margin (including government subsidies for energy-saving products) of residential air-conditioning products decreased slightly to 19.5% from 20.1% in 2010 because raw material costs and installation cost rose relatively faster than the sales during the year.

The Group has established a subsidiary in early 2011 for the business development of commercial air-conditioning products. To lay a strong foundation for its newly set up commercial arm in 2011, the Group refined the product mix of its of commercial air-conditioning products and cleared out inventories of certain old models during the reporting period. As a result, the gross margin of commercial air-conditioning products decreased substantially from 16.6% in 2009 to 4.1% in 2010. The Directors expect that the profitability of the commercial unit would return to the normal level or grow higher once its expansion plan and the restructuring of sales team accomplish in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Year ended 31 December					
	2010		2009		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
PRC sales						
CHIGO brand	**4,410.3**	**52.1**	3,293.4	54.8	+1,116.9	+33.9
HYUNDAI brand	**86.7**	**1.0**	66.2	1.1	+20.5	+31.0
Air-conditioner parts and components	**148.9**	**1.8**	128.0	2.1	+20.9	+16.3
Other products	**502.9**	**5.9**	232.7	3.9	+270.2	+116.1
	5,148.8	**60.8**	3,720.3	61.9	+1,428.5	+38.4
Overseas sales						
CHIGO brand	**316.0**	**3.7**	270.7	4.5	+45.3	+16.7
OEM	**2,689.2**	**31.8**	1,702.9	28.4	+986.3	+57.9
Air-conditioner parts and components	**271.1**	**3.2**	274.9	4.6	-3.8	-1.4
Other products	**42.6**	**0.5**	36.7	0.6	+5.9	+16.1
	3,318.9	**39.2**	2,285.2	38.1	+1,033.7	+45.2
	8,467.7	**100.0**	6,005.5	100.0	+2,462.2	+41.0

As the awareness of the CHIGO brand continue to grow, domestic sales of the CHIGO branded products climbed 33.9% in 2010. Sales of other products in China recorded a remarkable growth of 116.1% mainly due to increase in sales of more white goods products such as refrigerators and washing machines.

On the export front, higher sales of both OEM sales and the CHIGO branded products were recorded in the reporting period mainly due to the economic pickup. As the Group successfully secured sizeable orders from certain OEM customers in American sales region, OEM sales achieved a 57.9% growth for the year ended 31 December 2010.

SALES AND DISTRIBUTION

	Year ended 31 December					
	2010		2009		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
PRC						
Household appliances retail chain operators	**1,569.3**	**18.5**	1,503.2	25.0	+66.1	+4.4
Regional distributors	**3,579.5**	**42.3**	2,217.1	36.9	+1,362.4	+61.4
PRC Total	**5,148.8**	**60.8**	3,720.3	61.9	+1,428.5	+38.4
Overseas						
Regional distributors	**629.7**	**7.4**	582.3	9.7	+47.4	+8.1
OEM manufacturers	**2,689.2**	**31.8**	1,702.9	28.4	+986.3	+57.9
Overseas Total	**3,318.9**	**39.2**	2,285.2	38.1	+1,033.7	+45.2
Total Turnover	**8,467.7**	**100.0**	6,005.5	100.0	+2,462.2	+41.0

The Group's PRC sales to household appliances retail chain operators maintained at a stable level and increased by 4.4%. During 2010, PRC sales generated from regional distributors increased substantially by 61.4% and accounted for 69.5% of the PRC sales in 2010 (2009: 59.6%). As more sales got through the regional distributors channel, percentage of domestic sales through the household appliances retail chain operators dropped to 30.5% (2009: 40.4%) in the same period.

For the overseas sales, the OEM customers generated more sales during the year because some sizeable orders were placed by OEM customers from the American sales region. Approximately 81.0% (2009: 74.5%) and 19.0% (2009: 25.5%) of the overseas sales are distributed by the OEM customers and the overseas regional distributions respectively for the year ended 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

UNITS SOLD VOLUME AND AVERAGE SALES PRICES

	Year ended 31 December		
	2010	2009	Change %
Residential air-conditioning products sold ('000 units)	**4,710**	3,440	+36.9
Commercial air-conditioning products sold ('000 sets)	**126**	113	+11.5
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,664**	RMB1,497	+11.2
Average sales price – commercial air-conditioning product (per set)	**RMB3,753**	RMB3,713	+1.1

Due to strong demand for its products, especially in the overseas, the Group's unit sales of both residential and commercial air-conditioning products recorded satisfactory growths of 36.9% and 11.5% respectively in 2010. In total, the Group sold more than 4.8 million units/sets of air-conditioners within the reporting period.

During the year ended 31 December 2010, average sales prices per unit/set of the residential and commercial air-conditioning products increased by 11.2% and 1.1% respectively mainly due to the increase in raw materials costs, especially copper and aluminum.

BREAKDOWN OF COST OF GOODS SOLD

During the two years ended 31 December 2010, breakdown of the Group's total cost of goods is shown as follows:

	Year ended 31 December					
	2010		2009		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
Raw materials, parts and components:						
Compressors	**1,531.8**	**19.7**	1,246.7	24.3	+285.1	+22.9
Copper	**2,791.0**	**35.8**	1,293.9	25.3	+1,497.1	+115.7
Plastic chips	**512.0**	**6.6**	337.1	6.6	+174.9	+51.9
Aluminum	**497.9**	**6.4**	231.0	4.5	+266.9	+115.5
Steel plates	**417.4**	**5.3**	432.3	8.4	-14.9	-3.4
Others (note)	**1,369.4**	**17.6**	1,071.3	20.9	+298.1	+27.8
Total	**7,119.5**	**91.4**	4,612.3	90.0	+2,507.2	+54.4
Direct labour cost	**198.2**	**2.5**	116.6	2.3	+81.6	+70.0
Utilities	**46.4**	**0.6**	29.8	0.6	+16.6	+55.7
Production cost	**138.5**	**1.8**	166.1	3.2	-27.6	-16.6
Others	**288.1**	**3.7**	200.5	3.9	+87.6	+43.7
Total cost of goods sold	**7,790.7**	**100.0**	5,125.3	100.0	+2,665.4	+52.0

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

Along with the substantial increase in the Group's turnover, consumption of raw materials and components increased during the year ended 31 December 2010. In addition, the market prices of the major raw materials and components, such as copper and aluminum soared during the year, the cost of raw materials and components increased by 54.4%.

During the reporting period, direct labour cost increased relatively faster than the other cost components because of the rising trend of labour costs in China and increase in average number of production staff during the year. As a result of the above changes, total cost of goods sold increase by 52.0% during the year ended 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

TURNOVER

	Year ended 31 December					
	2010		2009		Change	
	RMB million	**% of Turnover**	RMB million	% of Turnover	RMB million	Change %
Geographic region						
PRC sales	**5,148.8**	**60.8**	3,720.3	61.9	+1,428.5	+38.4
Asia (excluding PRC)	**1,489.7**	**17.6**	1,025.8	17.1	+463.9	+45.2
Americas	**1,105.4**	**13.0**	677.4	11.3	+428.0	+63.2
Africa	**329.4**	**3.9**	325.4	5.4	+4.0	+1.2
Europe	**356.2**	**4.2**	227.7	3.8	+128.5	+56.4
Oceania	**38.2**	**0.5**	28.9	0.5	+9.3	+32.2
Overseas sales	**3,318.9**	**39.2**	2,285.2	38.1	+1,033.7	+45.2
Total turnover	**8,467.7**	**100.0**	6,005.5	100.0	+2,462.2	+41.0

During the year ended 31 December 2010, the Group's total turnover was approximately RMB8,467.7 million (2009: RMB6,005.5 million) and increased by RMB2,462.2 million, or 41.0% as compared to the corresponding period in 2009. The increase was principally due to the significant increase in the sales volume recorded and increase in average sales price of air-conditioning products, as well as increase in sales of other white good products during the year.

Considering the subsidies for the energy-saving products which amounted to RMB809.2 million as part of the receipts in relation to sales of products, gross receipts (sum of turnover and government subsidies for high energy-saving products) received by the Group in relation to its principal operation amounting to RMB9,277.0 million (2009: RMB6,239.1 million) and increased by 48.7% or RMB3,037.9 million as compared to 2009.

PRC SALES

Demand for air-conditioning products remained strong in China during the year. With the government supportive policies still in place, energy-efficient residential air-conditioners became the main product line in the market. As one of the pioneer enterprises in manufacturing the high energy-saving products, the Group was able to ride on the demand and increased its PRC sales substantially by RMB1,428.5 million or 38.4% to RMB5,148.8 million (2009: RMB3,720.3 million). During the year, domestic sales remained the main source of revenue and amounted to 60.8% of the total turnover for the year ended 31 December 2010 (2009: 61.9%).

OVERSEAS SALES

The Group recorded positive growths in all overseas sales regions during 2010. Overseas sales hit RMB3,318.9 million in 2010 (2009: RMB2,285.2 million) representing a year-on-year increase of 45.2% or RMB1,033.7 million and exceeded the Group's historical high in 2008.

The increase in Group's overseas sales in 2010 was mainly contributed by the increases of 45.2% and 63.2% in sales in the Asian (excluding PRC) and American markets respectively. These two markets remained the major overseas markets of the Group, which accounted for 17.6% and 13.0% (2009: 17.1% and 11.3% respectively) of the Group's turnover during the year ended 31 December 2010.

Since the Group's overseas sales had increased at a faster rate, overseas sales rose slightly to 39.2% (2009: 38.1%) of the Group's total turnover for the year ended 31 December 2010.

COST OF GOODS SOLD

Since total turnover recorded by the Group had increased significantly during the year, cost of goods sold increased in line with the turnover to RMB7,790.7 million (2009: RMB5,125.3 million), an increase of RMB2,665.4 million or 52.0% as compared to that of 2009. The increase in cost of goods sold was mainly caused by the increases in major raw materials and component costs, especially copper and aluminum and installation cost during the year ended 31 December 2010.

GROSS PROFIT

Since part of the Group's gross receipts for energy-saving products sales had been received in the form of government subsidy under the "Promotion of Energy-Efficient Appliances Scheme", increase in total turnover was less than that of the cost of goods sold during the year ended 31 December 2010. As such, the Group recorded a gross profit of RMB677.0 million in 2010 (2009: RMB880.2 million) which decreased by RMB203.2 million or 23.1% as compared to 2009. However, the Group was entitled to the government subsidies for energy-saving products amounting to RMB809.2 million (2009: RMB233.6 million) for the year ended 31 December 2010, consolidated segment results of operation (sum of gross profit and the government subsidies for energy-saving products) in 2010 totaled RMB1,486.3 million (2009: RMB1,113.8 million) representing an increase of RMB372.5 million or 33.4% from that of 2009.

As the consolidated segment results of operation increased slightly lower than the cost of goods sold, the Group's gross margin (calculated as consolidated segment results to turnover) decreased slightly from 18.5% in 2009 to 17.6% for the year ended 31 December 2010 accordingly.

As more high-end products were sold in 2010, the gross margin of the Group's PRC sales increased to 23.9% for 2010 while the Group's overseas sales dropped significantly to 7.6% in 2010. The decrease in gross margin of overseas sales was due to surge in prices of raw materials eroding the gross profit of the export products at the first half of the year. While the gross margin of overseas sales had returned to normal level during the second half of 2010. Among the overseas sales regions, American and Oceanian regions contributed the most to the profitability of the Group and achieved gross margins of 10.8% and 20.7% respectively in 2010.

GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

For the year ended 31 December 2010, the Group was entitled to the government subsidies for high energy-saving products in the amount of RMB809.2 million (2009: RMB233.6 million). These government subsidies were part of the gross receipts received by the Group in relation to its principal operation.

OTHER INCOME

Other income was RMB42.2 million (2009: RMB39.5 million) and increased by RMB2.7 million or 6.9% because of increase in non-operating income.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased to RMB667.9 million (2009: RMB515.6 million), an increase of RMB152.3 million or 29.5% for the year ended 31 December 2010. This increase was mainly due to the increases in (i) salary and allowance of sales personnel; (ii) transportation cost; and (iii) advertising and promotion costs as a result of increase in the Group's sales during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased by RMB57.6 million or 33.4% to RMB229.9 million (2009: RMB172.3 million) for the year ended 31 December 2010. The increase in administrative expenses was primarily due to the increases in (i) salaries, benefits and social insurance charges relating to administrative staff; and (ii) travelling expenses, repair and maintenance expenses during the year.

EQUITY-SETTLED SHARE BASED PAYMENTS

The Group recorded an equity-settled share based payments of RMB104.5 million (2009: RMB6.0 million) for the year ended 31 December 2010. Among the expenses, approximately RMB61.6 million was a one-off expense in relation to the fair value of the shares given by the Company's controlling shareholder, Mr. Li Xinghao in June 2010 to the Group's employees and customers as a reward for their contribution to the Group. The Group notes that this expense is a non-cash item and does not expect to incur this expense in the coming accounting periods. Approximately RMB42.9 million was the share-based payments in relation to the share options granted by the Company to certain employees and customers in November 2009.

RESEARCH AND DEVELOPMENT COSTS

Research and development ("**R&D**") costs increased to RMB61.8 million (2009: RMB47.8 million) by 29.3% or RMB14.0 million during the year. The increase was attributed to the increases in the R&D staff costs as the Group had further strengthened its R&D team.

