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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 2012

2012 FINANCIAL HIGHLIGHTS

	2012	2011	Change
	RMB million	*RMB million*	%
Turnover	**8,801.8**	9,342.0	-5.8
Gross receipts[1]	**8,922.6**	9,520.4	-6.3
Consolidated segment results[2]	**1,413.4**	1,249.9	+13.1
Profit (loss) for the year	**98.5**	(144.0)	+168.4
Underlying profit (loss)[3]	**124.5**	(70.8)	+275.8
Total assets	**10,395.7**	9,522.3	+9.2
Net assets	**2,736.2**	2,611.7	+4.8
Basic earnings (loss) per share *(RMB cents)*	**1.09**	(1.67)	+165.3
Interim dividends *(HK cents)*	**–**	–	–
Proposed final dividends *(HK cents)*	**–**	–	–
Gross margin[4]	**16.1%**	13.4%	+2.7
Net profit (loss) margin	**1.1%**	(1.5)%	+2.6

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: 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.

2012 Operation Highlights

	2012	2011	Change
	RMB million	*RMB million*	*%*
PRC sales	**4,825.9**	5,572.3	-13.4
Overseas sales	**3,975.9**	3,769.7	+5.5
Major products type			
Residential air-conditioners	**7,506.3**	8,245.5	-9.0
Commercial air-conditioning products	**618.9**	579.8	+6.7
Air-conditioner parts and components	**410.1**	214.4	+91.3
Other products	**266.5**	302.3	-11.8
Residential air-conditioning products sold *('000 units)*	**4,425**	4,702	–5.9
Commercial air-conditioning products sold *('000 sets)*	**137**	127	+7.9

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 2012 together with the comparative figures for the corresponding period of 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	**2012** *RMB'000*	2011 *RMB'000*
Turnover		**8,801,814**	9,342,025
Cost of goods sold		**(7,509,206)**	(8,270,515)
Gross profit		**1,292,608**	1,071,510
Government subsidies for high energy-saving products	5	**120,750**	178,393
Other income		**63,128**	61,832
Selling and distribution costs			
– equity-settled share based payments		**(5,952)**	(6,587)
– other selling and distribution costs		**(711,664)**	(760,702)
Administrative expenses			
– equity-settled share based payments		**(20,115)**	(16,247)
– other administrative expenses		**(288,040)**	(321,970)
Research and development costs		**(77,001)**	(82,151)
Other expenses		**(3,397)**	(1,545)
Other gains and losses		**(14,449)**	(39,563)
Net gain in fair value changes of derivative financial instruments		**42,168**	36,056
Loss in fair value changes of warrants		**–**	(50,370)
Finance costs		**(261,870)**	(204,804)
Profit (loss) before taxation	6	**136,166**	(136,148)
Taxation	7	**(37,712)**	(7,875)
Profit (loss) for the year and total comprehensive income (expense) for the year		**98,454**	(144,023)
Profit (loss) for the year and total comprehensive income (expense) for the year attributable to:			
– owners of the Company		**92,055**	(137,914)
– non-controlling interests		**6,399**	(6,109)
		98,454	(144,023)
Earnings (loss) per share	9		
– Basic and diluted		**1.09 cents**	(1.67) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	**2012** *RMB'000*	2011 *RMB'000*
Non-current assets			
Property, plant and equipment		**955,813**	782,389
Land use rights		**203,874**	208,900
Intangible assets		**1,461**	1,830
Prepaid lease payments		**170,724**	105,710
Deposits made on acquisition of property, plant and equipment		**79,061**	83,618
Deferred tax assets		**10,313**	12,040
		1,421,246	1,194,487
Current assets			
Inventories		**2,289,096**	2,740,968
Trade and other receivables	*10*	**4,755,882**	4,000,606
Land use rights		**5,026**	5,026
Prepaid lease payments		**11,055**	9,497
Taxation recoverable		**10,809**	8,202
Derivative financial instruments		**31,856**	15,534
Pledged bank deposits		**946,887**	998,571
Bank balances and cash		**923,860**	549,348
		8,974,471	8,327,752
Current liabilities			
Trade and other payables	*11*	**4,171,585**	3,544,103
Warranty provision		**30,606**	36,980
Taxation payable		**85,702**	55,734
Derivative financial instruments		**–**	607
Borrowings related to bills discounted with recourse		**989,393**	607,842
Short-term debentures		**805,800**	813,589
Short-term bank loans		**1,521,132**	1,798,015
		7,604,218	6,856,870
Net current assets		**1,370,253**	1,470,882
Total assets less current liabilities		**2,791,499**	2,665,369
Non-current liabilities			
Government grants		**40,056**	41,344
Deferred tax liabilities		**15,226**	12,329
		55,282	53,673
Net assets		**2,736,217**	2,611,696
Capital and reserves			
Share capital	*12*	**71,906**	71,906
Reserves		**2,634,021**	2,515,899
Equity attributable to owners of the Company		**2,705,927**	2,587,805
Non-controlling interests		**30,290**	23,891
Total equity		**2,736,217**	2,611,696

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 Group has applied the following amendments to HKFRSs:

Amendments to HKAS 12	Deferred tax: Recovery of underlying asset
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets

The application of the amendments to HKAS 12 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.

Amendments to HKFRS 7 Disclosures - Transfers of financial assets

The Group has applied for the first time the amendments to HKFRS 7 "Disclosures - Transfers of financial assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bills receivables. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing. The relevant disclosures have been made regarding the transfer of these bills receivables on application of the amendments to HKFRS 7. In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

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 HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for the Gruop for annual period beginning on 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual period beginning on 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 will result in more disclosures in the consolidated financial statement.

