CHIGO

CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 449

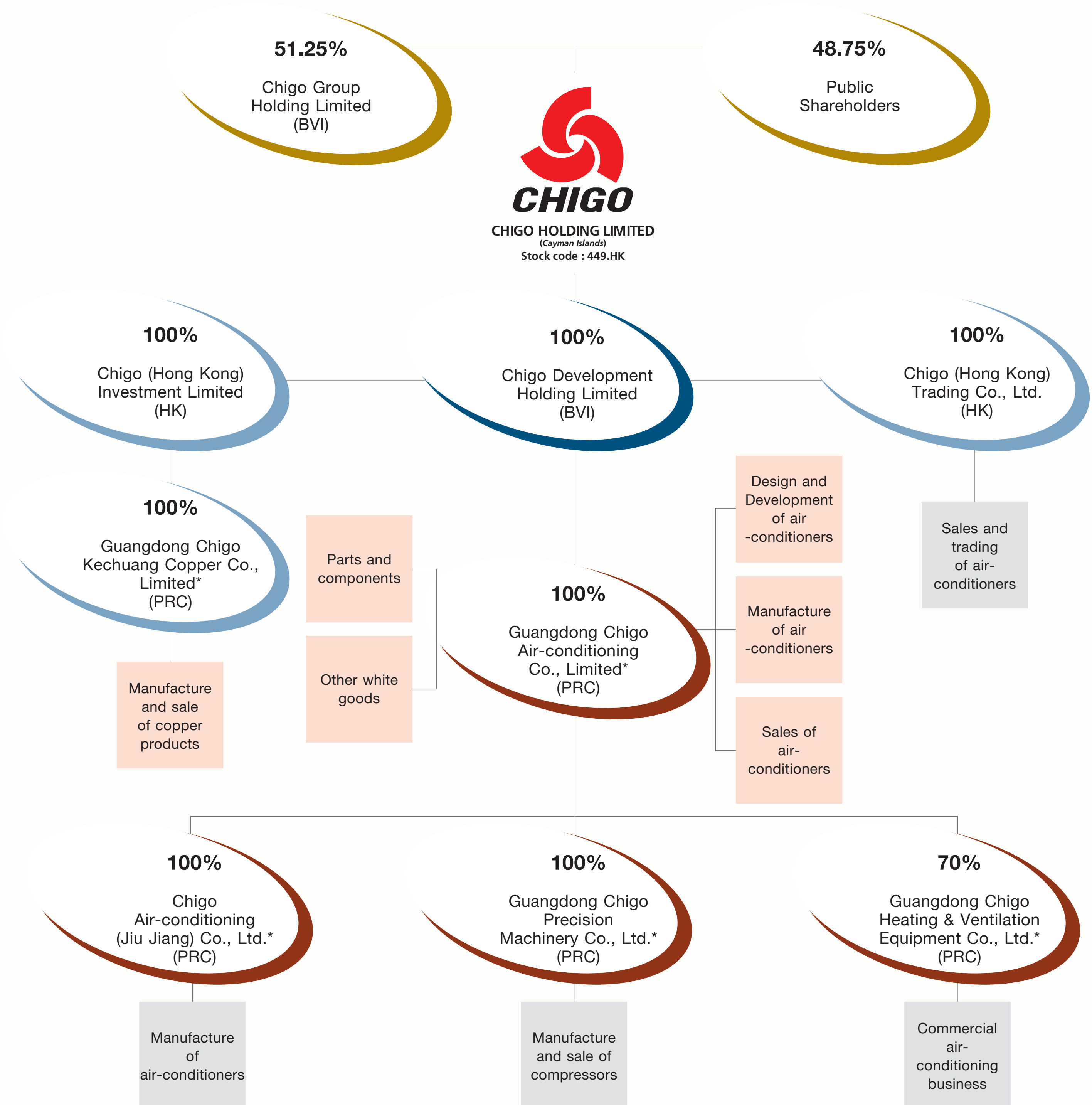
20

志存高遠二十年
Stand high and aim far
for 20 years

Annual Report
2013

CONTENTS

GROUP STRUCTURE



* The English names are provided for identification purpose only

Chigo Holding Limited (the "Company") and its subsidiaries (together with the Company "Chigo" or the "Group") were founded in 1994, and has become one of the top air-conditioner brands in the People's of Republic of China (the "PRC"). The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products.

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
Level 22, Hopewell Centre
183 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 31 December 2013:	
No. of shares issued:	8,434,178,000 shares
Market capitalisation:	HKD1.54 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

KEY EVENTS AND RECOGNITION IN 2013

January

On January 18, the ceremony for establishment of Guangdong Provincial Intelligent Household Electric Appliance Institute (廣東省智慧家電研究院) was held at Chigo.

From 18 to 24 January, high-profile promotional events for "iCongo 雲空調" of Chigo were staged in Beijing, Guangzhou and Chongqing, attracting distributors, industry experts and media.

February

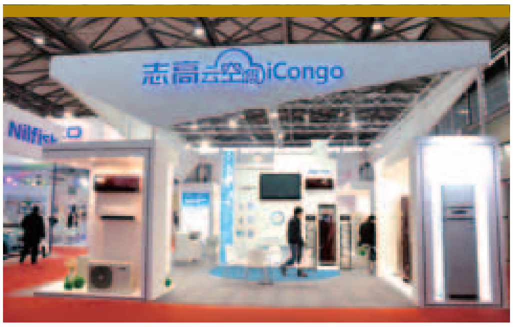
On 4 February, Chigo smoothly passed the review by Intertek Moody for the certificate renewal of IECQ HSPM QC 080000:2012, a standard on "Electrical and Electronic Components and Products – Hazardous Substance Process Management System Requirements (HSPM)". Since its HSPM accreditation, Chigo has been adhering to the approach of continuously reducing hazardous substance in products through green design and clean manufacturing, and securing the aim of zero complaint on excessive ROHS hazardous substance through the years. The certificate has effectively contributed to the Company's rapidly growing export sales.

According to statistics of China Customs, Chigo ranked among the top three in terms of export sales for 2012 in the PRC air-conditioner industry, and took a leading position in terms of average selling price among peers.

March

From 11 to 14 March, Chigo presented its latest residential air-conditioners and certain commercial products at the 8th session of Climate World, an international specialized HVAC (heating, ventilation and air-conditioning) exhibition held in Russia. It is also the largest exposition for specialized refrigeration equipment in Russia.

On 19 March, residential air-conditioners, refrigerators and other products of Guangdong Chigo debuted at the Appliance World Expo in Shanghai, where "iCongo雲空調" was named the "Most Popular Appliance of China"(中國家電艾普蘭最受大眾歡迎產品獎).



On 27 March, the "2013 Cloud Conditioner Summit" (2013雲空調高峰論壇) was held in China Science and Technology Hall, as hosted by Guangdong Provincial Intelligent Household Electric Appliance Institute and undertaken by Guangdong Chigo. The forum with a theme of "cloud air-conditioning application under the Big Data era" (大數據下空調雲應用) attracted numerous experts, scholars and industry professionals.

April

At the 113th China Import and Export Fair opened on 15 April at Pazhou Complex in Guangzhou, "iCongo雲空調" became a star of the trade fair among five product lines of Chigo, including residential air-conditioners, central air-conditioners, refrigerators and washing machines, freezers and small appliances.

May

On 8 May, a state-level engineering practice and education centre (國家級工程實踐教育中心) was jointly established by Guangdong University of Technology and Guangdong Chigo, with a ceremony held at Chigo Technology Centre.

By virtue of its outstanding research and development and innovation capabilities, Chigo Heating and Ventilation was included in the list of national high-tech enterprises for 2012.

KEY EVENTS AND RECOGNITION IN 2013

June

On 21 June, Chigo was included in the Top 100 in China Light Industry 2012, a list published at the award ceremony and entrepreneur forum in Beijing as hosted by China Light Industry Association and undertaken by China Light Industry Information Center. Chigo ranked No. 47, No. 8, No. 60 and No. 82 in terms of comprehensive strength, financial, marketing and value indicators, respectively.

On 25 June, Chigo successfully passed the review of "export inspection exemption" for 2013 pursuant to the Rules on Commodity Export Inspection Exemption (trial), sustaining the qualification granted to the full range of KF split residential air-conditioners of Chigo in 2012.

In June, the first "iCongo Innovation Contest" (雲空調創意大賽), an event hosted by Guangdong Provincial Intelligent Household Electric Appliance Institute and Guangdong Chigo, kicked off among universities and colleges nationwide.

July

On 19 July, "Motor-driven DC inverter control technology" and "Key technology research and industrialization of high-performance multi-split air-conditioning system" passed inspection acceptance. The two programs are included in strategic cooperative projects of Chinese Academy of Sciences, Guangdong Branch respectively for 2009 and 2010, and are jointly undertaken by Chigo and the Microelectronics Institute and the Physics and Chemical Institute of Chinese Academy of Sciences.

August

In August, Chigo was named one of the first 25 "Polar Star Enterprises" (北斗星企業) in Nanhai, a recognition for major enterprises to benefit from supports and incentives in merger and acquisition, establishment of headquarters and other aspects.

September

The products launched by Chigo received "Product Innovation" award (產品創新獎) in the campaign of "2013 China Household Electric Appliance Selection for Innovation" (2013中國家用電器創新成果評選) held by China Household Electric Appliance Research Institute.

October

At the 114th China Import and Export Fair opened on 15 October in Guangzhou, Guangdong Chigo became a cynosure with its new products featuring formaldehyde and PM2.5 removal, cloud computing and other innovative functions to demonstrate its technology expertise over 20 years.

On 24-25 October, the 2013 China (Chongqing) International Cloud Computing Expo was held in Nanping International Convention and Exhibition Center. Guangdong Chigo as the only exhibitor for cloud technology application in the industry presented its "iCongo雲空調" product series at the exhibition.

In October, after strict assessment by the Complaint Center of China Consumer News and ccn.com.cn, Chigo won the honor of "Advanced Group of Excellent Service for 2013" (2013年度「優秀服務先進單位」).

Guangdong Chigo, as the only exhibitor for cloud technology application in the industry, took the lead to extend its presence at the central space of the Hall of Fame for Guangdong Provincial Renowned and Outstanding Products established by Guangdong Entry-Exit Inspection and Quarantine Bureau.

December

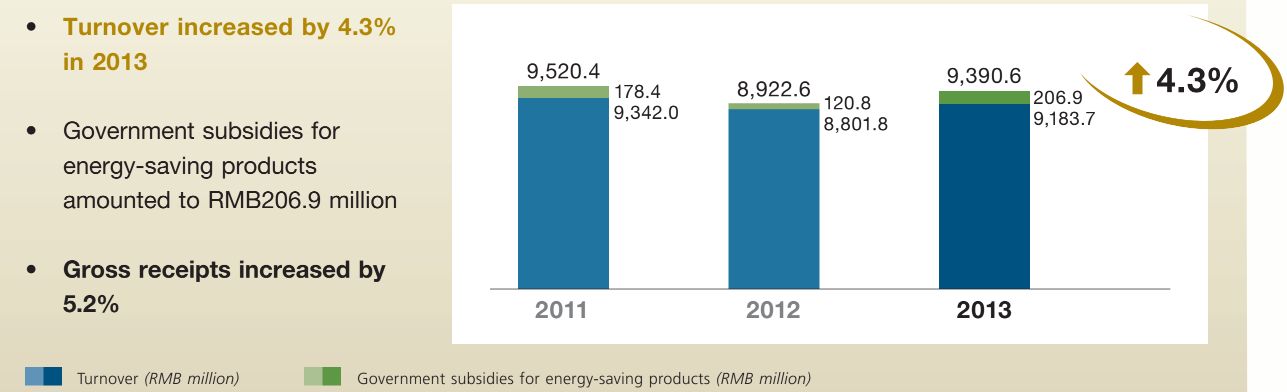
On 12 December, the 11th session of Marketing China, the largest and most influential annual summit in the marketing sector of China, was held by Sales and Marketing, a specialized magazine with high circulation in China. Chigo was honored the "Air Conditioning Enterprise of the Year" in the category of "Top 10 Innovative Marketers of China".