OTHER EXPENSES

Other expenses were mainly the charitable donations made by the Group in the PRC which decreased by RMB4.8 million or 28.2% during the year ended 31 December 2010 and amounted to RMB12.2 million. The decrease was due to the non-recurring listing related expenses only incurred in 2009.

OTHER GAINS AND LOSSES

Other gains and losses increased by RMB8.5 million or 149.0% to RMB14.2 million (2009: RMB5.7 million) in 2010. The increase was mainly due to the net exchange losses and the net increase in allowance for doubtful debts made by the Group during the year.

NET GAIN IN FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group recorded a net gain of approximately RMB28.6 million (2009: RMB24.5 million) in fair value changes of derivative financial instruments relating to the foreign currency contracts entered into by the Group for the year ended 31 December 2010 as exchange rate of RMB against USD appreciated favourably to the Group.

LOSS IN FAIR VALUE CHANGES OF WARRANTS

During the year, the Company had issued 100,000,000 unlisted warrants to certain investors. As at the year end, the unlisted warrants remained outstanding and the Group recognised an aggregate fair value loss of RMB40.5 million (2009: nil) relating to the unlisted warrants.

FINANCE COSTS

As the Group's sales increased substantially in 2010, the Group utilised more short-term bank loans to finance its working capital requirement. Interest on bank borrowing increased by RMB41.7 million or 58.8% to RMB112.6 million (2009: RMB70.9 million) for the year ended 31 December 2010.

TAXATION

As part of the receipts from sales of energy-saving products was not subject to tax, the Group's tax charge dropped to RMB3.7 million (2009: RMB27.8 million), decreasing by RMB24.1 million or 86.7% for the year ended 31 December 2010.

PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

As a result of the foregoing, the Group recorded a profit of RMB309.9 million for the year ended 31 December 2010 (2009: RMB314.8 million), representing a slight decrease of RMB4.9 million or 1.6% as compared to the corresponding period in 2009. Since the net profit of the Group had decreased in the reporting period, the net margin of the Group dropped from 5.2% for the year ended 31 December 2009 to 3.7% for the year ended 31 December 2010 accordingly.

During the year, the Group incurred significant one-off items and the non-cash fair value changes, including the equity-settled share based payments amounting to RMB104.5 million (2009: RMB6.0 million) and fair value loss of RMB40.5 million (2009: nil) relating to the unlisted warrants. Excluding the impact of these items, the Group would achieve an underlying profit of RMB454.9 million (2009: RMB320.8 million) representing an increase of RMB134.1 million or 41.8%. The Directors are of the view that the underlying profit would be better to illustrate the business performance of the Group and reflect the underlying performance of business of the Group. Should the underlying profit be used to indicate its profitability, the Group would achieved a net profit margin of 5.4% (2009: 5.3%).

FINANCIAL POSITION

	As at 31 December			
	2010	2009	Change	
	RMB	RMB	RMB	Change
	million	million	million	%
Non-current assets	**963.9**	634.3	+329.6	+52.0
Current assets	**6,693.8**	4,931.4	+1,762.4	+35.7
Current liabilities	**5,077.7**	3,644.3	+1,433.4	+39.3
Non-current liabilities	**128.0**	75.5	+52.5	+69.5
Net assets	**2,452.0**	1,845.9	+606.1	+32.8

As at 31 December 2010, the Group's total consolidated assets increased by RMB2,092.0 million or 37.6% to RMB7,657.7 million (31 December 2009: RMB5,565.7 million). The increase was mainly in the current assets such as inventories (increased by RMB1,137.8 million), trade and other receivables (increased by RMB682.4 million) and non-current assets such as property, plant and equipment (increased by RMB111.2 million) and land use rights (increased by RMB153.6 million). Total consolidated liabilities of the Group as at 31 December 2010 amounted to RMB5,205.7 million (31 December 2009: RMB3,719.8 million) and increased by RMB1,485.9 million or 39.9% as compared to that of 31 December 2009. The major liabilities increased in the period were trade and other payables (increased by RMB1,056.6 million) and short-term bank loans (increased by RMB312.3 million). Warrants, being non-current liabilities, also increased by RMB44.7 million. However, the warrants would not impose any obligation on the Group resulting in the transfer or use of its assets to settle the liabilities.

As the Group recorded a net profit for the year together with the net proceeds of approximately RMB219.3 million from the open offer (the "**Open Offer**") of shares of the Company, the Group's net assets increased by 32.8% or RMB606.1 million to RMB2,452.0 million at the end of 2010 (31 December 2009: RMB1,845.9 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2010, the Group had current assets amounted to RMB6,693.8 million (31 December 2009: RMB4,931.4 million) and current liabilities amounted to RMB5,077.7 million (31 December 2009: RMB3,644.3 million). The Group's working capital increased by RMB329.0 million or 25.6% from RMB1,287.1 million as at the end of 2009 to RMB1,616.1 million at the end of 2010. As the Group's current liabilities increased relatively faster, the current ratio dropped slightly from 1.4 times as at 31 December 2009 to 1.3 times as at 31 December 2010.

At the end of 2010, the balance of short-term bank loans owed by Group was RMB1,192.7 million (31 December 2009: RMB880.4 million) and increased by RMB312.3 million or 35.5%. The bank loans are used for working capital purposes, charged at fixed interest rates and repayable within one year. Majority of the bank loans are made and repaid in Renminbi.

MANAGEMENT DISCUSSION AND ANALYSIS

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group increased slightly to 16.5% as at 31 December 2010 (31 December 2009: 15.8%) because there were bank bills amounting to RMB72.3 million (31 December 2009: nil) issued by customers and discounted by the Group outstanding at the year end of 2010.

Ability of the Group to service finance costs, as indicated by interest cover, dropped during the reporting period. Since the finance costs had been increased as more bank loans were utilised for working capital purpose and net profit decreased in 2010 due to significant increase in non-cash accounting expenses, interest cover of the Group decreased to 3.8 times for the year ended 31 December 2010 as compared to 5.8 times the same period last year.

During the year, the Group had entered into certain foreign currency forward contracts to hedge against part of its exposure on potential variability of foreign currency risk. The total financial exposure of the Group to these foreign currency forward contracts was approximately RMB26.1 million (31 December 2009: RMB16.1 million) as at the year end.

On 9 September 2010, the Company proposed to raise approximately HKD255.4 million by launching an Open Offer of 255,437,000 offer shares at the Subscription Price of HKD1.00 per offer share on the basis of one (1) offer share for every two (2) existing shares held by the then shareholders. On 12 November 2010, 255,437,000 shares were issued under the Open Offer accordingly.

During the year ended 31 December 2010, 20,134,000 shares had been issued as the same number of share options had been exercised.

As a result of the aforesaid issuances of shares, the Company had issued share capital of approximately RMB6.8 million and 786,445,000 shares in issue as at 31 December 2010. All of the issued shares were ordinary shares.

Since the Group had raised proceeds and recorded a net profit during the year, the shareholders' equity increased to RMB2,452.0 million at the end of 2010 (31 December 2009: RMB1,845.9 million).

On 19 November 2010, the Company entered into a placing agreement with a placing agent to place 100,000,000 unlisted warrants at the placing price of HKD0.05 per warrant. Each warrant carries the right to subscribe for one warrant share of the Company at the Subscription Price of HKD4.95 per warrant share. The placing of an aggregate of 100,000,000 unlisted warrants had been fully placed and issued on 2 December 2010.

The Company announced on 9 December 2010 that a bonus issue of new shares on the basis of nine (9) bonus shares for every one (1) existing share to the qualifying shareholders was recommended. The bonus issue was subsequently approved by the shareholders after the year end on 4 January 2011.

Other than the above, there were no other equity or debt instruments issued by the Company during the reporting period and at the end of 2010.

CASH FLOWS

	Year ended 31 December	
	2010	2009
	RMB	RMB
	million	million
Operating cash flows	**667.9**	481.0
Movements in working capital and tax paid	**(804.3)**	53.7
Net cash (used in) from operating activities	**(136.4)**	534.7
Net cash used in investing activities	**(269.0)**	(197.2)
Net cash from (used in) financing activities	**468.0**	(165.5)
Net increase in cash and cash equivalents	**62.6**	172.0
Cash and cash equivalents at 31 December	**495.4**	432.8

For the year ended 31 December 2010, the Group generated operating cash flows of RMB667.9 million (2009: 481.0 million). The Group raised a net amounts of bank loans amounting to RMB312.3 million and net proceeds from bills discounted with recourse amounting to RMB72.3 million respectively during the year. The Company also raised a net amount of RMB270.3 million and RMB4.2 million from issue of new Shares under Open Offer and share options and placing of unlisted warrants respectively. As such, net cash generated financing activities amounted to RMB468.0 million (2009: cash outflow of RMB165.5 million). Part of the cash generated was primarily used to finance (i) the piling up of inventories to meet the demand for products in the coming year; and (ii) credits provided to customers as sales increased during the year. The Group also applied the cash generated to purchase (i) property, plant and equipment; and (ii) land use rights for the future business expansion and development of the Group.

As a result of the foregoing, the Group generated surplus cash of RMB62.6 million during the year ended 31 December 2010 (2009: net cash inflow of RMB172.0 million) and had bank balances and cash amounted to RMB495.4 million at the end of 2010 (31 December 2009: RMB432.8 million).

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM OPEN OFFER

During the year, the Company had raised under the Open Offer gross proceeds and net proceeds of HKD255.44 million and HKD251.30 million, respectively. The proceeds were intended for (a) enhancing the production facilities and distribution network of the Group, and (b) general working capital purposes of the Group. The net proceeds were received by the Company on 10 November 2010 and had been remitted into the PRC for the intended use of the Group.

MATERIAL ACQUISITIONS AND DISPOSALS, SIGNIFICANT INVESTMENTS

During the year ended 31 December 2010, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies. As at the end of the reporting period, the Group did not hold any significant investments.

CHARGE ON ASSETS

As at 31 December 2010, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB951.5 million (31 December 2009: approximately RMB1,095.2 million) were pledged to certain banks for securing the banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

During the period ended 31 December 2010, approximately 39.2% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may expose to foreign currency risk. As the Group had already entered into certain foreign currency forward contracts and the exchange rate of Renminbi against the US dollars appreciated favourably to the Group during the reporting period, the Directors are of the view that the Group's exposure to foreign currency risk was not significant.

During and as at the end of the reporting period, most of the assets and liabilities of the Group were dominated in Renminbi. The Group had also converted the net proceeds from the open offer into the functional currency of the Group as required for its planned use during the year ended 31 December 2010. The Directors believe that the Group's exposure to exchange rate fluctuations is minimal in this aspect.

The management of the Group will monitor foreign currency exposure from time to time and will consider further hedging should the need arise.

CAPITAL COMMITMENTS

As at 31 December 2010, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB158.9 million (31 December 2009: approximately RMB65.6 million).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2010.

EMPLOYEES AND REMUNERATION

As at 31 December 2010, the Group employed 12,814 employees (31 December 2009: 10,089 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages are reviewed on a yearly basis. The Group also provides its employees with welfare benefits including medical care, meal subsidies, education subsidies and housing, etc.

In order to attract, motivate and retain high calibre personnel, the Group also has a share option scheme in place in which the employees and directors of the Group are entitled to participate.

As at 31 December 2010, the Group had granted the Directors and employees of the Group share options to subscribe for 1,365,817 and 45,201,456 shares of the Company respectively.

OUTLOOK AND FUTURE PLANS

Looking forward, the Group's targets and plans as follows:

- GROWING INTO A 100 BILLION ENTERPRISE

  As the Company previously announced that the management of the Company had made statements during the 16th Anniversary Grand Ceremony of the Group held at the end of 2010 that the Group targets at becoming an RMB100 billion enterprise within five to ten years. In view of the 40% growth in turnover of the Group in 2010, the management strives for keeping the growth momentum and refining the profitability of the Group.

- INCREASING PRODUCTION TO 10 MILLION UNITS OF AIR-CONDITIONERS

  To keep pace with the market demand and internal sales target for air-conditioning products, the Group has plans to realise the production of 10 million units of air-conditioners within the next two years. The Group had already raised fund in late 2010 and commenced the expansion project. It is expected that the additional production capacity could be sufficient to meet the growth goals in the next two to three years.

- LEADING INVERTER AIR-CONDITIONER TECHNOLOGY

  Leading technology is always the core belief of the management toward success. Currently, the Group has already manufactured the most energy-efficient residential air-conditioners among the mainstream products in the market. For the inverter air-conditioners, the Group first launched in last August its "Super Inverter", with season Energy Efficiency Ratio reaching 8.36. The product is so far known as the most energy-saving inverter air-conditioner in the market. Furthermore, the Group announced its cooperation with the International Copper Association and launched in last November the world's first direct Inverter CU+ antimicrobial residential air-conditioner. The product is the most up-to-date inverter residential air-conditioner with the ideas for energy conservation and caring about end-users' health. With the most advanced technology and production line on hand, the Group is capable to capture the market opportunity and take leading role in the air-conditioning industry.

