CHIGO

CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 449)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

2009 Financial Highlights

	2009	2008	*Change*
	RMB million	*RMB million*	*%*
Turnover	**6,005.5**	5,920.6	+1.4
Gross receipts[1]	**6,239.1**	5,920.6	+5.4
Consolidated segment results[2]	**1,113.8**	979.9	+13.7
Profit for the year	**314.8**	95.3	+230.3
Basic EPS *(RMB cents)*	**67.5**	22.3	+202.7
Proposed dividends *(RMB cents)*	**11.0**	–	+100.0
Gross margin[3]	**18.5%**	16.6%	+1.9
Net margin	**5.2%**	1.6%	+3.6
Total assets	**5,565.7**	4,791.6	+16.2
Net assets	**1,845.9**	1,378.4	+33.9

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: 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.

2009 Operation Highlights

	2009	2008	*Change*
	RMB million	*RMB million*	*%*
PRC sales	**3,720.3**	2,878.5	+29.2
Overseas sales	**2,285.2**	3,042.1	-24.9
Major products type			
Residential air-conditioners	**4,915.5**	5,035.5	-2.4
Commercial air-conditioning products	**417.7**	311.8	+34.0
Air-conditioner parts and components	**402.8**	415.6	-3.1
Other products	**269.5**	157.7	+70.9
Residential air-conditioning products sold ('000 units)	**3,439.6**	2,956.8	+16.3
Commercial air-conditioning products sold ('000 sets)	**112.5**	86.2	+30.5

The board (the "**Board**") of directors (the "**Directors**") of Chigo Holding Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2009 together with the comparative figures for the corresponding period of 2008 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	**2009** **RMB'000**	2008 RMB'000
Turnover		**6,005,495**	5,920,583
Cost of goods sold		**(5,125,307)**	(4,940,650)
Gross profit		**880,188**	979,933
Government subsidies for energy-saving products	*5*	**233,640**	–
Other income		**39,457**	49,071
Selling and distribution costs		**(515,632)**	(500,336)
Administrative expenses		**(178,323)**	(171,029)
Research and development costs		**(47,780)**	(12,665)
Other expenses		**(16,993)**	(15,758)
Other gains and losses		**(5,684)**	(33,439)
Net gain (loss) in fair value changes of derivative financial instruments		**24,509**	(83,978)
Interest on bank borrowings wholly repayable within five years		**(70,852)**	(114,065)
Profit before taxation	*6*	**342,530**	97,734
Taxation	*7*	**(27,751)**	(2,446)
Profit for the year and total comprehensive income for the year		**314,779**	95,288
Earnings per share			
Basic	*9*	**67.5 cents**	22.3 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment		**396,271**	372,595
Land use rights		**82,803**	84,124
Intangible assets		**2,455**	2,812
Prepaid lease payments		**123,012**	103,831
Deposits made on acquisition of property, plant and equipment		**19,404**	10,557
Deferred tax assets		**10,340**	9,921
		634,285	583,840
Current assets			
Inventories		**1,686,050**	1,422,838
Trade and other receivables	*10*	**1,697,527**	1,499,119
Land use rights		**1,852**	1,815
Prepaid lease payments		**5,976**	–
Taxation recoverable		**8,202**	13,662
Derivative financial instruments		**3,844**	3,408
Pledged bank deposits		**1,095,160**	1,006,067
Bank balances and cash		**432,794**	260,834
		4,931,405	4,207,743
Current liabilities			
Trade and other payables	*11*	**2,638,879**	2,031,918
Warranty provision		**34,255**	35,302
Amount due to ultimate holding company		**–**	28,250
Amount due to a director		**–**	15,580
Taxation payable		**78,455**	75,683
Derivative financial instruments		**12,229**	82,294
Short-term bank loans		**880,436**	1,077,986
		3,644,254	3,347,013
Net current assets		**1,287,151**	860,730
Total assets less current liabilities		**1,921,436**	1,444,570
Non-current liabilities			
Government grants		**61,866**	63,174
Deferred tax liabilities		**13,626**	2,995
		75,492	66,169
Net assets		**1,845,944**	1,378,401
Capital and reserves			
Share capital	*12*	**4,503**	1
Reserves		**1,841,441**	1,378,400
Total equity		**1,845,944**	1,378,401

NOTES

1. GENERAL

The Company was incorporated and registered as an exempted company in the Cayman Islands on 24 April 2006 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2009. 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 the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) "Presentation of financial statements"

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 "Operating segments"

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 7) and changes in the basis of measurement of segment profit or loss.

Improving disclosures about financial instruments (Amendments to HKFRS 7 Financial instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments. The amendments also expand and amend the disclosures required in relation to liquidity risk.

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)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosure[6]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payments transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 July 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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.

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be 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. In contrast, the predecessor Standard (HKAS 14, "Segment reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has resulted in a redesignation of the Group's operating segments because the CODM, reviews the revenue and result by geographical location for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is present 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 segment for the year.

	Turnover		Results	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China (the "PRC")	**3,720,303**	2,878,527	**764,390**	526,089
Asia (excluding PRC)	**1,025,755**	1,273,875	**168,368**	193,467
Americas	**677,437**	609,449	**86,092**	91,374
Africa	**325,411**	294,026	**58,934**	45,397
Europe	**227,654**	839,951	**29,331**	119,625
Others	**28,935**	24,755	**6,713**	3,981
	6,005,495	5,920,583	**1,113,828**	979,933
Unallocated other income			**39,457**	49,071
Unallocated expenses			**(764,412)**	(733,227)
Net gain (loss) in fair value changes of derivative financial instruments			**24,509**	(83,978)
Finance costs			**(70,852)**	(114,065)
Profit before taxation			**342,530**	97,734

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 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.