On 18 December, the 20th Anniversary Celebration of Chigo themed "Stand high and aim far for 20 years" (「志存高遠20年」) was held at Lingnan Pearl Stadium in Foshan city. The participants included local government officers, suppliers, distributors, consumer representatives, public celebrities and members of the Board, executives and management staff of the Company.

FINANCIAL HIGHLIGHTS

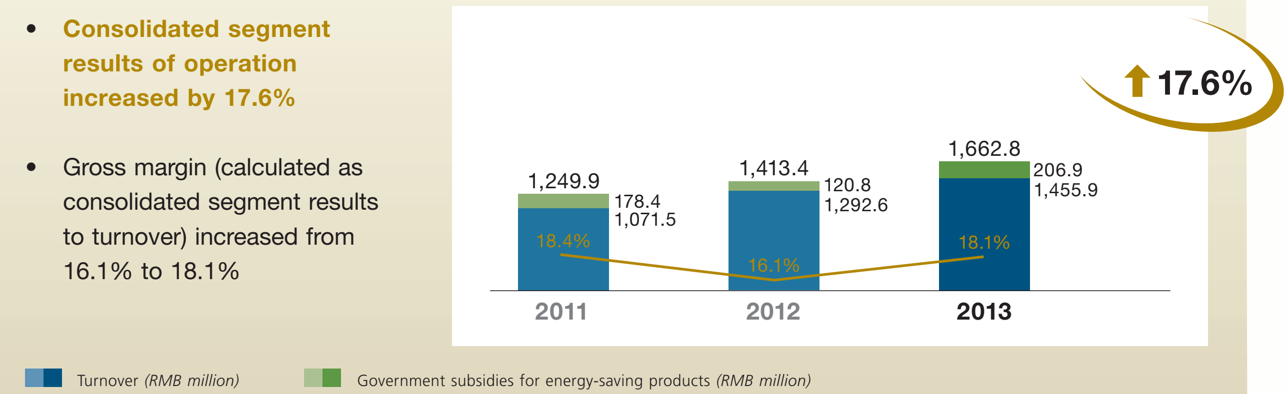
TURNOVER AND GROSS RECEIPTS[1]

- **Turnover increased by 4.3% in 2013**
- Government subsidies for energy-saving products amounted to RMB206.9 million
- **Gross receipts increased by 5.2%**



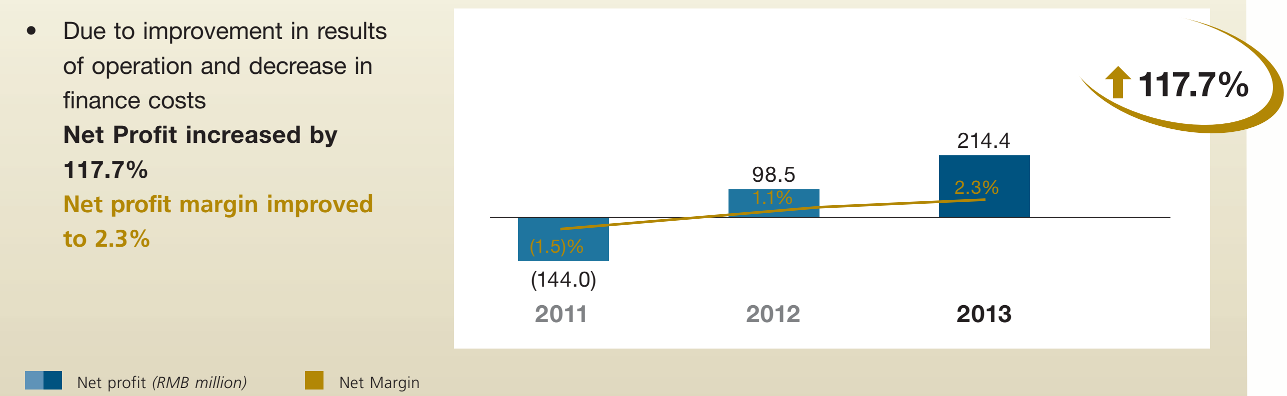
GROSS PROFIT, SEGMENT RESULTS[2] AND GROSS MARGIN[3]

- **Consolidated segment results of operation increased by 17.6%**
- Gross margin (calculated as consolidated segment results to turnover) increased from 16.1% to 18.1%



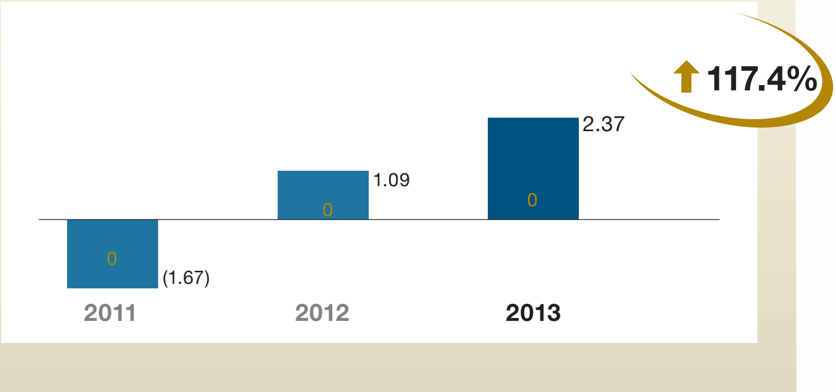
PROFIT FOR THE YEAR AND NET PROFIT MARGIN

- Due to improvement in results of operation and decrease in finance costs
Net Profit increased by 117.7%
Net profit margin improved to 2.3%



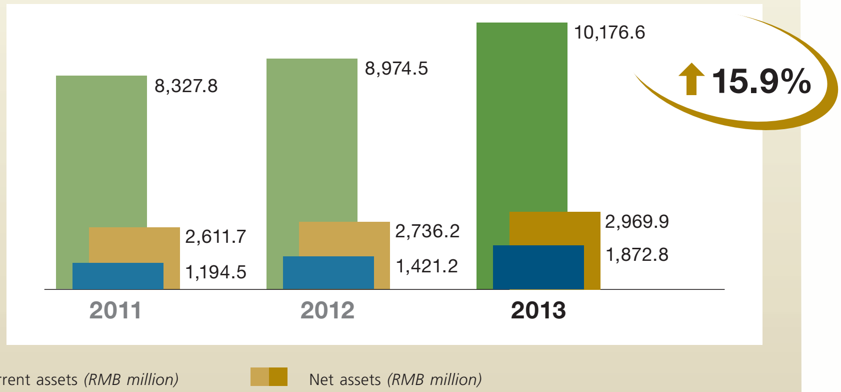
EARNINGS PER SHARE (EPS) AND DIVIDEND PER SHARE (DPS)

- Net profit increased
  Basic earnings per share increased by 117.4%
- No final dividend was declared for the year ended 31 December 2013



TOTAL ASSETS AND NET ASSETS

- **Non-current assets increased by 31.8%** and **current assets increased by 13.4%**
  Total consolidated assets increased by 15.9%
- As the Group recorded a net profit for the year
  Net assets increased by 8.5%



Note 1: Gross receipts represent the total turnover of the Group plus the government subsidies for energy-saving products.

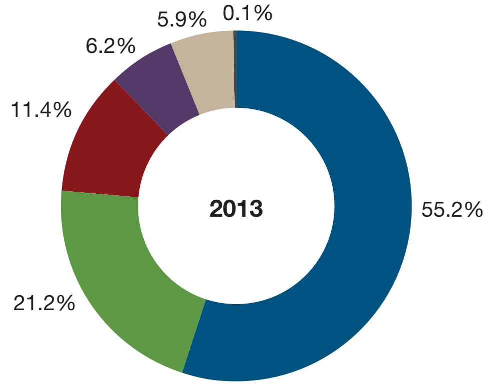
Note 2: Segment results represent the gross profits and government subsidies for energy-saving products by each segment. Consolidated segment results represent the total of all the segments results (including the government subsidies for energy-saving products).

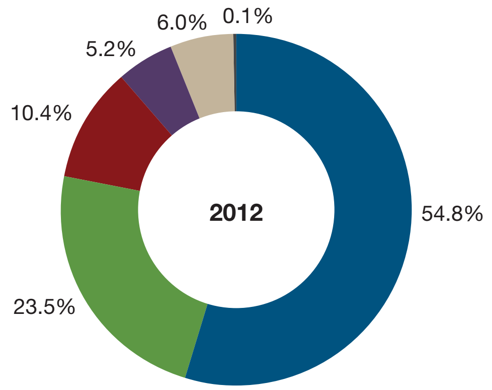
Note 3: For a meaningful comparison of profitability, gross margins are calculated as the percentage of consolidated segment results of operation to turnover.

OPERATION HIGHLIGHTS

PRC AND OVERSEAS SALES

- PRC sales dropped in the first half and rebounded substantially in the second half of 2013
  PRC sales increased by 5.0% and amounted to 55.2% of the total turnover
- Positive growth in major overseas sales regions
  Overseas sales up by 3.5% and amounted to 44.8% of the total turnover

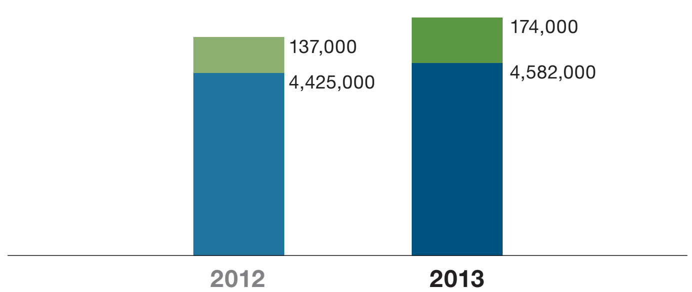




PRC Asia (excluding PRC) Americas Africa Europe Oceania

UNIT SALES VOLUME

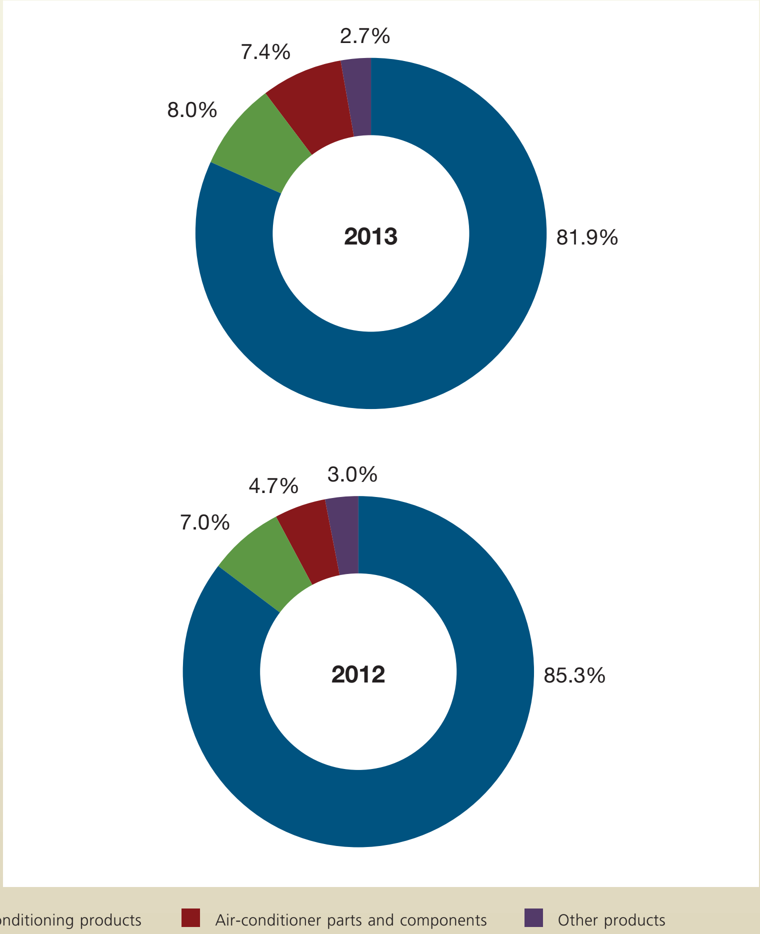
- **4.6 million units** of residential air-conditioners **sold and increased by 3.5%**
- **174,000 sets** of commercial air-conditioners **sold and increased by 27.0%**



