CHIGO HOLDING LIMITED
志高控股有限公司
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 449

CHIGO

# 2013 Interim Report

Smart CLOUD AC
New Living Experience

# Contents



# Financial Highlights

Turnover increased by **0.2%** to RMB **5,436.4** million

Net profit margin increased by **0.21** percentage points to **0.54%**

Consolidated segment results increased by **5.0%** to RMB **794.9** million

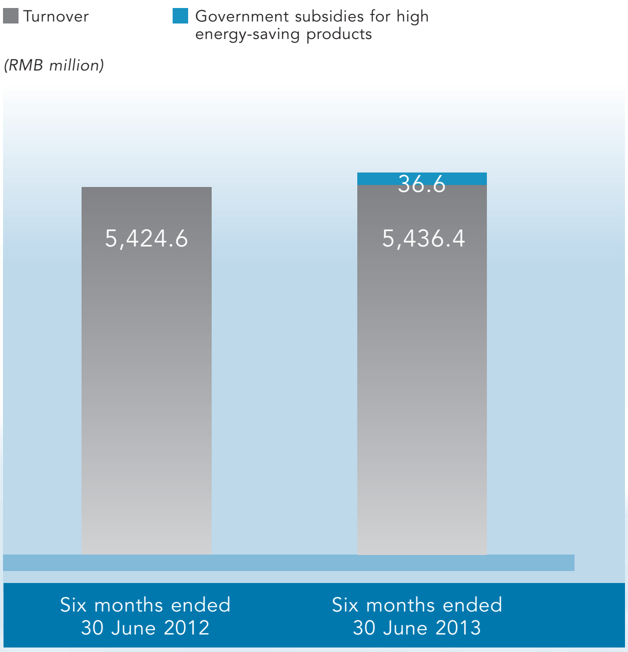
Total assets increased by **14.2%** (as compared to 31 December 2012) to RMB **11,870.9** million

Gross margin (consolidated segment results to turnover) increased from **14.0%** to **14.6%**

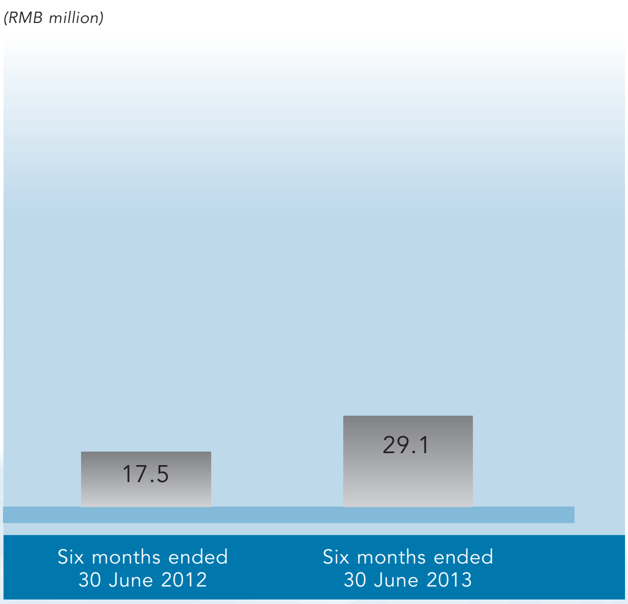
Net assets increased by **1.5%** (as compared to 31 December 2012) to RMB **2,777.7** million

Profit for the period increased to RMB **29.1** million

## Turnover and gross receipts




## Profit for the period



# Corporate Information

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## COMPANY SECRETARY

Mr. Leung Hon Man

## REGISTERED OFFICE OF THE COMPANY

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## HEADQUARTERS OF THE GROUP

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

## PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

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

## PRINCIPAL BANKERS

The Bank of China, Foshan Nanhai Lishui Branch
China Construction Bank, Foshan Nanhai Lishui Branch
China Citic Bank, Foshan Branch
Guangdong Development Bank, Nanhai Branch
Agricultural Bank of China, Foshan Nanhai Lishui Branch
China Everbright Bank, Shenzhen Huali Road Branch
DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

## LEGAL ADVISER AS TO HONG KONG LAW

Reed Smith Richards Butler

## LISTING INFORMATION

| | |
|---|---|
| Listing: | Main Board of The Stock Exchange of Hong Kong Limited |
| Stock code: | 449 |
| Listing date: | 13 July 2009 |
| Board lot size: | 2,000 shares |
| As at 30 June 2013: | |
| No. of shares issued: | 8,434,178,000 shares |
| Market capitalisation: | HKD1.43 billion |

## CORPORATE WEBSITES

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

## CORPORATE CONTACT INFORMATION FOR SHAREHOLDERS AND INVESTORS

### HONG KONG

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

### PRC

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

# Management Discussion and Analysis

## Business Review

The Group followed its strategic plans adopted at the beginning of the year and was able to achieve the internal sales and sale volume targets for the first six months of 2013. As a result of improved operating efficiency, the Group increased its profit during the period under review (as compared with that for the corresponding period in 2012).

After the domestic air-conditioning market's decline in 2012, the industry held a mix view on the sales growth and market demand in the PRC in 2013. During the first six months of 2013, domestic demand for residential air-conditioning products was weak because of the sluggish economic growth and the cooler and wetter weather in China. It was difficult for the domestic sales of the Group and a decrease in the PRC sales was recorded due mainly to the drop in sale volume. However, the Group saw an improvement in operating efficiency and profit margin in its PRC business segment. While the prices of major raw materials dropped, the average selling prices of the Group's domestic products did not fall in the first half of 2013 as compared to those of the same period in 2012 and, as a result, the segment results of the PRC region increased modestly in spite of a decrease in sales. As such, the profit margins of domestic products continued to improve in the first six months of 2013.

The last government subsidy scheme for high energy-saving products was launched in June 2012 and expired at the end of May 2013. During the first half of 2013, the Group sold a number of high energy-saving products, and part of the government subsidies for such products had been recorded and/or received. The Group has already made application for the government subsidies relating to high energy-saving products sold in the current and prior periods upto approximately RMB140 million (of which RMB36.6 million was received by the Group in the period under review) and expects to receive the balance of such amount gradually in the coming accounting periods.

The Group maintained upward momentum in its exports for the six months ended 30 June 2013, both overseas sale volume and sales increased during the period under review. However, the increases in overseas sales and its gross margin were partly offset by the drop in the average selling prices of the products sold overseas as a result of the appreciation of Renminbi and decrease in raw material prices. The Group dealt with the negative effect on overseas sales caused by translation of foreign exchange through entering into certain foreign currency forward contracts for hedging purpose in the first half of 2013.

The commercial unit of the Group also achieved good performance in the first half of 2013. Sales and profit margin of our commercial air-conditioning products kept rising and recorded impressive growths during the period under review.

During the six months ended 30 June 2013, prices of our major raw materials were very volatile, and among which copper accounted for a high portion of the Group's cost of sales. Price of copper went up in the first quarter of 2013 and dropped substantially in the subsequent quarter. Though drop in prices of major raw materials generally benefit the Group in lowering production costs, high volatility and a substantial decrease in copper price during the period under review caused a significant loss to the Group under certain copper forward contracts. In order to hedge against price increase in copper, the Group entered into certain copper forward contracts at the beginning of 2013. As management kept monitoring the market prices and trend of copper price, when the copper price continued to plummet towards the end of the first half of 2013, the management closed the position of all the outstanding copper forward contracts early upon a temporary rebound of copper prices to cut further possible losses. As at the end of 30 June 2013, the Group did not have any outstanding unsettled copper forward contracts. The management will closely monitor the trend of the prices of the Group's major raw materials and take stringent measures in mitigating risks in relation to price fluctuation of raw materials.

As part of its future business plan, the Group had completed an acquisition of 100% interest in a company holding a new copper production facility in Sihui City, Guangdong Province, the PRC from the controlling shareholder in April 2013. As at the end of June 2013, the newly acquired subsidiary had not commenced operation and the management expects that it will begin to supply self-manufactured copper parts to the Group later this year.