Other segment information

Revenue from major products

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

	2009	2008
	RMB'000	*RMB'000*
Residential air-conditioners		
– split type	**4,620,306**	4,746,919
– window type	**264,924**	203,041
– portable type	**30,225**	85,527
	4,915,455	5,035,487
Commercial air-conditioners	**417,722**	311,791
Air-conditioners' parts and components	**402,842**	415,608
Others	**269,476**	157,697
	6,005,495	5,920,583

Information about major customers

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.

For the year ended 31 December 2008, revenue from one of the Group's customers included in PRC operating segment amounting to RMB521,684,000 accounted for over 10% of the Group's total revenue.

5. GOVERNMENT SUBSIDIES FOR ENERGY-SAVING PRODUCTS

In order to promote the 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, the manufacturing entities are eligible for the government subsidies on the manufactured energy-saving electrical products upon reporting of its sales to the PRC government authority.

During the year, the Group was entitled to the government subsidies of RMB233,640,000 (2008: Nil) in respect of energy-saving products.

6. PROFIT BEFORE TAXATION

	2009	2008
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**1,628**	1,182
Other staff's retirement benefits scheme contributions	**16,343**	14,137
Other staff's equity settled share-based payments	**5,920**	–
Other staff costs	**386,467**	343,324
	410,358	358,643
Less: Staff costs included in research and development costs	**(34,417)**	(9,190)
	375,941	349,453
Allowance for doubtful debts included in other gains and losses	**2,208**	3,869
Amortisation of intangible assets included in administrative expenses	**357**	357
Allowance for inventories	**19,061**	10,677
Auditor's remuneration	**2,009**	2,400
Depreciation	**62,329**	55,303
Release of prepaid lease payment	**3,682**	–
Write-off/loss on disposal of property, plant and equipment	**7,216**	807
Net exchange losses included in other gains and losses	**7,228**	29,771
Operating lease rentals in respect of		
– land use rights	**1,852**	1,814
– rented premises	**4,451**	7,658
Provision for warranty	**17,709**	16,659
and after crediting:		
Amortisation of government grants	**1,308**	1,308
Government subsidies included in other income*	**6,205**	6,595
Interest income	**23,304**	33,379
Recovery of doubtful debts included in other gains and losses	**3,752**	201

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

7. TAXATION

	2009	2008
	RMB'000	*RMB'000*
The charge comprises:		
PRC income tax	**(17,539)**	–
Deferred taxation	**(10,212)**	(2,446)
	(27,751)	(2,446)

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

Pursuant to the relevant laws and regulations in the PRC, 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.

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 ended 31 December 2008 and 2009 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.

8. DIVIDENDS

	2009	2008
	RMB'000	*RMB'000*
Final dividend proposed	**56,196**	–

The final dividend of RMB11.0 cents per share (2008: Nil) which was proposed by the directors of the Company for the year is subjected to approval by the shareholders of the Company in the annual general meeting and are calculated on the basis of 510,874,000 shares in issue as at the date of this announcement.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to owners of the Company of RMB314,779,000 (2008: RMB95,288,000) and on the weighted average number of 466,103,359 (2008: 427,500,000) shares in issue during the year on the assumption that the capitalisation issue as detailed in note 12 have been effective on 1 January 2008.

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 in 2009.

10. TRADE AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**1,114,753**	864,557
Bills receivables	**470,529**	609,502
	1,585,282	1,474,059
Government subsidies receivables for energy-saving products	**62,196**	–
Deposits paid to suppliers	**2,659**	2,703
Prepayments	**8,978**	4,389
Advances to staff	**17,573**	11,183
Other receivables	**20,839**	6,785
	1,697,527	1,499,119

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

	2009	2008
	RMB'000	*RMB'000*
Age		
0 – 30 days	**546,877**	560,414
31 – 60 days	**278,927**	182,974
61 – 90 days	**326,720**	144,663
91 – 180 days	**431,022**	307,374
181 to 365 days	**1,736**	248,517
Over 1 year	**–**	30,117
	1,585,282	1,474,059

Include in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB359,282,000 (2008: RMB203,711,000) 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:

	2009	2008
	RMB'000	*RMB'000*
Age		
31 – 60 days	**21,013**	5,880
61 – 90 days	**35,385**	5,319
91 – 180 days	**301,142**	39,796
181 – 365 days	**1,742**	122,599
Over 1 year	**–**	30,117
	359,282	203,711

The Group does not hold any collateral over these balances. The average age of these receivables is 128 days (2008: 231 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.

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:

	2009	2008
	RMB'000	*RMB'000*
At 1 January	**3,869**	201
Allowances recognised on receivables	**2,208**	3,869
Amounts recovered during the year	**(3,752)**	(201)
At 31 December	**2,325**	3,869

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB2,325,000 (2008: RMB3,869,000) 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:

	2009	2008
	RMB'000	*RMB'000*
United States dollars	**461,009**	698,024
Euro	**7,823**	1,740

11. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**275,173**	280,537
Bills payables	**1,915,045**	1,488,464
	2,190,218	1,769,001
Customers' deposits	**344,599**	192,951
Payroll and welfare payables	**13,670**	7,201
PRC business tax payable	**7,156**	7,156
Other payables	**83,236**	55,609
	2,638,879	2,031,918