MANAGEMENT DISCUSSION AND ANALYSIS

- **PUTTING MORE WEIGHT ON CENTRAL AIR-CONDITIONING**

  In early 2011, the Group has established a subsidiary specialising in central air-conditioning products. In addition, a number of high calibre people had joined the Group and formed elite sales and technical teams for the central air-conditioning division since last year. The management expects that following the full operation of the subsidiary for central air-conditioning in 2011, the product sales and profitability of the Group could be further enhanced.

- **ENHANCING DISTRIBUTION CHANNEL**

  The Group recently introduced the "志高生活館", authorised electrical appliance stores and "志高商城" (www.e-chigo.com), a B2C internet sales platform. The new distribution channels not only could increase the product sales of the Group, it may also enhance the brand awareness of the Group. As a medium-term goal, the Group expects to set up approximately 5,000 authorised stores in China within next five years.

- **SEEKING POTENTIAL MERGER AND ACQUISITION**

  The management of the Group considers different potential merger and acquisition ("M&A") opportunities from time to time with the aim to further (i) expanding the Group's operation scale which aligned with the its investment strategy and/or (ii) strengthening or integrating the Group's upstream or downstream production and distribution chains. Once a viable target is identified, the Directors are confident that potential M&As will be conducted in the best interests of the shareholders and will inform the shareholders of any investment in due course.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. LI XINGHAO

Mr. Li, aged 56, is the founder of the Group. He was appointed as an executive Director on 24 April 2006. Mr. Li is also the Chairman and Chief Executive Officer of the Company and is primarily responsible for the formulation of the Group's development strategies, as well as supervising the Group's overall business and operation management. He is one of the founders of Nanhai Chigo Factory, the predecessor of Guangdong Chigo, established in 1994 and has over 15 years of experience in the air-conditioning industry. He holds a senior engineer certificate issued by Hong Kong International Hitech Investment Development Centre. Mr. Li graduated from the Party School of the Central Committee of C.P.C. (中共中央黨校) in 2000. He obtained a masters degree in Western Economics Studies from Nankai University (南開大學) in July 2004. Mr. Li is currently serving as a deputy to the 11th National People Congress of the PRC.

MR. LEI JIANGHANG

Mr. Lei, aged 57, was appointed as an executive Director on 15 February 2008 and is the vice Chairman of the Company. He joined the Group in January 1995 as a senior engineer of Guangdong Chigo. Mr. Lei is responsible for overseeing the overseas investment and business cooperation of the Group. He graduated from Jiangxi Radio & TV University (江西廣播電視大學) in June 1982. Mr. Lei served as an engineer in Foshan Huahao Chemical Co., Ltd. (佛山市華昊化工有限公司電化廠) from September 1991 to December 1994.

DR. DING XIAOJIANG

Dr. Ding, aged 46, was appointed as an executive Director of the Company on 15 February 2008. He joined the Group in January 1998 and has held positions as supervisor of the technology department and the procurement department, head of commercial department and the chief engineer of the Group. Currently, Dr. Ding is the General Manager of the Refrigeration Equipment Division of the Group. He is primary responsible for manufacture and sale of refrigerators, wine cabinets and heat pump water heaters. Dr. Ding graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) (formerly known as 南京航空學院) in 1985, received a masters degree in engineering from the same university in 1988 and a doctorate degree in engineering from Chongqing University (重慶大學) in 1992. He joined Guangdong Meidi Refrigerating Research Centre (廣東美的股份有限公司空調研究所) as a senior engineer from November 1992 to May 1995.

MR. HUANG XINGKE

Mr. Huang, aged 33, graduated from the University of International Business and Economics majoring in Accounting in July 2004. Mr. Huang Xingke further completed postgraduate courses in Modern Industrial Management and Advanced Production at Tsinghua University and in Business Administration (MBA) at Sun Yat-sen University in October 2006 and November 2008, respectively. He joined the Group in May 2002 and is currently the department head of the Procurement Centre of Guangdong Chigo Air-conditioning Co., Limited, a subsidiary of the Company. Mr. Huang Xingke has more than 10 years experience in accounting, production management and procurement management. Prior to joining the Group, Mr. Huang Xingke worked as an accountant of Foshan Taiyang Packaging Limited (佛山太陽包裝有限公司) from 2000 to May 2002.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. WAN JUNCHU

Mr. Wan, aged 44, was appointed as an independent non-executive Director on 26 August 2008. Mr. Wan had been working as a part-time chief editor of China Business Update (《中國經貿》雜誌社) from January 2005 to December 2005, and assistant to the secretary of China Association for Quality Promotion (中國質量萬里行促進會) since July 1999. He had conducted researches on famous Chinese brands and published more than three books on management including brand management.

MR. ZHANG XIAOMING

Mr. Zhang, aged 57, was appointed as an independent non-executive Director on 26 August 2008. He graduated from South China Normal University (華南師範大學) majoring in economic and management in August 1992. He has over 35 years of working experience in the household electrical appliance industry in the PRC and held various positions including technician, senior chief economist and general manager of several household electrical appliances company in Guangdong. Mr. Zhang has also participated in the research, planning and formulation of the development strategy in the household electrical appliance industry in Guangdong. He is the chairman of Guangdong Household Electrical Appliances Trade Association (廣東省家用電器行業協會).

MR. FU XIAOSI

Mr. Fu, aged 51, was appointed as an independent non-executive Director on 26 August 2008. He graduated from Huazhong University of Science and Technology (華中科技大學) (formerly known as 華中工學院) in July 1986. He obtained a bachelor degree in economics from Zhongnan University of Economics and Law (中南財經大學) in 1999. He qualified as an assistant engineer in 1987 and as an accountant in 1991. Mr. Fu obtained the relevant qualification as a registered accountant from the Chinese Institute of Certified Public Accountants in the PRC in 1994. He has been promoted as a senior accountant while working at China State Ship Building Corporation (中國船舶工業總公司) in 1997. Mr. Fu has completed the training course for independent non-executive directors of the listed companies organised by Fudan University (復旦大學) in 2002. From November 2000 to May 2006, he worked at Beijing Zhong Qin Wan Xin Accounting Firm (北京中勤萬信會計師事務所) and he was responsible for auditing financial statements for various listed companies and he has experience working as a senior manager, department manager, vice chief accountant and senior partner of the above accounting firm. From May 2006 to the present, he served as a chief accountant at Hubei Sanhuan Development Corp. Ltd. (湖北三環股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange).

SENOR MANAGEMENT

DR. ZHENG ZUYI

Dr. Zheng, aged 55, is an executive vice president and the general manager of the residential air-conditioning division of the Group. He joined the Group on 1 October 2005 and is responsible for overseeing the operation and management of the residential air-conditioning products of the Group. Dr. Zheng received a doctorate degree in engineering from Huazhong University of Science and Technology (華中理工大學) in December 1994 and completed the post-doctorate research studies in Tsinghua University in May 1996. Before joining the Group, Dr. Zheng was the head of the research department of Gree Electric Appliances, Inc. (珠海市格力電器股份有限公司) from 1997 to 2001 and he resigned from Guangdong Kelon Electrical Holdings Co. Ltd. (廣東科龍電器股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange and the Stock Exchange in October 2005.

MR. HU ZHENGFU

Mr. Hu, aged 46, is a vice president of the Group. He is responsible for overseeing the corporate governance, financial and investor relation matters of the Group. He joined the Group on 7 September 2001 and has held positions within the Group including head of the auditing department, the manager of the finance department and assistant to the general manager. Mr. Hu graduated from Zhongnan University of Economics and Law (中南財經大學) majoring in accounting in 1992. Before joining the Group, Mr. Hu worked for the Finance Department of Hubei Province Supply and Marketing Cooperative (湖北省供銷社財務處) from 1986 to 1992 and the manager of the financial department of Zhuhai Fenghai Industrial & Commercial Company (珠海豐海工貿公司) from 1992 to 1995. From August 1995 to August 2001, he rejoined as the supervisor of the Audit Division in the Finance Department of Hubei Province Supply and Marketing Cooperative (湖北省供銷社財務處審計).

MR. ZHANG QUAN

Mr. Zhang, aged 42, is a vice president and the general manager of the central air-conditioning division of the Group. He joined the Group in April 2010 and is responsible for overseeing the operation and management of the commercial air-conditioning products of the Group. Mr. Zhang obtained a master degree in international management from the Australian National University in 2003 and a EMBA degree from the Peking University in August 2007 respectively. Prior to joining the Group, Mr. Zhang was appointed as a director and the president of the central air-conditioning division of GD Midea where he held various senior management positions. From November 2004 to March 2008, Mr. Zhang acted as the executive director of Welling Holding Limited (382), a company listed on the Stock Exchange. Mr. Zhang had been a director of Guangdong Midea Electric Appliances Co., Ltd, a company whose shares are listed on the Shenzhen Exchange from December 2005 to September 2009.

MR. LEUNG HON MAN

Mr. Leung, aged 44, joined the Company as the Chief Financial Officer since 18 December 2007 and was appointed as the company secretary of the Company on 26 August 2008. He has over 14 years of experience in company management, accounting and company secretarial matters. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, Certified Practising Accountant of CPA Australia. Mr. Leung received a Professional Diploma in Business (Banking) at the Hong Kong Polytechnic University in 1990 and a master degree in Business Administration at Andrews University in 1996 and a master degree in Accounting at Central Queensland University in 1999. From 1990 to 1994, he had experience working as a senior officer in the Hong Kong Branch of the Kwangtung Provincial Bank, which is now known as Bank of China (Hong Kong) Limited after consolidation. From May 1994 to August 2000, he had experience working as a finance manager in Soundwill Holdings Limited (878), a company listed on the Stock Exchange. Since 2000, he has worked in Sanyuan Group Limited, a company formerly listed on the Stock Exchange, where he held various positions including company secretary, financial controller and executive director.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting and maintaining good corporate governance standard with a strong emphasis on integrity, efficiency, transparency and accountability to enhance shareholders' welfare.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has adopted and applied its corporate governance practices which are in line with the code provisions contained in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

During the year ended 31 December 2010, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provision A.2.1 of the CG Code as explained in the paragraph headed "Chairman and Chief Executive Officer" below.

THE BOARD OF DIRECTORS

BOARD COMPOSITION

As at 31 December 2010 and the date of this report, the Board comprised four executive Directors and three independent non-executive Directors. The following are the members of the Board:

Executive Directors

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Mr. Lei Jianghang *(Vice Chairman)*
Dr. Ding Xiaojiang
Mr. Huang Xingke

Independent Non-executive Directors

Mr. Wan Junchu
Mr. Zhang Xiaoming
Mr. Fu Xiaosi.

The biographical details of the Directors are set out on pages 33 to 34 of this report.

FUNCTION OF THE BOARD

The business of the Group are conducted and managed by the Board. The Board is responsible for the overall management of the business, strategic development and significant policies and transactions of the Group. The management was delegated the authority and responsibility by the Board for the day-to-day management, administration and operation of the Group. In addition, the Board has also delegated various responsibilities to the various Board Committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") of the Company.

RELATIONSHIP OF THE BOARD MEMBER

There is no family relationship, nor any financial, business, or other material or relevant relationships, among the Directors and between each of the Directors.

NUMBER OF BOARD MEETINGS AND DIRECTORS' ATTENDANCE

During the year ended 31 December 2010, seven Board meetings and four Committee meetings were held. Attendance record of each of the Directors is set out below:

	Number of board meetings attended/held	Number of Audit Committee meetings attended/held	Number of Remuneration Committee meetings attended/held	Number of Nomination Committee meetings attended/held
Executive Directors				
Mr. Li Xinghao	7/7	N/A	1/1	N/A
Mr. Lei Jianghang	7/7	N/A	N/A	N/A
Dr. Xiaojiang	7/7	N/A	N/A	N/A
Mr. Huang XingKe *(note)*	4/7	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Wan Junchu	7/7	2/2	1/1	1/1
Mr. Zhang Xiaoming	7/7	2/2	1/1	1/1
Mr. Fu Xiaosi	7/7	2/2	1/1	1/1

Note: Mr. Huang was appointed an executive Director of the Company on 6 September 2010.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the year ended 31 December 2010, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer (the "CEO") of the Company.

The responsibilities of Chairman and CEO of the Company have been clearly established and set out in writing. Chairman of the Board will be responsible for effective running of the Board and the management of the Board's affairs. CEO will be primarily responsible for the formulation of the Group's business and development strategies.

Mr. Li is the founder of the Group and has over 15 years of experience in the air-conditioning industry. The Directors believe that Mr. Li is a good leader to lead the Board and vesting the roles of Chairman and CEO in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. As such, it is beneficial to the business prospects of the Company.

The Directors will continue to review the effectiveness of the corporate governance structure of the Group and assess whether changes, including the separation of the roles of Chairman and CEO, are necessary.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors had been re-elected at the annual general meeting of the Company held on 27 May 2010.

The independent non-executive Directors' remuneration was determined by the Company with regard to their experience, performance and the prevailing market conditions. During the year ended 31 December 2010, the total remuneration paid to the independent non-executive Directors was approximately RMB525,000 including fees and equity-settled share-based payment.

ADOPTION OF MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code regarding securities transactions by the Directors (the "Own Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code and the Own Code. All the Directors have confirmed their compliance during the year with required standards set out in the Model Code and the Own Code.