Residential air-conditioning products *(Units)* Commercial air-conditioning products *(Sets)*

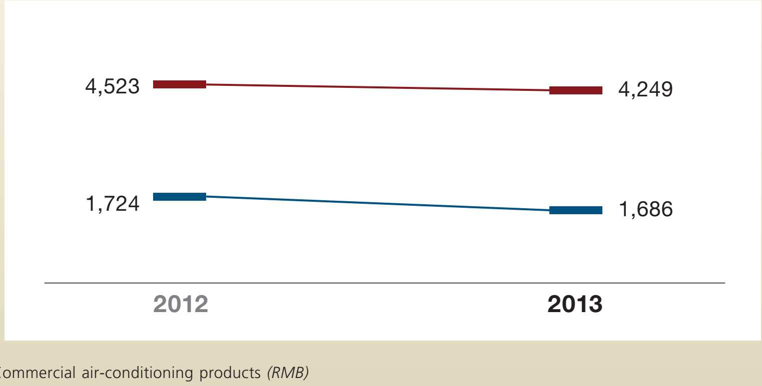
MAJOR PRODUCTS TYPE

- Increase in number of units sold which was partly offset by the decrease in the average sales prices
  Sales of residential air-conditioners decreased by 0.2% and accounted for 81.9% of the total turnover
  Sales of commercial air-conditioners up by 19.7% to 8.0% of the total turnover
- Sales of **air-conditioners parts and components increased substantially by 65.0%** and sales of **other products decreased by 7.7%**



AVERAGE SELLING PRICE (ASP)

- Since the average cost of productions had decreased, the ASP of the **residential air-conditioning products decreased** at a slower rate by **2.2%**. The ASP of the **commercial air-conditioning products went down by 6.1%** due to (i) higher portion of sales of small and medium sized air-conditioner models and (ii) decrease in cost of sales.



CHAIRMAN'S STATEMENT

STAND HIGH AND AIM FAR FOR TWENTY YEARS

Li Xinghao
Chairman and Chief Executive Officer

Dear shareholders,

On behalf of the board of directors of Chigo Holding Limited, I am pleased to present the audited annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013.

TWENTY YEARS OF CHIGO

The year 1994 marked a fundamentally important year for Chigo as it has been twenty years since its founding, during which Chigo has achieved great accomplishments in and made huge contributions towards the promotion of and reform in the air-conditioning industry. Located by the Xijiang River, Nanhai, Foshan, Guangdong Province, the PRC, Chigo is a manufacturing enterprise which owns rows of production factories, hires thousands of hard-working staff and has an annual manufacturing capability of 10 million air-conditioners. Chigo will continue to exert itself mightily to achieve another twenty years of great performance.

KEEP UP EFFORTS TO ENHANCE PROFITABILITY

After undergoing a rough patch in 2011 and achieving a turnaround from loss to profit in 2012, the Group kept up efforts in 2013 and successfully further improved its results of operation. The industry encountered difficulties in early 2013, and the Group had to confront the sluggish domestic economic growth and the cool and wet weather in the first half of the year, as well as the significant fluctuations in market prices of major raw materials, resulting in substantial loss in commodity derivatives contracts used for hedging costs and thus affecting the annual profit for 2013. Fortunately, the domestic sales results achieved a strong rebound in the second half of the year, thanks to the great efforts made by the domestic sales team through adjusting sales swiftly after stabilisation of the market, leading to a growth in domestic sales in 2013 and a further improvement in product gross margins.

In terms of overseas markets, the Group targeted at emerging markets with more market opportunities by promoting its own brand. Although facing appreciation of Renminbi in 2013 which offset part of the increase in overseas sales denominated in foreign currencies, the Group recorded an increase in overseas sales for the year ended 31 December 2013, attributable to its successful market strategies.

In sum, the Group recorded satisfactory results of a total turnover of RMB9,183.7 million.

In addition to maintaining appropriate growth in turnover, what is more important is that the Group determined a specific enterprise strategy at the beginning of 2013, with enhancement of operational efficiency as its prime task. The Group maintained the average selling prices of its products by controlling costs, optimising product portfolio and emphasising on the promotion of its own brand, so as to attain a continual improvement in gross profits and gross margins. The consolidated annual profit of the Group increased by 117.7% to RMB214.4 million for the year ended 31 December 2013, attributable to government subsidies for selling high energy-saving products and a significant drop in finance costs resulting from successful adjustments to the loan portfolio of the Group.

In 2013, the Group completed the construction of production facilities for producing compressors at the production headquarters in Foshan, Guangdong Province, the PRC so as to further enhance the future competitiveness of the Group and ensure a stable supply of core components, and meanwhile completed an acquisition of production facilities for manufacturing copper products in Sihui City, Guangdong Province. It is expected that the two production facilities for compressors and copper products will be gradually put into operation in 2014, and thus the Group can further its production integration and improve its overall operational efficiency and profitability.

DEVELOPMENT STRATEGIES FOR 2014

"NEVER FORGET THE ORIGINAL INTENTION WHICH WILL LEAD TO A BRIGHT ENDING"

The slower economic growth in emerging markets since the beginning of 2014 and the more volatile Renminbi exchange rate in recent times compared with that in last year may bring about uncertainties to the air-conditioning industry in the short term, although the decrease in the prices of major raw materials and the recent depreciation in Renminbi exchange rate will be conducive to export enterprises. On the other hand, the domestic demand for air-conditioning products will remain stable due to purchase of air-conditioners for newly built houses as well as replacement of old products with new ones, which will have positive impacts on the sales of air-conditioners in 2014.

The management of the Group has determined the focuses of the corporate plan, which include: (1) strengthening the sales of iCongo air-conditioners that incorporate advanced intelligence and air-conditioning technology; (2) raising the sales proportion of commercial air-conditioners with higher profits and gross margins; (3) launching compressors of its own brand to further reinforce its edge in production costs; and (4) carrying out terminal marketing and mobile marketing plans to expand its sales network.

On another front, I would like to take this great opportunity of the 20th anniversary of the establishment of Chigo to remind its staff not to forget the original entrepreneurship of the Group, to stay committed to operation integrity and focus on "management reform", "rejuvenation of the team" and "technological innovation" so as to uphold and pass down the corporate culture of Chigo.

ACKNOWLEDGEMENT

Lastly, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and suppliers, banks and outstanding staff for their support and trust. The Group is confident in its future prospect and hopes to make progress in joint efforts with all its stakeholders to bring about better results for Chigo.

Li Xinghao
Chairman and Chief Executive Officer
Foshan, 26 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. During the year ended 31 December 2013, the turnover of the Group was mainly derived from the sales of air-conditioners and air-conditioner parts and components. The Group's products were sold both in the PRC and overseas markets.

At the beginning of 2013, the management had set targets of enhancing operating efficiency and maintaining a steady growth in sales and volume. The Group followed the strategic plans and achieved turnover growth and significantly improved its profitability in 2013.

Domestic demand for residential air-conditioning products was weak in the first half of 2013 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 sales volume. However, when entering into the second half of 2013, there were signs of positive development in the air-conditioning industry. The Group's sales team responded quickly and domestic sales rebounded substantially in the second half of 2013. As a result, for 2013, PRC full-year sales went up. More importantly, there were improvements in operating efficiency and profit margin in the Group's PRC business segment. While the prices of major raw materials dropped, the Group was able to keep the average selling prices of its domestic products stable in 2013 as compared to those of the same period in 2012 and, as a result, the segment results of the PRC region increased substantially and the profit margins of domestic products continued to improve for the year ended 31 December 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 year ended 31 December 2013, the Group received government subsidies relating to high energy-saving products sold in the current and prior periods up to RMB206.9 million. Following the expiry of the subsidy policy for energy-saving air-conditioning products in China in mid-2013, the Group, through adjusting the product mix, effectively improved the average sales price and the gross margin of its air-conditioning products sold in China.

The Group maintained upward momentum in its exports in 2013, both overseas sales volume and sales increased during the year 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 year ended 31 December 2013.

The commercial unit of the Group also achieved good performance in 2013. Sales and profit margin of our commercial air-conditioning products kept rising and recorded impressive growths during the reporting period. As the gross margin of the commercial air-conditioning products are higher, the Group's overall profitability would be further improved with the continued increase of commercial sales.

In 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 in the first of 2013 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 year end, 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 material.

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. In addition, a new production facility at the headquarters for compressors, a core component of air-conditioner, was completed during the year. As at the end of 2013, these two new production facilities had yet to commence operation and are set to begin trial production in the first half of 2014. The management expects that the Group will have steady supply of self-manufactured parts and components for business expansion. In light of the above, the competitiveness and profitability of the Group are expected to be further enhanced in the coming years.

OPERATION REVIEW

SALES FROM MAJOR PRODUCT GROUPS AND GROSS MARGINS

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
Residential air-conditioners						
– split type	**7,161.8**	**78.0**	7,193.1	81.7	-31.3	-0.4
– window type	**325.6**	**3.5**	280.5	3.2	+45.1	+16.1
– portable type	**33.1**	**0.4**	32.7	0.4	+0.4	+1.2
	7,520.5	**81.9**	7,506.3	85.3	+14.2	+0.2
Commercial air-conditioners	**740.7**	**8.0**	618.9	7.0	+121.8	+19.7
Air-conditioners parts and components	**676.5**	**7.4**	410.1	4.7	+266.4	+65.0
Others	**246.0**	**2.7**	266.5	3.0	-20.5	-7.7
Total Turnover	**9,183.7**	**100.0**	8,801.8	100.0	+381.9	+4.3

Residential air-conditioning products are the major source of income for the Group and accounted for 81.9% of the total turnover. Sales of residential air-conditioners increased by 0.2% during the year ended 31 December 2013, principally because of the increases in number of units sold which was partly offset by the decrease in the average sales prices of air-conditioning products during the year. As the sales volume increased remarkably and outweighed the slight drop in average sales prices, turnover derived from commercial air-conditioners rose by 19.7% and contributed 8.0% of the total turnover to the Group during the year. Sales of air-conditioner parts and components continued to increase and recorded a significant growth of 65.0% during the year, principally due to increased sales to external manufacturers in the form of knockdown parts. Sales of the other products decreased further by 7.7% in 2013 as the Group outsourced some of the sideline production to external manufacturers to pool its resources and improve efficiency.

As a result of the effective corporate strategy, the gross margin (including government subsidies for energy-saving products) of residential air-conditioning products improved sharply to 17.6% for the reporting period from 15.5% in 2012.

The Group's commercial unit continued to elevate its gross margin of the commercial air-conditioning products from 22.0% in 2012 to 25.2% during the year.

SALES FROM BRANDS AND ORIGINAL EQUIPMENT MANUFACTURING ("OEM")

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
PRC sales						
CHIGO brand	**4,656.5**	**50.7**	4,455.4	50.6	+201.1	+4.5
HYUNDAI brand	**92.3**	**1.0**	65.0	0.7	+27.3	+42.0
Air-conditioner parts and components	**75.9**	**0.8**	52.7	0.6	+23.2	+44.0
Other products	**243.0**	**2.7**	252.8	2.9	-9.8	-3.9
	5,067.7	**55.2**	4,825.9	54.8	+241.8	+5.0
Overseas sales						
CHIGO brand	**641.0**	**7.0**	616.0	7.0	+25.0	+4.1
OEM	**2,871.4**	**31.3**	2,988.8	34.0	-117.4	-3.9
Air-conditioner parts and components	**600.6**	**6.5**	357.4	4.1	+243.2	+68.0
Other products	**3.0**	**0.0**	13.7	0.1	-10.7	-78.1
	4,116.0	**44.8**	3,975.9	45.2	+140.1	+3.5
Total Turnover	**9,183.7**	**100.0**	8,801.8	100.0	+381.9	+4.3

Most of the air-conditioning products sold in China were under CHIGO brand which increased by 4.5% and accounted for 98.2% of the Group's PRC sales during the year ended 31 December 2013. Sales of parts and components in China increased by 44.0% due to an increase in knockdown sales. As the Group outsourced some of its sideline production and the other operating income decreased, sales of other products in China dropped by 3.9% during the reporting period.