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

	2009	2008
	RMB'000	*RMB'000*
Age		
0 to 90 days	**1,435,292**	1,200,759
91 to 180 days	**717,855**	558,434
181 to 365 days	**34,373**	7,090
1 – 2 years	**2,698**	2,718
	2,190,218	1,769,001

12. SHARE CAPITAL

	Authorised Number of shares	Authorised Amount	Issued and fully paid Number of shares	Issued and fully paid Amount
	'000	*HK$'000*	*'000*	*HK$'000*
Ordinary shares of HK$0.01 each				
– at 1 January 2008 and 31 December 2008	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

	RMB'000
Shown in the consolidated statement of financial position	
– at 31 December 2009 as	4,503
– at 1 January 2008 and 31 December 2008 as	1

Pursuant to the written resolutions by all the shareholders of the Company dated 19 June 2009, the Company increased its authorised share capital from HK$50,000 to HK$500,000,000 by the creation of an additional 49,995,000,000 shares of HK$0.01 each.

Pursuant to the written resolutions passed by all the shareholders of the Company dated 19 June 2009, the directors of the Company were authorised to capitalise an amount of HK$4,274,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 427,400,000 shares for allotment and issue to the shareholder of the Company on the register of members of the Company on 19 June 2009 on a pro rata basis, conditional on the share premium account being credited as a result of the issue of shares by the Company pursuant to the global offering.

On 13 July 2009, 72,500,000 ordinary shares of HK$0.01 each of the Company were issued at HK$2.27 by way of global offering. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

On 5 August 2009, an over-allotment option was exercised and a further 10,874,000 shares of HK$0.01 each were issued at HK$2.27 per share.

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

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 2009, 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 PRC and overseas markets.

The year ended 31 December 2009 had been a challenging and fruitful year for the Company. In the first half of 2009, because the negative impact of the global financial crisis had yet to diminish, the Group's overseas sales were adversely affected by the weak demands in the European and North American markets. On the other hand, competition among peers became keener in the domestic market, the Group, through better cooperation with the nationwide household appliances retail chain operators and launching of high value-for-money products, was able to maintain its PRC sales level at the end of 2009.

During the year, the PRC government pursued an expansionary fiscal policy and a moderately loose monetary policy to pull the domestic demand and to keep stable economic growth. In respect of the air-conditioner industry, several preferential policies, namely "Household Appliances to the Countryside Policy", "Policy of Tax Refund on Exports", "Promotion of Energy Efficient Appliances Scheme" and "Replacement of Household Electrical Appliance Programme" had been launched one after another by the PRC Government in mid 2009. With these preferential policies in place, the management of the Company responded quickly and proactively by strengthening the sales and production of high energy-saving products. Taking advantage of its strong and advanced research and development, the Group had 403 Grade 1 (most energy efficient) products selected by the authority in three national tendering processes, which were far more than those of the other air-conditioner manufacturers. For the overseas markets, the Group also saw a rebound of economic condition in the second half of 2009. As a result, the Group improved its sales significantly during the second half of 2009 and reversed the decrease in total turnover by the end of the year. The Group had also handed in a remarkable and satisfactory profit growth to its shareholders.

In 2009, the Group was awarded Certificate of Enterprise for Exemption from Export Inspection by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC. Till now, the Group is the first enterprise which received the quality for exemption from export inspection in Nanhai district, and the second one in the air-conditioning industry. The Group is always confident of its products quality and leading research and development, award of Certificate of Enterprise for Exemption from Export Inspection speaks for itself.

Operation Review

Sales from major product groups and gross margins

	Year ended 31 December					
	2009		2008		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	*Change %*
Residential air-conditioners						
– split type	**4,620.3**	**76.9**	4,746.9	80.2	-126.6	-2.7
– window type	**264.9**	**4.4**	203.1	3.4	+61.8	+30.4
– portable type	**30.3**	**0.5**	85.5	1.4	-55.2	-64.6
	4,915.5	**81.8**	5,035.5	85.0	-120.0	-2.4
Commercial air-conditioners	**417.7**	**7.0**	311.8	5.3	+105.9	+34.0
Air-conditioners parts and components	**402.8**	**6.7**	415.6	7.0	-12.8	-3.1
Others	**269.5**	**4.5**	157.7	2.7	+111.8	+70.9
	6,005.5	**100.0**	5,920.6	100.0	+84.9	+1.4

Turnover derived from sales of residential air conditioners decreased slightly by 2.4% during the year ended 31 December 2009, principally because (i) the increase in PRC sales of residential air-conditioning products was offset by the greater decrease in overseas sales of this product group and (ii) the average sales prices of air-conditioning products followed cost of raw material and components to drop 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 34.0% accordingly. Additionally, turnover derived from sales of air-conditioner parts and components decreased slightly by 3.1% during the year, principally due to the decrease in export sales of the product. Sales of other products increased by 70.9% because sales of semi-finished parts and components manufactured by the Group's production facilities to external customers increased substantially in 2009.

In 2009, the gross margin (including government subsidies for energy-saving products) of residential air-conditioning products increased to 20.1% from 16.6% in 2008 because there were more energy-saving products of higher margins sold during the year. As the Group had offered bargain prices to certain customers for bulk orders, the gross margin of commercial air-conditioning products decreased from 17.9% in 2008 to 16.6% in 2009.