## Operation Review

### Results of operations

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | 2012 | | Change | |
| | ***RMB million*** | ***% of Turnover*** | *RMB million* | *% of Turnover* | *RMB million* | *%* |
| ***Geographic region*** | | | | | | |
| **PRC sales** | **2,533.7** | **46.6** | 2,693.4 | 49.7 | -159.7 | -5.9 |
| Asia (excluding PRC) | **1,538.4** | **28.3** | 1,585.1 | 29.2 | -46.7 | -2.9 |
| Americas | **483.3** | **8.9** | 453.2 | 8.4 | +30.1 | +6.6 |
| Africa | **439.6** | **8.1** | 347.3 | 6.4 | +92.3 | +26.6 |
| Europe | **435.5** | **8.0** | 342.8 | 6.3 | +92.7 | +27.0 |
| Oceania | **5.9** | **0.1** | 2.8 | 0.0 | +3.1 | +110.7 |
| **Overseas sales** | **2,902.7** | **53.4** | 2,731.2 | 50.3 | +171.5 | +6.3 |
| **Total turnover** | **5,436.4** | **100.0** | 5,424.6 | 100.0 | +11.8 | +0.2 |

### PRC Sales

As mentioned above, due to drop in sale volume as a result of the domestic economic slowdown and the unfavourable weather factor during the reporting period, PRC sales dropped and contributed 46.6% (30 June 2012: 49.7%) to the Group's turnover during the six months ended 30 June 2013. The Group recorded PRC sales of RMB2,533.7 million (30 June 2012: RMB2,693.4 million), representing a decrease of RMB159.7 million or 5.9%.

# Management Discussion and Analysis

### Overseas Sales

For the six months ended 30 June 2013, the Group's overseas sales increased by RMB171.5 million or 6.3% to RMB2,902.7 million (30 June 2012: RMB2,731.2 million) and accounted for 53.4% of the Group's total turnover. Among the overseas regions, the Asian market (excluding PRC) saw a slight drop in sales while all other overseas markets recorded increases in sales in the first half of 2013.

Asia and Americas remained the major sources of overseas revenue of the Group. These two markets accounted for 28.3% and 8.9% respectively (30 June 2012: 29.2% and 8.4%) of the Group's turnover during the period under review.

## Financial Review

### Turnover

During the six months ended 30 June 2013, the Group recorded a total turnover of approximately RMB5,436.4 million (30 June 2012: approximately RMB5,424.6 million), representing a slight increase of RMB11.8 million, or 0.2% as compared to the corresponding period in 2012. The increase was primarily due to the growth in overseas markets outweighing the drop in domestic sales.

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 RMB5,473.0 million (30 June 2012: RMB5,424.6 million) and increased by 0.9% or RMB48.4 million as compared to the first half of 2012 because there was no subsidies for the high energy-saving products were received by the Group during the first half of 2012.

### Cost of goods sold

Though the prices of major raw materials, parts and components fell during the first half of 2013, cost of goods sold during the period under review increased to RMB4,678.1 million (30 June 2012: RMB4,667.5 million), representing a increase of RMB10.6 million or 0.2% as compared to that of the first half of 2012. The increase in cost of goods sold was mainly due to the sharp increases in overseas sales of commercial air-conditioning products and parts and components.

### Gross profit

During the six months ended 30 June 2013, the Group raised its gross profit by RMB1.2 million or 0.2% to RMB758.3 million (30 June 2012: RMB757.1 million) as the profitability of domestic products continued to improve. However, the increase in gross profit was partly offset as the portion of overseas sales increased, which was subject to lower average selling prices and adverse effect of depreciation of US dollars on currency exchange.

New subsidies policy was introduced in the second half of 2012, the Group received government subsidies for high energy-saving products of RMB36.6 million during the period under review (30 June 2012: nil). As such, the consolidated segment results of operation (sum of gross profit and the government subsidies for high energy-saving products) for the first half of 2013 increased by RMB37.8 million or 5.0% from that of 2012.

# Management Discussion and Analysis

As a result of improving gross profit and new government subsidies for high energy-saving products received, the Group's gross margin (calculated as consolidated segment results to turnover) improved to 14.6% in the first half of 2013 as compared to 14.0% for the same period in 2012.

Despite the decrease in domestic sales, the gross margin of the Group's PRC sales improved to 18.1% (30 June 2012: 13.8%) for the first half of 2013. As Renminbi appreciated against US dollars during the first half of 2013, overseas sales recorded a decrease relative to cost of sales when converted into Renminbi. As such, gross margin of overseas sales decreased to 11.6% (30 June 2012: 14.1%) during the period under review.

## Other income

Other income was RMB33.6 million (30 June 2012: RMB42.2 million), representing a decrease of RMB8.6 million or 20.4%, because of a decrease in income from sales of waste materials.

## Selling and distribution costs

The Group's selling and distribution costs decreased to RMB359.5 million (30 June 2012: RMB367.0 million), representing a decrease of RMB7.5 million or 2.0% for the six months ended 30 June 2013. This decrease was mainly due to decreases in (i) advertising and promotion costs; and (ii) exhibition fees during the period under review.

## Administrative expenses

Administrative expenses of the Group increased slightly by RMB2.4 million or 1.2% to RMB199.5 million (30 June 2012: RMB197.1 million) for the six months ended 30 June 2013. The increase in administrative expenses was primarily due to increases in (i) salaries and benefits of administrative staff; (ii) inspection and certification fees; and (iii) amortization of lease payment during the period under review.

## Equity-settled share based payments

The Group recorded equity-settled share based payments of RMB12.4 million (30 June 2012: RMB11.1 million) for the six months ended 30 June 2013, representing an increase of RMB1.3 million or 11.7%. This non-cash expense was mainly the amortisation of share-based payments in relation to the share options granted by the Company to certain directors and employees in September 2011.

## Research and development costs

Research and development costs increased to RMB14.1 million (30 June 2012: RMB13.9 million) by 1.4% or RMB0.2 million during the period under review because of the increase in salaries paid to research and development staff.

## Other expenses

Other expenses increased by RMB1.2 million or 240.0% during the first half of 2013 and amounted to RMB1.7 million (30 June 2012: RMB0.5 million). The expenses were mainly non-operating expenses during the period under review.

### Other gains and losses

Other losses increased substantially by RMB9.9 million or 78.6% to RMB22.5 million (30 June 2012: RMB12.6 million) in the first half of 2013. The increase in other losses was mainly related to exchange loss during the period under review. Other losses also included the net decrease in allowance for doubtful debt of RMB3.6 million.

### Net loss in fair value changes on commodity derivative contracts

Copper is one of the major raw materials required by the Group for the production of the Group's air-conditioners which accounted for about 28.1% of the cost of goods sold of the Group for the year ended 31 December 2012. As such, the Group is susceptible to fluctuations in the prices and supply of copper. In view of this, the Group entered into certain copper futures contracts to hedge against the cost of copper in the past. During the first six months of 2013, the price of copper futures contracts fluctuated significantly and dropped substantially in the range of 16% to 18% *(note)* during the period.

Since the price volatility of the copper forward contracts was higher than that of the average copper costs incurred by and the actual consumption of copper of the Group, the Group recognized a net realised loss on copper forward contracts of approximately RMB76.3 million in the first half of 2013 (30 June 2012: RMB1.1 million). As of 30 June 2013, the Group had settled all the copper forward contracts and no copper forward contracts was outstanding.

*Note:* calculated based on the daily closing prices of copper futures contracts of various months published on the website of Shanghai Futures Exchange (http://www.shfe.com.cn/).

### Net gain (loss) in fair value changes of foreign currency forward contracts

The Group had entered into certain foreign currency forward contracts to sell and buy US dollar with financial institutes to hedge against part of its overseas sales income and US dollar loans respectively. For the six months ended 30 June 2013, the Group recorded a net gain of approximately RMB17.4 million (30 June 2012: net loss of RMB9.5 million) in fair value changes of foreign currency forward contracts because Renminbi appreciated against US dollar.

### Finance costs

The Group financed its working capital requirement through obtaining bank loans, discounting part of its bills receivable from customers to financial institutes and issuing corporate debentures. During the period under review, a major subsidiary of the Company had issued medium-term notes of RMB150 million for general working capital purposes. As at the end of the first half of 2013, the Group had outstanding debentures (including accrued interests) of RMB982.4 million and bank loans of RMB2,457.0 million. Through effective rearrangement of combination of bank loans obtained in the PRC and Hong Kong, the Group was able to lower its of cost of funding. The finance costs of the Group decreased substantially by RMB36.6 million or 26.5% to RMB101.4 million (30 June 2012: RMB138.0 million) for the six months ended 30 June 2013.

### Taxation

Due to the increase in profit before taxation which was offset by the decrease in deferred tax charge, the Group's tax charge for the six months ended 30 June 2013 decreased by RMB1.7 million or 5.5% to RMB29.3 million (30 June 2012: RMB31.0 million).

