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 2011

2011 Financial Highlights

	2011	2010	Change
	RMB million	*RMB million*	%
Turnover	**9,342.0**	8,467.7	+10.3
Gross receipts[1]	**9,520.4**	9,277.0	+2.6
Consolidated segment results[2]	**1,249.9**	1,486.3	-15.9
(Loss) profit for the year	**(144.0)**	309.9	-146.5
Underlying (loss) profit[3]	**(70.8)**	454.9	-115.6
Total assets	**9,522.3**	7,657.7	+24.3
Net assets	**2,611.7**	2,452.0	+6.5
Basic (loss) earnings per share *(RMB cents)*	**(1.67)**	5.65	-129.6
Interim dividends *(HK cents)*	**–**	0.47	-100.0
Proposed final dividends *(HK cents)*	**–**	1.00	-100.0
Gross margin[4]	**13.4%**	17.6%	-4.2
Net (loss) profit margin	**(1.5)%**	3.7%	-5.2

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 (loss) profit reflects the underlying business performance of the Group and represents the (loss) profit for the year excluding the impacts of one-off items and the non-cash fair value changes.

Note 4: 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.

2011 Operation Highlights

	2011	2010	Change
	RMB million	*RMB million*	*%*
PRC sales	**5,572.3**	5,148.8	+8.2
Overseas sales	**3,769.7**	3,318.9	+13.6
Major products type			
Residential air-conditioners	**8,245.5**	7,030.1	+17.3
Commercial air-conditioning products	**579.8**	472.1	+22.8
Air-conditioner parts and components	**214.4**	420.1	-49.0
Other products	**302.3**	545.4	-44.6
Residential air-conditioning products sold *('000 units)*	**4,702**	4,710	–0.2
Commercial air-conditioning products sold *('000 sets)*	**127**	126	+0.8

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 2011 together with the comparative figures for the corresponding period of 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	2011 RMB'000	2010 RMB'000
Turnover		**9,342,025**	8,467,723
Cost of goods sold		**(8,270,515)**	(7,790,692)
Gross profit		**1,071,510**	677,031
Government subsidies for high energy-saving products	5	**178,393**	809,237
Other income		**61,832**	42,167
Selling and distribution costs			
– equity-settled share based payments		**(6,587)**	(36,103)
– other selling and distribution costs		**(760,702)**	(667,883)
Administrative expenses			
– equity-settled share based payments		**(16,247)**	(68,362)
– other administrative expenses		**(321,970)**	(229,944)
Research and development costs		**(82,151)**	(61,756)
Other expenses		**(1,545)**	(12,170)
Other gains and losses		**(39,563)**	(14,151)
Net gain in fair value changes of derivative financial instruments		**36,056**	28,592
Loss in fair value changes of warrants		**(50,370)**	(40,504)
Interest on bank and other borrowings wholly repayable within five years		**(204,804)**	(112,596)
(Loss) profit before taxation	6	**(136,148)**	313,558
Taxation	7	**(7,875)**	(3,705)
(Loss) profit for the year and total comprehensive (expense) income for the year		**(144,023)**	309,853
(Loss) profit for the year and total comprehensive (expense) income for the year attributable to			
– owners of the Company		**(137,914)**	309,853
– non-controlling interests		**(6,109)**	–
		(144,023)	309,853
(Loss) earnings per share	9		
– Basic		**(1.67) cents**	5.65 cents
– Diluted		**(1.67) cents**	5.49 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment		**782,389**	507,430
Land use rights		**208,900**	236,377
Intangible assets		**1,830**	2,199
Prepaid lease payments		**105,710**	133,391
Deposits made on acquisition of property, plant and equipment		**83,618**	73,293
Deferred tax assets		**12,040**	11,219
		1,194,487	963,909
Current assets			
Inventories		**2,740,968**	2,823,809
Trade and other receivables	*10*	**4,000,606**	2,379,975
Land use rights		**5,026**	5,525
Prepaid lease payments		**9,497**	6,457
Taxation recoverable		**8,202**	8,202
Derivative financial instruments		**15,534**	22,887
Pledged bank deposits		**998,571**	951,490
Bank balances and cash		**549,348**	495,439
		8,327,752	6,693,784
Current liabilities			
Trade and other payables	*11*	**3,544,103**	3,695,474
Warranty provision		**36,980**	36,598
Taxation payable		**55,734**	77,458
Derivative financial instruments		**607**	3,190
Borrowings related to bills discounted with recourse		**607,842**	72,272
Short-term debentures		**813,589**	–
Short-term bank loans		**1,798,015**	1,192,731
		6,856,870	5,077,723
Net current assets		**1,470,882**	1,616,061
Total assets less current liabilities		**2,665,369**	2,579,970

	NOTES	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Warrants		**–**	44,670
Government grants		**41,344**	64,698
Deferred tax liabilities		**12,329**	18,594
		53,673	127,962
Net assets		**2,611,696**	2,452,008
Capital and reserves			
Share capital	*12*	**71,906**	6,881
Reserves		**2,515,899**	2,445,127
Equity attributable to owners of the Company		**2,587,805**	2,452,008
Non-controlling interests		**23,891**	–
Total equity		**2,611,696**	2,452,008

NOTES:

1. GENERAL

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

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 Company and its subsidiaries (collectively referred as the "Group") have applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2011.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendment to HK(IFRIC*) – INT 14	Prepayments of a minimum funding requirement
HK(IFRIC*) – INT 19	Extinguishing financial liabilities with equity instruments

* IFRIC represents the IFRS Interpretations Committee.