The Group further enhanced promotion of its own brand in overseas markets, export under CHIGO brand kept increasing and recorded a 4.1% growth this year. Among the Group's overseas sales in 2013, CHIGO brand and OEM accounted for approximately 30.2% and 69.8% of the total overseas sales respectively (2012: 24.8% and 75.2% of the total overseas sales respectively).

SALES AND DISTRIBUTION

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
PRC						
Household appliances retail chain operators	**1,356.3**	**14.8**	1,214.8	13.8	+141.5	+11.6
Regional distributors	**3,711.4**	**40.4**	3,611.1	41.0	+100.3	+2.8
PRC Total	**5,067.7**	**55.2**	4,825.9	54.8	+241.8	+5.0
Overseas						
Regional distributors	**1,244.6**	**13.5**	987.1	11.2	+257.5	+26.1
OEM manufacturers	**2,871.4**	**31.3**	2,988.8	34.0	-117.4	-3.9
Overseas Total	**4,116.0**	**44.8**	3,975.9	45.2	+140.1	+3.5
Total Turnover	**9,183.7**	**100.0**	8,801.8	100.0	+381.9	+4.3

During the year ended 31 December 2013, the Group's PRC sales from household appliances retail chain operators rose at a faster pace of 11.6% and increased contribution to 26.8% of the Group's PRC sales (2012: 25.2% of the total PRC sales). Sales generated from regional distributors increased by 2.8% and accounted for 73.2% of the PRC sales in 2013 (2012: 74.8% of the total PRC sales).

For the overseas markets, as the Group strengthened its own brand sales during the reporting period, sales from OEM customers dropped slightly by 3.9% and sales from overseas regional distributors increased sharply by 26.1%. As such, approximately 69.8% and 30.2% (2012: 75.2% and 24.8% of the total overseas sales respecively) of the overseas sales were distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2013.

UNITS SOLD VOLUME AND AVERAGE SALES PRICES

	Year ended 31 December		
	2013	2012	Change %
Residential air-conditioning products sold *('000 units)*	**4,582**	4,425	+3.5
Commercial air-conditioning products sold *('000 sets)*	**174**	137	+27.0
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,686**	RMB1,724	-2.2
Average sales price – commercial air-conditioning product (per set)	**RMB4,249**	RMB4,523	-6.1

During the year ended 31 December 2013, the Group kept a steady growth of 3.5% in sales volume of residential air-conditioning products. The Group saw strong sales in commercial air-conditioning products and increased its sales volume by 27.0% in 2013. In total, the Group sold more than 4.7 million units/sets of air-conditioners within the reporting period.

Due to decreases in the prices of raw materials, the average cost of sales of air-conditioning products declined during the year ended 31 December 2013. Following the expiry of the subsidy policy for energy-saving air-conditioning products in China in mid-2013, the Group, through adjusting the product mix, effectively improved the average sales price of its air-conditioning products. As a result, the average sales prices of residential air-conditioning products dropped slightly by 2.2%. The average sales prices of commercial air-conditioning products went down by 6.1% during the year mainly due to (i) higher proportion of sales of small and medium-sized air conditioner models in 2013; and (ii) the downward adjustment of sales prices in view of the decrease in cost of sales.

BREAKDOWN OF COST OF GOODS SOLD

During the two years ended 31 December 2013, breakdown of the Group's total cost of goods was shown as follows:

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Cost of goods sold**	*RMB million*	% of Cost of goods sold	*RMB million*	Change %
Raw materials, parts and components:						
Compressors	**1,652.8**	**21.4**	1,890.6	25.2	-237.8	-12.6
Copper	**2,110.9**	**27.3**	2,108.1	28.1	+2.8	+0.1
Plastic chips	**578.0**	**7.5**	522.9	6.9	+55.1	+10.5
Aluminum	**469.7**	**6.1**	469.8	6.3	-0.1	-0.0
Steel plates	**520.6**	**6.7**	458.4	6.1	+62.2	+13.6
Others *(note)*	**1,639.5**	**21.2**	1,368.5	18.2	+271.0	+19.8
Total	**6,971.5**	**90.2**	6,818.3	90.8	+153.2	+2.2
Direct labour cost	**340.7**	**4.4**	287.7	3.8	+53.0	+18.4
Utilities	**65.3**	**0.8**	64.4	0.9	+0.9	+1.4
Production cost	**214.8**	**2.8**	206.0	2.7	+8.8	+4.3
Others	**135.5**	**1.8**	132.8	1.8	+2.7	+2.0
Total cost of goods sold	**7,727.8**	**100.0**	7,509.2	100.0	+218.6	+2.9

Note: Others include many other miscellaneous parts and components used in production, such as electronic controller systems, refrigerant, power cord, capacitors and other small parts.

During the year ended 31 December 2013, the Group's turnover increased faster than the cost of goods sold. Among the raw materials, parts and components, more copper had been used as the Group's sales volume increased and the cost of copper recorded an increase of 0.1% as compared to 2012 despite the substantial drop in the market price of copper in the first half of 2013.

Due to the rising trend of labour costs in China, direct labour cost increased at a faster rate compared to the other cost components by 18.4% during the year ended 31 December 2013.

FINANCIAL REVIEW

TURNOVER

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
Geographic region						
PRC sales	**5,067.7**	**55.2**	4,825.9	54.8	+241.8	+5.0
Asia (excluding PRC)	**1,944.9**	**21.2**	2,064.9	23.5	-120.0	-5.8
Americas	**1,048.5**	**11.4**	920.8	10.4	+127.7	+13.9
Africa	**567.9**	**6.2**	458.1	5.2	+109.8	+24.0
Europe	**542.6**	**5.9**	525.4	6.0	+17.2	+3.3
Oceania	**12.1**	**0.1**	6.7	0.1	+5.4	+80.6
Overseas sales	**4,116.0**	**44.8**	3,975.9	45.2	+140.1	+3.5
Total turnover	**9,183.7**	**100.0**	8,801.8	100.0	+381.9	+4.3

During the year ended 31 December 2013, the Group's total turnover was approximately RMB9,183.7 million (2012: RMB8,801.8 million) and increased by RMB381.9 million, or 4.3% as compared to the corresponding period in 2012. The increase was principally due to the increase in sales volume of air-conditioning products together with strong sales growth in parts and components during the year.

As the subsidies for the energy-saving products expired at the end of May 2013, the Group received RMB206.9 million (2012: RMB120.8 million) as part of the receipts in relation to sales of products. Gross receipts (sum of turnover and government subsidies for high energy-saving products) received by the Group in relation to its principal operation amounting to RMB9,390.6 million (2012: RMB8,922.6 million) and increased by 5.2% or RMB468.0 million as compared to 2012.

PRC SALES

Due to the domestic economic slowdown and the unfavourable weather factor, the results of PRC sales in the first half of 2013 were far from satisfactory. However, the Group's sales team responded quickly and domestic sales rebounded substantially in the second half of 2013. For the year ended 31 December 2013, the Group's PRC sales increased by RMB241.8 million or 5.0% to RMB5,067.7 million (2012: RMB4,825.9 million). During the year ended 31 December 2013, domestic sales remained the main source of revenue of the Group and amounted to 55.2% of the total turnover (2012: 54.8%).

OVERSEAS SALES

The Group's overseas sales continued to perform well and reached RMB4,116.0 million in 2013 (2012: RMB3,975.9 million). The growth in overseas sales amounting to RMB140.1 million representing a year-on-year increase of 3.5%.

The increase in the Group's overseas sales in 2013 was mainly contributed by the increases of 13.9% and 24.0% in sales in the Americas and Africa respectively. Among the overseas markets of the Group, Asia (excluding PRC) and Americas are two major markets which accounted for 21.2% and 11.4% (2012: 23.5% and 10.4% respectively) of the Group's turnover during the year ended 31 December 2013.

Since the Group's domestic sales had increased at a faster rate, overseas sales dropped slightly to 44.8% (2012: 45.2%) of the Group's total turnover for the year ended 31 December 2013.

COST OF GOODS SOLD

The Group recorded growth in turnover and cost of sales increased at a slower pace in 2013. Cost of goods sold increased to RMB7,727.8 million (2012: RMB7,509.2 million), an increase of RMB218.6 million or 2.9% as compared to that of 2012. The increase in cost of goods sold was mainly caused by the increases in the costs of other parts and components and installation cost during the year ended 31 December 2013.

GROSS PROFIT

The Group recorded a gross profit of RMB1,455.9 million for the year ended 31 December 2013 (2012: RMB1,292.6 million) which increased by RMB163.3 million or 12.6% as compared to 2012. The Group also received government subsidy for energy-saving products sales under the "Promotion of energy efficient appliances scheme" which increased to RMB206.9 million (2012: RMB120.8 million) for the year ended 31 December 2013. As a result, consolidated segment results of operation (sum of gross profit and the government subsidies for energy-saving products) for the year ended 31 December 2013 totaled RMB1,662.8 million (2012: RMB1,413.4 million) representing an increase of RMB249.4 million or 17.6% from that of 2012.

As the consolidated segment results of operation increased, the Group's gross margin (calculated as consolidated segment results to turnover) further improved from 16.1% in 2012 to 18.1% for the year ended 31 December 2013 accordingly.

As the average cost of sales of air-conditioning products dropped during the reporting period, the Group's gross margin of PRC sales increased to 22.4% (2012: 17.5%) in 2013. Because of the gradual depreciation of US dollars against Renminbi during the year, amount of overseas sales which denominated in US dollars was adversely affected when translated into the Group's functional currency, Renminbi. As such, the gross margin of overseas sales of the Group decreased to 12.8% (2012: 14.3%) in 2013. Among the overseas sales regions, Americas and Oceania contributed most to the profitability of the Group and achieved gross margins of 14.6% and 29.8% respectively in 2013.

GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

For the year ended 31 December 2013, the Group received the government subsidies for high energy-saving products of RMB206.9 million (2012: RMB120.8 million). These government subsidies were part of the gross receipts received by the Group in relation to its principal operation.

OTHER INCOME

Other income was RMB86.2 million (2012: RMB61.8 million) and increased by RMB24.4 million or 39.5% including mainly the interest income and other operating income.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased to RMB722.0 million (2012: RMB711.7 million), an increase of RMB10.3 million or 1.4% for the year ended 31 December 2013. The increase was mainly due to (i) the increases in salary and allowance of sales personnel; and (ii) the new recycling expenses on waste home appliances during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased significantly by RMB124.1 million or 43.1% to RMB412.1 million (2012: RMB288.0 million) for the year ended 31 December 2013. The increase in administrative expenses was primarily due to the increases in (i) salaries, benefits and social insurance charges relating to administrative staff; (ii) inspection and certification fees; and (iii) amortization of lease payment during the year.

EQUITY-SETTLED SHARE BASED PAYMENTS

The Group recorded an equity-settled share based payments of RMB19.3 million (2012: RMB26.1 million) for the year ended 31 December 2013 in relation to the share options granted by the Company to certain employees and customers in 2011. This non-cash expense decreased by RMB6.8 million or 26.1% during the year.

RESEARCH AND DEVELOPMENT COSTS

Research and development ("**R&D**") costs increased to RMB85.0 million (2012: RMB77.0 million) by 10.4% or RMB8 million during the year. The increase was attributed to the increases in the R&D staff costs as the Group had strengthened its R&D team and set up new R&D units in the production facilities for the core components.

OTHER EXPENSES

Other expenses was mainly non-operating expenses which increased by RMB7.6 million or 223.5% during the year ended 31 December 2013 and amounted to RMB11.0 million.

OTHER GAINS AND LOSSES

Other gains and losses increased by RMB4.4 million or 30.6% to RMB18.8 million (2012: RMB14.4 million) in 2013. The increase was mainly due to the adjustments of realized foreign exchange gains during the year.

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 27.3% of the cost of goods sold of the Group for the year ended 31 December 2013. 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 2013 (2012: nil). As of 31 December 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 IN FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group recorded a net gain of approximately RMB70.7 million (2012: RMB42.2 million) in fair value changes of derivative financial instruments relating to the foreign currency forward contracts and derivative financial instruments entered into by the Group for the year ended 31 December 2013 as exchange rate of RMB against USD appreciated favourably to the Group.