# Management Discussion and Analysis

## Profit for the period and total comprehensive income for the period

As a result of the foregoing, the Group recorded a profit of RMB29.1 million for the six months ended 30 June 2013 (30 June 2012: RMB17.5 million), representing an increase of RMB11.6 million or 66.3% as compared to the corresponding period in 2012. Since the Group had increased its net profit in the reporting period, the Group improved its net margin to 0.54% for the six months ended 30 June 2013 (30 June 2012: 0.32%) accordingly.

## Financial position

| | **As at 30 June 2013** *RMB million* | As at 31 December 2012 *RMB million* | Change *RMB million* | Change *%* |
|---|---|---|---|---|
| Non-current assets | **1,754.1** | 1,421.2 | +332.9 | +23.4 |
| Current assets | **10,116.8** | 8,974.5 | +1,142.3 | +12.7 |
| Current liabilities | **8,707.8** | 7,604.2 | +1,103.6 | +14.5 |
| Non-current liabilities | **385.4** | 55.3 | +330.1 | +596.9 |
| **Net assets** | **2,777.7** | 2,736.2 | +41.5 | +1.5 |

As at 30 June 2013, the Group's total consolidated assets increased by RMB1,475.2 million or 14.2% to RMB11,870.9 million (31 December 2012: RMB10,395.7 million). The increase was partly from non-current assets such as property, plant and equipment (increased by RMB239.5 million) and partly from the current assets such as trade and bills receivables (increased by RMB1,379.4 million) and pledged bank deposits (increased by RMB176.6 million). Total consolidated liabilities of the Group as at 30 June 2013 amounted to RMB9,093.2 million (31 December 2012: RMB7,659.5 million) and increased by RMB1,433.7 million or 18.7%. The major liabilities that increased in the period were short-term bank loans and short-term debentures (increased by RMB762.0 million and RMB27.6 million respectively), long-term debentures and long-term bank loans (increased by RMB149.0 million and RMB173.9 million respectively).

As the Group recorded a net profit for the period, the Group's net assets increased by 1.5% or RMB41.5 million to RMB2,777.7 million as at 30 June 2013 (31 December 2012: RMB2,736.2 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.

# Management Discussion and Analysis

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 30 June 2013, the Group had already entered into the traditional high season of the air-conditioning industry, its working capital climbed to a relatively high level in the year. Current assets of the Group amounted to RMB10,116.8 million (31 December 2012: RMB8,974.5 million) and current liabilities amounted to RMB8,707.8 million (31 December 2012: RMB7,604.2 million). The Group's working capital increased by RMB38.7 million or 2.8% from RMB1,370.3 million as at the end of 2012 to RMB1,409.0 million as at 30 June 2013. Despite the relatively faster increase in the Group's current liabilities, the current ratio remained at 1.2 times as at 30 June 2013.

During the first half of 2013, the Group had obtained funding for its business operation from using bank loans and issuing debentures. As at 30 June 2013, the balances of short-term and long-term bank loans utilised by the Group were RMB2,283.1 million and RMB173.9 million respectively (31 December 2012: RMB1,521.1 million and nil respectively). Short-term loans increased by RMB762.0 million or 50.1% and the long-term borrowings were newly drawn this year. The bank loans were used for working capital purposes, majority of the loans are charged at fixed interest rates, repayable within one year, and are made and repaid in Renminbi. In May 2013, the Group also issued medium-term notes in an aggregate principal amount of RMB150 million in the PRC. In addition to the above, the Group had short-term and long-term debentures of approximately RMB833.4 million and RMB149.0 million respectively outstanding as at the end of the reporting period.

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group increased to 29.0% as at 30 June 2013 (31 December 2012: 22.4%) because the Group's total borrowings increased at a faster rate than its total assets.

During the first half of 2013, the Group had rearranged the combinations of its borrowings by obtaining bank loans which are denominated in foreign currency and offered at lower lending rates. Both short-term and long-term borrowings had been used and provided the Group with a better mix of debt financing to fund its business operation. As such, the Group effectively cut its finance cost by 26.5% or RMB36.6 million for the first six months comparing to the same period in 2012. Ability of the Group to service finance costs, as indicated by interest cover, improved during the reporting period. Since the Group had improved its net profit and reduced its finance costs substantially during the period under review, interest cover of the Group increased to 1.6 times for the six months ended 30 June 2013 as compared to 1.4 times for the same period in 2012.

During the first half of 2013, 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 net financial exposure of the Group to these foreign currency forward contracts was approximately RMB24.0 million (31 December 2012: RMB31.9 million) as at the period end.

As at 30 June 2013, 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 period, the shareholders' equity increased to RMB2,777.7 million as at 30 June 2013 (31 December 2012: RMB2,736.2 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 June 2013.

## Cash flows

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB million*** | *RMB million* |
| Net cash (used in) from operating activities | **(804.3)** | 508.3 |
| Net cash used in investing activities | **(461.7)** | (71.2) |
| Net cash from (used in) financing activities | **933.2** | (154.0) |
| Net (decrease) increase in cash and cash equivalents | **(332.8)** | 283.1 |
| **Cash and cash equivalents at 30 June** | **591.1** | 832.4 |

During the first half of 2013, the Group financed its working capital by internally generating cash flow, bank borrowings and debentures. During the period under review, the Group increased its working capital requirement, especially in trade and other receivables and net cash of RMB804.3 million used in operating activities (30 June 2012: net cash inflow of RMB508.3 million) was resulted. The Group also raised net borrowings of RMB885.8 million from banks and issuance of medium-term notes amounting to RMB150 million during the period under review. As a result, net cash generated from financing activities amounted to RMB933.2 million (30 June 2012: net cash used in financing activities amounted to RMB154.0 million). Part of the cash generated was used to finance the Group's working capital including trade and other receivables during the first half of 2013. The Group also applied RMB298.7 million (30 June 2012: RMB137.2 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's cash balances decreased by RMB332.8 million during the six months ended 30 June 2013 (30 June 2012: net cash inflow of RMB283.1 million) and the bank balances and cash amounted to RMB591.1 million as at 30 June 2013 (30 June 2012: RMB832.4 million).

## Material acquisitions and disposals, significant investments

On 20 February 2013, a wholly-owned subsidiary of the Company, Chigo (Hong Kong) Investment Limited ("**Chigo Hong Kong**") entered into a sale and purchase agreement with the controlling shareholder of the Company, Chigo Group Holding Limited ("**Chigo Group Holding**") pursuant to which Chigo Hong Kong has conditionally agreed to acquire 100% equity interest in a company, 廣東志高科創銅業有限公司 (Guangdong Chigo Kechuang Copper Co., Limited) ("**Kechuang Copper**") which was then wholly-owned by Chigo Group Holding at a consideration of RMB38,000,000. The completion of the transaction is conditional upon the satisfaction of necessary legal procedures on equity transfer arrangement under respective PRC laws.

Kechuang Copper is registered as an entity that is principally engaged in the manufacturing and sale of copper products. On 20 February 2013, Kechuang Copper's major assets were land use rights and construction in progress with no operation commenced. The Directors are in opinion that the acquisition of Kechuang Copper will (i) enable the Group to further vertically integrate its production line and maintain its leading role in the air-conditioning industry; (ii) secure a stable supply of core raw material and component to the Group and enhance business growth of the Group in the future; and (iii) provide room for the Group to control production cost and process and in turn enhance its operation yield and efficiency.

The abovementioned acquisition was completed in April 2013 and Kechuang Copper was yet to commence operation as at 30 June 2013.

Other than the above, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies and the Group did not hold any significant investments during the period under review.

## Charge on assets

As at 30 June 2013, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB1,123.5 million (31 December 2012: approximately RMB946.9 million) were pledged to certain banks for securing the banking facilities granted to the Group.

## Exposure to fluctuations in exchange rates

During the six months ended 30 June 2013, approximately 53.4% of the Group's sales was 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. During the reporting period, the Group had entered into certain foreign currency forward contracts to hedge against foreign exchange risk. Though the exchange rate of Renminbi against the US dollar appreciated in the first half of 2013, the Group gained on the foreign currency forward contracts upon settlement and the Directors believe that the Group's exposure to foreign currency risk was not significant.

During and as at the end of the period under review, most of the assets and liabilities of the Group were denominated in Renminbi. 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 as required.

## 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 (the "**Court**") over Chigo Jiujiang's bank deposits. As at the date of this report, 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.

In July 2013, under the auspices of the Court, the Plaintiff and Chigo Jiujiang reached a settlement agreement. Pursuant to the settlement agreement, Chigo Jiujiang agreed (i) payment of approximately RMB6.3 million as outstanding construction cost and voluntary payment of RMB0.7 million as compensation for cost of funding to the Plaintiff; (ii) sharing of half of the legal fee of approximately RMB60,000. On the other hand, the Plaintiff agreed to assist in obtaining approval and filing in relation to the construction work. Chigo Jiujiang expects that the settlement will be completed by the end of August 2013.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 30 June 2013.