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.

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 2012, the directors of the Company anticipate that the application of HKFRS 9 is not expected to have material impact on the consolidated financial statements.

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of HKFRS 10 and HKFRS 12 are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK (SIC) – INT 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The directors of the Company anticipated that the application of these five standards 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.

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 will result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'.

The amendments to HKAS 1 also 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 on 1 July 2012. The directors of the Company anticipated that the application of the amendments to HKAS 1 is expected to have no 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 chief executive officer ("CEO"), 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**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China (the "PRC")	**4,825,947**	5,572,276	**844,853**	819,276
Asia (excluding PRC)	**2,064,919**	1,767,031	**271,659**	189,515
Americas	**920,828**	1,247,713	**156,856**	166,107
Africa	**458,079**	184,463	**67,098**	26,895
Europe	**525,406**	549,192	**70,956**	42,482
Oceania	**6,635**	21,350	**1,936**	5,628
	8,801,814	9,342,025	**1,413,358**	1,249,903
Unallocated other income			**63,128**	61,832
Unallocated expenses			**(737,416)**	(841,138)
Staff costs included in selling and distribution costs and administrative expenses			**(363,334)**	(375,938)
Charitable donations			**(1,150)**	(439)
Allowance for doubtful debts			**(18,718)**	(11,250)
Net gain in fair value changes of derivative financial instruments			**42,168**	36,056
Loss in fair value changes of warrants			**–**	(50,370)
Finance costs			**(261,870)**	(204,804)
Profit (loss) before taxation			**136,166**	(136,148)

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**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**4,825,947**	5,572,276	**1,410,933**	1,182,447
Asia (excluding PRC)	**2,064,919**	1,767,031	**–**	–
Americas	**920,828**	1,247,713	**–**	–
Africa	**458,079**	184,463	**–**	–
Europe	**525,406**	549,192	**–**	–
Oceania	**6,635**	21,350	**–**	–
	8,801,814	9,342,025	**1,410,933**	1,182,447

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:

	2012	2011
	RMB'000	*RMB'000*
Residential air-conditioners		
– split type	**7,193,119**	7,917,335
– window type	**280,517**	293,580
– portable type	**32,748**	34,586
	7,506,384	8,245,501
Commercial air-conditioners	**618,872**	579,811
Air-conditioners' parts and components	**410,068**	214,392
Others	**266,490**	302,321
	8,801,814	9,342,025

Information about major customers

For the year ended 31 December 2012 and 31 December 2011, none of the Group's customer had individually 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 2012 and 31 December 2011 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. On 25 May 2012, the PRC government announced a new Energy-Saving Scheme which is effective for the period from 1 June 2012 to 31 May 2013 (the "New Energy-Saving Scheme").

During the year, the Group was entitled to these government subsidies of RMB116,740,000 (2011: RMB178,393,000) in respect of high energy-saving products sold in 2011 under the Energy-Saving Scheme and RMB4,010,000 (2011: Nil) in respect of high energy-saving products sold in 2012 under the New Energy-Saving Scheme.

6. PROFIT (LOSS) BEFORE TAXATION

	2012	2011
	RMB'000	*RMB'000*
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration	**3,906**	2,700
Other staff's retirement benefits scheme contributions	**37,830**	32,634
Other staff's equity-settled share based payments	**24,006**	20,158
Other staff costs	**609,621**	616,554
	675,363	672,046
Less: Staff costs included in research and development costs	**(43,940)**	(47,663)
	631,423	624,383
Allowance for doubtful debts included in other gains and losses	**18,718**	11,250
Amortisation of intangible assets included in administrative expenses	**369**	369
Auditor's remuneration	**2,173**	2,090
Cost of inventories recognised as an expense including write down on inventories of RMB22,887,000 (2011: RMB20,757,000)	**7,486,467**	8,247,525
Depreciation of property, plant and equipment	**102,961**	81,760
Loss on disposal of land use rights	**–**	872
Net exchange losses included in other gains and losses	**3,275**	31,677
Operating lease rentals in respect of		
– land use rights	**5,026**	5,318
– rented premises	**36,731**	17,389
Provision for warranty included in cost of goods sold	**22,739**	22,990
Release of prepaid lease payments	**11,261**	7,746
Share-based payments to certain customers of the Group	**–**	1,845
Write-off/loss on disposal of property, plant and equipment	**249**	5,197
and after crediting:		
Amortisation of government grants	**1,288**	1,568
Government subsidies included in other income*	**4,655**	11,316
Interest income	**34,405**	20,785
Reversal of doubtful debts included in other gains and losses	**7,544**	3,364
Sales of scrap materials	**8,491**	13,664

* 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

	2012	2011
	RMB'000	*RMB'000*
The (charge) credit comprises:		
PRC withholding tax	**–**	(6,935)
PRC income tax		
– current year	**(33,088)**	(8,026)
Deferred taxation	**(4,624)**	7,086
	(37,712)	(7,875)

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) except that one of the subsidiaries was officially endorsed as a High-New Technology Enterprise till 31 December 2013. Pursuant to the EIT Law, a High-New Technology Enterprise shall be entitled to a preferential tax rate of 15% till 31 December 2013.

Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiaries 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 ("Tax Holiday"). 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. The Tax Holiday has expired for this subsidiary at the end of 2011.

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.

8. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year		
– 2011 final dividend of nil HK cents		
(2011: 2010 final dividend of HK1.00 cents		
(equivalent to RMB0.84 cents)) per share paid	**–**	70,313

No dividend was paid or proposed during 2012, nor has any dividend been proposed since the end of the reporting period.

9. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the earnings for the year attributable to owners of the Company of RMB92,055,000 (2011: the loss of RMB137,914,000) and on the weighted average number of 8,434,178,000 (2011: 8,272,809,000) shares in issue during the year on the assumption that the bonus issue on 4 January 2011 has been effective on 1 January 2011.

The computation of diluted earnings (loss) per share does not assume the exercise of the Company's outstanding share options and warrants because the exercise price of those share options and warrants was higher than the average market price for shares during the years ended 31 December 2012 and 31 December 2011.

10. TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**2,857,113**	2,247,184
Bills receivables	**1,673,590**	1,500,910
	4,530,703	3,748,094
Deposits paid to suppliers	**145,484**	132,267
Prepayments	**1,922**	7,680
Advances to staff	**19,072**	22,795
Value-added tax recoverable	**44,695**	84,137
Other receivables	**14,006**	5,633
	4,755,882	4,000,606

At the end of the reporting date, bills receivables outstanding amounted to RMB989,393,000 (2011: RMB607,842,000) 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 receivable 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 dates at the end of the reporting period which approximated the respective revenue recognition dates.

	2012	2011
	RMB'000	*RMB'000*
Age		
0 – 30 days	**2,015,737**	1,067,568
31 – 60 days	**479,221**	656,726
61 – 90 days	**430,879**	599,771
91 – 180 days	**1,579,846**	1,394,851
181 – 365 days	**25,020**	29,178
	4,530,703	3,748,094

Include in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB544,203,000 (2011: RMB353,611,000) 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:

	2012	2011
	RMB'000	*RMB'000*
Age		
31 – 60 days	**8,123**	10,562
61 – 90 days	**33,557**	43,156
91 – 180 days	**486,857**	285,814
181 – 365 days	**15,666**	14,079
	544,203	353,611

The Group does not hold any collateral over these balances. The average age of these receivables is 120 days (2011: 77 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:

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**11,250**	3,364
Allowances recognised on receivables	**18,718**	11,250
Amounts recovered during the year	**(7,544)**	(3,364)
At 31 December	**22,424**	11,250

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB22,424,000 (2011: RMB11,250,000) 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:

	2012	2011
	RMB'000	*RMB'000*
USD	**506,592**	786,387
Euro	**2,223**	5,578

Transfer of financial assets

The following were the Group's financial assets as at 31 December 2012 that were transferred to banks by discounting those receivables on a full recourse basis. If the bills receivables are not paid at maturity, the Group is required to pay the unsettled balances. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable discounted to banks with full recourse
	RMB'000
Carrying amount of bills receivables	994,928
Carrying amount of associated borrowings	989,393

11. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**612,675**	356,379
Bills payables	**3,040,022**	2,563,161
	3,652,697	2,919,540
Customers' deposits	**250,352**	441,133
Payroll and welfare payables	**40,360**	30,609
Other tax payables	**27,182**	25,742
Accruals	**57,593**	17,149
Other payables	**143,401**	109,930
	4,171,585	3,544,103

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.

	2012	2011
	RMB'000	*RMB'000*
Age		
0 – 90 days	**2,363,569**	1,500,005
91 – 180 days	**1,274,007**	1,404,743
181 – 365 days	**7,148**	14,260
1 – 2 years	**7,973**	532
	3,652,697	2,919,540

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 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 and 31 December 2012	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at	
– 31 December 2012 and 2011 as	71,906

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 ended 31 December 2011, 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 ended 31 December 2011, 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 2012, 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.

After rapid growth in the past few years, the Chinese air-conditioning industry entered into a period of adjustment in 2012. Overall performance of the air-conditioning market was not satisfactory and retail sales of air-conditioning products recorded a year-on-year negative growth. In relation to the reasons for the decline, the first was that air-conditioning manufacturers had to face a hindrance to sales in domestic market during 2012. Because of continued macroeconomic slowdown, coupled with stringent national policies imposing on the real estate sector, the property market was weak and housing turnover shrank. As a result, generation of new demand for air-conditioning market was suppressed and the domestic sales of air-conditioning products was affected. In addition, due to the macroeconomic conditions entering into a steady growth stage from the previous rapid growth stage, consumers became more cautious on spending and expenditure, so the release of domestic spending power had been repressed.

Meanwhile, during the two-year period of 2009-2011, the demand for air-conditioning products was driven by a number of state subsidy policies, and temporary overconsumption effect in the market was noted. The subsidy policies had exited gradually since 2011, the PRC government introduced a new successive policy in mid-2012. However, the driving force is slightly worse than expected. In addition, changing weather in 2012 was not favourable to the sales of air-conditioning products, therefore, domestic sales showed a larger adjustment.

As for exports, the air-conditioning manufacturers also faced many severe trials and struggled for better business environment. Air-conditioning industry as a whole recorded a decline in exports during 2012, which was primarily due to the impact of the economic crisis within the member countries of the Euro zone after another on the major European market. Though the North American market seems to show signs of economic recovery, the pace of the recovery was still slow. Furthermore, the exchange rate of the Renminbi fluctuated from low to high during 2012, which was not favourable to air-conditioning exports. Faced with the dual pressures of the domestic and international markets, air-conditioning industry was forced to accelerate the adjustment and transformation.

In 2012, the business of the Group was inevitably influenced by the falling trend in the whole industry. However, the management of the Group was able to assess the situation and made appropriate adjustments to its marketing strategies. Instead of clinging to sales volume oriented strategy, the management of the Group is more pragmatic and run the business with the aims to enhancing the operational efficiency of the Group and improving its profit margins. In 2012, the consolidated sales and sales volume of the Group both went down slightly. Fortunately, as compared to the decline in industry as a whole, the Group had already performed better than its peers. Besides, the Group also achieved a profit turnaround in 2012 from a significant loss in the previous year.