BOARD COMMITTEES

The Company has established three Board committees (the "Board Committees"), namely the Audit Committee, the Remuneration Committee and the Nomination Committee to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expenses.

AUDIT COMMITTEE

The Company established the Audit Committee on 19 June 2009 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee comprises the three independent non-executive Directors, namely, Mr. Fu Xiaosi, Mr. Zhang Xiaoming and Mr. Wan Junchu. Mr. Fu Xiaosi is the chairman of the Audit Committee.

During the year ended 31 December 2010, the Audit Committee had:

- held two committee meetings and reviewed the Company's annual results for the year ended 31 December 2010 and interim results for the six months ended 30 June 2010 respectively, financial and accounting policies and practices and relevant disclosure requirements under the Listing Rules with the management and the external auditor of the Company;

- held a meeting with the internal audit department to review the internal audit function of the Group;

- reviewed with the management the Company's financial controls, internal control and risk management systems;

- attended a meeting with the external auditor without executive Board members present and discuss with the nature and scope of the audit before the audit commences; and

- approved the remuneration and terms of engagement of the external auditor.

The Audit Committee plans to conduct meetings at least twice a year.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 19 June 2009 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies.

The Remuneration Committee comprises the three independent non-executive Directors, namely, Mr. Wan Junchu, Mr. Fu Xiaosi and Mr. Zhang Xiaoming. Mr. Wan Junchu is the chairman of the remuneration committee.

A Remuneration Committee meeting was held during the year ended 31 December 2010. The Remuneration Committee plans to conduct meeting at least once a year.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 19 June 2009 with written terms of reference in compliance with the CG Code. The primary duty of the Nomination Committee is to make recommendations to the Board on the appointment of Directors and senior management.

The Nomination Committee comprises the three independent non-executive Directors, namely, Mr. Zhang Xiaoming, Mr. Fu Xiaosi and Mr. Wan Junchu. Mr. Zhang Xiaoming is the chairman of the Nomination Committee.

A Nomination Committee meeting was held during year ended 31 December 2010. The Nomination Committee will conduct meeting when it is necessary.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statement of the Group in accordance with statutory requirements and accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements for the Group are published in a timely manner. The Directors' and auditors' responsibilities in respect of the financial statements are set out on page 48 in this report.

INTERNAL CONTROL

The Board is responsible for the internal control system of the Group and has the responsibility for reviewing its effectiveness including financial, operational and compliance controls. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets.

An Internal Audit Department has been established by the Group to carry out independent evaluations of its operating units. The Internal Audit Department has unrestricted access to the Group's operating units as well as all records, properties and personnel relevant to any function under review. Independent review on the operating and financial control of the Group conducted by the Internal Audit Department on an on-going basis. The Internal Audit Department reports its findings and irregularities (if any) and makes recommendations to the Board.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2010, the Audit Committee had reviewed the internal control system of the Group with the management and the Internal Audit Department. The Board will continue to review the system and procedures from time to time to maintain a high standard of internal control and will make appropriate changes to the internal control system, if necessary.

INVESTORS RELATIONS AND COMMUNICATION CHANNELS

The Directors recognise the importance of long-term supports from the shareholders of the Company. The Board highly respects the shareholders' rights to express their views and appreciates the shareholders to make suggestions to the Company. On top of the regular members' meetings to be held yearly, the Company has also established different channels, including the corporate website with updated Company's news and information, corporate email and public relations department, to (i) promote effective communication between the Company and its shareholders; (ii) release the latest news, information and announcements of the Company in a timely manner; and (iii) handle shareholders' enquiries and suggestions.

During the year, the Company actively attended different investment conferences organised by various investment banks, arranged investors' tours to visit the headquarters of the Group and conducted telephone conferences with financial analysts, fund managers and investors with an aim to enhancing the transparency of the Group's business and investors relations.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit and non-audit services for the period from date of listing to 31 December 2010 amounted to HKD2,400,000 and HKD1,635,000 respectively. The non-audit services provided during the period were interim financial statements review and taxation services.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2010

PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income statement on page 50 of this annual report.

The Directors recommend the payment of a final dividend of HK1.00 cents (approximately RMB0.84 cents) per share for the year ended 31 December 2010 to the shareholders listed in the registered of members of the Company on Friday, 13 May 2011. The final dividend amounting to approximately HKD78,845,000 is expected to be paid in Hong Kong dollars on or about Friday, 27 May 2011.

As far as the Company is aware, as at the date of this report. There was no arrangement under which any shareholder has waived or agreed to waive any dividend proposed to be distributed for the year ended 31 December 2010.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 106.

SHARE CAPITAL AND DEBENTURE OF THE COMPANY

On 9 September 2010, the Company proposed to raise approximately HKD255.44 million (before expenses) by launching an open offer of 255,437,000 offer shares at the subscription price of HKD1.00 per offer share on the basis of one (1) offer share for every two (2) existing shares held by the qualifying shareholders. The Company plans to apply the net proceeds raised for (a) enhancing the production facilities and distribution network of the Group; and (b) general working capital purposes of the Group.

The open offer became unconditional on 10 November 2010 and total number of 255,437,000 offer shares were issued and allotted accordingly.

During the year, a total of 20,134,000 share options were exercised by the grantees under the share option scheme of the Company. As a result, 20,134,000 new shares were issued and allotted during the year.

As at 31 December 2010 and the date of this report, the total number of issued shares of the Company were 786,445,000 and 7,884,524,000 shares respectively.

Details of movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

During the year ended 31 December 2010, no debenture had been issued by the Company.

DISTRIBUTABLE RESERVES OF THE COMPANY

Reserves of the Company available for distribution to shareholders as at 31 December 2010 amounted to RMB593,311,000 which consisted of the retained profits and share premium (2009: RMB457,319,000).

DIRECTORS' REPORT

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to the Company's shareholders subject to the provisions of its memorandum of association and the articles of association (the "Articles") and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

EXECUTIVE DIRECTORS

Mr. Li Xinghao
Mr. Lei Jianghang
Dr. Ding Xiaojiang
Mr. Huang Xingke

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Junchu
Mr. Zhang Xiaoming
Mr. Fu Xiaosi

The biographical details of the Directors are set out on pages 33 to 34 of this report.

In accordance with Article 83(3) of the Articles, each of Mr. Huang Xingke, Mr. Li Xinghao and Mr. Lei Jianghang will hold office until the upcoming annual general meeting (the "Annual General Meeting") and, being eligible, offer themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 10 to the consolidated financial statements.

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

As at 31 December 2010, the interests of the Directors in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

LONG POSITION IN THE ORDINARY SHARES OF HKD0.01 EACH OF THE COMPANY

Name of Director	Capacity	Number of issued ordinary shares held as at 31 December 2010	Approximate percentage of shareholding
Mr. Li Xinghao	Held by controlled corporation *(note)*	444,010,021	56.46
Mr. Lei Jianghang	Beneficial owner	75	0.00
Mr. Ding Xiaojiang	Beneficial owner	603,075	0.07
Mr. Huang Xingke	Beneficial owner	900	0.00
		444,614,071	56.53

Note: Mr. Li Xinghao beneficially owns approximately 99.46% of the issued share capital of Chigo Group Holding Limited which beneficially owns 444,010,021 ordinary shares of the Company.

LONG POSITION IN THE SHARE OF ASSOCIATED CORPORATION

Name of Director	Associated Corporation	Capacity	Number of issued ordinary shares held as at 31 December 2010	Approximate percentage of shareholding
Mr. Li Xinghao	Chigo Group Holding Limited	Beneficial owner	9,946.1036	99.46

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Particulars of the Company's share option scheme are set out in note 30 to the consolidated financial statements.

Name of Director	Capacity	Number of share options held as at 31 December 2010	Number of underlying shares
Mr. Li Xinghao	Beneficial owner	303,515	303,515
Mr. Lei Jianghang	Beneficial owner	289,719	289,719
Dr. Ding Xiaojiang	Beneficial owner	303,515	303,515
Mr. Huang Xingke	Beneficial owner	179,349	179,349
Mr. Wan Junchu	Beneficial owner	96,573	96,573
Mr. Zhang Xiaoming	Beneficial owner	96,573	96,573
Mr. Fu Xiaosi	Beneficial owner	96,573	96,573
		1,365,817	1,365,817

Other than as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporation as at 31 December 2010.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a Director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors has interests in any business (including any interests acquired after listing) which directly or indirectly competes, or is likely to compete with the business of the Group.

CONTINUING CONNECTION TRANSACTIONS

On 19 June 2009, the Company and Foshan Nahai Lishui Zhongya Restaurant (the "Restaurant"), a restaurant controlled by Mr. Li Xinghao who is a connected person of the Company under the Listing Rules, entered into an agreement to provide restaurant services to the Group. During the year, the Group paid messing expenses to the Restaurant. The transaction is regarded as continuing connected transaction under Rule 14A.33(3) of the Listing Rules which is exempted from the reporting, announcement and independent shareholders' approval requirements, certain details of which are disclosed in compliance with the requirements of chapter 14A of the listing Rules. Particulars of the transaction are disclosed in note 35 to the consolidated financial statements.

Save as disclosed above, there was no other connected transaction and/or continuing connected transaction during the year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted by the written resolution of the shareholders on 19 June 2009. Particulars of the Company's share option scheme are set out in note 30 to the consolidated financial statements.

The following table discloses movements in the Company's share options and the underlying shares during the year:

	Exercise period	Exercise Price (HKD)	Underlying shares exercisable under the share options: Outstanding at beginning of the year	Adjusted during the year	Exercised during the year	Lapsed during the year	Reclassified during the year	Outstanding at end of the year
Category 1: Directors								
Li Xinghao	2010.11.17 – 2012.11.16	3.01	220,000	83,515	–	–	–	303,515
Lei Jianghang	2010.11.17 – 2012.11.16	3.01	210,000	79,719	–	–	–	289,719
Huang Guoshen	2010.11.17 – 2012.11.16	3.01	180,000	–	–	–	(180,000)	–
Ding Xiaojiang	2010.11.17 – 2012.11.16	3.01	220,000	83,515	–	–	–	303,515
Huang Xingke	2010.11.17 – 2012.11.16	3.01	–	49,349	–	–	130,000	179,349
Wan Junchu	2010.11.17 – 2012.11.16	3.01	70,000	26,573	–	–	–	96,573
Zhang Xiaoming	2010.11.17 – 2012.11.16	3.01	70,000	26,573	–	–	–	96,573
Fu Xiaosi	2010.11.17 – 2012.11.16	3.01	70,000	26,573	–	–	–	96,573
			1,040,000	375,817	–	–	(50,000)	1,365,817
Category 2: Employees								
568 employees	2010.11.17 – 2012.11.16	3.01	48,940,000	18,323,766	(20,134,000)	(1,978,310)	50,000	45,201,456
Category 3: Customers								
5 customers	2010.11.17 – 2012.11.16	3.01	20,000	7,590	–	–	–	27,590
Total			50,000,000	18,707,173	(20,134,000)	(1,978,310)	–	46,594,863

The initial exercise price of the share options was HKD4.152 per share. After the completion of the open offer on 10 November 2010, the exercise price of the share options was adjusted to HKD3.01 per share accordingly.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

LONG POSITION IN THE ORDINARY SHARES OF HKD0.01 EACH OF THE COMPANY

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of shareholding
Chigo Group Holding Limited	Beneficial owner	444,010,021	56.46

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2010.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the Independent Non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emolument of the Directors are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 30 to the consolidated financial statements.

PENSION SCHEMES

The pension schemes of the Group are primary in form of contributions to Hong Kong's Mandatory Provident Funds and the China statutory public welfare fund.

Details of the Group's pension scheme are set out in note 34 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

TAX RELIEF FOR SHAREHOLDERS

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holding of the shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float during the year ended 31 December 2010 and the date of this report.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company during the year ended 31 December 2010.

FIXED ASSETS

Details of the movement in fixed assets during the year are set out in notes 14 and 15 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately RMB12,170,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

During the year, the Group's purchases attributable to the five largest suppliers combined and the largest supplier accounted for less than 30% of the Group's total purchases for the year.

EVENTS AFTER THE END OF THE REPORTING PERIOD

There refer to note 37 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Wednesday, 11 May 2011 to Friday, 13 May 2011 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting and the entitlement of the aforementioned proposed final dividend, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 9 May 2011.

AUDITOR

The consolidated financial statements for the two years ended 31 December 2009 and 2010 have been audited by the external auditor of the Company, Deloitte Touche Tohmatsu.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Boardrooms 3 & 4, Mezzanine Floor, Renaissance Harbour View Hotel, Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 13 May 2011 at 10:30 a.m.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners, bankers and auditors for their support to the Group throughout the period.