## Employees and Remuneration

As at 30 June 2013, the Group employed 15,049 employees (30 June 2012: 15,417 employees) and the remuneration of the employees was approximately RMB352.3 million for the six months ended 30 June 2013 (30 June 2012: RMB294.3 million). 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, there is also a share option scheme in place in which the employees and directors of the Group are entitled to participate. The Group also provides on-the-job and induction trainings for its current and new employees respectively.

## Outlook and Future Plans

The domestic and overseas air-conditioning markets recovered slowly in the first six months of 2013 as mentioned above. However, when entering into the second half of 2013, the Group saw positive development in the air-conditioning industry as the PRC government unveiled measures to boost the sluggish economy and domestic demand and was working on policies to encourage domestic use of energy-saving air-conditioning products. Besides, contrast to the first half of 2013, hot weather in various regions since July also stimulated the demand for air-conditioning products. On exports, Renminbi had already appreciated a certain extent in the first half of 2013 and smaller fluctuations of Renminbi are expected in the coming months. Steady exchange rates and lower cost of sales would also be advantageous to overseas demand for air-conditioning products.

The management has clearly formulated business plans for the Group as disclosed in the 2012 annual report of the Company. The primary goal of the Group is to achieve further production integration and efficiency thereby enhancing its market competitiveness. The compressor and the latest acquisition of copper production facilities are expected to be completed and commence to make contribution to the Group in the coming months. The management expects that the Group could leverage on these two new self-manufactured core components to enhance its cost efficiency and competitiveness in the future.

# Other Information

## Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013 (30 June 2012: Nil).

## Directors and the Chief Executive's Interests in shares and share options

As at 30 June 2013, the interests of the Directors and chief executive in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### Long position in the ordinary shares of HKD0.01 each of the Company

| Name of Director | Capacity | Number of issued ordinary shares held as at 30 June 2013 | Approximate percentage of shareholding[1] |
|---|---|---|---|
| Mr. Li Xinghao[2] | Held by controlled corporation | 4,322,234,210 | 51.25 |
| Dr. Zheng Zuyi | Beneficial owner | 4,632,000 | 0.05 |
| Dr. Ding Xiaojiang | Beneficial owner | 6,530,750 | 0.08 |
| Mr. Huang Xingke | Beneficial owner | 161,000 | 0.00 |
| | | 4,333,557,960 | 51.38 |

*Notes:*

1 Based on 8,434,178,000 shares of the Company in issue as at 30 June 2013.

2 Mr. Li Xinghao beneficially owns approximately 99.46% of the issued share capital of Chigo Group Holding Limited which beneficially owns 4,322,234,210 ordinary shares of the Company.

# Other Information

### Long position in the shares of associated corporation

| Name of Director | Associated corporation | Capacity | Number of issued ordinary shares held as at 30 June 2013 | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. Li Xinghao | Chigo Group Holding Limited | Beneficial owner | 9,946.1036 | 99.46 |

### Directors' rights to acquire shares

Particulars of the Company's share option scheme are set out in note 17 to the condensed consolidated financial statements.

| Name of Director | Capacity | Number of options held as at 30 June 2013 | Number of underlying shares |
|---|---|---|---|
| Mr. Li Xinghao | Beneficial owner | 8,000,000 | 8,000,000 |
| Dr. Zheng Zuyi | Beneficial owner | 50,000,000 | 50,000,000 |
| Dr. Ding Xiaojiang | Beneficial owner | 10,000,000 | 10,000,000 |
| Mr. Huang Xingke | Beneficial owner | 25,000,000 | 25,000,000 |
| Mr. Wan Junchu | Beneficial owner | 1,000,000 | 1,000,000 |
| Mr. Zhang Xiaoming | Beneficial owner | 1,000,000 | 1,000,000 |
| Mr. Fu Xiaosi | Beneficial owner | 1,000,000 | 1,000,000 |
| | | 96,000,000 | 96,000,000 |

Other than as disclosed above, none of the Directors, the chief executive nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporation as at 30 June 2013.

## Share option scheme

The share option scheme of the Company was adopted by the written resolution of the Shareholders on 19 June 2009. Particulars of the Company's share option scheme are set out in note 17 to the condensed consolidated financial statements.

# Other Information

The following table discloses the movements in the Company's share options and the underlying shares during the six months ended 30 June 2013:

| | Date of grant | Vesting date | Exercise period | Exercise Price[1] (HKD) | Underlying shares exercisable under the share options: Outstanding at 1 January 2013 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding at 30 June 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **Category 1: Directors** | | | | | | | | | |
| Li Xinghao | 2011.9.23 | 2013.9.23 | 2013.9.23 – 2018.9.22 | 0.45 | 2,400,000 | – | – | – | 2,400,000 |
| | 2011.9.23 | 2016.9.23 | 2016.9.23 – 2018.9.22 | 0.45 | 5,600,000 | – | – | – | 5,600,000 |
| | | | | | 8,000,000 | – | – | – | 8,000,000 |
| Zheng Zuyi | 2011.9.23 | 2013.9.23 | 2013.9.23 – 2018.9.22 | 0.45 | 15,000,000 | – | – | – | 15,000,000 |
| | 2011.9.23 | 2016.9.23 | 2016.9.23 – 2018.9.22 | 0.45 | 35,000,000 | – | – | – | 35,000,000 |
| | | | | | 50,000,000 | – | – | – | 50,000,000 |
| Ding Xiaojiang | 2011.9.23 | 2013.9.23 | 2013.9.23 – 2018.9.22 | 0.45 | 3,000,000 | – | – | – | 3,000,000 |
| | 2011.9.23 | 2016.9.23 | 2016.9.23 – 2018.9.22 | 0.45 | 7,000,000 | – | – | – | 7,000,000 |
| | | | | | 10,000,000 | – | – | – | 10,000,000 |
| Huang Xingke | 2011.9.23 | 2013.9.23 | 2013.9.23 – 2018.9.22 | 0.45 | 7,500,000 | – | – | – | 7,500,000 |
| | 2011.9.23 | 2016.9.23 | 2016.9.23 – 2018.9.22 | 0.45 | 17,500,000 | – | – | – | 17,500,000 |
| | | | | | 25,000,000 | – | – | – | 25,000,000 |

## Other Information

| | Date of grant | Vesting date | Exercise period | Exercise Price[1] (HKD) | Underlying shares exercisable under the share options: Outstanding at 1 January 2013 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding at 30 June 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Wan Junchu | 2011.9.23 | 2013.9.23 | 2013.9.23 – 2018.9.22 | 0.45 | 300,000 | – | – | – | 300,000 |
| | 2011.9.23 | 2016.9.23 | 2016.9.23 – 2018.9.22 | 0.45 | 700,000 | – | – | – | 700,000 |
| | | | | | 1,000,000 | – | – | – | 1,000,000 |
| Zhang Xiaoming | 2011.9.23 | 2013.9.23 | 2013.9.23 – 2018.9.22 | 0.45 | 300,000 | – | – | – | 300,000 |
| | 2011.9.23 | 2016.9.23 | 2016.9.23 – 2018.9.22 | 0.45 | 700,000 | – | – | – | 700,000 |
| | | | | | 1,000,000 | – | – | – | 1,000,000 |
| Fu Xiaosi | 2011.9.23 | 2013.9.23 | 2013.9.23 – 2018.9.22 | 0.45 | 300,000 | – | – | – | 300,000 |
| | 2011.9.23 | 2016.9.23 | 2016.9.23 – 2018.9.22 | 0.45 | 700,000 | – | – | – | 700,000 |
| | | | | | 1,000,000 | – | – | – | 1,000,000 |
| **Sub-total** | | | | | **96,000,000** | **–** | **–** | **–** | **96,000,000** |
| **Category 2: Employees** | | | | | | | | | |
| Employees | 2011.9.23 | 2013.9.23 | 2013.9.23 – 2018.9.22 | 0.45 | 184,708,000 | – | – | (1,544,000) | 183,164,000 |
| | 2011.9.23 | 2016.9.23 | 2016.9.23 – 2018.9.22 | 0.45 | 431,092,000 | – | – | (3,606,000) | 427,486,000 |
| **Sub-total** | | | | | **615,800,000** | **–** | **–** | **(5,150,000)** | **610,650,000** |

# Other Information

| | Date of grant | Vesting date | Exercise period | Exercise Price[1] (HKD) | Underlying shares exercisable under the share options: Outstanding at 1 January 2013 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding at 30 June 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **Category 3: Customers** | | | | | | | | | |
| Customers | 2011.9.23 | 2013.9.23 | 2013.9.23 – 2018.9.22 | 0.45 | 3,942,000 | – | – | – | 3,942,000 |
| | 2011.9.23 | 2016.9.23 | 2016.9.23 – 2018.9.22 | 0.45 | 9,308,000 | – | – | – | 9,308,000 |
| **Sub-total** | | | | | **13,250,000** | **–** | **–** | **–** | **13,250,000** |
| **Total** | | | | | **725,050,000** | **–** | **–** | **(15,150,000)** | **719,900,000** |

*Note:*

1. The closing price of the shares of the Company immediately before the date of grant, i.e. 22 September 2011 was HKD0.36 per share.