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[4]
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9	Financial instruments[6]
HKFRS 10	Consolidated financial statements[4]
HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosure of interests in other entities[4]
HKFRS 13	Fair value measurement[4]
Amendments to HKAS 1	Presentation of financial statements – presentation of items of other comprehensive income[3]
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets[2]
HKAS 19 (as revised in 2011)	Employee benefits[4]
HKAS 27 (as revised in 2011)	Separate financial statements[4]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[5]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[4]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2014.
6 Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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. 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 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015. Based on the Group's financial assets and liabilities as at 31 December 2011, the directors of the Company anticipate that the application of HKFRS 9 is not expected to have material impact on the consolidated financial statements.

HKFRS 13 "Fair value measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.
HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard is not expected to affect the amounts reported in the consolidated financial statements but may results in more extensive disclosure in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual period beginning 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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 issued by HKICPA. 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 CODM reviews the revenue and result by geographical location of customers for performance assessment and resource allocation. 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	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China (the "PRC")	**5,572,276**	5,148,804	**819,276**	1,232,184
Asia (excluding PRC)	**1,767,031**	1,489,651	**189,515**	114,042
Americas	**1,247,713**	1,105,438	**166,107**	119,628
Africa	**184,463**	329,396	**26,895**	8,217
Europe	**549,192**	356,219	**42,482**	4,272
Oceania	**21,350**	38,215	**5,628**	7,925
	9,342,025	8,467,723	**1,249,903**	1,486,268
Unallocated other income			**61,832**	42,167
Unallocated expenses			**(841,138)**	(706,869)
Staff costs included in selling and distribution costs and administrative expenses			**(375,938)**	(367,966)
Charitable donations			**(439)**	(12,170)
Allowance for doubtful debts			**(11,250)**	(3,364)
Net gain in fair value changes of derivative financial instruments			**36,056**	28,592
Loss in fair value changes of warrants			**(50,370)**	(40,504)
Finance costs			**(204,804)**	(112,596)
(Loss) profit before taxation			**(136,148)**	313,558

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 other than deferred tax assets	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**5,572,276**	5,148,804	**1,182,447**	952,690
Asia (excluding PRC)	**1,767,031**	1,489,651	**–**	–
Americas	**1,247,713**	1,105,438	**–**	–
Africa	**184,463**	329,396	**–**	–
Europe	**549,192**	356,219	**–**	–
Oceania	**21,350**	38,215	**–**	–
	9,342,025	8,467,723	**1,182,447**	952,690

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:

	2011	2010
	RMB'000	*RMB'000*
Residential air-conditioners		
– split type	**7,917,335**	6,750,703
– window type	**293,580**	238,646
– portable type	**34,586**	40,721
	8,245,501	7,030,070
Commercial air-conditioners	**579,811**	472,080
Air-conditioners' parts and components	**214,392**	420,139
Others	**302,321**	545,434
	9,342,025	8,467,723

Information about major customers

For the year ended 31 December 2011, none of the Group's customer had individually accounted for more than 10% of the Group's total revenue.

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 more than 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 2011 and 31 December 2010 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. The Energy-Saving Scheme was expired on 1 June 2011.

During the year, the Group was entitled to government subsidies of RMB178,393,000 (2010: RMB809,237,000) in respect of high energy-saving products.

6. (LOSS) PROFIT BEFORE TAXATION

	2011	2010
	RMB'000	*RMB'000*
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration	**2,700**	2,528
Other staff's retirement benefits scheme contributions	**32,634**	20,103
Other staff's equity-settled share based payments	**20,158**	77,095
Other staff costs	**616,554**	564,911
	672,046	664,637
Less: Staff costs included in research and development costs	**(47,663)**	(44,311)
	624,383	620,326
Allowance for doubtful debts included in other gains and losses	**11,250**	3,364
Write down on inventories included in cost of goods sold	**20,757**	19,502
Amortisation of intangible assets included in administrative expenses	**369**	366
Auditor's remuneration	**2,090**	2,090
Cost of inventories recognised as an expense	**8,325,931**	7,748,908
Depreciation of property, plant and equipment	**81,760**	87,115
Loss on disposal of land use rights	**872**	–
Net exchange losses included in other gains and losses	**31,677**	13,112
Operating lease rentals in respect of		
– land use rights	**5,318**	5,525
– rented premises	**17,389**	12,686
Provision for warranty included in cost of goods sold	**22,990**	22,282
Release of prepaid lease payments	**7,746**	6,069
Share-based payments to certain customers of the Group	**1,845**	26,453
Write-off/loss on disposal of property, plant and equipment	**5,197**	3,746
and after crediting:		
Amortisation of government grants	**1,568**	1,768
Government subsidies included in other income*	**11,316**	6,995
Interest income	**20,785**	18,488
Recovery of doubtful debts included in other gains and losses	**3,364**	2,325
Sales of scrap materials	**13,664**	3,364

* 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

	2011	2010
	RMB'000	*RMB'000*
The charge comprises:		
PRC withholding tax	**(6,935)**	(7,952)
PRC income tax		
– current year	**(8,026)**	–
– overprovision in prior year	**–**	8,336
Deferred taxation	**7,086**	(4,089)
	(7,875)	(3,705)

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. In addition, the income tax rate for both domestic and foreign investment enterprise was unified at 25% effective from 1 January 2008 (Order of the President [2007] No. 63).

Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiary of the Group is entitled to exemption from PRC income tax for the two years commencing from its first profit making year of operation and thereafter, this PRC subsidiary will be entitled to a 50% relief from PRC income tax for the following three years. The first profit making year selected by the PRC subsidiary is the calendar year of 2007. The PRC subsidiary is entitled to 50% relief from PRC income tax in 2011 and 2010.