Sales from brands and original equipment manufacturing ("OEM")

	Year ended 31 December					
	2009		2008		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	*Change %*
PRC sales						
CHIGO brand	**3,293.4**	**54.8**	2,563.4	43.3	+730.0	+28.5
HYUNDAI brand	**66.2**	**1.1**	116.5	2.0	-50.3	-43.2
Air-conditioner parts and components	**127.9**	**2.1**	86.3	1.4	+41.6	+48.2
Other products	**232.8**	**3.9**	112.3	1.9	+120.5	+107.3
	3,720.3	**61.9**	2,878.5	48.6	+841.8	+29.2
Overseas sales						
CHIGO brand	**270.7**	**4.5**	336.4	5.7	-65.7	-19.5
OEM	**1,702.9**	**28.4**	2,330.9	39.3	-628.0	-26.9
Air-conditioner parts and components	**274.9**	**4.6**	329.4	5.6	-54.5	-16.5
Other products	**36.7**	**0.6**	45.4	0.8	-8.7	-19.2
	2,285.2	**38.1**	3,042.1	51.4	-756.9	-24.9
	6,005.5	**100.0**	5,920.6	100.0	+84.9	+1.4

As the awareness of CHIGO brand increased, sales of CHIGO brand products increased in 2009, especially in the PRC, where the Group recorded a satisfactory increase of 28.5% during the year ended 31 December 2009. OEM sales and overseas sales of parts and components decreased in the reporting period because of the weak demand for these products from overseas customers during the year.

Sales and distribution

	Year ended 31 December					
	2009		2008		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	*Change %*
PRC						
Household appliances retail chain operators	**1,503.2**	**25.0**	931.9	15.7	+571.3	+61.3
Regional distributors	**2,217.1**	**36.9**	1,946.6	32.9	+270.5	+13.9
PRC Total	**3,720.3**	**61.9**	2,878.5	48.6	+841.8	+29.2
Overseas						
Regional distributors	**582.3**	**9.7**	711.1	12.1	-128.8	-18.1
OEM manufacturers	**1,702.9**	**28.4**	2,331.0	39.3	-628.1	-26.9
Overseas Total	**2,285.2**	**38.1**	3,042.1	51.4	-756.9	-24.9
Total Turnover	**6,005.5**	**100.0**	5,920.6	100.0	+84.9	+1.4

The Group's PRC sales from household appliances retail chain operators and regional distributors both increased in 2009. The business relationship between the Group and household appliances retail chain operators became closer during the year and sales generated through this distribution channel recorded a significant increase of 61.3%. During 2009, approximately 40.4% of the PRC sales was distributed through the household appliances retail chain operators and sales obtained from them had been increased from 32.4% of 2008. In the same period, PRC sales generated from regional distributors decrease from 67.6% in 2008 to 59.6% in 2009.

For the overseas sales, the sales split between overseas distributors and OEM customers remained relatively stable for the year. Approximately 25.5% and 74.5% of the overseas sales are distributed by these two groups of customers respectively for the year ended 31 December 2009.

Units sold volume and average sales prices

	Year ended 31 December		
	2009	2008	Change %
Residential air-conditioning products sold *('000 units)*	**3,439.6**	2,956.8	+16.3
Commercial air-conditioning products sold *('000 sets)*	**112.5**	86.2	+30.5
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) *(per unit)*	**RMB1,497**	RMB1,703	-12.1
Average sales price – commercial air-conditioning product *(per set)*	**RMB3,713**	RMB3,616	+2.7

During the year ended 31 December 2009, the Group experienced a decrease in average sales price per residential unit due to (1) decreasing raw materials costs, especially compressors, copper and plastic chips; and (2) the competitive prices of residential air-conditioning products offered by the Group under "Promotion of energy efficient appliances scheme" for certain energy saving models. With regard to the commercial air-conditioners, the average sales price per commercial unit increased slightly by 2.7% because the Group sold more sets of higher cooling capacity air-conditioners, which were more expensive during the year ended 31 December 2009.

Breakdown of cost of goods sold

During the two years ended 31 December 2008 and 2009, breakdown of the Group's total cost of goods was shown as follows:

	Year ended 31 December					
	2009		2008		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	*Change %*
Raw materials, parts and components:						
Compressors	**1,246.7**	**24.3**	1,417.3	28.7	-170.6	-12.0
Copper	**1,293.9**	**25.3**	1,285.6	26.0	+8.3	+0.6
Plastic chips	**337.1**	**6.6**	373.4	7.6	-36.3	-9.7
Aluminum	**231.0**	**4.5**	237.5	4.8	-6.5	-2.7
Steel plates	**432.3**	**8.4**	372.4	7.5	+59.9	+16.1
Others *(note)*	**1,071.3**	**20.9**	885.1	17.9	+186.2	+21.0
Total	**4,612.3**	**90.0**	4,571.3	92.5	+41.0	+0.9
Direct labour cost	**116.6**	**2.3**	92.1	1.8	+24.5	+26.6
Utilities	**29.8**	**0.6**	28.4	0.6	+1.4	+4.9
Production cost	**166.1**	**3.2**	166.6	3.4	-0.5	-0.3
Others	**200.5**	**3.9**	82.3	1.7	+118.2	+143.6
Total cost of goods sold	**5,125.3**	**100.0**	4,940.7	100.0	+184.6	+3.7

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.

Notwithstanding the increase in consumption of these raw material and components in line with the Group's turnover during the year ended 31 December 2009, as the market prices of the major raw material and components, such as compressors, copper and plastic chips had dropped since the second half of 2008, the cost of raw material and components only increased slightly by 0.9%.

Cost of others increased by 21.0% during the year because the consumption of miscellaneous part and components in relation to the Group's other businesses, such as sales of these parts and components to the external customers had increased during the year ended 31 December 2009.