Though the Group recorded a negative growth in PRC sales for the year ended 31 December 2012, the situation had improved in the second half of the year. Total PRC sales reached 54.8% of the total turnover and was the main source of income of the Group in 2012. It was the effort of the PRC sales team to improve the gross margin by adjusting to the product mix, launching innovative products and maintaining the average selling price of the products.

Overseas sales team achieved excellent performance in the first half of 2012 and brought the Group a growth in total sales for the whole year. In addition, the Group also thrived by adjusting sales to different regional markets, focusing on the major high-growth markets, to push up the gross margin of overseas sales. As a result, the overall profitability of the Group improved satisfactorily during the year.

During the year under review, the sales and volume of commercial air-conditioning products increased year-on-year and accounted for a higher portion of the Group's sales. Besides, the average price of commercial air-conditioning products was maintained in the year so that the commercial air-conditioning subsidiary commenced to make operating profit this year.

The management also attaches great importance to technological innovation and production chain layout of the Group. During 2012, the Group established a wholly-owned subsidiary, Guangdong Chigo Precision Machinery Co., Ltd., which specialises in the compressor business with an aim to providing further integration of production, and enhancing the competitiveness of the Group in the future.

Operation Review

Sales from major product groups and gross margins

	Year ended 31 December					
	2012		2011		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
Residential air-conditioners						
– split type	**7,193.1**	**81.7**	7,917.3	84.8	-724.2	-9.1
– window type	**280.5**	**3.2**	293.6	3.1	-13.1	-4.5
– portable type	**32.7**	**0.4**	34.6	0.4	-1.9	-5.5
	7,506.3	**85.3**	8,245.5	88.3	-739.2	-9.0
Commercial air-conditioners	**618.9**	**7.0**	579.8	6.2	+39.1	+6.7
Air-conditioners parts and components	**410.1**	**4.7**	214.4	2.3	+195.7	+91.3
Others	**266.5**	**3.0**	302.3	3.2	-35.8	-11.8
	8,801.8	**100.0**	9,342.0	100.0	-540.2	-5.8

Residential air-conditioning products are the major source of income for the Group and accounted for 85.3% of the total turnover. Turnover derived from sales of residential air-conditioners decreased by 9.0% during the year ended 31 December 2012, principally because of the drop in number of units sold and the slight decrease in the average sales prices of air-conditioning products following the decrease in average cost of goods sold during the year. As the average sales price maintained and sales volume continued to improve during the year, turnover derived from commercial air-conditioners rose by 6.7% and contributed 7.0% of the total turnover to the Group. After a drop in 2011, sales of air-conditioner parts and components rebounded to its normal level and increased substantially by 91.3% during the year, principally due to increased sales to external manufacturers in Africa and South America. Sales of the other products decreased by 11.8% as the Group had outsourced some of the sideline production to external manufacturers to save cost and improve efficiency.

Although the sales of residential air-conditioning products dropped for the year ended 31 December 2012, its gross margin (including government subsidies for energy-saving products) improved steadily to 15.5% for the reporting period from 13.7% in 2011.

The Group's commercial unit continued to improve the profit margin of the commercial air-conditioning products substantially from 6.7% in 2011 to 22.0% during the year.

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

	Year ended 31 December					
	2012		2011		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
PRC sales						
CHIGO brand	**4,455.4**	**50.6**	5,175.0	55.4	-719.6	-13.9
HYUNDAI brand	**65.0**	**0.7**	94.8	1.0	-29.8	-31.4
Air-conditioner parts and components	**52.7**	**0.6**	51.5	0.5	+1.2	+2.3
Other products	**252.8**	**2.9**	251.0	2.7	+1.8	+0.7
	4,825.9	**54.8**	5,572.3	59.6	-746.4	-13.4
Overseas sales						
CHIGO brand	**616.0**	**7.0**	595.9	6.4	+20.1	+3.4
OEM	**2,988.8**	**34.0**	2,959.6	31.7	+29.2	+1.0
Air-conditioner parts and components	**357.4**	**4.1**	162.9	1.7	+194.5	+119.4
Other products	**13.7**	**0.1**	51.3	0.6	-37.6	-73.3
	3,975.9	**45.2**	3,769.7	40.4	+206.2	+5.5
	8,801.8	**100.0**	9,342.0	100.0	-540.2	-5.8

During the year ended 31 December 2012, 98.7% of air-conditioning products sold in China were under CHIGO brand. Sales of CHIGO brand products dropped by 13.9% due to the overall decrease in demand for air-conditioning products in China. Sales of parts and components and other products in China remained steady and increased slightly by 2.3% and 0.7% respectively during the year.

For exports, sales of CHIGO brand products continued to increase year-on-year by 3.4% for the year under review. More sales of parts and components were generated from African and Latin American markets which increased substantially by 119.3% this year. Export sales of other products dropped by 73.3% which also resulted from the outsourcing of some of the sideline production.