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

	2011	2010
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year		
– 2010 final dividend of HK1.00 cents (equivalent to RMB0.84 cents) (2010: 2009 final dividend of HK12.5 cents (equivalent to RMB11.0 cents)) per share paid	**70,313**	56,196
– 2010 interim dividend of HK5.0 cents (equivalent to RMB4.37 cents) per share	**–**	22,313
	70,313	78,509
Final dividend proposed	**–**	66,367

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period.

9. (LOSS) EARNINGS PER SHARE

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

(Loss) earnings

	2011	2010
	RMB'000	*RMB'000*
(Loss) earnings for the year attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	**(137,914)**	309,853

Number of shares

	2011	2010
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share on the assumption that the bonus issue on 4 January 2011 has been effective on 1 January 2010	**8,272,809**	5,480,577
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 (loss) earnings per share	**8,272,809**	5,640,678

The computation of diluted (loss) earnings per share does not assume the exercise of the Company's outstanding warrants and share options because the exercise price of those warrants and share options was higher than the average market price for shares during the year ended 31 December 2011.

10. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**2,247,184**	1,370,952
Bills receivables	**1,500,910**	788,101
	3,748,094	2,159,053
Government subsidies receivables for high energy-saving products	**–**	105,157
Deposits paid to suppliers	**132,267**	17,284
Prepayments	**7,680**	5,666
Advances to staff	**22,795**	24,316
Value-added tax recoverable	**84,137**	63,027
Other receivables	**5,633**	5,472
	4,000,606	2,379,975

At the end of the reporting date, bills receivables outstanding amounted to RMB607,842,000 (2010: RMB72,272,000) 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 from date of issuance, while invoices to long-established customers are normally payable within 210 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.

	2011	2010
	RMB'000	*RMB'000*
Age		
0 – 30 days	**1,067,568**	856,720
31 – 60 days	**656,726**	435,177
61 – 90 days	**599,771**	346,364
91 – 180 days	**1,394,851**	507,466
181 – 365 days	**29,178**	13,326
	3,748,094	2,159,053

Include in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB353,611,000 (2010: RMB2,528,000) 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:

	2011	2010
	RMB'000	*RMB'000*
Age		
31 – 60 days	**10,562**	–
61 – 90 days	**43,156**	2
91 – 180 days	**285,814**	698
181 – 365 days	**14,079**	1,828
	353,611	2,528

The Group does not hold any collateral over these balances. The average age of these receivables is 77 days (2010: 62 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:

	2011	2010
	RMB'000	*RMB'000*
At 1 January	**3,364**	2,325
Allowances recognised on receivables	**11,250**	3,364
Amounts recovered during the year	**(3,364)**	(2,325)
At 31 December	**11,250**	3,364

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB11,250,000 (2010: RMB3,364,000) 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:

	2011	2010
	RMB'000	*RMB'000*
USD	**786,387**	587,001
Euro	**5,578**	6,125

11. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**356,379**	529,254
Bills payables	**2,563,161**	2,574,729
	2,919,540	3,103,983
Customers' deposits	**441,133**	440,738
Payroll and welfare payables	**30,609**	26,400
Other tax payables	**25,742**	18,825
Other payables	**127,079**	105,528
	3,544,103	3,695,474

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.

	2011	2010
	RMB'000	*RMB'000*
Age		
0 – 90 days	**1,500,005**	1,730,899
91 – 180 days	**1,404,743**	1,353,863
181 – 365 days	**14,260**	17,242
1 – 2 years	**532**	1,979
	2,919,540	3,103,983

12. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	**Amount**	**Number of shares**	**Amount**
	'000	*HKD'000*	*'000*	*HKD'000*
Ordinary shares of HKD0.01 each				
– at 1 January 2010	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
– issue of shares under the Bonus Issue	–	–	7,078,005	70,780
– exercise of share options	–	–	69,728	697
– exercise of warrants	–	–	500,000	5,000
– at 31 December 2011	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at	
– 31 December 2011 as	71,906
– 31 December 2010 as	6,881

On 4 January 2011, 7,078,005,000 ordinary shares of HKD0.01 each of the Company were issued at HKD0.01 by way of bonus issue on the basis of nine bonus shares for every one then existing share to the qualifying shareholders whose name appeared on the register of members of the Company on 4 January 2011 (the "Bonus Issue").

During the year, 69,728,000 share options were exercised at a subscription price of HKD0.301 per share, resulting in an aggregate issue of 69,728,000 ordinary shares of HKD0.01 each in the Company.

In addition, during the year, 500,000,000 warrants were exercised at a subscription price of HKD0.495 per share, resulting in an aggregate issue of 500,000,000 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 2011, 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 2011 was a challenging year for the Group. Our businesses faced not only the expiry of various government subsidy policies and keen competition domestically but also general slowdown in export growth in fear of weak western economy as well as rising raw materials costs.

The PRC government's Energy-Saving Scheme for the promotion of energy efficient appliances expired on 1 June 2011. Under the Energy-Saving Scheme, subsidies provided for in 2011 were generally lower and for shorter period than those in 2010. Accordingly, there was a significant decrease in the amount of government subsidies received by the Group for the year ended 31 December 2011.

In view of the above and keen competition in the industry, the Group has adjusted its product mix and launched newly developed products to the market to maintain its sales volume and achieve growth in average sales price.

Despite economic slowdown and political unrest in foreign markets, the Group adopted flexible marketing strategies to keep its growth momentum and improved its gross margin sharply during the year under review.