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Turnover

	Year ended 31 December					
	2009		2008		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	*Change %*
Geographic region						
PRC sales	**3,720.3**	**61.9**	2,878.5	48.6	+841.8	+29.2
Asia (excluding PRC)	**1,025.8**	**17.1**	1,273.9	21.5	-248.1	-19.5
Americas	**677.4**	**11.3**	609.4	10.3	+68.0	+11.2
Africa	**325.4**	**5.4**	294.0	5.0	+31.4	+10.7
Europe	**227.7**	**3.8**	840.0	14.2	-612.3	-72.9
Others	**28.9**	**0.5**	24.8	0.4	+4.1	+16.5
Overseas sales	**2,285.2**	**38.1**	3,042.1	51.4	-756.9	-24.9
Total turnover	**6,005.5**	**100.0**	5,920.6	100.0	+84.9	+1.4

During the year ended 31 December 2009, the Group's total turnover was approximately RMB6,005.5 million (2008: approximately RMB5,920.6 million) and increased by RMB84.9 million, or 1.4% as compared to the corresponding period in 2008. The increase was principally due to the significant increase in the sales recorded by the Group during the second half of 2009 by more than 40% as compared to the sales recorded by the Group during the corresponding period of 2008.

As the Group was entitled to the government subsidies for the energy-saving products amounted to RMB233.6 million from the second half of 2009, 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 RMB6,239.1 million (2008: RMB5,920.6 million) and increased by 5.4% or RMB318.5 million as compared to 2008.

PRC Sales

The PRC government announced the "Promotion of energy efficient appliances scheme" in May 2009 to promote the energy-saving products. Under this scheme, the air-conditioner manufacturers would be entitled to government subsidies of RMB300 to RMB850 per unit on sales of those approved energy saving products. The Group always endeavours to provide high value-for-money products for its customers. To accommodate the national policy objective in promoting and subsidising the purchase of energy-saving products, the Group had participated in three national tenders and offered competitive prices for its energy-saving products to the buyers. During the year, the Group had most number of Grade 1 (note) products being selected by the authority and topped the approved products lists. Because of the increasing demand for its high energy-saving products, the Group's PRC sales increased substantially by more than 60% in the second half 2009. As a result, the sales generated from the PRC market increased by RMB841.8 million or 29.2% to RMB3,720.3 million (2008: RMB2,878.5 million) and amounted to 61.9% of the total turnover for the year ended 31 December 2009 (2008: 48.6%).

Note: According to the national standards of "The Minimum Allowance Values of the Energy Efficiency and Energy Efficiency Grades for Room Air-conditioners, Grade 1 being the most energy efficient.

Overseas Sales

As the negative effect of the global financial crisis on consumption confidence extended to year 2009, the Group suffered a significant decrease in overseas sales in the first half of 2009. Following the steady rebound of economic condition of Europe and North America in the second half of 2009, the Group's sales to overseas regions all recorded positive growth except Europe during the period. Because of the turnaround in sales to the respective overseas regions lately, the Group recorded overseas sales of approximately of RMB2,285.2 million (2008: RMB3,042.1 million) representing a year-on-year decrease of 24.9% or RMB756.9 million.

The decrease in Group's overseas sales in 2009 was mainly caused by the declines of 19.5% and 72.9% in sales in the Asian (excluding PRC) and European markets respectively. Sales in Americas, Africa and other regions recorded growth of 11.2%, 10.7% and 16.5% respectively for the year ended 31 December 2009. Among the various overseas sales regions, Asia (excluding PRC) and Americas were still the major overseas markets of the Group, they contributed 17.1% and 11.3% (2008: 21.5% and 10.3% respectively) of the Group's turnover in 2009.

Since the Group's PRC sales had increased substantially in 2009, overseas sales recorded by the Group decreased to 38.1% (2008: 51.4%) of the total turnover for the year ended 31 December 2009.

Cost of goods sold

Since total turnover recorded by the Group had increased during the year, cost of goods sold increased in line with the turnover to RMB5,125.3 million (2008: RMB4,940.7 million), an increase of RMB184.6 million or 3.7% as compared to that of 2008. The increase in cost of goods sold was mainly caused by the increases in installation cost, direct labour cost and expenses relating to other business which were offset partly by decreases in major raw material and component costs during the year ended 31 December 2009.

Gross profit

Since the Group had offered relatively competitive prices for its energy-saving products 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 2009. As such, the Group recorded a gross profit of RMB880.2 million for 2009 (2008: RMB 979.9 million) which decreased by RMB99.7 million or 10.2% as compared to 2008. However, the Group was entitled to the government subsidies for energy-saving products amounting to RMB233.6 million (2008: nil) for the year ended 31 December 2009, consolidated segment results of operation (sum of gross profit and the government subsidies for energy-saving products) for 2009 totaled RMB1,113.8 million (2008: RMB979.9 million) representing an increase of RMB133.9 million or 13.7% from that of 2008.

As the consolidated segment results of operation increased and the gross margin (calculated as consolidated segment results to turnover) for the second half of 2009 had increased to 21.1%, the Group's gross margin increased from 16.6% in 2008 to 18.5% for the year ended 31 December 2009 accordingly.

Due to the improvement of the PRC sales in the second half of 2009, the gross margin of the Group's PRC sales increased from 18.3% in 2008 to 20.5% for the year end 31 December 2009. Since the economic condition of various overseas sales region had recovered steadily and major raw material price decreased during the year, gross margin of the Group's overseas sales improved slightly to 15.3% in 2009 from 14.9% in 2008. Among the overseas regions, Africa and other overseas regions contributed most to the profitability of the Group and achieved gross margins of 18.1% and 23.2% respectively in 2009. In comparison, the gross margins of Europe and Americas remained low in 2009 as these sales regions were still recovering from the negative impact of the 2008 financial crisis.