On behalf of the Board
Li Xinghao
Chairman

Foshan, 18 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHIGO HOLDING LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Chigo Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 105, which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statement that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the Group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	**2010** **RMB'000**	2009 RMB'000
Turnover		**8,467,723**	6,005,495
Cost of goods sold		**(7,790,692)**	(5,125,307)
Gross profit		**677,031**	880,188
Government subsidies for high energy-saving products	*8*	**809,237**	233,640
Other income		**42,167**	39,457
Selling and distribution costs			
– equity-settled share based payments		**(36,103)**	(1,280)
– other selling and distribution costs		**(667,883)**	(515,632)
Administrative expenses			
– equity-settled share based payments		**(68,362)**	(4,768)
– other administrative expenses		**(229,944)**	(172,275)
Research and development costs		**(61,756)**	(47,780)
Other expenses		**(12,170)**	(16,993)
Other gains and losses		**(14,151)**	(5,684)
Net gain in fair value changes of derivative financial instruments		**28,592**	24,509
Loss in fair value changes of warrants		**(40,504)**	–
Interest on bank borrowings wholly repayable within five years		**(112,596)**	(70,852)
Profit before taxation	*9*	**313,558**	342,530
Taxation	*11*	**(3,705)**	(27,751)
Profit for the year and total comprehensive income for the year		**309,853**	314,779
			(Restated)
Earnings per share	*13*		
– Basic		**5.65 cents**	6.75 cents
– Diluted		**5.49 cents**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	14	**507,430**	396,271
Land use rights	15	**236,377**	82,803
Intangible assets	16	**2,199**	2,455
Prepaid lease payments	17	**133,391**	123,012
Deposits made on acquisition of property, plant and equipment		**73,293**	19,404
Deferred tax assets	18	**11,219**	10,340
		963,909	634,285
Current assets			
Inventories	19	**2,823,809**	1,686,050
Trade and other receivables	20	**2,379,975**	1,697,527
Land use rights	15	**5,525**	1,852
Prepaid lease payments	17	**6,457**	5,976
Taxation recoverable		**8,202**	8,202
Derivative financial instruments	21	**22,887**	3,844
Pledged bank deposits	22	**951,490**	1,095,160
Bank balances and cash	22	**495,439**	432,794
		6,693,784	4,931,405
Current liabilities			
Trade and other payables	23	**3,695,474**	2,638,879
Warranty provision	24	**36,598**	34,255
Taxation payable		**77,458**	78,455
Derivative financial instruments	21	**3,190**	12,229
Borrowings related to bills discounted with recourse	25	**72,272**	–
Short-term bank loans	26	**1,192,731**	880,436
		5,077,723	3,644,254
Net current assets		**1,616,061**	1,287,151
Total assets less current liabilities		**2,579,970**	1,921,436
Non-current liabilities			
Warrants	27	**44,670**	–
Government grants	28	**64,698**	61,866
Deferred tax liabilities	18	**18,594**	13,626
		127,962	75,492
Net assets		**2,452,008**	1,845,944

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	**2010** **RMB'000**	2009 RMB'000
Capital and reserves			
Share capital	*29*	**6,881**	4,503
Reserves		**2,445,127**	1,841,441
Total equity		**2,452,008**	1,845,944

The consolidated financial statements on pages 50 to 105 were approved and authorised for issue by the Board of Directors on 18 March 2011 and are signed on its behalf by:

LI XINGHAO
CHAIRMAN
AND
CHIEF EXECUTIVE OFFICER

LEI JIANGHANG
VICE CHAIRMAN
AND
EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital	Share premium	Special reserve	Share compensation reserve	Share options reserve	Statutory surplus reserve fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000 *(Note a)*	RMB'000 *(Note b)*	RMB'000	RMB'000 *(Note c)*	RMB'000	RMB'000
At 1 January 2009	1	230,084	(26,408)	1,967	–	112,419	1,060,338	1,378,401
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	314,779	314,779
Capitalisation issue	3,767	(3,767)	–	–	–	–	–	–
Issue of shares	735	166,093	–	–	–	–	–	166,828
Expenses incurred in connection with the issue of shares	–	(20,112)	–	–	–	–	–	(20,112)
Recognition of equity-settled share based payments	–	–	–	–	6,048	–	–	6,048
Transfers	–	–	–	–	–	28,720	(28,720)	–
	4,502	142,214	–	–	6,048	28,720	286,059	467,543
At 31 December 2009	4,503	372,298	(26,408)	1,967	6,048	141,139	1,346,397	1,845,944
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	309,853	309,853
Issue of shares	2,378	295,424	–	–	(25,230)	–	–	272,572
Expenses incurred in connection with the issue of shares	–	(2,317)	–	–	–	–	–	(2,317)
Recognition of equity-settled share based payments	–	–	–	61,568	42,897	–	–	104,465
Share options lapsed	–	–	–	–	(2,714)	–	2,714	–
Dividends	–	–	–	–	–	–	(78,509)	(78,509)
Transfers	–	–	–	–	–	45,166	(45,166)	–
	2,378	293,107	–	61,568	14,953	45,166	188,892	606,064
At 31 December 2010	6,881	665,405	(26,408)	63,535	21,001	186,305	1,535,289	2,452,008

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

Notes:

(a) Special reserve represents the difference between the consideration paid for the acquisition of the entire interest in 廣東志高空調有限公司 (Guangdong Chigo Air-Conditioning Co., Ltd.) ("Guangdong Chigo") and the then paid-in capital of Guangdong Chigo upon group reorganisation in 2006.

(b) **Share compensation reserve represents**

For prior year:

– the difference of fair value of certain shares of 廣東志高空調股份有限公司 (Guangdong Chigo Air-Conditioning Joint Stock Co., Ltd.), the predecessor of Guangdong Chigo, transferred to the Group's certain employees by the shareholders, Messrs. Li Xinghao and Li Longyi and the consideration paid by the employees in obtaining those shares; and

During the current year:

– the fair value of shares of the Company given by the Company's controlling shareholder, Mr. Li Xinghao, at nil consideration, to the Group's employees and to certain customers of the Group, as reward for their past services and loyalty to the Group (see note 30).

(c) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiary of the Company 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 the PRC subsidiary and the allocation basis are decided by its Board of Directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied for conversion into capital by means of capitalisation issue.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Operating activities		
Profit before taxation	**313,558**	342,530
Adjustments for:		
Interest income	**(18,488)**	(23,304)
Interest expenses	**112,596**	70,852
Depreciation of property, plant and equipment	**87,115**	62,329
Amortisation of intangible assets	**366**	357
Amortisation of government grants	**(1,768)**	(1,308)
Amortisation of land use rights	**5,525**	1,852
Release of prepaid lease payments	**6,069**	3,682
Write-off/loss on disposal of property, plant and equipment	**3,746**	7,216
Net gain in fair value changes of derivative financial instruments	**(28,592)**	(24,509)
Loss in fair value changes of warrants	**40,504**	–
Provision for warranty	**22,282**	17,709
Allowance for inventories	**19,502**	19,061
Allowance for doubtful debts	**3,364**	2,208
Recovery of doubtful debts	**(2,325)**	(3,752)
Equity-settled share based payments	**104,465**	6,048
Operating cash flows before movements in working capital	**667,919**	480,971
Increase in inventories	**(1,157,261)**	(282,273)
Increase in trade and other receivables	**(683,487)**	(196,864)
Change in derivative financial instruments	**510**	(45,992)
Increase in trade and other payables	**1,056,499**	606,961
Decrease in warranty provision	**(19,939)**	(18,756)
Cash (used in) from operations	**(135,759)**	544,047
Taxation paid	**(613)**	(9,307)
Net cash (used in) from operating activities	**(136,372)**	534,740
Investing activities		
Interest received	**18,488**	23,304
Purchase of property, plant and equipment	**(211,731)**	(85,969)
Proceeds from disposal of property, plant and equipment	**27,018**	15
Purchase of land use rights	**(162,772)**	(568)
Purchase of intangible assets	**(110)**	–
Prepaid lease payments made	**(16,929)**	(28,839)
Deposits paid on acquisition of property, plant and equipment	**(71,196)**	(16,114)
Government grants received	**4,600**	–
Decrease (increase) in pledged bank deposits	**143,670**	(89,093)
Net cash used in investing activities	**(268,962)**	(197,264)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Financing activities		
Interest paid	**(112,596)**	(70,852)
Dividends paid	**(78,413)**	–
Proceeds from issue of shares	**272,572**	166,828
Expenses incurred in connection with the issue of shares	**(2,317)**	(20,112)
Proceeds from issue of warrants	**4,166**	–
Repayment to ultimate holding company	**–**	(28,250)
Repayment to a director	**–**	(15,580)
Borrowings from bills discounted with recourse	**9,783,135**	1,682,395
Repayment of borrowings related to bills discounted with recourse	**(9,710,863)**	(1,682,395)
Bank loans raised	**1,452,730**	925,436
Repayment of bank loans	**(1,140,435)**	(1,122,986)
Net cash from (used in) financing activities	**467,979**	(165,516)
Net increase in cash and cash equivalents	**62,645**	171,960
Cash and cash equivalents at 1 January	**432,794**	260,834
Cash and cash equivalents at 31 December	**495,439**	432,794
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**495,439**	432,794

1. GENERAL

The Company was incorporated and registered as an exempted company in the Cayman Islands and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report. Its immediate and ultimate holding company is Chigo Group Holding Limited, a company which is incorporated in the British Virgin Islands.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied a number of new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants that are mandatorily effective for 2010 financial year ends. In addition, the Group has early adopted HKAS 32 (Amendment) Classification of Rights Issues, which is effective for annual periods beginning on or after 1 February 2010, with early adoption permitted.

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

AMENDMENT TO HKAS 17 "LEASES"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as land use rights in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The application of the amendment HKAS 17 has had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 32 (AMENDMENT) CLASSIFICATION OF RIGHTS ISSUES

HKAS 32 (Amendment) requires that rights issues, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights issues, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Company has early adopted the amendment and the offer of rights by the Company to its shareholders on 12 November 2010 was then accounted for as an equity instrument, as required by the amendment, in the financial statements of the Group and the Company. The early adoption of this amendment has had no material impact on the reported results, basic and diluted earnings per share and the financial position of the Group.

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

HKAS 32 (AMENDMENT) CLASSIFICATION OF RIGHTS ISSUES *(Continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (as revised in 2009)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

HKAS 32 (AMENDMENT) CLASSIFICATION OF RIGHTS ISSUES *(Continued)*

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. Based on the Group's financial assets and financial liabilities as at 31 December 2010, the application of the new standard will have no significant impact on consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values. The consolidated financial statements have also been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principle accounting policies adopted are as follows:

BASIS OF CONSOLIDATION

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

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

REVENUE RECOGNITION

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

Revenue from the sales of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

Depreciation is 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

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Patents

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.

INVENTORIES

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

FINANCIAL INSTRUMENTS

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

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 on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Financial assets at FVTPL

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Impairment of financial assets

Loans and receivables, are assessed for indicators of impairment at the end of the reporting period. 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 estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-orgainsation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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 days to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified 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 FVTPL

A financial liability is classified as held for trading if:

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

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Warrants

Warrants that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument are accounted as derivatives.

The warrants are initially recognised at fair value and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities including borrowings related to bills discounted with recourse, bank loans and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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 in its entirety, 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 in other comprehensive income if any 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

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

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 best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows where the effect is material.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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. 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 associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

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

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Shares granted to employees and customers by shareholder

The fair value of employees' past services and customer loyalty are determined by reference to the fair value of shares granted at the grant date, these shares' vested immediately at the date of grant without any vesting conditions. The fair values of shares are recognised as expenses with a corresponding increase in equity (share compensation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASES

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

The Group as lessee

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

LEASEHOLD LAND AND BUILDING

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each elements have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases are presented as "land use rights" in the statement of financial position.

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

GOVERNMENT GRANTS AND SUBSIDIES

Government grants and subsidies are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants and subsidies related to depreciable assets are recognised as deferred income in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants and subsidies are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants and subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are reported separately as "other income".

RETIREMENT BENEFITS COSTS

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies detailed in note 3, management has made the following estimation that have significant effect on the amounts recognised in the financial statements. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

WARRANTY OBLIGATION

The Group provides free repairing services for its products and free replacement of the major components of its products for 3 to 6 years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation. The costs are estimated by the management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results. When a material defect is subsequently tested and identified, further warranty provision may arise. As at 31 December 2010, the carrying amount of warranty provision is RMB36,598,000 (2009: RMB34,255,000). Details of the movements are disclosed in note 24.

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of trade receivables is RMB1,370,952,000, net of allowance for doubtful debts of RMB3,364,000 (2009: RMB1,114,753,000, net of allowance for doubtful debts of RMB2,325,000).

FAIR VALUE OF WARRANTS

The directors of the Company use their judgement in selecting an appropriate valuation technique to determine fair value of the warrants which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these warrants are determined at the end of the reporting period with movement in fair value recognised in profit or loss. In estimating the fair value of these warrants, the Group uses independent valuation which is based on various inputs and estimates (see note 27). If the inputs and estimates applied in the model are different, the carrying amount of these warrants will change. The carrying value of the warrants at 31 December 2010 was RMB44,670,000 (2009: Nil).

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of bank loans, net of pledged bank deposits and bank balances and cash and equity attributable to owners of the Company, comprising share capital, reserves and retained profits as disclosed in the consolidated financial statements.