With higher average sales price and stable sales volume, the Group's turnover and gross profit (which did not include any income relating to the Energy-Saving Scheme) increased gradually during the year ended 31 December 2011.

In early 2011, the Group established a 70% indirectly owned subsidiary, 廣東志高暖通設備股份有限公司 (Guangdong Chigo Heating & Ventilation Equipment Co., Ltd.) for the development of its commercial air-conditioning business. Such new commercial arm is a key driver of business growth of the Group and is expected to make more contribution to the Group in the coming year. Furthermore, the Group's manufacturing facilities in Jiujiang, Jiangxi Province, the PRC, commenced operation during the year which can increase the Group's production capacity and service the Group's business requirements in that region.

As announced by the Company on 6 July 2011, the Group terminated the expansion plan in Wuhu, Anhui Province, the PRC and surrendered the relevant land use rights, which have been acquired with government subsidies. Since the new manufacturing facilities in Jiujiang had already commenced operation, there will be no material adverse impact on the business and financial position of the Group.

Operation Review

Sales from major product groups and gross margins

	Year ended 31 December					
	2011		2010		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	*Change %*
Residential air-conditioners						
– split type	**7,917.3**	**84.8**	6,750.7	79.7	+1,166.6	+17.3
– window type	**293.6**	**3.1**	238.7	2.8	+55.2	+23.1
– portable type	**34.6**	**0.4**	40.7	0.5	-6.1	-15.0
	8,245.5	**88.3**	7,030.1	83.0	+1,215.4	+17.3
Commercial air-conditioners	**579.8**	**6.2**	472.1	5.6	+107.7	+22.8
Air-conditioners parts and components	**214.4**	**2.3**	420.1	5.0	-205.7	-49.0
Others	**302.3**	**3.2**	545.4	6.4	-243.1	-44.6
	9,342.0	**100.0**	8,467.7	100.0	+874.3	+10.3

Turnover derived from sales of residential air-conditioners increased by 17.3% during the year ended 31 December 2011, principally because of the increase in the average sales prices of air-conditioning products following the increase in cost of raw material and components and adjustment of product mix during the year. As the average sales price increased during the year, turnover derived from commercial air-conditioners also increased moderately by 22.8%. However, turnover derived from sales of air-conditioner parts and components dropped substantially by 49.0% during the year, principally due to decrease in orders from overseas customers. The Group expects that the situation will reverse when orders from new overseas markets are placed to the Group gradually in the coming years. Sales of other products decreased significantly by 44.6% as the domestic sales of small electrical applicances and other white goods products slowed down during the year.

In 2011, the gross margin (including government subsidies for energy-saving products) of residential air-conditioning products decreased to 13.7% from 19.5% in 2010. Reasons for the decrease were (i) average subsidy per unit reduced substantially and was available only for the first five months in 2011 as compared to subsidies being available throughout 2010; (ii) raw materials and installation costs increased relatively faster than the sales during the year; and (iii) it took time for the Group to adjust its product mix and sales prices of the products to counteract the said negative effects.

The Group had set up a 70% owned commercial arm during the year and improved the profit margin of its commercial air-conditioning products from 4.1% in 2010 to 6.7% in 2011. The Directors expect that the profitability of the commercial unit would continue to improve and make more contribution when the expansion plan is fully implemented in the near future.

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

	Year ended 31 December					
	2011		2010		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	*Change %*
PRC sales						
CHIGO brand	**5,175.0**	**55.4**	4,410.3	52.1	+764.7	+17.3
HYUNDAI brand	**94.8**	**1.0**	86.7	1.0	+8.1	+9.3
Air-conditioner parts and components	**51.5**	**0.6**	148.9	1.8	-97.4	-65.4
Other products	**251.0**	**2.7**	502.9	5.9	-251.9	-50.1
	5,572.3	**59.7**	5,148.8	60.8	+423.5	+8.2
Overseas sales						
CHIGO brand	**595.9**	**6.4**	316.0	3.7	+279.9	+88.6
OEM	**2,959.6**	**31.7**	2,689.2	31.8	+270.4	+10.1
Air-conditioner parts and components	**162.9**	**1.7**	271.1	3.2	-108.2	-39.9
Other products	**51.3**	**0.5**	42.6	0.5	+8.7	+20.4
	3,769.7	**40.3**	3,318.9	39.2	+450.8	+13.6
	9,342.0	**100.0**	8,467.7	100.0	+874.3	+10.3

A majority of the air-conditioning products sold in China were under CHIGO brand. PRC sales of CHIGO brand air-conditioning products increased by 17.3% in 2011. Sales of parts and components, and other products in China decreased by 65.4% and 50.1% respectively mainly due to the slow down of demands for these products in the reporting period.

On the export front, the Group continues to enhance its brand presence. Sales of CHIGO brand products increased sharply by 88.6% during the year ended 31 December 2011. As the Group increased sales in its top three overseas markets, namely, Asia, Americas and Europe, OEM sales also rose by 10.1% in 2011.

Sales and distribution

	Year ended 31 December					
	2011		2010		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	Change %
PRC						
Household appliances retail chain operators	**1,431.1**	**15.3**	1,569.3	18.5	-138.2	-8.8
Regional distributors	**4,141.1**	**44.3**	3,579.5	42.3	+561.6	+15.7
PRC Total	**5,572.2**	**59.6**	5,148.8	60.8	+423.4	+8.2
Overseas						
Regional distributors	**810.1**	**8.7**	629.7	7.4	+180.4	+28.6
OEM manufacturers	**2,959.6**	**31.7**	2,689.2	31.8	+270.4	+10.1
Overseas Total	**3,769.7**	**40.4**	3,318.9	39.2	+450.8	+13.6
Total Turnover	**9,341.9**	**100.0**	8,467.7	100.0	+874.2	+10.3

During the year ended 31 December 2011, the Group's PRC sales from household appliances retail chain operators decreased by 8.8%. Sales generated from regional distributors increased by 15.7% and accounted for 74.3% of the PRC sales in 2011 (2010: 69.5%). As more sales got through the regional distributors channel, percentage of domestic sales through the household appliances retail chain operators dropped to 25.7% (2010: 30.5%) in the same period.