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 reporting period, a major subsidiary of the Company had issued medium-term notes in an aggregate principal amount of RMB150 million for general working purposes. As at the end of 2013, the Group had outstanding debentures (including accrued interests) of RMB154.6 million and bank loans of RMB3,190.6 million. Through effective rearrangement of combination of bank loans obtained in the PRC and Hong Kong, the Group was able to lower its cost of funding. The finance costs of the Group decreased by RMB44.3 million or 16.9% to RMB217.6 million (2012: RMB261.9 million) for the year ended 31 December 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 year ended 31 December 2013 increased by RMB5.6 million or 14.9% to RMB43.3 million (2012: RMB37.7 million).

PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

As a result of the foregoing, the Group recorded a profit of RMB214.4 million for the year ended 31 December 2013 (2012: RMB98.5 million), representing an increase of RMB115.9 million or 117.7% as compared to the corresponding period in 2012. Since net profit of the Group had increased in the reporting period, the Group's net margin improved to 2.3% (2012: 1.1%) for the year ended 31 December 2013.

FINANCIAL POSITION

	As at 31 December			
	2013	2012	Change	
	RMB million	*RMB million*	*RMB million*	Change %
Non-current assets	**1,872.8**	1,421.2	+451.6	+31.8
Current assets	**10,176.6**	8,974.5	+1,202.1	+13.4
Current liabilities	**8,693.7**	7,604.2	+1,089.5	+14.3
Non-current liabilities	**385.8**	55.3	+330.5	+597.6
Net assets	**2,969.9**	2,736.2	+233.7	+8.5

As at 31 December 2013, the Group's total consolidated assets increased by RMB1,653.7 million or 15.9% to RMB12,049.4 million (2012: RMB10,395.7 million). The increase was mainly made in the current assets such as trade and other receivables (increased by RMB1,170.0 million) and non-current assets such as property, plant and equipment (increased by RMB460.9 million). Total consolidated liabilities of the Group as at 31 December 2013 amounted to RMB9,079.5 million (2012: RMB7,659.5 million) and increased by RMB1,420.0 million or 18.5% as compared to that of 31 December 2012. The major liabilities increased in the period including current liabilities such as short-term bank loans (increased by RMB1,497.3 million), borrowings related to bills discounted with recourse (increased by RMB427.5 million) and non-current liabilities such as long term bank loans (increased by RMB172.2 million) and medium-term notes including accrued interests (increased by RMB154.6 million). The Group also repaid short-term notes during the year and reduced the total consolidated liabilities by RMB805.8 million.

As the Group recorded a net profit for the year, the Group's net assets increased by 8.5% or RMB233.7 million to RMB2,969.9 million at the end of 2013 (2012: RMB2,736.2 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The funding policy of the Group is to secure sufficient funding to meet its working capital requirements and to maintain smooth operations. The Group will also utilise different equity and debt instruments of different tenures to obtain funding from the capital and financial markets in Hong Kong or in the PRC to achieve these objectives.

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

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

As at 31 December 2013, the Group had current assets amounted to RMB10,176.6 million (2012: RMB8,974.5 million) and current liabilities amounted to RMB8,693.7 million (2012: RMB7,604.2 million). The Group's working capital increased by RMB112.6 million or 8.2% from RMB1,370.3 million as at the end of 2012 to RMB1,482.9 million as at the end of 2013. Although the Group's current liabilities increased relatively faster, the current ratio remained at 1.2 times as at 31 December 2013.

The Group experiences a certain degree of seasonal fluctuations in its air-conditioning business. Accordingly, the Group's operations, including its sales, production, working capital and operating cashflow, are closely related to seasonal factors. Demands for air-conditioners are usually higher during summer each year. In order to facilitate production prior to the domestic peak season and to meet the overseas orders, the Group normally experiences temporarily higher funding requirements in the middle and at the end of each year.

In recent years, the Group has made several investments in connection with the vertical integration of its production line. Accordingly, debentures and borrowings of longer tenure matching with the project period were sought for from the banks to serve this purpose.

In 2013, the Group had obtained funding for its business operation by obtaining bank loans and issuing debentures. As at 31 December 2013, the balances of short-term and long-term bank loans utilised by the Group were RMB3,018.4 million and RMB172.2 million respectively (2012: RMB1,521.1 million and nil respectively). Short-term loans increased by RMB1,497.3 million or 98.4% 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. As at the end of the reporting period, the Group had long-term debentures of approximately RMB154.6 million outstanding.

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group increased to 27.8% as at 31 December 2013 (2012: 22.4%) because the Group's total borrowings increased relatively faster.

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 during the year. 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 16.9% or RMB44.3 million in 2013. 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 year, interest cover of the Group increased to 2.3 times for the year ended 31 December 2013 as compared to 1.5 times for the same period in 2012.

During the year, the Group had entered into certain foreign currency forward contracts and derivative financial instruments 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 financial instruments was approximately RMB59.5 million (2012: RMB31.9 million) as at the year end of 2013.

As at 31 December 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 RMB2,969.9 million as at 31 December 2013 (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 2013.

CASH FLOWS

	Year ended 31 December	
	2013	2012
	RMB million	*RMB million*
Operating cash flows	**554.2**	522.9
Movements in working capital and tax paid	**(872.4)**	662.0
Net cash (used in) from operating activities	**(318.2)**	1,184.9
Net cash used in investing activities	**(599.8)**	(263.8)
Net cash from (used in) financing activities	**750.7**	(546.5)
Net (decrease) increase in cash and cash equivalents	**(167.3)**	374.6
Cash and cash equivalents at 31 December	**756.6**	923.9

For the year ended 31 December 2013, the Group generated operating cash flows of RMB554.2 million (2012: RMB522.9 million). The Group financed its working capital by internally generating cash flow, bank borrowings and debentures. During the year, the Group increased its working capital requirement, especially in trade and other receivables and payments, to reduce trade and other payables. By discounting some of the bills receivables to banks, the Group obtained cash for working capital. In total, the Group used cash of RMB318.2 million for the operating activities (2012: net cash inflow of RMB1,184.9 million). The Group also raised net borrowings of RMB1,619.5 million from banks and issuance of medium-term notes amounting to RMB150 million during the year. As a result, net cash generated from financing activities amounted to RMB750.7 million (2012: net cash outflow of RMB546.5 million). Part of the cash generated was used to finance the Group's working capital including trade and other receivables during the year. The Group also applied RMB599.8 million (2012: RMB263.8 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 RMB167.3 million during the year ended 31 December 2013 (2012: net cash inflow of RMB374.6 million) and bank balances and cash amounted to RMB756.6 million at the end of 2013 (2012: RMB923.9 million). Majority of the bank balances and cash were denominated in Renminbi and certain amounts were denominated in US dollars and Hong Kong dollars.

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 million. The completion of the transaction is conditional upon, among others, 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 the 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 had yet to commence operation during the year ended 31 December 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 reporting period.

CHARGE ON ASSETS

As at 31 December 2013, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB1,111.9 million (2012: 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 year ended 31 December 2013, approximately 44.8% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risk. As the Group had already entered into certain foreign currency forward contracts and derivative financial instruments and the exchange rate of Renminbi against the US dollars was only subject to limited fluctuation during the reporting period, the Directors are of the view that the Group's exposure to foreign currency risk was not significant.

During and as at the end of the reporting period, most of the assets and liabilities of the Group were denominated in Renminbi. The Directors believe that the Group's exposure to exchange rate fluctuations is minimal in this aspect.

The Group had entered into certain copper future contracts with net settlement during the year ended 31 December 2013 for the purposes of hedging against part of its risk on the fluctuation of copper price and monitoring closely the trend of market price of copper. As at 31 December 2013, there was no copper future contract outstanding.

Other than the copper future contracts, foreign currency forward contracts and derivative financial instruments entered into by the Group, the Group did not have any other financial instruments used for hedging purpose during the year ended 31 December 2013. The management of the Group will monitor foreign currency and copper price exposures from time to time and will consider further hedging should the need arise.

CAPITAL COMMITMENTS

As at 31 December 2013, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB78.9 million (2012: approximately RMB37.9 million). The Group expects that the capital commitments will be funded by internal resources and/or external finance from financial institutions.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2013.

EMPLOYEES AND REMUNERATION

As at 31 December 2013, the Group employed 13,802 employees (2012: 14,066 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages are reviewed on a yearly basis. The Group also provides its employees with welfare benefits including medical care, meal subsidies, education subsidies and housing etc.

In order to attract, motivate and retain high calibre personnel, the Group also has a share option scheme in place in which the employees and directors of the Group are entitled to participate.

OUTLOOK AND FUTURE PLANS

Guangdong Chigo Air-conditioning Co., Limited established in 1994. 2014 marks the 20th anniversary of the opening of CHIGO and the management believes it will be a start of a new era of the Group's future development.

Going into 2014, the economic slowdown of emerging markets and the recent fluctuations of Renminbi has brought a little uncertainty to the prospects of the air-conditioning industry. The possible depreciation of Renminbi and decline in material costs will, however, benefit export of air-conditioners and improve profit margin. For domestic sales, with the continuous demand for product upgrade and new housing completions, air-conditioners sales are expected to sustain a steady growth in the coming year.

Enjoying the success of its steady progressive strategy in 2013, the Group had not only consolidated its sales volume, but also improved operating efficiency and profitability, and upgraded its production capacity. The management also believes that intelligent home appliances is the future trend and this will be the Group's focus in its business development in the coming year. Having established one of the industry's best and creative R&D team and with its complete integration of production facilities, the Group will leverage these competitive advantages to further enhance its business operations in the future. The major plan of the Group include:

- ***Strengthen the sales of "iCongo 雲空調"***

  "iCongo 雲空調" is a revolutionary air-conditioning product combining advanced smart technology with air-conditioner. "iCongo 雲空調" has been launched into the market since early 2012 and is highly valued by the customers. In 2014, the Group plans to further promote and increase the sales of this high-end product.

- ***Increase commercial air-conditioners sales***

  The Group's commercial air-conditioning unit achieved brilliant results in 2013. The management believes that there is a huge market for commercial air-conditioning products. With the new production facility and growing popularity of CHIGO's commercial air-conditioning products, the Group will invest more resources in the commercial sales and expect to increase the proportion of sales from this business segment.

- ***Launch own compressors***

  The Group is ready to have its self-manufactured compressors installed in its air-conditioning products. A compressor is one of the advanced components in an air-conditioner with a relatively high profit margin. The management expects that self-manufactured compressors would further improve the cost efficiency and increase profitability of the Group.

- ***Develop terminal and mobile marketing***

  The Group reviews from time to time the effectiveness of its distribution channels. In order to reduce unnecessary links and optimize its distribution hierarchy, the Group has plans to develop terminal marketing strategy aiming for selling air conditioning products to the final consumers. The management believes that on top of the existing distribution channel, terminal marketing would further enlarge the sales network of the Group and speed up the transfer of market information between links. The management also has the view that mobile devices are already an integral part of human life and plans to leverage mobile marketing to promote products and brand awareness. The Group expects that these marketing strategies would require building an efficient sales team but would not involve substantial capital expenditures.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. LI XINGHAO

Mr. Li, aged 59, is the founder of the Group. He was appointed as an executive Director on 24 April 2006. Mr. Li is also the Chairman and Chief Executive Officer of the Company and is primarily responsible for the formulation of the Group's development strategies, as well as supervising the Group's overall business and operation management. He is one of the founders of Nanhai Chigo Factory, the predecessor of Guangdong Chigo, established in 1994 and has over 20 years of experience in the air-conditioning industry. Mr. Li graduated from the Party School of the Central Committee of C.P.C. (中共中央黨校) in 2000. He obtained a masters degree in Western Economics Studies from Nankai University (南開大學) in July 2004. Mr. Li is currently the Chairman of Guangdong Credit Association (廣東省信用協會).