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

CATEGORIES OF FINANCIAL INSTRUMENTS

	2010 **RMB'000**	2009 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,731,682**	3,213,844
Fair value through profit or loss – held for trading	**22,887**	3,844
	3,754,569	3,217,688
Financial liabilities		
Amortised cost	**4,455,674**	3,164,760
Fair value through profit or loss		
– held for trading	**3,190**	12,229
– warrants	**44,670**	–
	4,503,534	3,179,989

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, derivative financial instruments, borrowings related to bills discounted with recourse, short-term bank loans and warrants. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

CREDIT RISK

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits and bank balances is limited as such amounts are placed in banks with good reputation.

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

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

MARKET RISK

Foreign currency risk

The Group has certain transactions that denominated in foreign currencies, hence exposures to foreign currency risk. Approximately 39% (2009: 38%) 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 that denominated in foreign currencies which have exposed the Group to foreign currency risk. The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are disclosed in respective notes. During the years ended 31 December 2009 and 31 December 2010, the Group has entered into certain foreign currency contracts. The management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Foreign currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2010		2009	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
United States dollars ("USD")	**694,194**	**86,100**	496,606	50,958
Hong Kong dollars ("HKD")	**100,825**	**26,381**	27,355	–
Euro	**7,114**	**–**	7,951	–

The Group mainly exposes to currency of USD, HKD and Euro. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, including the trade and other receivables, pledged bank deposits, bank balances 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.

	2010	2009
	RMB'000	RMB'000
USD	**(30,405)**	(27,378)
HKD	**(3,722)**	(1,368)
Euro	**(356)**	(398)

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

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing pledged bank deposits 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk management (Continued)

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing pledged bank deposits and bank balances and assumed that the amount of assets outstanding at the end of the reporting period were outstanding for the whole year.

If interest rates on pledged bank deposits and bank balances had been 30 basis points higher and all other variables were held constant, the potential effect on profit for the year is as follows:

	2010	2009
	RMB'000	RMB'000
Increase in profit for the year	**4,341**	4,583

There will be an equal and opposite impact on the profit for the year where there had been 30 basis points lower.

Other price risk

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

The sensitivity analysis includes the outstanding foreign currency contracts as at 31 December 2010 and adjust at the year end for a 5% (2009: 5%) change in foreign currency rates if applicable, holding other variables constant.

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

	2010	2009
	RMB'000	RMB'000
USD forward rate	**(55,861)**	(17,024)

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

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

The Group was exposed to equity price risk arising from the warrants. The fair values of the warrants were calculated using the Binomial Option Pricing Model. Details of these derivative financial instruments are set out in note 27.

The sensitivity analysis includes the outstanding number of warrants as at 31 December 2010 and adjust as at 31 December 2010 a higher/lower in share price, holding other variables constant.

If the input of share price to the valuation models of the warrants had been 5% higher/lower while all other variables were held constant, the profit for the year would (decrease) increase as follows:

	2010 **RMB'000**	2009 RMB'000
Higher by 5%	**(3,993)**	–
Lower by 5%	**3,941**	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the warrants which involves multiple variables are interdependent.

LIQUIDITY RISK MANAGEMENT

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

The following tables detail the remaining contractual maturity for the non-derivative financial liabilities, copper forward contract with net settlement and foreign currency contracts with gross settlement of the Group. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the agreed repayment terms. The tables include both interest and principal cash flows.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

For warrants, undiscounted gross inflows are not presented since the Group is unable to estimate the ultimate timing and amount of subscription money of the warrants. There are no cash outflows for the warrants.

	Weighted average interest rate	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
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
As at 31 December 2010						
Trade and other payables	–	1,459,772	1,730,899	–	3,190,671	3,190,671
Borrowings related to bills discounted with recourse	–	72,272	–	–	72,272	72,272
Short-term bank loans	4.83	887,081	212,001	105,647	1,204,729	1,192,731
		2,419,125	1,942,900	105,647	4,467,672	4,455,674
Foreign currency contracts liabilities – gross settlement						
At 31 December 2010						
Foreign currency contracts						
– inflows		–	–	(68,182)	(68,182)	(66,610)
– outflows		–	–	68,187	68,187	66,614
		–	–	5	5	4
Foreign currency contracts liabilities – net settlement						
At 31 December 2010						
Foreign currency contracts		2,387	815	–	3,202	3,186
Foreign currency contracts assets – gross settlement						
At 31 December 2010						
Foreign currency contracts						
– inflows		(346,523)	(532,368)	(621,520)	(1,500,411)	(1,480,100)
– outflows		339,347	523,160	614,803	1,477,310	1,457,213
		(7,176)	(9,208)	(6,717)	(23,101)	(22,887)

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

	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
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
As at 31 December 2009						
Trade and other payables	–	1,458,884	825,440	–	2,284,324	2,284,324
Short-term bank loans	4.85	235,762	210,729	456,781	903,272	880,436
		1,694,646	1,036,169	456,781	3,187,596	3,164,760
Foreign currency contracts liabilities – gross settlement						
At 31 December 2009						
Foreign currency contracts						
– inflows		(40,869)	(561,146)	(107,458)	(709,473)	(706,195)
– outflows		40,922	572,316	108,523	721,761	718,412
		53	11,170	1,065	12,288	12,217
Foreign currency contracts assets – gross settlement						
At 31 December 2009						
Foreign currency contracts						
– inflows		(40,919)	(231,418)	(107,376)	(379,713)	(374,116)
– outflows		40,490	229,161	106,208	375,859	370,272
		(429)	(2,257)	(1,168)	(3,854)	(3,844)
Copper forward contracts liabilities – net settlements						
At 31 December 2009						
Copper forward contracts		12	–	–	12	12

6. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities (excluding derivative financial instruments and warrants) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair value of foreign currency contracts is estimated using forward pricing model and option pricing model based on forward exchange rates from observable current market transaction as input. The fair value of copper swap contract was measured by reference to the current market price provided by counterparty institutions for these instruments.

The fair value of warrants is estimated based on various inputs and estimates including data not observable from market.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the reporting date.

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION *(Continued)*

	At 31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Derivative financial assets				
– foreign currency contracts	–	22,887	–	22,887
Financial liabilities at FVTPL				
Derivative financial liabilities				
– foreign currency contracts	–	3,190	–	3,190
– warrants	–	–	44,670	44,670
	–	3,190	44,670	47,860

	At 31 December 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Derivative financial assets				
– foreign currency contracts	–	3,844	–	3,844
Financial liabilities at FVTPL				
Derivative financial liabilities				
– foreign currency contracts	–	12,217	–	12,217
– copper forward contracts	12	–	–	12
	12	12,217	–	12,229

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

Reconciliation of Level 3 fair value measurement of warrants:

	Warrants
	RMB'000
At 1 January 2009 and 31 December 2009	–
On issue of warrants	4,166
Loss in fair value changes	40,504
At 31 December 2010	44,670

7. SEGMENT INFORMATION

Segment information has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), the Board of Directors, for the purpose of allocating resources to segments and assessing their performance. The Group's operating segments under HKFRS 8 are based on the revenue and result by geographical location. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

SEGMENT REVENUES AND RESULTS

The following is an analysis of the Group's revenue and results by operating and reportable segments for the year.

	Turnover		Results	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China (the "PRC")	**5,148,804**	3,720,303	**1,232,184**	764,390
Asia (excluding PRC)	**1,489,651**	1,025,755	**114,042**	168,368
Americas	**1,105,438**	677,437	**119,628**	86,092
Africa	**329,396**	325,411	**8,217**	58,934
Europe	**356,219**	227,654	**4,272**	29,331
Oceania	**38,215**	28,935	**7,925**	6,713
	8,467,723	6,005,495	**1,486,268**	1,113,828
Unallocated other income			**42,167**	39,457
Unallocated expenses			**(706,869)**	(555,018)
Staff costs included in selling and distribution costs and administrative expenses			**(367,966)**	(205,785)
Charitable donations			**(12,170)**	(1,401)
Allowance for doubtful debts			**(3,364)**	(2,208)
Net gain in fair value changes of derivative financial instruments			**28,592**	24,509
Loss in fair value changes of warrants			**(40,504)**	–
Finance costs			**(112,596)**	(70,852)
Profit before taxation			**313,558**	342,530

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

Segment results represent the gross profits and government subsidies for high energy-saving products by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

7. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION

Geographical information

The Group's operations are located in PRC (country of domicile).

The Group's revenue from external customers and information about its non-current assets other than deferred tax assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**5,148,804**	3,720,303	**952,690**	623,945
Asia (excluding PRC)	**1,489,651**	1,025,755	**–**	–
Americas	**1,105,438**	677,437	**–**	–
Africa	**329,396**	325,411	**–**	–
Europe	**356,219**	227,654	**–**	–
Oceania	**38,215**	28,935	**–**	–
	8,467,723	6,005,495	**952,690**	623,945

The management considered that the cost to develop the revenue by individual countries other than PRC and Americas are excessive and revenues other than "PRC" and "Americas" above attributed to each individual country are not material.

Revenue from major products

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

	2010	2009
	RMB'000	RMB'000
Residential air-conditioners		
– split type	**6,750,703**	4,620,306
– window type	**238,646**	264,924
– portable type	**40,721**	30,225
	7,030,070	4,915,455
Commercial air-conditioners	**472,080**	417,722
Air-conditioners' parts and components	**420,139**	402,842
Others	**545,434**	269,476
	8,467,723	6,005,495

7. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION *(Continued)*

Information about major customers

For the year ended 31 December 2010, revenue from one of the Group's customers included in PRC operating segment amounting to RMB872,562,000 accounted for over 10% of the Group's total revenue.

For the year ended 31 December 2009, revenue from two customers of the Group included in PRC operating segment amounting to RMB662,357,000 and RMB645,217,000 had individually accounted for over 10% of the Group's total revenue.

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

The goods sold to various geographical market were principally produced from the same production facilities situated in the PRC. Moreover, all of the Group's assets and liabilities at 31 December 2010 and 31 December 2009 were located in the PRC.

8. GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

In order to promote the high energy-saving products, the PRC government announced the "Promotion of energy efficient appliances scheme" (the "Energy-Saving Scheme") on 18 May 2009. Under the Energy-Saving Scheme, manufacturing entities are eligible for government subsidies on their manufactured high energy-saving electrical products upon reporting of its sales to the PRC government authority.

During the year, the Group was entitled to government subsidies of RMB809,237,000 (2009: RMB233,640,000) in respect of high energy-saving products.

9. PROFIT BEFORE TAXATION

	2010 **RMB'000**	2009 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 10)*	**2,528**	1,628
Other staff's retirement benefits scheme contributions	**20,103**	16,343
Other staff's equity-settled share based payments	**77,095**	5,920
Other staff costs	**564,911**	386,467
	664,637	410,358
Less: Staff costs included in research and development costs	**(44,311)**	(34,417)
	620,326	375,941
Allowance for doubtful debts included in other gains and losses	**3,364**	2,208
Allowance for inventories included in cost of goods sold	**19,502**	19,061
Amortisation of intangible assets included in administrative expenses	**366**	357
Auditor's remuneration	**2,090**	2,009
Cost of inventories recognised as an expense	**7,748,908**	5,088,537
Depreciation of property, plant and equipment	**87,115**	62,329
Net exchange losses included in other gains and losses	**13,112**	7,228
Operating lease rentals in respect of		
– land use rights	**5,525**	1,852
– rented premises	**12,686**	4,451
Provision for warranty included in cost of goods sold	**22,282**	17,709
Release of prepaid lease payments	**6,069**	3,682
Share-based payments to certain customers of the Group	**26,453**	2
Write-off/loss on disposal of property, plant and equipment	**3,746**	7,216
and after crediting:		
Amortisation of government grants	**1,768**	1,308
Government subsidies included in other income*	**6,995**	6,205
Interest income	**18,488**	23,304
Recovery of doubtful debts included in other gains and losses	**2,325**	3,752

* 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.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2010					2009				
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000
Executive directors										
– Mr. Li Xinghao	–	360	4	172	536	–	504	3	27	534
– Mr. Lei Jianghang	–	311	3	165	479	–	300	2	26	328
– Mr. Huang Guoshen	–	167	2	141	310	–	250	2	22	274
– Mr. Huang Xingke	–	84	2	102	188	–	–	–	–	–
– Dr. Ding Xiaojiang	–	314	3	172	490	–	289	2	27	318
Independent non-executive directors										
– Mr. Wan Junchu	120	–	–	55	175	50	–	–	8	58
– Mr. Zhang Xiaoming	120	–	–	55	175	50	–	–	8	58
– Mr. Fu Xiaosi	120	–	–	55	175	50	–	–	8	58
	360	1,236	14	917	2,528	150	1,343	9	126	1,628

The five highest paid individuals included two (2009: three) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2009: two) highest paid employees are as follows:

	2010 RMB'000	2009 RMB'000
Employee		
– basic salaries and allowances	2,030	1,432
– retirement benefits scheme contributions	3	2
– equity-settled share based payments	573	131
	2,606	1,565

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

Their emoluments were within the following bands:

	Number of employees	
	2010	2009
Up to HKD1,000,000	**2**	1
HKD1,000,001 to HKD1,500,000	**1**	1

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

11. TAXATION

	2010	2009
	RMB'000	RMB'000
The charge comprises:		
PRC withholding tax	**(7,952)**	–
PRC income tax		
– current year	**–**	(17,539)
– overprovision in prior year	**8,336**	–
Deferred taxation	**(4,089)**	(10,212)
	(3,705)	(27,751)

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. No provision for PRC income tax has been made in the financial statements in 2010 as the PRC subsidiary had no assessable profit for the year. In addition, the income tax rate for both domestic and foreign investment enterprise was unified at 25% effective from 1 January 2008 (Order of the President [2007] No. 63).

Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiary of the Group is entitled to exemption from PRC income tax for the two years commencing from its first profit making year of operation and thereafter, this PRC subsidiary will be entitled to a 50% relief from PRC income tax for the following three years. The first profit making year selected by the PRC subsidiary is the calendar year of 2007. Currently, the PRC subsidiary is entitled to 50% relief from PRC income tax.

11. TAXATION *(Continued)*

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

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's Hong Kong operations had no assessable profit for the year.

The charge for the year is reconciled to profit before taxation as follows:

	2010		2009	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**313,558**		342,530	
Tax at the applicable income tax rate	**(78,390)**	**(25.0)**	(85,633)	(25.0)
Effect of expenses not deductible for tax purposes	**(49,941)**	**(15.9)**	(14,547)	(4.3)
Effect of income not taxable for tax purposes	**212,105**	**67.6**	65,865	19.2
Tax effect of tax losses not recognised	**(82,895)**	**(26.5)**	–	–
Tax effect of tax exemption	**–**	**–**	17,195	5.1
PRC withholding tax on undistributed earnings	**(12,920)**	**(4.1)**	(10,631)	(3.1)
Overprovision in prior year	**8,336**	**2.7**	–	–
Tax charge and effective tax rate for the year	**(3,705)**	**(1.2)**	(27,751)	(8.1)

12. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividends recognises as distributions during the year		
– 2009 final dividend of HK12.5 cents (equivalent to RMB11.0 cents) per share paid	**56,196**	–
– 2010 interim dividend of HK5.0 cents (equivalent to RMB4.37 cents) per share	**22,313**	–
	78,509	–
Final dividend proposed	**66,367**	56,196

The final dividend of HK1.00 cents (equivalent to RMB0.84 cents) per share which was proposed by the directors of the Company for the year is subject to approval by the shareholders of the Company in the annual general meeting and are calculated on the basis of 7,884,524,000 shares in issue as at the date of this report.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

EARNINGS

	2010 RMB'000	2009 RMB'000
Earnings for the purpose of basic and diluted earnings per share	**309,853**	314,779

NUMBER OF SHARES

	2010 '000	2009 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share on the assumption that the capitalisation issue in 2009 has been effective on 1 January 2009	**5,480,577**	4,661,034
Effect of dilutive potential ordinary shares on		
– share options	**135,001**	–
– warrants	**25,100**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,640,678**	–

13. EARNINGS PER SHARE *(Continued)*

The weighted average number of ordinary shares for both 2010 and 2009 have been adjusted for the effect of bonus issue on 4 January 2011 (note 37).

The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares during the year ended 31 December 2009.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2009	64,957	50,655	28,190	353,530	50,083	547,415
Additions	55	5,758	1,866	67,319	18,238	93,236
Write-off/disposals	–	(901)	(318)	(19,079)	–	(20,298)
Transfers	37,983	132	–	5,916	(44,031)	–
At 31 December 2009	102,995	55,644	29,738	407,686	24,290	620,353
Additions	4,931	33,596	7,976	107,826	74,907	229,038
Write-off/disposals	–	(10,621)	(2,611)	(76,279)	–	(89,511)
Transfers	32,765	1,117	115	3,736	(37,733)	–
At 31 December 2010	140,691	79,736	35,218	442,969	61,266	759,880
DEPRECIATION						
At 1 January 2009	6,717	32,143	12,700	123,260	–	174,820
Provided for the year	2,847	8,123	2,697	48,662	–	62,329
Eliminated on write-off/disposals	–	(836)	(240)	(11,991)	–	(13,067)
At 31 December 2009	9,564	39,430	15,157	159,931	–	224,082
Provided for the year	2,609	19,114	3,423	61,969	–	87,115
Eliminated on write-off/ disposals	–	(9,240)	(1,755)	(47,752)	–	(58,747)
At 31 December 2010	12,173	49,304	16,825	174,148	–	252,450
CARRYING VALUES						
At 31 December 2010	128,518	30,432	18,393	268,821	61,266	507,430
At 31 December 2009	93,431	16,214	14,581	247,755	24,290	396,271

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

15. LAND USE RIGHTS

	2010	2009
	RMB'000	RMB'000
CARRYING VALUE		
At 1 January	**84,655**	85,939
Additions	**162,772**	568
Released to profit or loss	**(5,525)**	(1,852)
At 31 December	**241,902**	84,655
Analysed for reporting purposes as		
– non-current assets	**236,377**	82,803
– current assets	**5,525**	1,852
	241,902	84,655

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

	2010	2009
	RMB'000	RMB'000
CARRYING VALUE		
At 1 January	**2,455**	2,812
Additions	**110**	–
Charged to profit or loss	**(366)**	(357)
At 31 December	**2,199**	2,455

Included in intangible assets are patents and trademarks in which patents represent the exclusive rights in connection with certain product design. The cost of patents and trademarks has been amortised on a straight line basis over its estimated useful life of 10 years.

17. PREPAID LEASE PAYMENTS

The balance represents prepayment of rentals for medium-term land and buildings situated in PRC for a period of 20 years under operating leases.

18. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Accelerated accounting depreciation RMB'000	Warranty provision RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2009	1,095	8,826	(2,995)	6,926
Credited (charged) to profit or loss	681	(262)	(10,631)	(10,212)
At 31 December 2009	1,776	8,564	(13,626)	(3,286)
Credited (charged) to profit or loss	293	586	(12,920)	(12,041)
PRC withholding tax paid	–	–	7,952	7,952
At 31 December 2010	2,069	9,150	(18,594)	(7,375)

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

	2010 RMB'000	2009 RMB'000
Deferred tax assets	**11,219**	10,340
Deferred tax liabilities	**(18,594)**	(13,626)
	(7,375)	(3,286)

At 31 December 2010, the Group has unrecognised deferred tax liability of RMB55,817,400 (2009: RMB31,794,000) in relation to PRC withholding tax on undistributed earnings of RMB558,174,000 (2009: RMB317,940,000) due to the retention of undistributed earnings by the subsidiary in the PRC determined by the directors of the Company.

At the end of the reporting period, the Group has unused tax losses of RMB331,580,000 (2009: Nil) available for offset against future profits. No deferred tax asset has been recognised (2009: Nil) due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

19. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**659,948**	478,408
Work in progress	**29,544**	4,628
Finished goods	**2,134,317**	1,203,014
	2,823,809	1,686,050

20. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**1,370,952**	1,114,753
Bills receivables	**788,101**	470,529
	2,159,053	1,585,282
Government subsidies receivables for high energy-saving products	**105,157**	62,196
Deposits paid to suppliers	**17,284**	2,659
Prepayments	**5,666**	8,978
Advances to staff	**24,316**	17,573
Value-added tax recoverable	**63,027**	16,161
Other receivables	**5,472**	4,678
	2,379,975	1,697,527

At the end of the reporting date, bills receivables outstanding amounted to RMB72,272,000 (2009: Nil) have been discounted to certain banks. The Group continues to present the discounted bills as bills receivables until maturity.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Payment terms with customers are mainly on credit. Invoices are normally payable from 30 days to 180 days (2009: 30 days to 90 days) from date of issuance, while invoices to long-established customers are normally payable within 210 days (2009: 270 days). The following is an aged analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period.

	2010	2009
	RMB'000	RMB'000
Age		
0 – 30 days	**856,720**	546,877
31 – 60 days	**435,177**	278,927
61 – 90 days	**346,364**	326,720
91 – 180 days	**507,466**	431,022
181 to 365 days	**13,326**	1,736
	2,159,053	1,585,282

Include in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB2,528,000 (2009: RMB359,282,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date of credit was initially granted.

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

	2010	2009
	RMB'000	RMB'000
Age		
31 – 60 days	**–**	21,013
61 – 90 days	**2**	35,385
91 – 180 days	**698**	301,142
181 – 365 days	**1,828**	1,742
	2,528	359,282

The Group does not hold any collateral over these balances. The average age of these receivables is 62 days (2009: 66 days).

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

20. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

	2010	2009
	RMB'000	RMB'000
At 1 January	**2,325**	3,869
Allowances recognised on receivables	**3,364**	2,208
Amounts recovered during the year	**(2,325)**	(3,752)
At 31 December	**3,364**	2,325

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB3,364,000 (2009: RMB2,325,000) which have been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

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

	2010	2009
	RMB'000	RMB'000
USD	**587,001**	461,009
Euro	**6,125**	7,823

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2010		2009	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Derivatives not under hedge accounting				
– foreign currency contracts	**22,887**	**3,190**	3,844	12,217
– copper forward contract	**–**	**–**	–	12
	22,887	**3,190**	3,844	12,229

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

At 31 December 2010, the Group has the following foreign currency contracts with predetermined maturity dates. Their major terms are as follows:

Notional amount	Maturity	Forward contract rates
11 contracts to sell USD19,500,000 (gross settlement)	From 11 May 2011 to 25 October 2011	USD1/RMB6.5058 to USD1/RMB6.7194
7 contracts to buy USD10,500,000 (gross settlement)	From 13 September 2011 to 25 October 2011	USD1/RMB6.4450 to USD1/RMB6.5920

In addition, at 31 December 2010, the Group has the following foreign currency contracts with predetermined exercisable period. Their major terms are as follows:

Notional amount	Exercisable period	Forward contract rates
81 contracts to sell USD204,700,000 (gross settlement)	From 23 July 2010 to 29 December 2011	USD1/RMB6.5340 to USD1/RMB6.7610
19 contracts to buy USD41,700,000 (net settlement)	From 10 January 2011 to 18 April 2011	USD1/RMB6.6370 to USD1/RMB6.6930

At 31 December 2009, 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
2 contracts to sell USD50,000,000 (gross settlement)	From 30 April 2010 to 25 June 2010	USD1/RMB6.5916 to USD1/RMB6.5923
22 contracts to buy USD41,500,000 (gross settlement)	From 26 March 2010 to 12 November 2010	USD1/RMB6.6100 to USD1/RMB6.7570

In addition, at 31 December 2009, the Group has the following foreign currency contracts with predetermined exercisable period. Their major terms are as follows:

Notional amount	Exercisable period	Forward contract rates
22 contract to sell USD56,000,000 (gross settlement)	From 3 March 2010 to 1 November 2010	USD1/RMB6.7000 to USD1/RMB6.8170

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.

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

	2010	2009
RMB risk-free interest rate	**3.0215%**	1.0065%
USD/RMB market forward rate	**USD1/RMB6.4733 to USD1/RMB6.6003**	USD1/RMB6.6942 to USD1/RMB6.8203

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

	2010	2009
Volatility	**4.2800%**	4.7250%
RMB risk-free interest rate	**3.0215%**	1.0065%
USD risk-free interest rate	**0.2709%**	0.4928%
Spot price for USD foreign currency contracts	**RMB6.6070**	RMB6.8270
USD/RMB market forward rate	**USD1/RMB6.5608 to USD1/RMB6.6075**	USD1/RMB6.7762 to USD1/RMB6.8208

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 interest at the prevailing market interest rate ranging from 0.36% to 2.5% (2009: 0.24% to 3.56%) per annum.

At 31 December 2010, pledged bank deposits represents deposits pledged to banks to secure issuance of bills payables amounting to RMB2,529,720,000 (2009: RMB1,915,045,000) which carry interest at market rates which ranged from 2% to 2.24% (2009: 2.25% to 3%) per annum.

Certain pledged bank deposits and bank balances and cash of RMB1,237,922,000 (2009: RMB1,464,874,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

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

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

	2010 RMB'000 equivalent	2009 RMB'000 equivalent
USD	**107,193**	35,597
HKD	**100,825**	27,355
Euro	**989**	128

23. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**529,254**	275,173
Bills payables	**2,574,729**	1,915,045
	3,103,983	2,190,218
Customers' deposits	**440,738**	344,599
Payroll and welfare payables	**26,400**	13,670
Other tax payables	**18,825**	7,156
Other payables	**105,528**	83,236
	3,695,474	2,638,879

The Group normally receives credit terms of 30 days to 180 days from its suppliers. The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period.

	2010 RMB'000	2009 RMB'000
Age		
0 to 90 days	**1,730,899**	1,435,292
91 to 180 days	**1,353,863**	717,855
181 to 365 days	**17,242**	34,373
1 – 2 years	**1,979**	2,698
	3,103,983	2,190,218

24. WARRANTY PROVISION

	2010 RMB'000	2009 RMB'000
CARRYING VALUE		
At 1 January	**34,255**	35,302
Additional provision for the year	**22,282**	17,709
Utilisation of provision	**(19,939)**	(18,756)
At 31 December	**36,598**	34,255

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

25. BORROWINGS RELATED TO BILLS DISCOUNTED WITH RECOURSE

During the year, bank bills issued by customers and discounted by the Group carry interest at rates ranging from 3.96% to 5.10% (2009: 2.20% to 3.70%) per annum.