## Substantial shareholders

As at 30 June 2013, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

| Name of shareholder | Capacity | Number of issued ordinary shares interested as at 30 June 2013 | Approximate percentage of shareholding[1] |
|---|---|---|---|
| **Long positions** | | | |
| Chigo Group Holding Limited[2] | Beneficial owner | 4,318,234,210[3] | 51.20 |
| Skyworth TV Holdings Limited | Beneficial owner | 425,000,000 | 5.04 |

# Other Information

*Notes:*

1 Based on 8,434,178,000 shares of the Company in issue as at 30 June 2013.

2 Chigo Group Holding Limited is owned as to approximately 99.46% by Mr. Li Xinghao, a Director of the Company and as to approximately 0.54% by Mr. Li Longyi who is the son of the elder brother of Mr. Li Xinghao.

3 Based on the record maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, as at 30 June 2013, Mr. Li Xinghao beneficially owned 4,322,234,210 ordinary shares of the Company which were held by a controlled corporation, i.e. Chigo Group Holding Limited. As such, Chigo Group Holding Limited beneficially owns 4,322,234,210 ordinary shares of the Company (representing approximately 51.25% of shareholding) as at 30 June 2013.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 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 six months ended 30 June 2013.

## Corporate governance

The Company has adopted its corporate governance practices which are in line with the code provisions contained in the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Listing Rules. During the first half of 2013, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provision A.2.1 of the CG Code.

Code Provision A.2.1 of the CG Code stipulates that the roles of the Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

During the first half of 2013, Mr. Li Xinghao acted as both Chairman and Chief Executive Officer (the "**CEO**") of the Company.

The responsibilities of the Chairman and CEO of the Company have been clearly established and set out in writing. Chairman of the Board will be responsible for the 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.

# Other Information

## Model Code for Securities Transaction by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code regarding securities transactions by the Directors (the "**Own Code**"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Own Code. All Directors have confirmed their compliance during the first half of 2013 with required standards set out in the Model Code and the Own Code.

## Review of the Interim 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 interim results for the six months ended 30 June 2013 have been reviewed by the Audit Committee with the management of the Company.

By Order of the Board
**Chigo Holding Limited**
**Li Xinghao**
*Chairman*

Hong Kong, 28 August 2013

# Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

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

## Introduction

We have reviewed the condensed consolidated financial statements of Chigo Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

28 August 2013

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the six months ended 30 June 2013*

| | Notes | Six months ended 30 June 2013 RMB'000 (unaudited) | 2012 RMB'000 (unaudited) |
|---|---|---|---|
| Turnover | 3 | **5,436,372** | 5,424,645 |
| Cost of goods sold | | **(4,678,094)** | (4,667,553) |
| Gross profit | | **758,278** | 757,092 |
| Government subsidies for high energy-saving products | 4 | **36,640** | – |
| Other income | | **33,565** | 42,238 |
| Selling and distribution costs | | | |
| – equity-settled share based payments | | **(2,798)** | (2,546) |
| – other selling and distribution costs | | **(359,545)** | (366,954) |
| Administrative expenses | | | |
| – equity-settled share based payments | | **(9,578)** | (8,566) |
| – other administrative expenses | | **(199,501)** | (197,135) |
| Research and development costs | | **(14,096)** | (13,889) |
| Other expenses | | **(1,748)** | (458) |
| Other gains and losses | | **(22,487)** | (12,585) |
| Net loss in fair value changes on commodity derivative contracts | 5 | **(76,325)** | (1,091) |
| Net gain (loss) in fair value changes on foreign currency forward contracts | | **17,360** | (9,533) |
| Finance costs | | **(101,390)** | (137,995) |
| Profit before taxation | 5 | **58,375** | 48,578 |
| Taxation | 6 | **(29,264)** | (31,041) |
| Profit for the period and total comprehensive income for the period | | **29,111** | 17,537 |
| Profit for the period and total comprehensive income for the period attributable to | | | |
| – owners of the Company | | **22,302** | 17,283 |
| – non-controlling interests | | **6,809** | 254 |
| | | **29,111** | 17,537 |
| Earnings per share | 8 | | |
| – Basic | | **RMB0.26 cents** | RMB0.20 cents |
| – Diluted | | **RMB0.26 cents** | RMB0.20 cents |

# Condensed Consolidated Statement of Financial Position

*At 30 June 2013*

| | Notes | 30.6.2013<br>RMB'000<br>(unaudited) | 31.12.2012<br>RMB'000<br>(audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | **1,195,306** | 955,813 |
| Land use rights | | **223,881** | 203,874 |
| Intangible assets | | **1,294** | 1,461 |
| Prepaid lease payments | | **181,094** | 170,724 |
| Deposits made on acquisition of property, plant and equipment | | **141,687** | 79,061 |
| Deferred tax assets | | **10,800** | 10,313 |
| | | **1,754,062** | 1,421,246 |
| Current assets | | | |
| Inventories | 10 | **2,201,513** | 2,289,096 |
| Trade and other receivables | 11 | **6,135,287** | 4,755,882 |
| Land use rights | | **5,026** | 5,026 |
| Prepaid lease payments | | **15,906** | 11,055 |
| Taxation recoverable | | **12,184** | 10,809 |
| Derivative financial instruments | | **32,339** | 31,856 |
| Pledged bank deposits | | **1,123,516** | 946,887 |
| Bank balances and cash | | **591,072** | 923,860 |
| | | **10,116,843** | 8,974,471 |
| Current liabilities | | | |
| Trade and other payables | 12 | **4,315,207** | 4,171,585 |
| Warranty provision | | **32,768** | 30,606 |
| Taxation payable | | **103,251** | 85,702 |
| Derivative financial instruments | | **4,137** | – |
| Borrowings related to bills discounted with recourse | 13 | **1,135,909** | 989,393 |
| Debentures | 14 | **833,400** | 805,800 |
| Bank loans | 15 | **2,283,129** | 1,521,132 |
| | | **8,707,801** | 7,604,218 |
| Net current assets | | **1,409,042** | 1,370,253 |
| Total assets less current liabilities | | **3,163,104** | 2,791,499 |
| Non-current liabilities | | | |
| Government grants | | **39,412** | 40,056 |
| Deferred tax liabilities | | **18,954** | 15,226 |
| Debentures | 14 | **148,958** | – |
| Derivative financial instruments | | **4,224** | – |
| Bank loans | 15 | **173,852** | – |
| | | **385,400** | 55,282 |
| Net assets | | **2,777,704** | 2,736,217 |

# Condensed Consolidated Statement of Financial Position

*At 30 June 2013*

| | Note | **30.6.2013**<br>***RMB'000***<br>**(unaudited)** | 31.12.2012<br>*RMB'000*<br>(audited) |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | *16* | **71,906** | 71,906 |
| Reserves | | **2,668,699** | 2,634,021 |
| Equity attributable to owners of the Company | | **2,740,605** | 2,705,927 |
| Non-controlling interests | | **37,099** | 30,290 |
| Total equity | | **2,777,704** | 2,736,217 |

The condensed consolidated financial information on pages 22 to 44 were approved and authorised for issue by the Board of Directors on 28 August 2013 and are signed on its behalf by:

**LI XINGHAO**
*CHAIRMAN*
*AND*
*CHIEF EXECUTIVE OFFICER*

**ZHENG ZUYI**
*VICE CHAIRMAN*

# Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30 June 2013*

| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (Note a) | Share compensation reserve RMB'000 (Note b) | Share options reserve RMB'000 | Statutory surplus reserve fund RMB'000 (Note c) | Retained profits RMB'000 | Attributable to owners of the Company RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2013** | **71,906** | **938,187** | **(26,408)** | **63,535** | **30,465** | **200,172** | **1,428,070** | **2,705,927** | **30,290** | **2,736,217** |
| **Profit for the period and total comprehensive income for the period** | **–** | **–** | **–** | **–** | **–** | **–** | **22,302** | **22,302** | **6,809** | **29,111** |
| **Recognition of equity-settled share based payments** | **–** | **–** | **–** | **–** | **12,376** | **–** | **–** | **12,376** | **–** | **12,376** |
| **Transfers** | **–** | **–** | **–** | **–** | **–** | **13,806** | **(13,806)** | **–** | **–** | **–** |
| **At 30 June 2013 (unaudited)** | **71,906** | **938,187** | **(26,408)** | **63,535** | **42,841** | **213,978** | **1,436,566** | **2,740,605** | **37,099** | **2,777,704** |
| At 1 January 2012 | 71,906 | 938,187 | (26,408) | 63,535 | 26,847 | 188,785 | 1,324,953 | 2,587,805 | 23,891 | 2,611,696 |
| Profit for the period and total comprehensive income for the period | – | – | – | – | – | – | 17,283 | 17,283 | 254 | 17,537 |
| Recognition of equity-settled share based payments | – | – | – | – | 11,112 | – | – | 11,112 | – | 11,112 |
| Share options lapsed | – | – | – | – | (864) | – | 864 | – | – | – |
| Transfers | – | – | – | – | – | 7,193 | (7,193) | – | – | – |
| At 30 June 2012 (unaudited) | 71,906 | 938,187 | (26,408) | 63,535 | 37,095 | 195,978 | 1,335,907 | 2,616,200 | 24,145 | 2,640,345 |

*Notes:*

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

(b) Share compensation reserve represents:

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

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

(c) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiaries of the Company are required to maintain a statutory surplus reserve fund which is non-distributable. Appropriation to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries and the allocation basis are decided by its Board of Directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied for conversion into capital by means of capitalisation issue.

# Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2013*

| | Notes | Six months ended 30 June 2013 RMB'000 (unaudited) | 2012 RMB'000 (unaudited) |
|---|---|---|---|
| Net cash (used in) from operating activities | | **(804,276)** | 508,242 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | **(157,062)** | (70,799) |
| Proceeds from disposal of property, plant and equipment | | **3,895** | 2,000 |
| Prepaid lease payments made | | **(23,451)** | (3,340) |
| Interest received | | **18,646** | 10,601 |
| Deposits paid on acquisition of property, plant and equipment | | **(141,687)** | (66,442) |
| Withdrawal of pledged bank deposits | | **168,401** | 274,213 |
| Placement of pledged bank deposits | | **(345,030)** | (217,384) |
| Net cash inflow on acquisition of a subsidiary | 19 | **14,599** | – |
| Net cash used in investing activities | | **(461,689)** | (71,151) |
| Financing activities | | | |
| Interest paid | | **(73,482)** | (101,995) |
| Bank loans raised | | **1,474,882** | 1,193,013 |
| Repayment of bank loans | | **(589,033)** | (1,245,015) |
| Repayment to other creditors | | **(27,840)** | – |
| Proceed from issue of debentures | | **150,000** | – |
| Expenses incurred in connection with the issue of debentures | | **(1,350)** | – |
| Net cash from (used in) financing activities | | **933,177** | (153,997) |
| Net (decrease) increase in cash and cash equivalents | | **(332,788)** | 283,094 |
| Cash and cash equivalents at 1 January | | **923,860** | 549,348 |
| Cash and cash equivalents at 30 June | | **591,072** | 832,442 |
| Analysis of the balances of cash and cash equivalents | | | |
| Bank balances and cash | | **591,072** | 832,442 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2013*

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

## 2. PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

| | |
|---|---|
| HKFRS 10 | Consolidated financial statements |
| HKFRS 11 | Joint arrangements |
| HKFRS 12 | Disclosure of interests in other entities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated financial statements, joint arrangements and disclosure of interest in other entities: Transition guidance |
| HKFRS 13 | Fair value measurement |
| HKAS 19 (as revised in 2011) | Employee benefits |
| HKAS 27 (as revised in 2011) | Separate financial statements |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures |
| Amendments to HKFRS 7 | Disclosures – offsetting financial assets and financial liabilities |
| Amendments to HKAS 1 | Presentation of items of other comprehensive income |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2009-2011 cycle |
| HK(IFRIC) – INT 20 | Stripping costs in the production phase of a surface mine |

Except as described below, the application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### New and Revised Standards on Consolidation, Joint Arrangements, Associates and disclosures

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements. The impact of the application of these standards is set out below.

*Impact of the application of HKFRS 10*

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 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company concluded that the application of HKFRS 10 has no impact to the control conclusion over its investees they reached before.

*Impact of the Application of HKFRS 12*

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangement, associates and/or unconsolidated structured entities.

The directors of the Company concluded that the application of HKFRS 12 will result in more disclosures in the consolidated financial statements for the year ending 31 December 2013.

### Amendments to HKFRS 7 "Disclosures – Offsetting financial assets and financial liabilities"

The Group has applied the amendments to HKFRS 7 for the first time in the current interim period. Amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

The directors of the Company concluded that the Group's derivative transactions entered with financial institutions in Hong Kong are subject to enforceable master netting arrangements. The amounts involved for outstanding derivative contracts as at 30 June 2013 are insignificant and accordingly the disclosures are not presented in these condensed consolidated financial statements. However, the disclosures required by the amendments to HKFRS 7 will be provided in the consolidated financial statements for the year ending 31 December 2013.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### HKFRS 13 "Fair Value Measurement"

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and 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, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information in accordance with the consequential amendments of HKAS 34 are set out in note 18.

### Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. In addition, 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 do not change the existing option to present items of other comprehensive income either before tax or net of tax. Accordingly, the Group has renamed the consolidated statement of comprehensive income to consolidated statement of profit or loss and other comprehensive income.

## 3. 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.

## 3. SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's revenue and results by operating and reportable segments for the period under review:

| | Turnover For the six months ended | | Results For the six months ended | |
|---|---|---|---|---|
| | **30.6.2013** | 30.6.2012 | **30.6.2013** | 30.6.2012 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| Mainland China (the "PRC") | **2,533,700** | 2,693,444 | **458,027** | 372,881 |
| Asia (excluding PRC) | **1,538,407** | 1,585,108 | **163,301** | 208,547 |
| Americas | **483,327** | 453,189 | **70,497** | 83,158 |
| Africa | **439,578** | 347,301 | **49,720** | 47,808 |
| Europe | **435,458** | 342,840 | **51,714** | 43,851 |
| Oceania | **5,902** | 2,763 | **1,659** | 847 |
| | **5,436,372** | 5,424,645 | **794,918** | 757,092 |
| Unallocated other income | | | **33,565** | 42,238 |
| Unallocated expenses | | | **(440,701)** | (431,754) |
| Staff costs included in selling and distribution costs and administrative expenses | | | **(156,648)** | (154,181) |
| Allowance for doubtful debts | | | **(12,404)** | (16,198) |
| Net loss in fair value changes on commodity derivative contracts | | | **(76,325)** | (1,091) |
| Net gain (loss) in fair value changes on foreign currency forward contracts | | | **17,360** | (9,533) |
| Finance costs | | | **(101,390)** | (137,995) |
| Profit before taxation | | | **58,375** | 48,578 |

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

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

## 4. 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 12 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 period, the Group was entitled to the government subsidies of RMB36,640,000 (2012: Nil) in respect of high energy-saving products sold under the New Energy-Saving Scheme.

## 5. PROFIT BEFORE TAXATION

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Profit before taxation has been arrived at after charging: | | |
| Allowance for doubtful debts included in other gains and losses | **12,404** | 16,198 |
| Amortisation of intangible assets included in administrative expense | **167** | 184 |
| Charitable donations in the PRC | **249** | – |
| Depreciation of property, plant and equipment | **53,016** | 46,011 |
| Net loss in fair value changes on commodity derivative contracts *(note a)* | **76,325** | 1,091 |
| Provision for warranty included in cost of goods sold | **12,053** | 10,631 |
| Release of prepaid lease payments | **8,230** | 3,447 |
| Write down on inventories | **2,501** | 3,047 |
| and after crediting: | | |
| Amortisation of government grants | **644** | 644 |
| Government subsidies included in other income *(note b)* | **3,627** | 1,908 |
| Interest income | **18,646** | 10,601 |
| Reversal of doubtful debts included in other gains and losses | **11,007** | 11,250 |

## 5. PROFIT BEFORE TAXATION *(Continued)*

*Notes:*

(a) The Group's operations will consume substantial amounts of compressors, as well as commodity such as copper that is highly susceptible to price volatility. In order to minimise the impact from fluctuations of copper's price, the Group has entered into a number of copper forward contracts with certain commodity traders during both periods. However, during the six months ended 30 June 2013, there is an unexpected material decrease in copper price, a realised loss of RMB76,325,000 is resulted and recognised in profit or loss.