Sales and distribution

	Year ended 31 December					
	2012		2011		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
PRC						
Household appliances retail chain operators	**1,214.8**	**13.8**	1,431.2	15.3	-216.4	-15.1
Regional distributors	**3,611.1**	**41.0**	4,141.1	44.3	-530.0	-12.8
PRC Total	**4,825.9**	**54.8**	5,572.3	59.6	-746.4	-13.4
Overseas						
Regional distributors	**987.1**	**11.2**	810.1	8.7	+177.0	+21.8
OEM manufacturers	**2,988.8**	**34.0**	2,959.6	31.7	+29.2	+1.0
Overseas Total	**3,975.9**	**45.2**	3,769.7	40.4	+206.2	+5.5
Total Turnover	**8,801.8**	**100.0**	9,342.0	100.0	-540.2	-5.8

During the year ended 31 December 2012, the Group's PRC sales from household appliances retail chain operators decreased by 15.1%. Sales generated from regional distributors also decreased by 12.8% and accounted for 74.8% of the PRC sales in 2012 (2011: 74.3%). As more sales got through the regional distribution channel, percentage of domestic sales through the household appliances retail chain operators dropped to 25.2% (2011: 25.7%) in the same period.

For overseas sales, OEM customers generated more sales during the year. Approximately 75.2% and 24.8% (2011: 78.5% and 21.5% respectively) of overseas sales are distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2012. Increased sales for overseas distributors was mainly due to continuous increase in sales of CHIGO brand products overseas.

Units sold volume and average sales prices

	Year ended 31 December		
	2012	2011	Change %
Residential air-conditioning products sold *('000 units)*	**4,425**	4,702	–5.9
Commercial air-conditioning products sold *('000 sets)*	**137**	127	+7.9
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,724**	RMB1,792	-3.8
Average sales price – commercial air-conditioning product (per set)	**RMB4,523**	RMB4,549	-0.6

During the year ended 31 December 2012, the Group's sales volume of residential air-conditioning products decreased slightly by 5.9% to approximately 4.4 million units. Meanwhile, sales of commercial air-conditioners rose by 7.9% to approximately 137,000 sets within the reporting period.

During the year, the Group aimed at maintaining average sales price in order to improve profit margins of the products. Since the average cost of productions had decreased, the average sales prices per unit of the residential air-conditioning products decreased at slower rate by 3.8%. The average sales prices per set of the commercial air-conditioning products remained stable and decreased slightly by 0.6% during the year ended 31 December 2012.

Breakdown of cost of goods sold

During the two years ended 31 December 2012, breakdown of the Group's total cost of goods was shown as follows:

	Year ended 31 December					
	2012		2011		Change	
	RMB million	**% of cost of goods sold**	*RMB million*	% of cost of goods sold	*RMB million*	Change %
Raw materials, parts and components:						
Compressors	**1,890.6**	**25.2**	2,056.8	24.9	-166.2	-8.1
Copper	**2,108.1**	**28.1**	2,415.9	29.2	-307.8	-12.7
Plastic chips	**522.9**	**6.9**	484.5	5.8	+38.4	+7.9
Aluminum	**469.8**	**6.3**	561.5	6.8	-91.7	-16.3
Steel plates	**458.4**	**6.1**	550.9	6.7	-92.5	-16.8
Others (note)	**1,368.5**	**18.2**	1,584.9	19.2	-216.4	-13.7
Total	**6,818.3**	**90.8**	7,654.5	92.6	-836.2	-10.9
Direct labour cost	**287.7**	**3.8**	274.1	3.3	+13.6	+5.0
Utilities	**64.4**	**0.9**	58.5	0.7	+5.9	+10.1
Production cost	**206.0**	**2.7**	163.7	2.0	+42.3	+25.8
Others	**132.8**	**1.8**	119.7	1.4	+13.1	+10.9
Total cost of goods sold	**7,509.2**	**100.0**	8,270.5	100.0	-761.3	-9.2

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 2012, the cost of goods sold decreased by 9.2% as the result of decline in the Group's turnover and decrease in costs of major raw materials and components. Among the raw materials, parts and components, copper is the major one and recorded a decrease of 12.7%.

Due to the rising trend of labour costs in China, direct labour cost increased by 5.0% during the year ended 31 December 2012. Production cost also increased by 25.8% due to the increases in depreciation charge and cost of low-value consumables.

Financial Review

Turnover

	Year ended 31 December					
	2012		2011		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
Geographic region						
PRC sales	**4,825.9**	**54.8**	5,572.3	59.6	-746.4	-13.4
Asia (excluding PRC)	**2,064.9**	**23.5**	1,767.0	18.9	+297.9	+16.9
Americas	**920.8**	**10.4**	1,247.7	13.4	-326.9	-26.2
Africa	**458.1**	**5.2**	184.5	2.0	+273.6	+148.3
Europe	**525.4**	**6.0**	549.2	5.9	-23.8	-4.3
Oceania	**6.7**	**0.1**	21.3	0.2	-14.6	-68.5
Overseas sales	**3,975.9**	**45.2**	3,769.7	40.4	+206.2	+5.5
Total turnover	**8,801.8**	**100.0**	9,342.0	100.0	-540.2	-5.8

During the year ended 31 December 2012, the Group's total turnover was approximately RMB8,801.8 million (2011: RMB9,342.0 million) and decreased by RMB540.2 million, or 5.8% as compared to the corresponding period in 2011. The decrease was principally due to the decrease in domestic sales of air-conditioning products during the year.

The PRC government had introduced a new subsidy for energy-saving products in mid-2012, the Group received RMB120.8 million (2011: RMB178.4 million) as part of the receipts in relation to sales of products during the reporting period. Gross receipts (sum of turnover and government subsidies for high energy-saving products) received by the Group in relation to its principal operation amounted to RMB8,922.6 million (2011: RMB9,520.4 million) and decreased by 6.3% or RMB597.8 million as compared to 2011.