For the overseas sales, the OEM customers generated more sales during the year. However, sales of CHIGO brand products increased relatively faster. As a result, approximately 78.5% and 21.5% (2010: 81.0% and 19.0%) of the overseas sales are distributed by the OEM manufacturers and the overseas regional distributors respectively for the year ended 31 December 2011.

Units sold volume and average sales prices

	Year ended 31 December		
	2011	2010	Change %
Residential air-conditioning products sold *('000 units)*	**4,702**	4,710	–0.2
Commercial air-conditioning products sold *('000 sets)*	**127**	126	+0.8
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,792**	RMB1,664	+7.6
Average sales price – commercial air-conditioning product (per set)	**RMB4,549**	RMB3,753	+21.2

During the year ended 31 December 2011, the Group maintained its sales volume of both residential and commercial air-conditioning products and sold more than 4.8 million units/sets of air-conditioners within the reporting period.

As the Group took appropriate strategy to counteract the effect of subsidies reduction and increase in raw materials costs, average sales prices per unit/set of the residential and commercial air-conditioning products increased by 7.6% and 21.2% respectively during the year ended 31 December 2011.

Breakdown of cost of goods sold

During the two years ended 31 December 2011, breakdown of the Group's total cost of goods is shown as follows:

	Year ended 31 December					
	2011		2010		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	*Change %*
Raw materials, parts and components:						
Compressors	**2,056.8**	**24.9**	1,531.8	19.7	+525.0	+34.3
Copper	**2,415.9**	**29.2**	2,791.0	35.8	-375.1	-13.4
Plastic chips	**484.5**	**5.8**	512.0	6.6	-27.5	-5.4
Aluminum	**561.5**	**6.8**	497.9	6.4	+63.6	+12.8
Steel plates	**550.9**	**6.7**	417.4	5.3	+133.5	+32.0
Others *(note)*	**1,584.9**	**19.2**	1,369.4	17.6	+215.5	+15.7
Total	**7,654.5**	**92.6**	7,119.5	91.4	+535.0	+7.5
Direct labour cost	**274.1**	**3.3**	198.2	2.5	+75.9	+38.3
Utilities	**58.5**	**0.7**	46.4	0.6	+12.1	+26.1
Production cost	**163.7**	**2.0**	138.5	1.8	+25.2	+18.2
Others	**119.7**	**1.4**	288.1	3.7	-168.4	-58.5
Total cost of goods sold	**8,270.5**	**100.00**	7,790.7	100.0	+479.8	+6.2

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.

During the year ended 31 December 2011, the Group's turnover increased faster than the cost of goods sold. As the price of copper, one of the major raw materials, remained relatively stable in 2011, the cost of copper consumed decreased by 13.4%. During the year, the Group adjusted its product mix and manufactured more advanced air-conditioning products for sales. As such, purchase of advanced components, such as compressors increased and the cost of this component increased by 34.3% in 2011.

Because of the rising trend of labour costs in China, direct labour cost increased by 38.3% during the year ended 31 December 2011.

Financial Review

Turnover

	Year ended 31 December					
	2011		2010		Change	
	RMB million	***% of Turnover***	*RMB million*	*% of Turnover*	*RMB million*	*Change %*
Geographic region						
PRC sales	**5,572.3**	**59.6**	5,148.8	60.8	+423.5	+8.2
Asia (excluding PRC)	**1,767.0**	**18.9**	1,489.7	17.6	+277.3	+18.6
Americas	**1,247.7**	**13.4**	1,105.4	13.0	+142.3	+12.9
Africa	**184.5**	**2.0**	329.4	3.9	-144.9	-44.0
Europe	**549.2**	**5.9**	356.2	4.2	+193.0	+54.2
Oceania	**21.3**	**0.2**	38.2	0.5	-16.9	-44.2
Overseas sales	**3,769.7**	**40.4**	3,318.9	39.2	+450.8	+13.6
Total turnover	**9,342.0**	**100.0**	8,467.7	100.0	+874.3	+10.3

During the year ended 31 December 2011, the Group's total turnover was approximately RMB9,342.0 million (2010: RMB8,467.7 million) and increased by RMB874.3 million, or 10.3% as compared to the corresponding period in 2010. The increase was principally due to a stable sales of air-conditioning products following the increase in average sales price of air-conditioning products during the year.

As the subsidies for the energy-saving products expired on 1 June 2011, the amount of government subsidies received by the Group decreased substantially for the year ended 31 December 2011 as compared to the corresponding period in 2010 and the Group received RMB178.4 million (2010: 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 RMB9,520.4 million (2010: RMB9,277.0 million) and increased by 2.6% or RMB243.4 million as compared to 2010.

PRC Sales

During the year ended 31 December 2011, subsidies for energy-saving products per unit reduced substantially and were available only for the first five months. In addition, raw materials costs continued to rise during the reporting period. To minimise the impacts of these adverse factors, the Group refined its product mix and adopted proactive pricing strategy. As such, the Group's PRC sales increased by RMB423.5 million or 8.2% to RMB5,572.3 million (2010: RMB5,148.8 million). During the year ended 31 December 2011, domestic sales remained the main source of revenue of the Group and amounted to 59.6% of the total turnover (2010: 60.8%).