(b) 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.

## 6. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| The charge comprises: | | |
| PRC income tax | | |
| – current period | **(26,023)** | (23,158) |
| Deferred taxation | **(3,241)** | (7,883) |
| | **(29,264)** | (31,041) |

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 Enterprise Income Tax ("EIT") Law, a High-New Technology Enterprise shall be entitled to a preferential tax rate of 15% till 31 December 2013.

## 6. TAXATION *(Continued)*

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 ("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 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 period ended 30 June 2013 and 30 June 2012 have 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 information as the Group's Hong Kong operations had no assessable profit for the both periods.

## 7. DIVIDENDS

No dividend were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the profit for the period attributable to owners of the Company of RMB22,302,000 (2012: RMB17,283,000) and on the weighted average number of 8,434,178,000 (2012: 8,434,178,000) shares in issue during the period.

The computation of diluted earnings 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 periods presented.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group incurred an aggregate amount of RMB296,733,000 (2012: RMB154,418,000) for the acquisitions of property, plant and equipment in the PRC in order to upgrade its manufacturing capabilities.

In addition, during the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB4,224,000 for cash proceeds of RMB3,895,000, resulting in a loss on disposal of RMB329,000. During the six months ended 30 June 2012, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB42,053,000 to two independent third parties and accordingly no gain or loss had resulted in profit or loss.

## 10. INVENTORIES

| | **30.6.2013**<br>***RMB'000***<br>**(unaudited)** | 31.12.2012<br>*RMB'000*<br>(audited) |
|---|---|---|
| Raw materials | **413,246** | 626,047 |
| Work in progress | **39,221** | 43,601 |
| Finished goods | **1,749,046** | 1,619,448 |
| | **2,201,513** | 2,289,096 |

## 11. TRADE AND OTHER RECEIVABLES

| | **30.6.2013**<br>***RMB'000***<br>**(unaudited)** | 31.12.2012<br>*RMB'000*<br>(audited) |
|---|---|---|
| Trade receivables | **3,189,645** | 2,857,113 |
| Bills receivables | **2,592,564** | 1,673,590 |
| | **5,782,209** | 4,530,703 |
| Deposits paid to suppliers | **168,814** | 145,484 |
| Prepayments | **4,426** | 1,922 |
| Advances to staff | **18,790** | 19,072 |
| Value-added tax recoverable | **138,614** | 44,695 |
| Other receivables | **22,434** | 14,006 |
| | **6,135,287** | 4,755,882 |

## 11. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Age | | |
| 0 – 30 days | **2,520,528** | 2,015,737 |
| 31 – 60 days | **1,097,034** | 479,221 |
| 61 – 90 days | **731,274** | 430,879 |
| 91 – 180 days | **1,315,435** | 1,579,846 |
| 181 – 365 days | **117,938** | 25,020 |
| | **5,782,209** | 4,530,703 |

## 12. TRADE AND OTHER PAYABLES

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Trade payables | **702,493** | 612,675 |
| Bills payables | **2,912,744** | 3,040,022 |
| | **3,615,237** | 3,652,697 |
| Customers' deposits | **321,136** | 250,352 |
| Payroll and welfare payables | **43,046** | 40,360 |
| Other tax payables | **26,585** | 27,182 |
| Accruals | **124,300** | 57,593 |
| Other payables *(Note)* | **184,903** | 143,401 |
| | **4,315,207** | 4,171,585 |

*Note:* As at 30 June 2013, amounts of RMB39,000,000, RMB20,000,000 and RMB5,000,000 represented the Group's interest bearing other borrowings from 佛山市穗洲通訊器材有限公司, 佛山市南海南燕實業有限公司 and 佛山市中格威電子有限公司 at fixed interest rates of 12% per annum ("p.a."), 12% p.a. and 12% p.a., respectively, which are the suppliers of the Group and the amounts are unsecured and repayable on demand. No interest bearing other borrowing was noted as at 31 December 2012.

## 12. TRADE AND OTHER PAYABLES *(Continued)*

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:

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Age | | |
| 0 – 90 days | **2,272,410** | 2,363,569 |
| 91 – 180 days | **1,330,921** | 1,274,007 |
| 181 – 365 days | **5,730** | 7,148 |
| Over 1 to 2 years | **6,176** | 7,973 |
| | **3,615,237** | 3,652,697 |

## 13. BORROWINGS RELATED TO BILLS DISCOUNTED WITH RECOURSE

During the period, bank bills issued by customers and discounted by the Group carry interest at rates ranging from 4.80% to 6.00% (2012: 5.80% to 7.00%) per annum at the end of reporting period.

## 14. DEBENTURES

On 23 May 2013, Guangdong Chigo, the Company's wholly-owned subsidiary, issued long-term debentures in an aggregate principal amount of RMB150,000,000 (the "2013 Debentures"). The 2013 Debentures, with a fixed coupon rate of 6.50% per annum and a face value of RMB100 each, were listed and transferrable on the inter-bank debenture market in the PRC, at 100% of its face value with a maturity period of three years.

On 27 September 2012, Guangdong Chigo issued short-term debentures in an aggregate principal amount of RMB800,000,000 (the "Debentures"). The Debentures, with a fixed coupon rate of 5.90% per annum and a face value of RMB100 each, were listed and transferrable on the inter-bank debenture market in the PRC, at 100% of its face value with a maturity period of 365 days.

On 5 September 2011, Guangdong Chigo issued short-term debentures in an aggregate principal amount of RMB800,000,000 (the "Matured Debentures"). The Matured Debentures, with a fixed coupon rate of 7.90% per annum and a face value of RMB100 each, were listed and transferrable on the inter-bank debenture market in the PRC, at 100% of its face value and had been fully settled during the year ended 31 December 2012.

## 14. DEBENTURES *(Continued)*

The movement of the Debentures during the period is set out below:

| | 30.6.2013<br>RMB'000<br>(unaudited) | 31.12.2012<br>RMB'000<br>(audited) |
|---|---|---|
| Carrying value at the beginning of the period/year | 805,800 | 813,589 |
| Repayment of debentures and interests thereon | – | (863,200) |
| Proceeds from issue of debentures | 150,000 | 800,000 |
| Transaction costs | (1,350) | (8,000) |
| | 954,450 | 742,389 |
| Interest expenses charged | 27,908 | 63,411 |
| Carrying value at the end of the period/year | 982,358 | 805,800 |
| Carrying amount repayable: | | |
| – Within one year | 833,400 | 805,800 |
| – More than one year, but not more than three years | 148,958 | – |
| | 982,358 | 805,800 |

## 15. BANK LOANS

| | 30.6.2013<br>RMB'000<br>(unaudited) | 31.12.2012<br>RMB'000<br>(audited) |
|---|---|---|
| Bank loans | | |
| – unsecured | 2,165,199 | 1,480,986 |
| – secured by bank deposits and "Chigo" trademark | 241,782 | 40,146 |
| – guaranteed by Mr. Li Xinghao and secured by land use rights | 50,000 | – |
| | 2,456,981 | 1,521,132 |

## 15. BANK LOANS *(Continued)*

At the end of the reporting period, Mr. Li Xinghao, being a director and ultimate controlling party of the Company, has given personal guarantee to certain banks for banking facilities granted to a PRC subsidiary to the extent of RMB50,000,000 (2012: Nil). In addition, the bank loans are pledged with land use rights that situated in PRC.

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Carrying amount repayable: | | |
| Within one year | **2,283,129** | 1,521,132 |
| More than one year, but not exceeding two years | **123,852** | – |
| More than two years, but not exceeding three years | **50,000** | – |
| | **2,456,981** | 1,521,132 |
| Less: Amounts due within one year shown under current liabilities | **(2,283,129)** | (1,521,132) |
| Amount due after one year | **173,852** | – |

Also, at the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB4,412,687,000 (31.12.2012: RMB3,318,993,000).

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

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **equivalent** | equivalent |
| | **(unaudited)** | (audited) |
| United States Dollars ("USD") | **734,890** | 319,704 |

| Average interest rates paid were as follows: | **30.6.2013** | 31.12.2012 |
|---|---|---|
| Bank loans | **4.75%** | 6.31% |

All the bank loans are fixed rate borrowings, subject to negotiation at renewal date and were denominated in RMB and USD for both periods.