Government subsidies for high energy-saving products

For the year ended 31 December 2009, the Group was entitled to the government subsidies for high energy-saving products of RMB233.6 million (2008: nil). These government subsidies were part of the gross receipts received by the Group in relation to its principal operation.

Other income

Other income was RMB39.5 million (2008: RMB49.1 million) and decreased by RMB9.6 million or 19.6% because of the decrease in bank interest income received by the Group of approximately RMB10.1 million which in turn was due to the decrease in average interest rates in the PRC in 2009.

Selling and distribution costs

The Group's selling and distribution costs increased to RMB515.6 million (2008: RMB500.3 million), an increase of RMB15.3 million or 3.1% for the year ended 31 December 2009. This increase was mainly due to the increases in (i) salary and allowance of sales staff of approximately RMB10.2 million; (ii) selling expenses of RMB7.3 million; and (iii) advertising and promotion costs of RMB3.6 million respectively as a result of the increase in the Group's sales and partly offset by a decrease in transportation costs of RMB12.5 million because of the decrease in fuel costs in 2009.

Administrative expenses

Administrative expenses of the Group increased by RMB7.3 million or 4.3% to RMB178.3 million (2008: RMB171.0 million) for the year ended 31 December 2009.

The increase in administrative expenses was primarily due to the increases in (i) salaries and benefits of administrative staff of approximately RMB16.5 million; and (ii) share based payments of RMB6.0 million in relation to the grant of share option by the Company and partly offset by the decrease in bank charges of RMB6.5 million and other non-operating expenses of 2.1 million during the year.

Research and development costs

Research and development ("**R&D**") costs increased significantly to RMB47.8 million (2008: RMB12.7 million) by 276.4% or RMB35.1 million during the year. The increase was attributed to the increases in the costs of the R&D staff of RMB25.2 million and the R&D costs in relation to energy saving products in 2009.

Other expenses

Other expenses represented the non-recurring pre-IPO and listing related expenses of RMB15.8 million and RMB17.0 million incurred in 2008 and 2009 respectively. These expenses increased slightly by RMB1.2 million or 7.6% during the year ended 31 December 2009. However, the Group does not expect to incur these expenses in the coming year.

Other gains and losses

Other gains and losses decreased by RMB27.7 million or 82.9% to RMB5.7 million (2008: RMB33.4 million) in 2009. The decrease was mainly due to the decrease in exchange loss of RMB22.5 million as the exchange rate of Renminbi against the US dollars remained relatively stable during the year.

Net gain (loss) in fair value changes of derivative financial instruments

The Group incurred a substantial net loss of approximately RMB84.0 million in fair value changes of derivative financial instruments for the year ended 31 December 2008.

Due to (i) the loss in fair value changes of such derivative financial instruments reduced significantly for the year ended 31 December 2009; and (ii) the reversal of the losses in relation to the copper swap contract entered into by the Group in 2008 as the average market floating prices of copper increased gradually and favourably to the Group in 2009, the Group turned the substantial net loss in 2008 to a net gain in fair value changes of derivative financial instruments of approximately RMB24.5 million for the year ended 31 December 2009.

Finance costs

Since the average interest rates in the PRC market decreased in 2009, the Group's interest on bank borrowing decreased significantly by RMB43.2 million or 37.9% to RMB70.9 million (2008: RMB114.1 million) for the year ended 31 December 2009.

Taxation

The Group's tax charge was RMB27.8 million (2008: RMB2.4 million) which increased by RMB25.3 million or 1,034.5% for the year ended 31 December 2009. This increase was due to the expiry of the two-year tax exemption period at the end of 2008 and the increase in profit before taxation for the year ended 31 December 2009. The Group shall be entitled to a 50% tax relief from PRC corporate tax and subject to a tax rate of 12.5% for a term of three years commencing from 1 January 2009.

Profit and total comprehensive income recognised for the period

As a result of the foregoing, the Group recorded a profit of RMB314.8 million for the year ended 31 December 2009 (2008: RMB95.3 million), representing a significant increase of RMB219.5 million or 230.3% as compared to the corresponding period in 2008. Since the net profit of the Group had increased significantly in the reporting period and net margin had reached 6.1% for the second half of 2009, the net margin of the Group improved remarkably from 1.6% for the year ended 31 December 2008 to 5.2% for the year ended 31 December 2009 accordingly.

Financial position

	As at 31 December			
	2009	2008	Change	
	RMB	*RMB*	*RMB*	*Change*
	million	*million*	*million*	*%*
Non-current assets	**634.3**	583.8	+50.5	+8.7
Current assets	**4,931.4**	4,207.8	+723.6	+17.2
Current liabilities	**3,644.3**	3,347.0	+297.3	+8.9
Non-current liabilities	**75.5**	66.2	+9.3	+14.0
Net assets	**1,845.9**	1,378.4	+467.5	+33.9

As at 31 December 2009, the Group's total consolidated assets increased by RMB774.1 million or 16.2% to RMB5,565.7 million (31 December 2008: RMB4,791.6 million). The increase was mainly made in the current assets such as inventories (increased by RMB263.2 million), trade and other receivables (increased by RMB198.4 million), pledged bank deposits (increased by RMB89.1 million) and bank balances and cash (increased by RMB172.0 million). Total consolidated liabilities of the Group as at 31 December 2009 amounted to RMB3,719.8 million (31 December 2008: RMB3,413.2 million) and increased by RMB306.6 million or 9.0% as compared to that of 31 December 2008. The major liabilities increased in the period were trade and other payables (increased by RMB607.0 million) which was offset by a decrease in short-term bank loans (decreased by RMB197.6 million). As the Group recorded a significant increase in net profit for the year together with the net proceeds from the global offering, the Group's net assets increased by 33.9% or RMB467.5 million to RMB1,845.9 million at the end of 2009 (31 December 2008: RMB1,378.4 million).