DR. ZHENG ZUYI

Dr. Zheng, aged 58, is the vice Chairman of the Company and the chairman of the board of Guangdong Chigo. He joined the Group on 1 October 2005 and was appointed as an executive Director on 4 January 2012. He is responsible for overseeing the operation and management of the residential air-conditioning products of the Group. Dr. Zheng received a doctorate degree in engineering from Huazhong University of Science and Technology (華中理工大學) in December 1994 and completed the post-doctorate research studies in Tsinghua University in May 1996. Before joining the Group, Dr. Zheng was the senior technology consultant and head of the research institute of Gree Electric Appliances, Inc. (珠海市格力電器股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange) from June 1996 to August 2001. He was the general manager of an air-conditioning company of Guangdong Kelon Electrical Holdings Co., Ltd. (廣東科龍電器股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited) between September 2001 and September 2005 and resigned in October 2005 to join the Group.

DR. DING XIAOJIANG

Dr. Ding, aged 49, was appointed as an executive Director of the Company on 15 February 2008. He joined the Group in January 1998 and has held various positions as supervisor of the technology department and the procurement department, head of commercial department, the chief engineer and the General Manager of the Refrigeration Equipment Division of the Group. Dr. Ding graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) (formerly known as 南京航空學院) in 1985, received a masters degree in engineering from the same university in 1988 and a doctorate degree in engineering from Chongqing University (重慶大學) in 1992. He joined Guangdong Meidi Refrigerating Research Centre (廣東美的股份有限公司空調研究所) as a senior engineer from November 1992 to May 1995.

MR. HUANG XINGKE

Mr. Huang, aged 36, was appointed as an executive Director of the Company on 6 September 2010. He graduated from the University of International Business and Economics majoring in Accounting in July 2004. Mr. Huang Xingke further completed postgraduate courses in Modern Industrial Management and Advanced Production at Tsinghua University and in Business Administration (MBA) at Sun Yat-sen University in October 2006 and November 2008, respectively. He joined the Group in May 2002 and is currently the Vice Chairman and the President, the department head of the Procurement Centre and the general manager of Domestic marketing department of Guangdong Chigo Air-conditioning Co., Limited, a subsidiary of the Company. Mr. Huang Xingke has more than 12 years experience in accounting, production management and procurement management. Prior to joining the Group, Mr. Huang Xingke worked as an accountant of Foshan Taiyang Packaging Limited (佛山太陽包裝有限公司) from 2000 to May 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. WAN JUNCHU

Mr. Wan, aged 47, was appointed as an independent non-executive Director on 26 August 2008. Mr. Wan had been working as a part-time chief editor of China Business Update (《中國經貿》雜誌社) from January 2005 to December 2005, and assistant to the secretary of China Association for Quality Promotion (中國質量萬里行促進會) since July 1999. He had conducted researches on famous Chinese brands and published more than three books on management including brand management.

MR. ZHANG XIAOMING

Mr. Zhang, aged 60, was appointed as an independent non-executive Director on 26 August 2008. He graduated from South China Normal University (華南師範大學) majoring in economic and management in August 1992. He has over 35 years of working experience in the household electrical appliance industry in the PRC and held various positions including technician, senior chief economist and general manager of several household electrical appliances company in Guangdong. Mr. Zhang has also participated in the research, planning and formulation of the development strategy in the household electrical appliance industry in Guangdong. He also organized and participated in work for management guidance in the household electrical appliances and hardware industries in Guangdong. Since 2003, Mr. Zhang has been appointed as the panel member of the Guangdong Top Brand accreditation group (廣東省名牌產品組織評審專家組成員). From 2005, he was appointed as a member of the expert group of special funds for SME development project in Guangdong Province (廣東省中小企業發展專項資金項目專家組成員). In 2012, he has been appointed as the Guangdong's team leader and panel member of the national energy-saving home electrical appliances experts group (國家家電產品節能惠民項目評審專家組廣東組組長、成員) and participated in assessment and promotion of Famous Trademarks in Guangdong Province and China Famous Trademark. He is the managing vice chairman of Guangdong Household Electrical Appliances Trade Association (廣東省家用電器行業協會).

MR. FU XIAOSI

Mr. Fu, aged 54, was appointed as an independent non-executive Director on 26 August 2008. He graduated from Huazhong University of Science and Technology (華中科技大學) (formerly known as 華中工學院) in July 1986. He obtained a bachelor degree in economics from Zhongnan University of Economics and Law (中南財經政法大學 formerly known as 中南財經大學) in 1999. He qualified as an assistant engineer in 1987 and as an accountant in 1991. Mr. Fu obtained the relevant qualification as a registered accountant from the Chinese Institute of Certified Public Accountants in the PRC in 1994. He has been promoted as a senior accountant while working at China State Ship Building Corporation (中國船舶工業總公司) in 1997. Mr. Fu has completed the training course for independent non-executive directors of the listed companies organised by Fudan University (復旦大學) in 2002. From November 2000 to May 2006, he worked at 北京中勤萬信會計師事務所 (Beijing Zhong Qin Wan Xin Accounting Firm) and he was responsible for auditing financial statements for various listed companies and he has experience working as a senior manager, department manager, vice chief accountant and senior partner of the above accounting firm. During the period between May 2006 and November 2012, he held various positions as director and chief accountant of Hubei Tri-Ring Group (湖北三環集團). Currently, he is the deputy general manager and financial controller of 湖北久之洋紅外系統股份有限公司 (Hubei Jiuzhiyang Infrared System Company Limited) and is an external supervisor of Guangzhou Shipyard International Co., Ltd. (廣州廣船國際股份有限公司, a company whose shares are listed on the Shanghai Stock Exchange).

SENIOR MANAGEMENT

MR. ZHANG QUAN

Mr. Zhang, aged 44, is a vice president and the general manager of the central air-conditioning division of the Group. He joined the Group in April 2010 and is responsible for overseeing the operation and management of the commercial air-conditioning products of the Group. Mr. Zhang obtained a master degree in international management from the Australian National University in 2003 and a EMBA degree from the Peking University in August 2007 respectively. Prior to joining the Group, Mr. Zhang was appointed as a director and the president of the central air-conditioning division of GD Midea where he held various senior management positions. From November 2004 to March 2008, Mr. Zhang acted as the executive director of Welling Holding Limited (382), a company listed on The Stock Exchange of Hong Kong Limited. Mr. Zhang had been a director of Guangdong Midea Electric Appliances Co., Ltd, a company whose shares are listed on the Shenzhen Exchange from December 2005 to September 2009.

MR. CHENG JIAN

Mr. Cheng, aged 41, is the director and vice president of Guangdong Chigo. He joined the Group in 2001 and is in charge of the Operational Performance Management Centre and Overseas Marketing Department. Mr. Cheng graduated and obtained a bachelor degree in refrigeration engineering from Xi'an Jiaotong University in 1995. After graduating from the university, he worked in 三菱電機壓縮公司 (Mitsubishi Electric Compressor Company) and had been sent to Japan for training for a year. Thereafter, he joined a well-known air-conditioning corporation in China. Mr. Cheng has ample experience in development and management, and sales of air-conditioning products. After joining the Group, Mr. Cheng had been assigned to various senior positions of commercial air-conditioning business department and quality control centre of the Group.

MR. LIN KUN

Mr. Lin, aged 42, is the director and vice president of Guangdong Chigo. He joined the Group in October 2005. Mr. Lin graduated from Chongqing University in thermal engineering in June 1994 and was awarded a master degree in thermal engineering by Chongqing University in June 1999. In July 2002, he obtained the qualification of refrigeration and cryogenic technology engineer. Mr. Lin further obtained the qualification of 輕工制冷設備工程高級工程師 (Senior Engineer of light industrial refrigerating equipment engineering) in March 2011. Before joining the Group, Mr. Lin had been working in various senior positions in products design in 廣東珠海格力電器股份有限公司研究所 (Research Centre Gree Electric Appliances of Zhuhai, Guangdong) and 科龍電器公司 (Kelon Electrical Corporation) respectively. He has extensive experience in air-conditioning technology. Since Mr. Lin had joined the Group in 2005, he held different senior positions as Deputy Chief Engineer and Head of Technical Centre of Guangdong Chigo.

MR. JIN SHANDONG

Mr. Jin, aged 49, is the director, vice president and financial controller of Guangdong Chigo. He joined the Group in September 2005 and is responsible for financial management of Guangdong Chigo. Mr. Jin graduated from Zhongnan University of Economics and Law (中南財經政法大學 formerly known as 中南財經大學) in industrial economics and received a master degree in Business Administration at Southwest Jiaotong University in 2013. He also has the qualifications as a senior accountant and registered accountant in the PRC. From December 1999 to May 2004, Mr. Jin worked at 中勤萬信會計師事務所 (Zhong Qin Wan Xin Accounting Firm) as project manager and was responsible for auditing listed companies. During May 2004 and September 2005, he worked in Nanhai motor factory of Beiqi Foton Motor Co., Ltd as the head of finance department and was in charge of the overall financial management.

MR. LEUNG HON MAN

Mr. Leung, aged 47, joined the Company as the Chief Financial Officer since 18 December 2007 and was appointed as the company secretary of the Company on 26 August 2008. He has over 15 years of experience in company management, accounting and company secretarial matters. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, Certified Practising Accountant of CPA Australia. Mr. Leung received a Professional Diploma in Business (Banking) at the Hong Kong Polytechnic University in 1990 and a master degree in Business Administration at Andrews University in 1996 and a master degree in Accounting at Central Queensland University in 1999. From 1990 to 1994, he had experience working as a senior officer in the Hong Kong Branch of the Kwangtung Provincial Bank, which is now known as Bank of China (Hong Kong) Limited after consolidation. From May 1994 to August 2000, he had experience working as a finance manager in Soundwill Holdings Limited (878), a company listed on The Stock Exchange of Hong Kong Limited. Since 2000, he has worked in Sanyuan Group Limited, a company formerly listed on The Stock Exchange of Hong Kong Limited, where he held various positions including company secretary, financial controller and executive director.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting and maintaining good corporate governance standard with a strong emphasis on integrity, efficiency, transparency and accountability to enhance shareholders' welfare.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted and applied 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

During the year ended 31 December 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

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

During the year ended 31 December 2013, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer (the "CEO") of the Company.

The responsibilities of Chairman and CEO of the Company have been clearly established and set out in writing. Chairman of the Board will be responsible for effective running of the Board and the management of the Board's affairs. CEO will be primarily responsible for the formulation of the Group's business and development strategies.

Mr. Li is the founder of the Group and has over 20 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.

THE BOARD OF DIRECTORS

BOARD COMPOSITION

The Board comprised four executive Directors and three independent non-executive Directors. The following are the current members of the Board:

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

The biographical details of the Directors are set out on pages 35 to 36 of this report.

FUNCTION OF THE BOARD

The business of the Group are conducted and managed by the Board. The Board is responsible for the overall management of the business, strategic development and significant policies and transactions of the Group. The management was delegated the authority and responsibility by the Board for the day-to-day management, administration and operation of the Group. In addition, the Board has also delegated various responsibilities to the various board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") of the Company.

The Board is responsible for performing the corporate governance duties set out in the CG code and had adopted the terms of reference in relation to its corporate governance functions ("Corporate Governance Functions") on 29 March 2012.

During the year under review, the Board had performed the following Corporate Governance Functions:

(a) reviewed the Company's policies and practices on corporate governance;

(b) reviewed and monitored the training and continuous professional development of the Directors and the Company Secretary;

(c) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;

(d) reviewed and monitored the Model Code for Securities Transactions by the Directors of Listed Issuers; and

(e) reviewed the Company's compliance with the CG Code and disclosure in the corporate governance report.

RELATIONSHIP OF THE BOARD MEMBER

There is no family relationship, nor any financial, business, or other material or relevant relationships, among the Directors and between each of the Directors.

RELATIONSHIP WITH SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013 and the date of this report, Chigo Group Holding Limited owned 4,322,234,210 shares, representing approximately 51.25% of shareholding in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance. The following Director of the Company is a director or employee of such substantial shareholder:

Name of Director	**Relationship with substantial shareholder**
Li Xinghao	Director of Chigo Group Holding Limited

NUMBER OF BOARD AND GENERAL MEETINGS AND DIRECTORS' ATTENDANCE

The Board meetings and committee meetings are conducted on a regular basis and on an ad hoc basis, as required. The articles of association of the Company allow the Directors to participate in any meeting of the Board by means of a conference telephone or other communications equipment. Before the Board or committee meetings, members of the Board will receive information about the businesses and matters to be discussed.