## 16. 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 2012, 31 December 2012 and 30 June 2013 | 50,000,000 | 500,000 | 8,434,178 | 84,341 |

| | |
|---|---|
| | *RMB'000* |
| Shown in the condensed consolidated statement of financial position at 30 June 2013 and 31 December 2012 | 71,906 |

## 17. EQUITY-SETTLED SHARE BASED PAYMENTS

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

At 30 June 2013, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 719,900,000 (2012: 725,050,000), representing 8.50% (2012: 8.60%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. On 13 May 2011, under the resolution of Annual General Meeting of the Company which were approved by the shareholders, the total number of shares in respect of which options may be granted under the Scheme is permitted not to exceed 30% of the shares of the Company in issue at any point in time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.10% of the Company's share capital or with a value in excess of HKD5,000,000 must be approved in advance by the Company's shareholders.

## 17. EQUITY-SETTLED SHARE BASED PAYMENTS *(Continued)*

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

On 4 January 2011, the exercise price was adjusted downwards from HKD3.01 per share to HKD0.301 per share with effect from 4 January 2011 as a result of the bonus issue and the total number of share options was adjusted upwards from 46,594,863 to 465,948,630.

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

| | | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Type of participants | Date of grant | Vesting period | Exercisable period | Adjusted exercise price per share *HKD* | Outstanding at 1.1.2012 | Reclassified during the year | Lapsed during the year | Outstanding at 31.12.2012 | Lapsed during the period | Outstanding at 30.6.2013 |
| Directors | 17.11.2009 | 17.11.2009 – 16.11.2010 | 17.11.2010 – 16.11.2012 | 0.301 | 4,360,692 | – | (4,360,692) | – | – | – |
| | | 17.11.2009 – 16.11.2011 | 17.11.2011 – 16.11.2012 | 0.301 | 6,897,478 | 77,960 | (6,975,438) | – | – | – |
| | 23.9.2011 | 23.9.2011 – 22.9.2013 | 23.9.2013 – 22.9.2018 | 0.45 | 15,300,000 | 13,500,000 | – | 28,800,000 | – | 28,800,000 |
| | | 23.9.2011 – 22.9.2016 | 23.9.2016 – 22.9.2018 | 0.45 | 35,700,000 | 31,500,000 | – | 67,200,000 | – | 67,200,000 |
| Employees | 17.11.2009 | 17.11.2009 – 16.11.2010 | 17.11.2010 – 16.11.2012 | 0.301 | 56,471,308 | – | (56,471,308) | – | – | – |
| | | 17.11.2009 – 16.11.2011 | 17.11.2011 – 16.11.2012 | 0.301 | 321,985,442 | (77,960) | (321,907,482) | – | – | – |
| | 23.9.2011 | 23.9.2011 – 22.9.2013 | 23.9.2013 – 22.9.2018 | 0.45 | 204,642,000 | (13,500,000) | (6,434,000) | 184,708,000 | (1,544,000) | 183,164,000 |
| | | 23.9.2011 – 22.9.2016 | 23.9.2016 – 22.9.2018 | 0.45 | 477,608,000 | (31,500,000) | (15,016,000) | 431,092,000 | (3,606,000) | 427,486,000 |
| Customers# | 17.11.2009 | N/A | 17.11.2010 – 16.11.2012 | 0.301 | 275,900 | – | (275,900) | – | – | – |
| | 23.9.2011 | N/A | 23.9.2013 – 22.9.2018 | 0.45 | 3,942,000 | – | – | 3,942,000 | – | 3,942,000 |
| | | N/A | 23.9.2016 – 22.9.2018 | 0.45 | 9,308,000 | – | – | 9,308,000 | – | 9,308,000 |
| | | | | | 1,136,490,820 | – | (411,440,820) | 725,050,000 | (5,150,000) | 719,900,000 |
| Exercisable at end of the period | | | | | | | | – | | – |

## 17. EQUITY-SETTLED SHARE BASED PAYMENTS *(Continued)*

\# *The Company's share options granted to customers are measured by reference to the fair value of options granted since the fair value of the customer loyalty to the Group cannot be estimated accurately. There are no specified performance conditions to be met. The fair value of share options are charged to profit or loss at the date of grant.*

The Group recognised the total expenses of RMB12,376,000 and RMB11,112,000 for the period ended 30 June 2013 and 30 June 2012, respectively, in relation to share options granted by the Company to the Group's directors and employees.

## 18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

| Financial assets/ financial liabilities | Fair value as at | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|
| Foreign currency contracts classified as derivative financial instruments in the condensed consolidated statement of financial position | Current assets – RMB2,264,000 | Level 2 | ***(1) Outright forward contracts*** **Discounted cash flow** Future cash flows are estimated based on difference between predetermined forward exchange rates and spot exchange rates at the end of the reporting period, discounted at a rate that reflects the credit risk of various counterparties. |
| | Current assets – RMB30,075,000 Current liabilities – RMB4,137,000 | | ***(2) Forward contracts with flexible settlement dates*** **Discounted cash flow** Future cash flows are estimated based on difference between predetermined forward exchange rates and spot exchange rates at the end of the reporting period, discounted at a rate that reflects the credit risk of various counterparties. **Black-Scholes Model and Binomial Model** Black-Scholes Model is used to calculate the value of a European Put option while Binomial Model is used to calculate the value of an American Put option. The key determinants of both models are predetermined forward exchange rate, spot exchange rates and market risk free interest rate. |
| Structured FX Range Bonus Forward Contracts classified as derivative financial instruments in the condensed consolidated statement of financial position | Non-current liabilities – RMB4,224,000 | Level 2 | **Black-Scholes Model** The key determinants of the model are predetermined range exchange rates, predetermined forward exchange rate, predetermined upper trigger exchange rate, spot exchange rate, market risk free interest rate. |

## 18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

There were no transfers between Level 1 and 2 in the current and prior periods.

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

## 19. ACQUISITION OF A SUBSIDIARY

On 22 April 2013, Chigo (Hong Kong) Investment Limited, the Group's wholly-owned subsidiary, acquired 100% equity interest of 廣東志高科創銅業有限公司 (Guangdong Chigo Kechuang Copper Co., Ltd.) ("Kechuang Copper") from Chigo Group Holding Limited ("Chigo Group"), the Company's immediate and ultimate holding company, for a cash consideration of RMB38,000,000. Major assets of Kechuang Copper are land use rights and construction in progress located in the PRC without any operation which did not constitute a business combination in accordance with HKFRS 3 "Business Combination" as such, the acquisition has been accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

| | *RMB'000* |
|---|---|
| Analysis of assets and liabilities acquired: | |
| Property, plant and equipment | 60,610 |
| Land use rights | 22,520 |
| Other receivables | 4,341 |
| Deposits made on acquisition of property, plant and equipment | 44,711 |
| Bank balances and cash | 52,599 |
| Other payables *(note)* | (96,781) |
| Bank loans | (50,000) |
| | 38,000 |
| Net cash inflow arising from the acquisition: | |
| Cash consideration paid | (38,000) |
| Less: Bank balances and cash acquired | 52,599 |
| | 14,599 |

## 19. ACQUISITION OF A SUBSIDIARY *(Continued)*

*Note:* As at 22 April 2013, the balance included interest bearing advances of RMB66,840,000, RMB20,000,000 and RMB5,000,000 from 佛山市穗洲通訊器材有限公司, 佛山市南海南燕實業有限公司 and 佛山市中格威電子有限公司 at fixed interest rates of 12% p.a., 12% p.a. and 12% p.a., respectively, which are the suppliers of the Group and the amounts are unsecured and repayable on demand.

## 20. CAPITAL COMMITMENTS

| | **30.6.2013**<br>***RMB'000***<br>**(unaudited)** | 31.12.2012<br>*RMB'000*<br>(audited) |
|---|---|---|
| Capital expenditure contracted for but not provided in the condensed consolidated financial information in respect of acquisition of property, plant and equipment | **79,278** | 37,872 |

## 21. RELATED PARTY TRANSACTIONS

### (a) Related party transactions

Other than the transactions and balances with related parties disclosed in respective notes in the condensed consolidated financial information, during the period, the Group paid messing expenses totalling RMB471,000 (2012: RMB474,000) to a related company which is controlled by Mr. Li Xinghao, a director as well as a beneficial controlling shareholder of the Company.

During the period, the Group acquired 100% equity interest of Kechuang Copper from Chigo Group, the Company's immediate and ultimate holding company, for a cash consideration of RMB38,000,000 with details in note 19.

### (b) Compensation of key management personnel

During the period, the remuneration paid to the Group's key management personnel, represented by the Company's directors, was RMB1,762,000 (2012: RMB1,753,000).