PRC Sales

During the year ended 31 December 2012, the Group received less subsidies for energy-saving products as compared to the corresponding period in 2011 because of the decrease in PRC sales. The Group's PRC sales also decreased by RMB746.4 million or 13.4% to RMB4,825.9 million (2011: RMB5,572.3 million). However, the situation had improved in the second half of 2012. During the year ended 31 December 2012, domestic sales remained the main source of revenue of the Group and amounted to 54.8% of the total turnover (2011: 59.6%).

Overseas Sales

The Group's overseas sales continued to perform well during 2012. Overseas sales achieved RMB3,975.9 million in 2012 (2011: RMB3,769.7 million) representing a year-on-year increase of 5.5% or RMB206.2 million.

The increase in the Group's overseas sales in 2012 was mainly contributed by the increases of 16.9% and 148.3% in sales in the Asian (excluding PRC) and African markets respectively. Among the overseas markets of the Group, Asia (excluding PRC) and Americas remained the two major markets, which accounted for overseas markets of the Group 23.5% and 10.4% (2011: 18.9% and 13.4% respectively) of the Group's turnover during the year ended 31 December 2012.

Since the Group's overseas sales had increased at a faster rate, overseas sales continued to rise slightly to 45.2% (2011: 40.4%) of the Group's total turnover for the year ended 31 December 2012.

Cost of goods sold

The Group recorded a drop in turnover and raw materials costs decreased relatively faster than the turnover in 2012. Cost of goods sold decreased to RMB7,509.2 million (2011: RMB8,270.5 million), a decrease of RMB761.3 million or 9.2% as compared to that of 2011. The decrease in cost of goods sold was mainly caused by the decreases in the Group's turnover and major raw material and component costs, especially copper and compressors during the year ended 31 December 2012.

Gross profit

The Group recorded a gross profit of RMB1,292.6 million for the year ended 31 December 2012 (2011: RMB1,071.5 million) which increased by RMB221.1 million or 20.6% as compared to 2011. However, part of the Group's gross receipts for energy-saving products sales was received in form of government subsidy under the "Promotion of energy efficient appliances scheme" which decreased to RMB120.8 million (2011: RMB178.4 million) for the year ended 31 December 2012. 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 2012 totaled RMB1,413.4 million (2011: RMB1,249.9 million) representing an increase of RMB163.5 million or 13.1% from that of 2011.

As the consolidated segment results of operation increased, the Group's gross margin (calculated as consolidated segment results to turnover) increased from 13.4% in 2011 to 16.1% for the year ended 31 December 2012 accordingly.

Despite the Group's domestic sales and the government subsidies for energy-saving products decreased, the consolidated segment results increased. As such, gross margin of PRC sales of the Group increased to 17.5% in 2012 (2011:14.7%). The gross margin of overseas sales of the Group continued to improve in 2012 to 14.3% (2011:11.4%). Among the overseas sales regions, Americas and Oceania contributed most to the profitability of the Group and achieved gross margins of 17.0% and 29.2% respectively in 2012.

Government subsidies for high energy-saving products

For the year ended 31 December 2012, the Group was entitled to the government subsidies for high energy-saving products of RMB120.8 million (2011: RMB178.4 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 RMB63.1 million (2011: RMB61.8 million) and increased by RMB1.3 million or 2.1% including mainly the interest income and non-operating income.

Selling and distribution costs

The Group's other selling and distribution costs decreased to RMB711.7 million (2011: RMB760.7 million), a decrease of RMB49.0 million or 6.4% for the year ended 31 December 2012. The decrease was mainly due to better cost control in respect of (i) salary and allowance of sales personnel; (ii) transportation cost; and (iii) advertising and promotion costs during the year.

Administrative expenses

Other administrative expenses of the Group decreased by RMB34.0 million or 10.6% to RMB288.0 million (2011: RMB322.0 million) for the year ended 31 December 2012. The decrease in administrative expenses was primarily due to the decreases in (i) salaries, benefits and social insurance charges relating to administrative staff; (ii) professional fees and (iii) cost of consumables during the year.

Equity-settled share based payments

The Group recorded an equity-settled share based payments of RMB26.1 million (2011: RMB22.8 million) for the year ended 31 December 2012 in relation to the share options granted by the Company to certain employees and customers in 2011. This non-cash expense increased by RMB3.3 million or 14.5% during the year.

Research and development costs

Research and development costs decreased to RMB77.0 million (2011: RMB82.2 million) by 6.3% or RMB5.2 million during the year. The decrease was due to cost control and overall decrease in expenses of the Group.

Other expenses

Other expenses was mainly non-operating expenses which increased by RMB1.9 million or 126.7% during the year ended 31 December 2012 and amounted to RMB3.4 million.

Other gains and losses

Other gains and losses decreased by RMB25.2 million or 63.6% to RMB14.4 million (2011: RMB39.6 million) in 2012. The decrease was mainly due to decrease in the net exchange losses during the year.

Net gain in fair value changes of derivative financial instruments

The Group recorded a net gain of approximately RMB42.2 million (2011: RMB36.1 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 2012 as exchange rate of RMB against USD appreciated favourably to the Group.

Finance costs

In 2012, the Group utilised less short-term bank loans to finance its working capital requirement. During most of the time in 2012, the Group had a debenture of RMB800 million outstanding which was due to expire in September 2012. After the expiry of the original debenture, the Group issued a new debenture of RMB800 million during the year for general working capital purpose. The new debenture was issued for a maturity period of 365 days and with a fixed coupon rate of 5.9% per annum. Since the average balance of bank and other borrowings was higher in 2012 than that of the corresponding period in 2011, interest on bank and other borrowings increased by RMB57.1 million or 27.9% to RMB261.9 million (2011: RMB204.8 million) for the year ended 31 December 2012.

