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 2010

2010 Financial Highlights

	2010	2009	*Change*
	RMB million	*RMB million*	*%*
Turnover	**8,467.7**	6,005.5	+41.0
Gross receipts[1]	**9,277.0**	6,239.1	+48.7
Consolidated segment results[2]	**1,486.3**	1,113.8	+33.4
Profit for the year	**309.9**	314.8	-1.6
Underlying profit[3]	**454.9**	320.8	+41.8
Total assets	**7,657.7**	5,565.7	+37.6
Net assets	**2,452.0**	1,845.9	+32.8
Interim dividends *(HK cents)*[4]	**0.47**	–	N/A
Final dividends *(HK cents)*[4]	**1.00**	1.37	-27.0
Gross margin[5]	**17.6%**	18.5%	-0.9
Net margin	**3.7%**	5.2%	-1.5

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.

2010 Operation Highlights

	2010	2009	*Change*
	RMB million	*RMB million*	*%*
PRC sales	**5,148.8**	3,720.3	+38.4
Overseas sales	**3,318.9**	2,285.2	+45.2
Major products type			
Residential air-conditioners	**7,030.1**	4,915.5	+43.0
Commercial air-conditioning products	**472.1**	417.7	+13.0
Air-conditioner parts and components	**420.1**	402.8	+4.3
Other products	**545.4**	269.5	+102.4
Residential air-conditioning products sold *('000 units)*	**4,710**	3,440	+36.9
Commercial air-conditioning products sold *('000 sets)*	**126**	113	+11.5

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 2010 together with the comparative figures for the corresponding period of 2009 as follows:

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	5	**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	6	**313,558**	342,530
Taxation	7	**(3,705)**	(27,751)
Profit for the year and total comprehensive income for the year		**309,853**	314,779
			(Restated)
Earnings per share	9		
– 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		**507,430**	396,271
Land use rights		**236,377**	82,803
Intangible assets		**2,199**	2,455
Prepaid lease payments		**133,391**	123,012
Deposits made on acquisition of property, plant and equipment		**73,293**	19,404
Deferred tax assets		**11,219**	10,340
		963,909	634,285
Current assets			
Inventories		**2,823,809**	1,686,050
Trade and other receivables	*10*	**2,379,975**	1,697,527
Land use rights		**5,525**	1,852
Prepaid lease payments		**6,457**	5,976
Taxation recoverable		**8,202**	8,202
Derivative financial instruments		**22,887**	3,844
Pledged bank deposits		**951,490**	1,095,160
Bank balances and cash		**495,439**	432,794
		6,693,784	4,931,405
Current liabilities			
Trade and other payables	*11*	**3,695,474**	2,638,879
Warranty provision		**36,598**	34,255
Taxation payable		**77,458**	78,455
Derivative financial instruments		**3,190**	12,229
Borrowings related to bills discounted with recourse		**72,272**	–
Short-term bank loans		**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

	NOTES	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Warrants		**44,670**	–
Government grants		**64,698**	61,866
Deferred tax liabilities		**18,594**	13,626
		127,962	75,492
Net assets		**2,452,008**	1,845,944
Capital and reserves			
Share capital	*12*	**6,881**	4,503
Reserves		**2,445,127**	1,841,441
Total equity		**2,452,008**	1,845,944

NOTES

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Unit 08, 19th Floor, Greenfield Tower (South Tower), Concordia Plaza, No.1 Science Museum Road, Tsimshatsui, Kowloon, Hong Kong respectively. 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.

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.

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.

4. 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.

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

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.

5. 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.

6. PROFIT BEFORE TAXATION

	2010	2009
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
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
Depreciation of property, plant and equipment	**87,115**	62,329
Provision for warranty included in cost of goods sold	**22,282**	17,709
and after crediting:		
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.

7. 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 form 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.

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.

8. DIVIDENDS

	2010	2009
	RMB'000	*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 announcement.

9. 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	2009
	RMB'000	*RMB'000*
Earnings for the purpose of basic and diluted earnings per share	**309,853**	314,779

	Number of shares	
	2010	2009
	'000	*'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**	

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.

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.

10. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*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.

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.

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

11. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*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	2009
	RMB'000	*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

12. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	*Amount HKD'000*	*Number of shares '000*	*Amount 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.

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 PRC 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 People's Republic of China ("**PRC**" or "**China**") 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 product. 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 normal level or higher once its expansion plan and restructuring of sales team accomplish in the near future.

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 CHIGO brand continue to grow, domestic sales of CHIGO brand 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, both higher sales of OEM sales and CHIGO brand 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 from 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.

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.

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 million	*RMB million*	*RMB million*	*Change %*
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.

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 HK$255.4 million by launching an Open Offer of 255,437,000 offer Shares at the Subscription Price of HK$1.00 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 HK$0.05 per warrant. Each warrant carries the right to subscribe for one warrant Share of the Company at the Subscription Price of HK$4.95 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 million	*RMB 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).

Use of net proceeds from Open Offer

During the year, the Company had raised under the Open Offer gross proceeds and net proceeds of HK$255.44 million and HK$251.30 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.

During the year ended 31 December 2010, the Group had granted the Directors and employees of the Group share options to subscribe for 1,297,487 and 45,269,786 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.

- ***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.

OTHER INFORMATION

Final Dividend

The Directors recommend the payment of a final dividend of HK$1.00 cents per share for the year ended 31 December 2010 (2009: HK$1.37 cents per share (adjusted for capital changes)) to the shareholders listed in the register of members of the Company on Friday, 13 May 2011. The final dividend shall be subject to the approval of shareholders of the Company at the forthcoming annual general meeting and will be payable on or about Friday, 27 May 2011 to the shareholders.

Annual General Meeting

The annual general meeting of the Company will be held on Friday, 13 May 2011. 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 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.

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 during the year ended 31 December 2010.

Corporate Governance

The Company has adopted 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 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. of the CG Code.

Code Provision A.2. 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.

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 audit committee (the "**Audit Committee**") of the Company comprises of 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 Company's annual results for the year ended 31 December 2010 have been reviewed by the Audit Committee with the management of the Company.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as of the date of this announcement, there is sufficient public float or not less than 25% of the Shares are in the hands of the public as required under the Listing Rules.

Publication of the Annual Results and Annual Report

The electronic version of this announcement will be published on the Stock Exchange website (www.hkex.com.hk), the Company's official website (www.china-chigo.com) and at irasia.com (www.irasia.com/listco/hk/chigo/index.htm). The annual report of the Company for the year ended 31 December 2010 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, 18 March 2011

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