Liquidity, financial resources and capital structure

As at 31 December 2009, the Group had current assets amounted to RMB4,931.4 million (31 December 2008: RMB4,207.7 million) and current liabilities amounted to RMB3,644.3 million (31 December 2008: RMB3,347.0 million). The Group's working capital increased by RMB426.4 million or 49.5% from RMB860.7 million as at the end of 2008 to RMB1,287.1 million at the end of 2009. As a result, the Group's current ratio improved slightly from 1.3 times as at 31 December 2008 to 1.4 times as at 31 December 2009.

At the end of 2009, the balance of short-term bank loans owed by Group was RMB880.4 million (31 December 2008: RMB1,078.0 million) and decreased by RMB197.6 million or 18.3%. The bank loans are used for working capital purposes, charged at fixed interest rates and repayable within one year. All of the bank loans are made and repaid in Renminbi.

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased from 22.5% at the end of 2008 to 15.8% as at 31 December 2009. The decreases in balance of short-term bank loans and gearing ratio were mainly because less bank loans were required for the working capital as the Company had strengthened its capital base through its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 July 2009 in Hong Kong and generated a high level of net cash flow from its operation during the year.

Ability of the Group to service finance costs, as indicated by interest cover, was improving during the reporting period. As market interest rates and finance costs decreased and net profit increased in 2009, interest cover of the Group increased substantially to 5.8 times for the year ended 2009 as compared to 1.9 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. Together with those contracts entered by the Group before 2009 and outstanding as at 31 December 2009, the total financial exposure of the Group to these foreign currency forward contracts was approximately RMB16.1 million.

The Group had not entered into any new copper swap contract in 2009. There was no copper swap contract outstanding as at 31 December 2009 as all the copper swap contracts were expired during the year.

On 19 June 2009, all the shareholders of the Company passed the written resolutions and resolved that the directors of the Company were authorised to capitalise an amount of HK$4,274,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 427,400,000 shares for allotment and issue to the shareholders of the Company on 19 June 2009 on a pro rata basis, conditional on the share premium account being credited as a result of the issue of shares by the Company pursuant to the global offering. On 13 July 2009, the Company's shares were listed on the Main Board of the Stock Exchange and 72,500,000 ordinary shares of HK$0.01 each of the Company were issued at HK$2.27 by way of global offering. A further 10,874,000 ordinary shares were issued at HK$2.27 per share upon an over-allotment option was exercised on 5 August 2009. As at 31 December 2009, the Company had issued share capital of RMB4.5 million and 510,874,000 shares in issue. All of the issued shares were ordinary shares.

Since the Company had raised gross proceeds of approximately RMB189.3 million from the global offering (including the exercise of the over-allotment option) and recorded an significant increase in net profit during the year, the shareholders' equity increased to RMB1,841.4 million at the end of 2009 (31 December 2008: RMB1,378.4 million).

On 19 June 2009, the then shareholders also resolved to adopt a share option scheme of the Company. During the year, share options to subscribe for 50,000,000 new shares were granted by the Company to certain eligible participants of the share option scheme. As at 31 December 2009, there were 50,000,000 share options granted and outstanding.

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 2009.

Cash flows

	Year ended 31 December	
	2009	2008
	RMB million	*RMB million*
Net cash from (used in) operating activities	**534.7**	(72.5)
Net cash (used in) from investing activities	**(197.2)**	15.0
Net cash (used in) from financing activities	**(165.5)**	243.6
Net increase in cash and cash equivalents	**172.0**	186.1
Cash and cash equivalents at 31 December	**432.8**	260.8

During the year, the Group financed its working capital by internally generated cash flow and short-term bank loans. For the year ended 31 December 2009, the Group generated net cash inflow of RMB543.7 million from operating activities (2008: cash outflow of RMB72.5 million). The Group raised bank loans of RMB925.4 million from and repaid RMB1,123.0 million to the banks during the year. As such, net cash used in financing activities amounted to RMB165.5 million (2008: cash inflow of RMB243.6 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) the investing activities of the Group such as pledging bank deposits for issuance of bills of exchange and letters of credit to suppliers for procurement of raw materials.

As a result of the foregoing, the Group generated surplus cash of RMB172.0 million during the year ended 31 December 2009 (2008: net cash inflow of RMB186.1 million) and had bank balances and cash amounted to RMB432.8 million at the end of 2009 (31 December 2008: RMB260.8 million).

Use of net proceeds from global offering

The shares of the Company were listed on the Stock Exchange on 13 July 2009 with total net proceeds from the global offering and exercise of the over-allotment option amounting to approximately HK$130.2 million (approximately RMB114.6 million) after deducting underwriting commissions and all related expenses. These net proceeds of approximately RMB91.6 million were partially applied during the period from the listing date up to 31 December 2009 and such application was consistent with the proposed usage of the net proceeds set forth in the prospectus of the Company dated 30 June 2009. Save for the amount allocated for the aforementioned use and pending the utilisation of the remaining proceeds, the Group has placed short-term interest-bearing deposits with authorised financial institutions and/or licensed banks in Hong Kong and the PRC.