Overseas Sales

The Group's overseas sales continued to perform well during 2011. Overseas sales achieved RMB3,769.7 million in 2011 (2010: RMB3,318.9 million) representing a year-on-year increase of 13.6% or RMB450.8 million.

The increase in the Group's overseas sales in 2011 was mainly contributed by the increases of 18.6% and 54.2% in sales in the Asian (excluding PRC) and European markets respectively. Among the overseas markets of the Group, Asia (excluding PRC) and Americas remained the two major markets which accounted for 18.9% and 13.4% (2010: 17.6% and 13.0% respectively) of the Group's turnover during the year ended 31 December 2011.

Since the Group's overseas sales had increased at a faster rate, overseas sales rose slightly to 40.4% (2010: 39.2%) of the Group's total turnover for the year ended 31 December 2011.

Cost of goods sold

The Group recorded growth in turnover and costs of certain raw materials increased relatively faster than the turnover in 2011. As such, cost of goods sold increased to RMB8,270.5 million (2010: RMB7,790.7 million), an increase of RMB479.8 million or 6.2% as compared to that of 2010. The increase in cost of goods sold was mainly caused by the increases in major raw materials and component costs, especially compressors and aluminum and installation cost during the year ended 31 December 2011.

Gross profit

The Group recorded a gross profit of RMB1,071.5 million for the year ended 31 December 2011 (2010: RMB677.0 million) which increased by RMB394.5 million or 58.3% as compared to 2010. However, part of the Group's gross receipts for energy-saving products sales had been received in the form of government subsidies under the "Promotion of energy efficient appliances scheme" which decreased substantially to RMB178.4 million (2010: RMB809.2 million) for the year ended 31 December 2011. As a result, consolidated segment results of operation (sum of gross profit and the government subsidies for energy-saving products) for the year ended 31 December 2011 totaled RMB1,249.9 million (2010: RMB1,486.3 million) representing a decrease of RMB236.4 million or 15.9% from that of 2010.

As the consolidated segment results of operation decreased, the Group's gross margin (calculated as consolidated segment results to turnover) decreased from 17.6% in 2010 to 13.4% for the year ended 31 December 2011 accordingly.

As the Group needed time to adjust its product mix and counteract the effects of the expiry of subsidy policies and increase in raw materials costs, its gross margin of PRC sales decreased to 14.7% in 2011. On the other hand, the gross margin of overseas sales of the Group continued to improve in 2011 to 11.4%. Among the overseas sales regions, Americas and Oceania contributed the most to the profitability of the Group and achieved gross margins of 13.3% and 26.4% respectively in 2011.

Government subsidies for high energy-saving products

For the year ended 31 December 2011, the Group was entitled to the government subsidies for high energy-saving products of RMB178.4 million (2010: RMB809.2 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 RMB61.8 million (2010: RMB42.2 million) and increased by RMB19.6 million or 46.4% because of increases in non-operating income and other government subsidies.

Selling and distribution costs

The Group's selling and distribution costs increased to RMB760.7 million (2010: RMB667.9 million), an increase of RMB92.8 million or 13.9% for the year ended 31 December 2011. This increase was mainly due to the increases in (i) salary and allowance of sales personnel; (ii) warehousing 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 significantly by RMB92.1 million or 40.1% to RMB322.0 million (2010: RMB229.9 million) for the year ended 31 December 2011. The increase in administrative expenses was primarily due to the increases in (i) salaries, benefits and social insurance charges relating to administrative staff; (ii) banking charges relating to comprehensive banking services and (iii) professional fees in relation to fund raising exercise during the year.

Equity-settled share based payments

The Group recorded an equity-settled share based payments of RMB22.8 million (2010: RMB104.5 million) for the year ended 31 December 2011 in relation to the share options granted by the Company to certain employees and customers. This non-cash expense decreased by RMB81.7 million or 78.2% because (i) there was a one-off expense in relation to the fair value of the shares given by the Company's controlling shareholder in 2010 but not in 2011 and (ii) the share-based payments in relation to the share options granted by the Company to certain employees and customers decreased to RMB22.8 million (2010: RMB42.9 million) during the reporting period because the majority of the expenses had been amortised in the previous periods.

Research and development costs

Research and development ("**R&D**") costs increased to RMB82.2 million (2010: RMB61.8 million) by 32.8% or RMB20.4 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 and expenditures relating to new products development.

Other expenses

Other expenses were mainly non-operating expenses which decreased by RMB10.7 million or 87.7% during the year ended 31 December 2011 and amounted to RMB1.5 million.

Other gains and losses

Other gains and losses increased by RMB25.4 million or 178.9% to RMB39.6 million (2010: RMB14.2 million) in 2011. 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 RMB36.1 million (2010: RMB28.6 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 2011 as exchange rate of RMB against USD appreciated favourably to the Group.

Loss in fair value changes of warrants

During the year, 50% of the unlisted warrants had been exercised by certain investors. As at the year end, 50% of the unlisted warrants remained outstanding and the Group recognised an aggregate fair value loss of RMB50.4 million (2010: RMB40.5 million) relating to the unlisted warrants.

Finance costs

During the year ended 31 December 2011, the Group utilised more short-term bank loans and trade finance facilities to finance its working capital requirement. The Group also issued a debenture of RMB800 million during the year for general working capital purpose. Besides, the average interest rate on bank loans and bills discounting rosed significantly. As a result, interest on bank and other borrowings increased by RMB92.2 million or 81.9% to RMB204.8 million (2010: RMB112.6 million) for the year ended 31 December 2011.