Taxation

During the reporting period, the Group recorded a substantial increase in profit before taxation and was subject to higher tax rate starting from 2012. Besides, as the deferred tax charge increased in the year under review, the Group's tax charge increased to RMB37.7 million (2011: RMB7.9 million) by RMB29.8 million or 377.2% for the year ended 31 December 2012.

Profit for the year and total comprehensive income for the year

As a result of the foregoing, the Group recorded a profit of RMB98.5 million for the year ended 31 December 2012 (2011: a loss of RMB144.0 million), representing an increase of RMB242.5 million or 168.4% as compared to the corresponding period in 2011. Since the Group had recorded a profit in the reporting period, the Group's net margin improved from a net loss of 1.5% in 2011 to a net profit margin of 1.1% for the year ended 31 December 2012 accordingly.

Financial position

	As at 31 December			
	2012	2011	Change	Change
	RMB million	*RMB million*	*RMB million*	*%*
Non-current assets	**1,421.2**	**1,194.5**	+226.7	+19.0
Current assets	**8,974.5**	**8,327.8**	+646.7	+7.8
Current liabilities	**7,604.2**	**6,856.9**	+747.3	+10.9
Non-current liabilities	**55.3**	**53.7**	+1.6	+3.0
Net assets	**2,736.2**	**2,611.7**	+124.5	+4.8

As at 31 December 2012, the Group's total consolidated assets increased by RMB873.4 million or 9.2% to RMB10,395.7 million (31 December 2011: RMB9,522.3 million). The increase was mainly in the current assets such as trade and other receivables (increased by RMB755.3 million), bank balances and cash (increased by RMB374.5 million) and non-current assets such as property, plant and equipment (increased by RMB173.4 million). Total consolidated liabilities of the Group as at 31 December 2012 amounted to RMB7,659.5 million (31 December 2011: RMB6,910.6 million) and increased by RMB748.9 million or 10.8% as compared to that of 31 December 2011. The major liabilities increased in the period were trade and other payables (increased by RMB627.5 million) and borrowings related to bills discounted with recourse (increased by RMB381.6 million).

As the Group recorded a net profit for the year, the Group's net assets increased by 4.8% or RMB124.5 million to RMB2,736.2 million at the end of 2012 (31 December 2011: RMB2,611.7 million).

Liquidity, financial resources and capital structure

The funding policy of the Group is to secure sufficient funding for meeting its working capital requirement and smooth operations. The Group will also apply different equity and debt instruments of different tenors to obtain funding from the capital and financial markets in Hong Kong or in the PRC to achieve these objectives.

As the principal operation and production base of the Group are located in the PRC, financial resources are centralised in the headquarters of the Group for efficient allocation. The Group also utilises different banking services and products provided by the financial institutions in the PRC and Hong Kong to facilitate its cash management and treasury activities.

The management, with the assistance of the Group's finance and treasury departments, will closely monitor the market conditions and the needs of the Group to implement the funding and treasury policies.

As at 31 December 2012, the Group had current assets amounting to RMB8,974.5 million (31 December 2011: RMB8,327.8 million) and current liabilities amounting to RMB7,604.2 million (31 December 2011: RMB6,856.9 million). The Group's working capital decreased by RMB100.6 million or 6.8% from RMB1,470.9 million as at the end of 2011 to RMB1,370.3 million at the end of 2012. Although the Group's current liabilities increased relatively faster, the current ratio maintained at 1.2 times as both at 31 December 2011 and 2012.

At the end of 2012, the balance of short-term bank loans owed by Group was RMB1,521.1 million (31 December 2011: RMB1,798.0 million) and decreased by RMB276.9 million or 15.4%. 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.

As the amounts of short-term bank loans and debentures decreased as at the end of 2012, the gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased to 22.4% as at 31 December 2012 (31 December 2011: 27.4%).

Ability of the Group to service finance costs, as indicated by interest cover, improved during the reporting period. The finance costs has been increased as the average balance of borrowings increased. However, the Group improved substantially in profit before taxation and interest in 2012, interest cover of the Group increased to 1.6 times for the year ended 2012 as compared to 0.3 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 RMB31.9 million (31 December 2011: RMB16.1 million) as at the year end.

As at 31 December 2012, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue and all of the issued shares were ordinary shares.

Since the Group had recorded a net profit for the year, the shareholders' equity increased to RMB2,736.2 million as at 31 December 2012 (31 December 2011: RMB2,611.7 million).

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 2012.

Cash flows

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Operating cash flows	**522.9**	236.3
Movements in working capital and tax paid	**280.5**	(1,736.2)
Net cash from (used in) operating activities	**803.4**	(1,499.9)
Net cash (used in) from investing activities	**(263.8)**	(381.6)
Net cash (used in) from financing activities	**(165.0)**	1,935.4
Net increase in cash and cash equivalents	**374.6**	53.9
Cash and cash equivalents at 31 December	**923.9**	549.3

For the year ended 31 December 2012, the Group generated operating cash flows of RMB522.9 million (2011: RMB236.3 million). As the Group's inventories decreased by RMB429.0 million which increased the working capital, net cash from operating activities reached RMB803.4 million. Part of the cash generated to reduce bank borrowings by RMB276.9 million and part of the balance was used to finance (i) the purchase of property, plant and equipment; and (ii) prepaid lease payments in aggregate amount of RMB295.6 million for the future business expansion and development of the Group.