During the year ended 31 December 2013, Board meetings and committee meetings were held. The Directors also attended the general meeting of the Company held on 27 May 2013. Attendance record of each of the Directors is set out below:

	Number of board meetings attended/held	Number of Audit Committee meetings attended/held	Number of Remuneration Committee meetings attended/held	Number of Nomination Committee meetings attended/held	Number of general meetings attended/held
Executive Directors					
Mr. Li Xinghao	7/9	N/A	1/1	N/A	1/1
Dr. Zheng Zuyi	8/9	N/A	N/A	N/A	1/1
Dr. Ding Xiaojiang	8/9	N/A	N/A	N/A	0/1
Mr. Huang XingKe	9/9	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Mr. Wan Junchu	9/9	2/2	1/1	1/1	1/1
Mr. Zhang Xiaoming	9/9	2/2	1/1	1/1	1/1
Mr. Fu Xiaosi	9/9	2/2	1/1	1/1	1/1

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT ("CPD")

All Directors are encouraged to participate in CPD to develop and refresh their knowledge and skills. During the year under review, Directors had participated in different CPD and each Directors provided their records of training to the Company respectively. A summary of training received by Directors during the year is as follows:

Directors	Types of CPD
Li Xinghao	2,4
Zheng Zuyi	3,4,5
Ding Xiaojiang	5
Huang Xingke	4,5
Wan Junchu	3,5
Zhang Xiaoming	5
Fu Xiaosi	3,4,5

Notes: 1. Attending conferences for different regulations (including but not limit to accounting, tax and Listing Rules).
2. Participating as speaker/presenter on corporate management and other relevant topics.
3. Attending seminars on directors' training, corporate governance and Listing Rules.
4. Attending seminars and business delegation relating to director training, professional performance training and corporate management.
5. Reading related journals or/and learning materials.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate insurance coverage for directors' and officers' liabilities incurred by them in discharge of their duties while holding office as the Directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2013, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer of the Company which deviated from Code Provision A.2.1 of the CG Code and is explained in the paragraph headed "Compliance with the Corporate Governance Code" above.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors are appointed for a specific term and are subject to retirement by rotation. No independent non-executive Director has served the Company for more than nine years.

Mr. Zhang Xiaoming and Mr. Fu Xiaosi had been re-elected at the annual general meeting of the Company held on 27 May 2013 and Mr. Wan Junchu had been re-elected at the annual general meeting of the Company held on 25 May 2012.

The independent non-executive Directors' remuneration was determined by the Company with regard to their experience, performance, duties and the prevailing market conditions. During the year ended 31 December 2013, the total remuneration paid to the independent non-executive Directors was approximately RMB360,000 including directors' fees.

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

BOARD COMMITTEES

The Company has established three Board committees (the "Board Committees"), namely the Audit Committee, the Remuneration Committee and the Nomination Committee to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expenses.

AUDIT COMMITTEE

The Company established the Audit Committee on 19 June 2009 with written terms of reference (revised and adopted on 29 March 2012) in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee comprises the three independent non-executive Directors, namely, Mr. Fu Xiaosi, Mr. Zhang Xiaoming and Mr. Wan Junchu. Mr. Fu Xiaosi, being the Director with appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the Audit Committee.

During the year ended 31 December 2013, the Audit Committee had:

- held two committee meetings and reviewed the Company's annual results for the year ended 31 December 2012 and interim results for the six months ended 30 June 2013 respectively, financial and accounting policies and practices and relevant disclosure requirements under the Listing Rules with the management and the external auditor of the Company;

- reviewed with the management the Company's financial controls, internal control and risk management systems;

- attended a meeting with the external auditor without executive Board members present and discussed about the nature and scope of the audit before the audit commences; and

- approved the remuneration and terms of engagement of the external auditor.

The Audit Committee plans to conduct meetings at least twice a year.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 19 June 2009 with written terms of reference (revised and adopted on 29 March 2012) in compliance with the CG Code. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies.

The Remuneration Committee comprises the three independent non-executive Directors, namely, Mr. Wan Junchu, Mr. Fu Xiaosi and Mr. Zhang Xiaoming. Mr. Wan Junchu is the chairman of the Remuneration Committee.

A Remuneration Committee meeting in relation to general review of the remuneration policies of the Group was held during the year ended 31 December 2013. The Remuneration Committee had also assessed the performance of executive directors, approved the terms of executive directors' service contracts.

The Remuneration Committee plans to conduct meeting at least once a year.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 19 June 2009 with written terms of reference (revised and adopted on 29 March 2012) in compliance with the CG Code. The primary duty of the Nomination Committee is to make recommendations to the Board on the appointment of Directors and senior management.

The Nomination Committee comprises the three independent non-executive Directors, namely, Mr. Zhang Xiaoming, Mr. Fu Xiaosi and Mr. Wan Junchu. Mr. Zhang Xiaoming is the chairman of the Nomination Committee.

A Nomination Committee meeting had been held during the year ended 31 December 2013. The Nomination Committee has adopted a board diversity policy with effect from 28 August 2013 in compliance with the code provision A5.6 of the CG Code. The policy sets out the approach to achieve diversity in the Company's Board to ensure that the Board has the balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Committee will conduct meeting when it is necessary.

COMPANY SECRETARY

The Company Secretary of the Company is Mr. Leung Hon Man. The Company Secretary is responsible for assisting the Board by ensuring good information flow and communications within the Board as well as Board policy and procedures are followed. During the year ended 31 December 2013, Mr. Leung had taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statement of the Group in accordance with statutory requirements and accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements for the Group are published in a timely manner. The Directors' and auditors' responsibilities in respect of the financial statements are set out on page 57 in this report.

INTERNAL CONTROL

The Board is responsible for the internal control system of the Group and has the responsibility for reviewing its effectiveness including financial, operational and compliance controls. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets.

An Internal Audit Department has been established by the Group to carry out independent evaluations of its operating units. The Internal Audit Department has unrestricted access to the Group's operating units as well as all records, properties and personnel relevant to any function under review. Independent review on the operating and financial control of the Group conducted by the Internal Audit Department on an on-going basis. The Internal Audit Department reports its findings and irregularities (if any) and makes recommendations to the Board.

During the year ended 31 December 2013, the Audit Committee had reviewed the internal control system of the Group with the management. The Board will continue to review the system and procedures from time to time to maintain a high standard of internal control and will make appropriate changes to the internal control system, if necessary.

INVESTORS RELATIONS AND COMMUNICATION CHANNELS

The Directors recognise the importance of long-term supports from the shareholders of the Company. The Board highly respects the shareholders' rights to express their views and appreciates the shareholders to make suggestions to the Company. On top of the regular members' meetings to be held yearly, the Company has adopted a Shareholder's Communication Policy and also established different channels, including the corporate website with updated Company's news and information, corporate email and public relations department, to (i) promote effective communication between the Company and its shareholders; (ii) release the latest news, information and announcements of the Company in a timely manner; and (iii) handle shareholders' enquiries and suggestions.

During the year, the Company actively attended different investment conferences organised by various investment banks, arranged investors' tours to visit the headquarters of the Group and conducted telephone conferences with financial analysts, fund managers and investors with an aim to enhancing the transparency of the Group's business and investors relations.

SHAREHOLDERS' RIGHTS

Under the Articles of Association, the Shareholder's Communication Policy and procedures for shareholders to propose a person for election as a director adopted by the Company, the shareholders of the Company enjoy, among others, the following rights:

PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING

Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR PROPOSING A PERSON FOR ELECTION AS A DIRECTOR

If a shareholder wishes to propose a person (the "Candidate") for election as a director of the Company at a general meeting, he/she shall deposit a written notice (the "Notice") at (i) the Head Office and Principal Place of Business of the Company in Hong Kong or (ii) the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited.

The Notice (i) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information.

The period for lodgment of the Notice shall commence on the day after the despatch of the notice of general meeting and end no later than seven (7) days prior to the date of such general meeting.

PROCEDURES FOR MAKING ENQUIRIES

Shareholders should direct their questions about their shareholdings to the Company's Registrar.

If the Shareholders and the investors make a request for the Company's information, the Company will provide such information provided that it is publicly available.

Shareholders and the investors may communicate with the Company through designated contacts, email addresses and enquiry lines of the Company.

The following are the contact information of the Company and the share registrar:

THE COMPANY – HONG KONG
Unit 08, 19th Floor
Greenfield Tower (South Tower)
Concordia Plaza
No.1 Science Museum Road
Tsimshatsui, Kowloon
Hong Kong
Please contact our Company Secretary at:
Telephone: (852) 2997 7449
Facsimile: (852) 2997 7446
Email: ir@china-chigo.com.hk

THE COMPANY – PRC
Shengli Industrial District, Lishui Town
Nanhai, Foshan, Guangdong
China
Post Code: 528244
Please contact our Investment and Securities Department at:
Telephone: (86) 757 8878 3289
Facsimile: (86) 757 8562 8012

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
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit and non-audit services for the year ended 31 December 2013 amounted to HKD2,830,000 and HKD1,100,000 respectively. The non-audit services provided during the period were interim financial statements review and taxation services.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income statement on page 59 of this annual report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2013 (31 December 2012: nil).

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 119.

SHARE CAPITAL AND DEBENTURE OF THE COMPANY

During the year ended 31 December 2013, no new shares had been issued in relation to the exercise of share options.

As at 31 December 2013 and the date of this report, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue. All of the issued shares were ordinary shares.

Details of movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

During most of the time in 2013, the Group had short-term debentures of RMB800 million outstanding which had been fully settled during the year ended 31 December 2013. On 23 May 2013, the Group issued long-term debentures in an aggregate principal amount of RMB150 million for general working capital purpose. The long-term debentures were issued for a maturity period of three years and with a fixed coupon rate of 6.5% per annum.

RESERVES

Details of movement in the reserves of the Group during the year ended 31 December 2013 are set out in the Consolidated Statement of Changes in Equity on page 62.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2013, the Company did not have any reserve available for cash distribution to the Shareholders of the Company.

Under the Companies Law of the Cayman Islands, the share premium of the Company amounting to RMB938,187,000 (2012: RMB938,187,000) is available for distribution or paying dividends to the Company's shareholders subject to the provisions of its memorandum of association and the articles of association (the "Articles") and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

EXECUTIVE DIRECTORS

Mr. Li Xinghao
Dr. Zheng Zuyi
Dr. Ding Xiaojiang
Mr. Huang Xingke

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The biographical details of the Directors are set out on pages 35 to 36 of this report.

In accordance with Article 84(1) of the Articles, each of Mr. Li Xinghao, Dr. Zheng Zuyi, Dr. Ding Xiaojiang will retire from office by rotation at the upcoming annual general meeting (the "Annual General Meeting") and, being eligible, offer themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 11 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 December 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 31 December 2013	Approximate percentage of shareholding *(note 1)*
Mr. Li Xinghao *(note 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 31 December 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.

LONG POSITION IN THE SHARES OF ASSOCIATED CORPORATION

Name of Director	Associated Corporation	Capacity	Number of issued ordinary shares held as at 31 December 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 30 to the consolidated financial statements.

Name of Director	Capacity	Number of share options held as at 31 December 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 31 December 2013.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a Director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors has interests in any business (including any interests acquired after listing) which directly or indirectly competes, or is likely to compete with the business of the Group.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTION

Particulars of the related party transaction are disclosed in note 35 to the consolidated financial statements.

Foshan Nahai Lishui Zhongya Restaurant (the "Restaurant"), a restaurant controlled by Mr. Li Xinghao who is a connected person of the Company under the Listing Rules, and the Company had entered into an agreement to provide restaurant services to the Group. During the year, the Group paid messing expenses to the Restaurant. The related party transaction is regarded as a continuing connected transaction under Rule 14A.33(3) of the Listing Rules which is exempted from the reporting, announcement and independent shareholders' approval requirements, certain details of which are disclosed in compliance with the requirements of chapter 14A of the Listing Rules.