Taxation

Part of the receipts from sales of energy-saving products was not subject to tax. During the reporting period, the amount of such receipts decreased substantially. As such, the Group's tax charge increased to RMB7.9 million (2010: RMB3.7 million) by RMB4.2 million or 113.5% for the year ended 31 December 2011.

Loss for the year and total comprehensive income for the year

As a result of the foregoing, the Group recorded a loss of RMB144.0 million for the year ended 31 December 2011 (2010: a profit of RMB309.9 million), representing a decrease of RMB453.9 million or 146.5% as compared to the corresponding period in 2010. Since the Group had recorded a loss in the reporting period, the Group's net margin changed from 3.7% in 2010 to a net loss of 1.5% for the year ended 31 December 2011 accordingly.

Financial position

	As at 31 December			
	2011	2010	Change	
	RMB million	*RMB million*	*RMB million*	*Change %*
Non-current assets	**1,194.5**	963.9	+230.6	+23.9
Current assets	**8,327.8**	6,693.8	+1,634.0	+24.4
Current liabilities	**6,856.9**	5,077.7	+1,779.2	+35.0
Non-current liabilities	**53.7**	128.0	-74.3	-58.0
Net assets	**2,611.7**	2,452.0	+159.7	+6.5

As at 31 December 2011, the Group's total consolidated assets increased by RMB1,864.6 million or 24.3% to RMB9,522.3 million (31 December 2010: RMB7,657.7 million). The increase was mainly in the current assets such as bank balances and cash (increased by RMB54.0 million), trade and other receivables (increased by RMB1,620.6 million) and non-current assets such as property, plant and equipment (increased by RMB275.0 million). Total consolidated liabilities of the Group as at 31 December 2011 amounted to RMB6,910.6 million (31 December 2010: RMB5,205.7 million) and increased by RMB1,704.9 million or 32.8% as compared to that of 31 December 2010. The major liabilities increased in the period were borrowings related to bills discounted with recourse (increased by RMB535.6 million), short-term bank loans (increased by RMB605.3 million) and short-term debentures (increased by RMB813.6 million).

Although the Group recorded a net loss for the year, the Group received new capital upon the exercises of unlisted warrants and share options by the respective holders. The Group's net assets increased by 6.5% or RMB159.7 million to RMB2,611.7 million at the end of 2011 (31 December 2010: RMB2,452.0 million).

Liquidity, financial resources and capital structure

As at 31 December 2011, the Group had current assets amounting to RMB8,327.8 million (31 December 2010: RMB6,693.8 million) and current liabilities amounting to RMB6,856.9 million (31 December 2010: RMB5,077.7 million). The Group's working capital decreased by RMB145.2 million or 9.0% from RMB1,616.1 million as at the end of 2010 to RMB1,470.9 million at the end of 2011. As the Group's current liabilities increased relatively faster, the current ratio dropped slightly from 1.3 times as at 31 December 2010 to 1.2 times as at 31 December 2011.

At the end of 2011, the balance of short-term bank loans owed by the Group was RMB1,798.0 million (31 December 2010: RMB1,192.7 million) and increased by RMB605.3 million or 50.8%. 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.

During the year ended 31 December 2011, the Group also obtained trade finance facilities from banks and discounted part of the bills receivable to banks for its working capital. As at 31 December 2011, bills receivable of RMB607.8 million had been discounted by the Group to banks. The full amount of such bills discounted of RMB607.8 million was recognised as borrowings related to bills discounted with recourse and the Group continues to recognise and include the same amount in the bills receivable until maturity. As such, the current assets (trade and other receivables), current liabilities (borrowings related to bills discounted with recourse) increased by RMB607.8 million simultaneously at the balance sheet date.

According to the past experience of the management of the Group, once the bills were discounted to the banks, the chance of repayment to banks was remote and the discounted bills receivable with recourse would be released upon maturity. As such, a portion of these borrowings will be excluded from calculation of the gearing ratio.

The gearing ratio (calculated as bank and other borrowings to total assets) of the Group increased to 27.4% as at 31 December 2011 (31 December 2010: 15.6%).

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 and other borrowings were utilised for working capital purpose and increases in average interest rates in 2011, interest cover of the Group decreased to 0.3 times for the year ended 31 December 2011 as compared to 3.8 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 gross financial exposure of the Group to these foreign currency forward contracts was approximately RMB16.1 million (31 December 2010: RMB26.1 million) as at the year end.

The bonus issue of new shares on the basis of nine (9) bonus shares for every one (1) then existing share to the qualifying shareholders was completed on 4 January 2011. As a result, 7,078,005,000 new shares were issued by the Company.

During the year ended 31 December 2011, 69,728,000 and 500,000,000 new shares had been issued in relation to the exercise of certain share options and unlisted warrants respectively.

As a result of the aforesaid issuances of shares, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue as at 31 December 2011. All of the issued shares were ordinary shares.

Since the Group had raised proceeds from issue of new shares which was more than the net loss reported during the year, the shareholders' equity increased to RMB2,611.7 million as at 31 December 2011 (31 December 2010: RMB2,452.0 million).

On 29 March 2011, shareholders of the Company approved the proposed amendments and the issue of ordinary shares of the Company upon the exercise of the subscription rights attached to the unlisted warrants. As such, the then 100,000,000 unlisted warrants were adjusted to 1,000,000,000 unlisted warrants. Each unlisted warrant carries the right to subscribe for one warrant share of the Company at the subscription price of HK$0.495 per warrant share (as adjusted by the bonus issue mentioned above). Since 500,000,000 unlisted warrants had been exercised by the warrantholders during the first half of 2011, there were 500,000,000 unlisted warrants outstanding as at 31 December 2011.