As a result of the foregoing, the Group generated surplus cash of RMB374.6 million during the year ended 31 December 2012 (2011: net cash inflow of RMB53.9 million) and had bank balances and cash amounted to RMB923.9 million at the end of 2012 (31 December 2011: RMB549.3 million). Majority of the bank balances and cash were amounts dominated in Renminbi and certain amounts were dominated in US dollar.

Material acquisitions and disposals, significant investments

During the year ended 31 December 2012, 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 2012, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB946.9 million (31 December 2011: approximately RMB998.6 million) were pledged to certain banks for securing the banking facilities granted to the Group.

Exposure to fluctuations in exchange rates and copper price

During the year ended 31 December 2012, approximately 45.2% 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 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 was only subject to limited fluctuation 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 2012. The Directors believe that the Group's exposure to exchange rate fluctuations is minimal in this aspect.

The Group had entered into certain copper future contracts with net settlement during the year ended 31 December 2012 with for the purposes of hedging against part of its risk on the fluctuation of copper price and monitoring closely the trend of market price of copper. As at 31 December 2012, there was no copper future contract outstanding.

Other than the foreign currency forward contracts copper future contracts entered into by the Group, the Group did not have any other financial instruments used for hedging purpose during the year ended 31 December 2012. The management of the Group will monitor foreign currency and copper price exposures from time to time and will consider further hedging should the need arise.

Capital commitments

As at 31 December 2012, 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 RMB37.9 million (31 December 2011: approximately RMB104.7 million). The Group expects that the capital commitments will be funded by internal resources and/or external finance from financial institutions.

Contingent liabilities

Pending litigation

In June 2012, Chigo Air-conditioning (Jiujiang) Co., Limited ("**Chigo Jiujiang**"), an indirect wholly-owned subsidiary of the Company, received a notice calling for responses concerning a case of civil legal proceedings. The legal action was brought against Chigo Jiujiang by a construction company (the "**Plaintiff**") in relation to the construction work of Chigo Jiujiang's factory in Jiangxi claiming for damages of approximately RMB16.2 million in relation to, allegedly, certain construction cost being past due, retention monies being withheld and default in payment of compensation.

The Plaintiff was also granted a freezing order by the Jiangxi Provincial Jiujiang City Intermediate People's Court over Chigo Jiujiang's bank deposits. As at the date of this announcement, bank deposits of Chigo Jiujiang amounting to approximately RMB6.2 million has been frozen.

Chigo Jiujiang has already filed an application to the court disputing over the extent of construction work done and the quality of such work. Based on the legal advice obtained, the management believes that there is no ground for the Plaintiff to make the claim. As the case is still undergoing legal proceeding, no provision was made by the Group for this pending litigation.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 December 2012.

Employees and Remuneration

As at 31 December 2012, the Group employed 14,066 employees (31 December 2011: 14,540 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages including fixed salary and discretionary bonuses 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.

Outlook and Future Plans

Although the air-conditioning market has entered a period of adjustment in 2012 and the industry experienced negative growth in sales volume and turnover, the management believes that this is an opportunity for the Group to consolidate its market position. Even in the global and domestic economic slowdown in 2012, flexible sales strategy enabled the Group to stabilise sales, improve profitability and to free up resources to strengthen technological innovation and realise its goal of further production integration. The Group keeps accumulating strength and is ready to take offensive marketing strategy once the economic conditions improve in the near future.

Currently, the market view on the growth of air-conditioning industry in 2013 is still mixed. However, the management of the Group believes that with the negative sales growth in 2012, the effects of overconsumption of air-conditioning is diminishing. In addition, as the economy recovers, the domestic consumer confidence will improve gradually. Though the real estate market is still under the control of national policy, with the gradual completion of the social security housing in 2013 and huge purchasing power from tier three and tier four cities, for consumer demand for air-conditioning products in the coming year, a good foundation has already been laid. Having the above ideas in mind, the management has set the plan below:

- ***Promote technology innovation***

  "iCongo 雲空調" could be described as a revolutionary product in the industry which is a series of world's first air-conditioning product combining advanced smart technology with air-conditioner. "iCongo 雲空調" not only marks its leading technology, but also created the way forward for the future development of the Group. In the coming year, the Group will focus on promotion of this technology.

- ***Strengthen the integration of production***

  The Group has established its compressor business and expects to have the new business unit commence operation in the second half of this year. In February 2013, the Group also acquired a new copper business in China. The Group expects that the acquisition will be funded by internal resources. Following the completion of the compressor production line and the completion of the acquisition of the copper business later this year, the Group owns a very vertically integrated production chain. The management believes that the incorporation of the two new self-manufactured core components into the Group will enhance cost efficiency and competitiveness of the Group.

- ***Improve operation efficiency***

  The Group successfully accomplished a profit turnaround in 2012. Entering 2013, the management aims to further improve the operation efficiency of the Group by various means of increasing the portion of profitable products, exploring high-growth international markets and implementing cost-cutting measures.

OTHER INFORMATION

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (31 December 2011: nil).

Annual General Meeting

The annual general meeting of the Company will be held on Monday, 27 May 2013. 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 Friday, 24 May 2013 to Monday, 27 May 2013 (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, 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 Thursday, 23 May 2013.

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 2012.

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 (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) set out in Appendix 14 to the Listing Rules (the "**CG Code**"). During the year ended 31 December 2012, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provisions A.2.1 and A.6.7 of the CG Code.

Code Provision A.2.1

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

During the year ended 31 December 2012, 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 19 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.

Code Provision A.6.7

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Two independent non-executive directors of the Company were unable to attend the Annual General Meeting of the Company held on 25 May 2012 as they had other business engagements.

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 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 2012 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 2012 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, 27 March 2013

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.