Material acquisitions and disposals, significant investments

During the year ended 31 December 2009, 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 2009, certain bank deposits and inventories of the Group in an aggregate carrying amount of approximately RMB1,798.3 million (31 December 2008: approximately RMB1,823.5 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 2009, approximately 38.1% 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 remained rather stable 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 global offering into the functional currency of the Group as required for its planned use during the year ended 31 December 2009. 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 2009, 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 RMB65.6 million (31 December 2008: approximately RMB13.9 million).

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2009.

Employees and Remuneration

As at 31 December 2009, the Group employed 10,089 employees (31 December 2008: 9,204 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.

During the year ended 31 December 2009, the Group had granted the Directors and employees of the Group share options to subscribe for 1,040,000 and 48,940,000 shares of the Company respectively.

Outlook and Future Plans

It is understood that the PRC government will continue to support and promote energy saving products in the coming years. Since the Group had already done good work in 2009 and is well prepared to meet challenges, the Directors believe that the Group will continue to benefit from the increased market demand for such high energy efficiency products.

For overseas sales, the Group notes that the rebound of economic activities and gradual growth in demand in the European and North American markets. The Group will continue to strengthen the sales of products to the South American and African regions where the Group had achieved remarkable sales performance in 2009. With stronger capital base and higher awareness of CHIGO brand since the Company's listing, the Directors are optimistic that the financial performance of the Group in the coming year would be better than that of 2009.

As disclosed in the Company's prospectus dated 30 June 2009, the Group plans to expand its manufacturing capacity for the production of commercial air-conditioning products. Two new production facilities for the manufacture of commercial air-conditioning products will be established in Wuhu, Anhui province and Jiujiang, Jiangxi province, the PRC respectively. The construction work of these two production facilities has already commenced and is expected to be completed in the first half of 2011, after which, the number of production lines for the manufacture of the Group's commercial air-conditioning products will be increased from seven to nine. The Group expects that the sales and profitability of the Group could be further enhanced after the expansion of these commercial air-conditioning units is completed.

The Directors consider making Chigo a refrigerating production base in the PRC is an important long term strategy of the Group. With the competitive strengths of the Group's vertically integrated production chain and extensive distribution networks, the Directors believe the Group would be able to expand into other related refrigeration product markets to complement its product range and provide additional revenue sources.

The management of the Group will also closely monitor new opportunities that may arise and consider any potential merger and acquisition ("**M&A**") opportunities to further (i) expand the Group's operation scale which aligned with the its investment strategy and/or (ii) strengthen or integrate 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.

OTHER INFORMATION

Listing of the shares of the Company

The shares of the Company have been successfully listed on the Stock Exchange since 13 July 2009. The total number of issued shares of the Company as at 13 July 2009 was 500,000,000.

On 5 August 2009, the over-allotment options (10,874,000 out of 10,875,000 over-allotment options) were partially exercised, 10,874,000 over-allotment shares were issued and allotted by the Company. The total number of issued shares of the Company increased to 510,874,000 shares immediately after the issue of the over-allotment shares.

As at 31 December 2009 and the date of this announcement, the total number of issued shares was 510,874,000 shares.

Final Dividend

The Directors recommend the payment of a final dividend of RMB11.0 cents (approximately 12.5 HK cents) per share for the year ended 31 December 2009 to the shareholders listed in the register of members of the Company on Thursday, 27 May 2010. The final dividends shall be subject to the approval of shareholders of the Company at the forthcoming annual general meeting and will be payable on or about Thursday, 10 June 2010 to the shareholders.

Annual General Meeting

The annual general meeting of the Company will be held on Thursday, 27 May 2010. The notice of the annual general meeting will be published and despatched to the shareholders in due course.

Closure of Register of Members

The Company's Register of Members will be closed from Tuesday, 25 May 2010 to Thursday, 27 May 2010 (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, 24 May 2010.

Purchase, Sale or Redemption of Listed shares of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company since the shares of the Company were successfully listed on the Main Board of the Stock Exchange on 13 July 2009 to the end of 2009.

Corporate Governance

Since its shares were listed on 13 July 2009, the Company has adopted and commenced to apply 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 Listing Rules. During the period from the listing to 31 December 2009, 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.

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 2009, 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.

Model Code for Securities Transactions 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 Directors regarding any non-compliance with the Model Code and the Own Code. All Directors have confirmed their compliance during the year with required standards set out in the Model Code and the Own Code.

Review of the Annual Results

The Company established an audit committee (the "**Audit Committee**") on 19 June 2009 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises the three independent non-executive Directors, namely, Messrs. Fu Xiaosi, Zhang Xiaoming and Wan Junchu. Mr. Fu Xiaosi is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Company's annual results for the year ended 31 December 2009 have been reviewed by the Audit Committee, with the management of the Company.

Publication of the Annual Results and Annual Report

The electronic version of this announcement will be published on the website of the Stock Exchange (www.hkex.com.hk), on the website of the Company (www.china-chigo.com) and on the Company's webpage at irasia.com (www.irasia.com/listco/hk/chigo/index.htm). The annual report of the Company for the year ended 31 December 2009 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and published on the aforementioned websites and webpage in due course.

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.

By Order of the Board
Chigo Holding Limited
Li Xinghao
Chairman

Hong Kong, 24 March 2010

As at the date of this announcement, the executive Directors are Li Xinghao, Lei Jianghang, Huang Guoshen and Ding Xiaojiang, and the independent non-executive Directors are Wan Junchu, Zhang Xiaoming and Fu Xiaosi.