As announced by the Company on 7 September 2011, Guangdong Chigo Air-Conditioning Co., Limited ("Guangdong Chigo"), an indirect wholly-owned subsidiary of the Company, had issued short-term debentures in an aggregate principal amount of RMB800 million in the PRC. The short-term debentures, with a fixed coupon rate of 7.9% per annum and a face value of RMB100 each, were issued at 100% of its face value with a maturity period of 366 days.

On 23 September 2011, the Company granted to certain eligible participants share options to subscribe for 750,000,000 new shares. As at 31 December 2011, share options to subscribe for an aggregate of 746,500,000 shares remained outstanding.

Other than the above, there were no other equity or debt instruments issued by the Group during the reporting period and at the end of 2011.

Cash flows

	Year ended 31 December	
	2011	2010
	RMB million	*RMB million*
Operating cash flows	**236.3**	667.9
Movements in working capital and tax paid	**(1,736.2)**	(804.3)
Net cash used in operating activities	**(1,499.9)**	(136.4)
Net cash used in investing activities	**(381.6)**	(269.0)
Net cash from financing activities	**1,935.4**	468.0
Net increase in cash and cash equivalents	**53.9**	62.6
Cash and cash equivalents at 31 December	**549.3**	495.4

For the year ended 31 December 2011, the Group generated operating cash flows of RMB236.3 million (2010: RMB667.9 million). The Group raised net bank loans of RMB605.3 million, net borrowings of RMB535.6 million from bills discounted with recourse and net proceeds of RMB791.2 million from short-term debenture during the year. The Company also raised RMB226.2 million from issue of new shares under the unlisted warrants and share options. As such, net cash generated from financing activities amounted to RMB1,935.4 million (2010: RMB468.0 million). Part of the cash generated was primarily used to finance the Group's working capital including trade and other receivables of RMB1,628.5 and settlement of trade and other payables of RMB151.3 million during the year. The Group also applied RMB381.6 million (2010: RMB269.0 million) of the cash generated for its investing activities including purchase and deposits paid on acquisition of property, plant and equipment for the future business expansion and development of the Group.

As a result of the foregoing, the Group generated surplus cash of RMB53.9 million during the year ended 31 December 2011 (2010: net cash inflow of RMB62.6 million) and had bank balances and cash amounted to RMB549.3 million at the end of 2011 (31 December 2010: RMB495.4 million).

Material acquisitions and disposals, significant investments

During the year ended 31 December 2011, 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 2011, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB998.6 million (31 December 2010: approximately RMB951.5 million) and certain intangible assets 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 2011, approximately 40.4% 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 be exposed 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 open offer into the functional currency of the Group as required for its planned use during the year ended 31 December 2011. 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 2011, 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 RMB104.7 million (31 December 2010: approximately RMB158.9 million).

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2011.

Employees and remuneration

As at 31 December 2011, the Group employed 14,540 employees (31 December 2010: 12,814 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 2011, the Group had granted the Directors and employees of the Group share options to subscribe for 51,000,000 and 685,750,000 shares of the Company respectively.

Outlook and Future Plans

The management of the Group believes that fluctuation of its results in 2011 was only short-term and of transitional nature. The Group is of the view that China will remain as a strong economic power in the world and expects to enjoy the benefits of the fast-growing China's economy and the prospect of the promising air-conditioning market. With the "RMB100 billion reaching in 5 to 10 years" plan in place, the Group will focus on the following areas in 2012:-

- ***雲空調 (Cloud air-conditioner) - intelligent air-conditioning technology***

  The management of the Group always believes that leading technology is the key to success. Building on its strong foundation of inverter air-conditioning technology, the Group introduced the world's first inverter cloud air-conditioner (Icon1) in early 2012, which won itself a leading position in creating a cloud air-conditioner era. Firstly integrating the cloud computer technology into the air-conditioning industry was a completely new revolution of the intelligent inverter air-conditioners. The management is optimistic that the appearance of the cloud air-conditioners would completely change the definition of traditional air-conditioning and is an important breakthrough of intelligent science and technology. Related products will be launched to the market in 2012 and let the Group take leading role in the air-conditioning industry.

- ***Further integration upstream***

  In order to improve the competitiveness and profitability of the Group, the management considers the possibility of manufacturing all the parts and components itself from time to time. Being the most fully integrated air-conditioners manufacturer, the management believes that it will be in the best interests of the shareholders and the future development of the Group.

- ***Distribution network enhancement***

  In the past two years, the Group opened its authorised electrical appliance stores and B2C internet sales platform and achieved satisfactory sales growth in these distribution channels and brand promotion. In the coming year, the Group targets to further enhance and strengthen the existing distribution network by increasing the network coverage. The expansion plan will be implemented through cooperation with other brands and potential distributors. The management is also studying and considering the feasibility and timing of overseas projects. If any target is identified, the Group will inform the shareholders of the investment in due course.

OTHER INFORMATION

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (31 December 2010: 1.0 HK cents).

Annual General Meeting

The annual general meeting of the Company will be held on Friday, 25 May 2012. 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 Thursday, 24 May 2012 to Friday, 25 May 2012 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, 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 Wednesday, 23 May 2012.

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 during the year ended 31 December 2011.

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 2011, 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 2011, 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 18 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 2011 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's website (www.hkexnews.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 2011 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, 29 March 2012.

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