26. SHORT-TERM BANK LOANS

	2010 RMB'000	2009 RMB'000
Short-term bank loans		
– secured	**–**	11,608
– unsecured	**517,731**	403,828
– jointly guaranteed by directors and third parties	**325,000**	460,000
– guaranteed by directors	**350,000**	5,000
	1,192,731	880,436

At the end of the reporting period, a director of the Company, Mr. Li Xinghao, has given personal guarantee to certain banks for banking facilities granted to a PRC subsidiary to the extent of RMB1,825,000,000 (2009: RMB1,795,000,000).

Also, at the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB1,105,919,000 (2009: RMB960,596,000).

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

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

	2010	2009
	RMB'000	RMB'000
	equivalent	equivalent
HKD	**26,381**	–
USD	**86,100**	50,958

Average interest rates paid were as follows:

	2010	2009
Bank loans	**4.83%**	4.85%

All the bank loans are fixed rate borrowings, subject to negotiation at renewal or drawndown date and were denominated in RMB and USD at 31 December 2009 and denominated in RMB, HKD and USD at 31 December 2010.

27. WARRANTS

On 2 December 2010, the Company issued 100,000,000 unlisted warrants at a price of HKD0.05 per warrant to six placees, all being independent third parties to the Group and each warrant entitles its holder to subscribe for one ordinary share of HKD0.01 each of the Company ("Subscription Share") at the subscription price of HKD4.95 (the subscription price subsequently adjusted to HKD0.495 per Subscription Share on 4 January 2011 as detailed in note 37) per Subscription Share at any time during the period of two years commencing from the date of issue of the warrants. The proceeds from the issue amounted to HKD5,000,000 (equivalent to RMB4,166,000) represented the fair value of the warrants at the date of issue. The subscription of warrants over a fixed number of shares of the Company but exchanged for a variable amount of cash since the proceeds from subscription of warrants is denominated in HKD but the functional currency of the Company is in RMB. Accordingly, the warrants are recognised as liability and stated at fair value.

At 31 December 2010, the Company had outstanding 100,000,000 warrants to be exercised at any time on or before 2 December 2012, exercise in full of such warrants would result in the issue of approximately 100,000,000 additional ordinary shares of HKD0.01 each.

27. WARRANTS *(Continued)*

At 31 December 2010, the fair value of the outstanding warrants was determined using the Binomial Option Pricing Model and the inputs into the model were as follows:

	2010
Exercise price*	HKD0.495
Share price	HKD1.00
Expected volatility#	42.54%
Remaining life	23 months
Risk free rate	0.64%
Dividend yield	1.27%

* The exercise price has been adjusted for effect of Bonus Issue (see note 37) as the shares have been traded ex-right since 28 December 2010.

\# The expected volatility are determined based on the historical volatility of comparable companies in the similar industry.

During the year ended 31 December 2010, an aggregate fair value loss of RMB40,504,000 has been recognised in profit or loss (2009: Nil).

28. GOVERNMENT GRANTS

In 2006 and 2007, the Group received government grants totalling RMB65,400,000 from the relevant PRC local authorities for the investment in economic development zones located in Anhui province and Jiangxi province in the PRC. They were granted as an incentive for obtaining land use rights amounting to RMB65,400,000 by the Group for the construction of production facilities in the economic development zones.

In 2010, the Group received government grants of RMB4,600,000 from relevant PRC local authorities for the acquisition of plant and machinery amounting to RMB9,440,000.

During the year ended 31 December 2010, the related operating lease rentals in respect of land use right and related depreciation in respect of plant and machinery which has been charged to profit or loss amounted to RMB1,310,000 (2009: RMB1,310,000) and RMB944,000 (2009: Nil) respectively and the government grant which was recognised as other income was RMB1,308,000 (2009: RMB1,308,000) and RMB460,000 (2009: Nil) respectively. As at 31 December 2010, an amount of RMB64,698,000 (2009: RMB61,866,000) remains unamortised.

29. SHARE CAPITAL

	Authorised Number of shares	Authorised Amount	Issued and fully paid Number of shares	Issued and fully paid Amount
	'000	HKD'000	'000	HKD'000
Ordinary shares of HKD0.01 each				
– at 1 January 2009	5,000	50	100	1
– increase in authorised share capital	49,995,000	499,950	–	–
– capitalisation issue	–	–	427,400	4,274
– global offering	–	–	72,500	725
– exercise of over-allotment option	–	–	10,874	109
– at 31 December 2009	50,000,000	500,000	510,874	5,109
– exercise of share options	–	–	20,134	201
– issue of shares under the Open Offer	–	–	255,437	2,554
– at 31 December 2010	50,000,000	500,000	786,445	7,864

	RMB'000
Shown in the consolidated statement of financial position at	
– 31 December 2010 as	6,881
– 31 December 2009 as	4,503

On 12 November 2010, 255,437,000 ordinary shares of HKD0.01 each of the Company were issued at HKD1.00 per share on the basis of one new share for every two existing share currently held (the "Open Offer"). The proceeds were used to provide additional working capital for the Company.

During the year, 20,134,000 (2009: Nil) share options were exercised at a subscription price of HKD3.01 per share (2009: Nil), resulting in an aggregate issue of 20,134,000 (2009: Nil) ordinary shares of HKD0.01 each in the Company.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

30. EQUITY-SETTLED SHARE BASED PAYMENTS

(I) EQUITY-SETTLED SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 19 June 2009 for the primary purpose of providing incentives to directors, eligible employees and customers, and will expire on 16 November 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 46,594,863 (2009: 50,000,000), representing 5.9% (2009: 10%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HKD5,000,000 must be approved in advance by the Company's shareholders.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board of Directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 20 November 2010, the exercise price was adjusted downwards from HKD4.15 per share to HKD3.01 per share with effect from 20 November 2010 as a result of the Open Offer and the total number of share options was adjusted from 49,280,000 to 67,987,173.

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

(I) EQUITY-SETTLED SHARE OPTION SCHEME *(Continued)*

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

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HKD	Number of share options: Outstanding at 1.1.2009	Granted during the year	Outstanding at 31.12.2009	Exercised during the year	Adjusted during the year	Lapsed during the year	Reclassified during the year	Outstanding at 31.12.2010
Directors	17.11.2009	17.11.2009 – 16.11.2010	17.11.2010 – 16.11.2011	3.01	–	516,000	516,000	–	186,000	–	(59,308)	676,692
		17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	3.01	–	524,000	524,000	–	189,817	–	(59,022)	689,125
Employees	17.11.2009	17.11.2009 – 16.11.2010	17.11.2010 – 16.11.2011	3.01	–	24,044,000	24,044,000	(20,134,000)	8,996,000	(552,000)	59,308	12,379,308
		17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	3.01	–	24,896,000	24,896,000	–	9,327,766	(1,426,310)	59,022	32,822,148
Customers#	17.11.2009	17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	3.01	–	20,000	20,000	–	7,590	–	–	27,590
					–	50,000,000	50,000,000	(20,134,000)	18,707,173	(1,978,310)	–	46,594,863
Exercisable at end of the year							–					13,056,000

\# The Company's share options granted to customers are measured by reference to the fair value of options granted since the fair value of the customer loyalty to the Group cannot be estimated accurately.

The inputs into the model were as follows:

	2009
Spot price	HKD4.09
Exercise price	HKD4.15
Expected volatility	67.21%
Risk-free rate	0.8955%
Expected dividend yield	1.875%
Suboptimal exercise factor	1.5
Exercise period	17 November 2010 to 16 November 2012

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

(I) EQUITY-SETTLED SHARE OPTION SCHEME *(Continued)*

As the Company was newly listed since July 2009, there were no sufficient trading records to make reference of its share price volatility. Based on the historical volatility of comparable companies in similar industries over the past 3 years, a volatility of 67.21% was assumed.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HKD5.78 (2009: Nil).

The Group recognised the total expense of RMB42,879,000 (2009: RMB6,046,000) and RMB18,000 (2009: RMB2,000) for the year ended 31 December 2010 in relation to share options granted by the Company to the Group's employees and certain customers of the Group respectively.

(II) SHARES TO EMPLOYEES AND CUSTOMERS BY SHAREHOLDER

During the year, 9,101,278 shares (2009: Nil) and 6,843,827 shares (2009: Nil) of the Company were granted by the Company's controlling shareholder, Mr. Li Xinghao, at nil consideration, to the Group's employees and certain customers of the Group respectively, as reward for their past services and loyalty to the Group.

The Group recognised the total expenses of RMB35,133,000 (2009: Nil) and RMB26,435,000 (2009: Nil) for the shares of the Company given to the Group's employees and certain customers of the Group respectively.

The fair value of these shares is determined by the closing price of the Company's shares from the shareholder on the date of grant, these shares vested immediately at the date of grant without any vesting conditions. Total fair value of RMB61,568,000 is considered as deemed capital contribution from the shareholder and credited to share compensation reserve.

31. MAJOR NON-CASH TRANSACTIONS

During the year, deposits paid in 2009 for acquisition of property, plant and equipment which amounted to RMB17,307,000 was utilised to off-set the purchase of property, plant and equipment.

32. OPERATING LEASE COMMITMENTS

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

	2010 RMB'000	2009 RMB'000
Within one year	**10,963**	5,947
In the second to fifth year inclusive	**11,741**	7,438
After five years	**8,482**	9,880
	31,186	23,265

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

33. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**158,869**	65,582

34. RETIREMENT BENEFITS SCHEME

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

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

35. RELATED PARTY TRANSACTIONS

During the year, the Group paid messing expenses totalling RMB789,000 (2009: RMB970,000) to a related company, which is controlled by Mr. Li Xinghao, a beneficial controlling shareholder of the Company.

The details of remuneration of key management personnel, represents emoluments of the directors of the Company and are set out in note 10.

36. COMPARATIVE FIGURES

Certain comparative figures for the consolidated statement of comprehensive income in respect of the equity-settled share based payment have been reclassified from administrative expenses to selling and distribution costs to conform with the current year's presentation. Details are set out as follows:

	As previously reported	Reclassification	As restated
	HKD'000	HKD'000	HKD'000
Selling and distribution costs			
– equity-settled share based payment	–	(1,280)	(1,280)
Administrative expenses			
– equity-settled share based payment	–	(4,768)	(4,768)
– other administrative expenses	(178,323)	6,048	(172,275)

37. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 4 January 2011, 7,078,005,000 ordinary shares of HKD0.01 each of the Company were issued at HKD0.01 by way of bonus issue on the basis on nine bonus shares for every one existing share to the qualifying shareholders whose name appeared on the register of members of the Company on 4 January 2011 (the "Bonus Issue"). The purpose of the Bonus Issue is to provide a gesture of gratitude to the shareholders for their loyalty to and support of the Company, increase the capital base and enhance the liquidity of the shares in the market and thereby enlarge the shareholders' base of the Company.

Pursuant to the terms and conditions of the Scheme as detailed in note 30, the exercise price of the options was adjusted from HKD3.01 per share to HKD0.301 per share and the total number of shares to be allotted and issued upon full exercise of the outstanding share options will be adjusted from 46,594,863 shares to 465,948,630 shares.

The subscription price of the warrants as detailed in note 27 was adjusted in accordance with the terms and conditions of the warrant instrument from HKD4.95 per warrant share to HKD0.495 per warrant share. On 7 March 2011, subject to the approval in the extraordinary general meeting of the Company to be held on 29 March 2011, the Company proposed to amend the warrant instrument by adjusting the number of unlisted warrants from 100,000,000 to 1,000,000,000 and to be exercised at any time on or before 31 May 2012.

38. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at 31 December 2010 and 31 December 2009 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital	Principal activity
廣東志高空調有限公司 Guangdong Chigo Air-Conditioning Co., Ltd.	PRC as a wholly foreign owned enterprise for a term of 50 years commencing 1 September 2006	Registered capital – RMB696,140,000	Manufacture and sales of air–conditioners
志高空調(蕪湖)有限公司 (Chigo Air-Conditioning (Wuhu) Co., Ltd.)	PRC as a limited liability enterprise for a term of 10 years commencing 20 December 2006	Registered capital – RMB30,000,000	Factories under construction for manufacture and sales of of air-conditioners
志高空調(九江)有限公司 (Chigo Air-Conditioning (Jiu Jiang) Co., Ltd.)	PRC limited liability enterprise for a term of 10 years commencing 1 June 2007	Registered capital – RMB45,000,000	Factories under construction for manufacture and sales of air-conditioners
Chigo Electric Co., Limited	Hong Kong	Ordinary shares – HKD100,000	Holding of derivative instruments

The above table lists the subsidiaries of the Company which, in the opinion of the directors principally affect the results or assets of the Group. To give details of other subsidiaries would in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

FINANCIAL SUMMARY

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	4,535,062	5,716,408	5,920,583	6,005,495	**8,467,723**
Profit before taxation	263,405	370,034	97,734	342,530	**313,558**
Taxation	(42,450)	2,869	(2,446)	(27,751)	**(3,705)**
Profit for the year	220,955	372,903	97,288	314,779	**309,853**

	As at 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	3,359,156	4,471,500	4,791,583	5,565,690	**7,657,693**
Total liabilities	(2,548,946)	(3,288,387)	(3,413,182)	(3,719,746)	**(5,205,685)**
Net assets	810,210	1,183,113	1,378,401	1,845,944	**2,452,008**

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