On 20 February 2013, Chigo (Hong Kong) Investment Limited, the Group's wholly-owned subsidiary, entered into a sale and purchase agreement with Chigo Group Holding Limited ("Chigo Group"), the Company's immediate and ultimate holding company, to acquire 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, for a cash consideration of RMB38,000,000, which was paid by Chigo (Hong Kong) Investment Limited to Chigo Group within 15 business days from the date of completion of the acquisition. Such transaction, which is identified as a related party transaction in note 35 to the consolidated financial statements of the Company, is regarded as a connected transaction under chapter 14A of the Listing Rules.

The said acquisition would enable the Group to further vertically integrate its production line and maintain its leading role in the air-conditioning industry; secure a stable supply of core raw material and component to the Group and enhance business growth of the Group in the future; and provide room for the Group to control production cost and process and in turn enhance its operation yield and efficiency. The said acquisition was completed on 22 April 2013, following which Kechuang Copper became an indirect wholly-owned subsidiary of the Company.

Details of the transaction are set out in note 31 to the consolidated financial statements. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, there was no other connected transaction and/or continuing connected transaction during the year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

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 30 to the consolidated financial statements.

The following table discloses movements in the Company's share options and the underlying shares during the year:

			Underlying shares exercisable under the share options		
	Exercise period	**Exercise Price (HKD)**	**Outstanding at beginning of the year**	**Lapsed during the year**	**Outstanding at end of the year**
Category 1: Directors					
Li Xinghao	2013.9.23 – 2018.9.22	0.45	2,400,000	–	2,400,000
	2016.9.23 – 2018.9.22	0.45	5,600,000	–	5,600,000
			8,000,000	–	8,000,000
Zheng Zuyi	2013.9.23 – 2018.9.22	0.45	15,000,000	–	15,000,000
	2016.9.23 – 2018.9.22	0.45	35,000,000	–	35,000,000
			50,000,000	–	50,000,000
Ding Xiaojiang	2013.9.23 – 2018.9.22	0.45	3,000,000	–	3,000,000
	2016.9.23 – 2018.9.22	0.45	7,000,000	–	7,000,000
			10,000,000	–	10,000,000

	Exercise period	Exercise Price (HKD)	Underlying shares exercisable under the share options: Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
Huang Xingke	2013.9.23 – 2018.9.22	0.45	7,500,000	–	7,500,000
	2016.9.23 – 2018.9.22	0.45	17,500,000	–	17,500,000
			25,000,000	–	25,000,000
Wan Junchu	2013.9.23 – 2018.9.22	0.45	300,000	–	300,000
	2016.9.23 – 2018.9.22	0.45	700,000	–	700,000
			1,000,000	–	1,000,000
Zhang Xiaoming	2013.9.23 – 2018.9.22	0.45	300,000	–	300,000
	2016.9.23 – 2018.9.22	0.45	700,000	–	700,000
			1,000,000	–	1,000,000
Fu Xiaosi	2013.9.23 – 2018.9.22	0.45	300,000	–	300,000
	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	2013.9.23 – 2018.9.22	0.45	184,708,000	(6,172,000)	178,536,000
	2016.9.23 – 2018.9.22	0.45	431,092,000	(14,408,000)	416,684,000
Sub-total			**615,800,000**	**(20,580,000)**	**595,220,000**
Category 3: Customers					
Customers	2013.9.23 – 2018.9.22	0.45	3,942,000	(476,000)	3,466,000
	2016.9.23 – 2018.9.22	0.45	9,308,000	(1,124,000)	8,184,000
Sub-total			**13,250,000**	**(1,600,000)**	**11,650,000**
Total			**725,050,000**	**(22,180,000)**	**702,870,000**

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 position in the issued share capital of the Company.

INTERESTS AND SHORT POSITION IN THE ORDINARY SHARES OF HKD0.01 EACH OF THE COMPANY

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of shareholding *(note 1)*
Chigo Group Holding Limited *(note 2)*	Beneficial owner	4,322,234,210	51.25
Skyworth TV Holdings Limited	Beneficial owner	425,000,000	5.04

Notes:

1. Based on 8,434,178,000 shares of the Company in issue as at 31 December 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.

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 31 December 2013.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emolument of the Directors are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 30 to the consolidated financial statements.

PENSION SCHEMES

The pension schemes of the Group are primary in form of contributions to Hong Kong's Mandatory Provident Funds and the China statutory public welfare fund.

The Mandatory Provident Fund scheme is operated by an independent service provider. Mandatory contributions are made by both the employer and the employees at 5% of the employees' monthly relevant income, up to a limit of HKD25,000. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

Details of the Group's pension scheme are set out in note 34 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

TAX RELIEF FOR SHAREHOLDERS

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holding of the shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float during the year ended 31 December 2013 and the date of this report.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company during the year ended 31 December 2013.

FIXED ASSETS

Details of the movement in fixed assets during the year are set out in note 14 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2013 are set out in notes 25 to 27 to the financial statements.

BORROWING COSTS CAPITALISATION

Borrowing costs capitalised by the Group during the year amounted to RMB10,343,000.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately RMB1,355,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's sales to the five largest customers accounted for less than 30% of the Group's total turnover for the year.

During the year, the Group's purchases attributable to the five largest suppliers combined and the largest supplier accounted for 37.5% and 15.5% respectively of the Group's total purchases for the year.

Neither the Directors, their respective associates, nor any shareholders, which to the knowledge of the Directors, own more than 5% of the share capital of the Company, has any interest in any of the five largest suppliers of the Group for the year.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the subsequent event after the reporting period of the Group are set out in note 37 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Monday, 26 May 2014 to Tuesday, 27 May 2014 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 23 May 2014.

AUDITOR

The consolidated financial statements for the two years ended 31 December 2012 and 2013 have been audited by the external auditor of the Company, Deloitte Touche Tohmatsu.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at, Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 27 May 2014 at 3:00 p.m.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners, bankers and auditors for their support to the Group throughout the period.

On behalf of the Board
Li Xinghao
Chairman

Foshan, 26 March 2014

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Chigo Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 118, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statement that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Turnover		**9,183,678**	8,801,814
Cost of goods sold		**(7,727,750)**	(7,509,206)
Gross profit		**1,455,928**	1,292,608
Government subsidies for high energy-saving products	*8*	**206,920**	120,750
Other income		**86,218**	61,756
Selling and distribution costs			
– equity-settled share based payments		**(4,541)**	(5,952)
– other selling and distribution costs		**(721,966)**	(711,664)
Administrative expenses			
– equity-settled share based payments		**(14,736)**	(20,115)
– other administrative expenses		**(412,114)**	(288,040)
Research and development costs		**(84,976)**	(77,001)
Other expenses		**(10,950)**	(3,397)
Other gains and losses		**(18,845)**	(14,449)
Net gain in fair value changes on foreign currency forward contracts		**70,682**	42,168
Net (loss) gain in fair value changes on commodity derivative contracts		**(76,325)**	1,372
Finance costs	*9*	**(217,593)**	(261,870)
Profit before taxation	*10*	**257,702**	136,166
Taxation	*12*	**(43,283)**	(37,712)
Profit for the year and total comprehensive income for the year		**214,419**	98,454
Profit for the year and total comprehensive income for the year attributable to:			
– owners of the Company		**199,871**	92,055
– non-controlling interests		**14,548**	6,399
		214,419	98,454
Earnings per share	*13*		
– Basic and diluted		**2.37 cents**	1.09 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,416,724**	955,813
Land use rights	15	**220,772**	203,874
Intangible assets	16	**1,192**	1,461
Prepaid lease payments	17	**180,993**	170,724
Deposits paid on acquisition of property, plant and equipment		**37,971**	79,061
Derivative financial instruments	21	**2,215**	–
Deferred tax assets	18	**12,907**	10,313
		1,872,774	1,421,246
Current assets			
Inventories	19	**2,294,737**	2,289,096
Trade and other receivables	20	**5,925,896**	4,755,882
Land use rights	15	**5,378**	5,026
Prepaid lease payments	17	**14,445**	11,055
Taxation recoverable		**10,523**	10,809
Derivative financial instruments	21	**57,262**	31,856
Pledged bank deposits	22	**1,111,881**	946,887
Bank balances and cash	22	**756,508**	923,860
		10,176,630	8,974,471
Current liabilities			
Trade and other payables	23	**4,096,955**	4,171,585
Warranty provision	24	**26,862**	30,606
Taxation payable		**134,647**	85,702
Borrowings related to bills discounted with recourse	25	**1,416,856**	989,393
Short-term debentures	26	**–**	805,800
Short-term bank loans	27	**3,018,404**	1,521,132
		8,693,724	7,604,218
Net current assets		**1,482,906**	1,370,253
Total assets less current liabilities		**3,355,680**	2,791,499

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current liabilities			
Government grants	28	**38,768**	40,056
Long-term debentures	26	**154,600**	–
Long-term bank loans	27	**172,219**	–
Deferred tax liabilities	18	**20,180**	15,226
		385,767	55,282
Net assets		**2,969,913**	2,736,217
Capital and reserves			
Share capital	29	**71,906**	71,906
Reserves		**2,853,169**	2,634,021
Equity attributable to owners of the Company		**2,925,075**	2,705,927
Non-controlling interests		**44,838**	30,290
Total equity		**2,969,913**	2,736,217

The consolidated financial statements on pages 59 to 118 were approved and authorised for issue by the Board of Directors on 26 March 2014 and are signed on its behalf by:

LI XINGHAO
CHAIRMAN
AND
CHIEF EXECUTIVE OFFICER

ZHENG ZUYI
VICE CHAIRMAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 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 2012	71,906	938,187	(26,408)	63,535	26,847	188,785	1,324,953	2,587,805	23,891	2,611,696
Recognition of equity-settled share based payments	–	–	–	–	26,067	–	–	26,067	–	26,067
Share options lapsed	–	–	–	–	(22,449)	–	22,449	–	–	–
Transfers	–	–	–	–	–	11,387	(11,387)	–	–	–
	–	–	–	–	3,618	11,387	11,062	26,067	–	26,067
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	92,055	92,055	6,399	98,454
At 31 December 2012	71,906	938,187	(26,408)	63,535	30,465	200,172	1,428,070	2,705,927	30,290	2,736,217
Recognition of equity-settled share based payments	**–**	**–**	**–**	**–**	**19,277**	**–**	**–**	**19,277**	**–**	**19,277**
Transfers	**–**	**–**	**–**	**–**	**–**	**18,348**	**(18,348)**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**19,277**	**18,348**	**(18,348)**	**19,277**	**–**	**19,277**
Profit for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**199,871**	**199,871**	**14,548**	**214,419**
At 31 December 2013	**71,906**	**938,187**	**(26,408)**	**63,535**	**49,742**	**218,520**	**1,609,593**	**2,925,075**	**44,838**	**2,969,913**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	NOTE	**2013 RMB'000**	2012 RMB'000
Operating activities			
Profit before taxation		**257,702**	136,166
Adjustments for:			
Interest income		**(50,608)**	(34,405)
Interest expenses		**217,593**	261,870
Depreciation of property, plant and equipment		**111,090**	102,961
Amortisation of intangible assets		**337**	369
Amortisation of government grants		**(1,288)**	(1,288)
Amortisation of land use rights		**5,270**	5,026
Release of prepaid lease payments		**16,048**	11,261
(Gain) write-off/loss on disposal of property, plant and equipment		**(25)**	249
Net gain in fair value changes on foreign currency forward contracts		**(70,682)**	(42,168)
Provision for warranty		**26,089**	22,739
Write down on inventories		**10,447**	22,887
Allowance for doubtful debts		**22,649**	18,718
Recovery of doubtful debts		**(9,735)**	(7,544)
Equity-settled share based payments		**19,277**	26,067
Operating cash flows before movements in working capital		**554,164**	522,908
(Increase) decrease in inventories		**(16,088)**	428,985
Increase in trade and other receivables		**(1,133,876)**	(766,450)
Change in derivative financial instruments		**43,061**	25,239
(Decrease) increase in trade and other payables		**(171,411)**	627,482
Decrease in warranty provision		**(29,833)**	(29,113)
Increase in borrowings related to bills discounted with recourse		**427,463**	381,551
Cash (used in) from operations		**(326,520)**	1,190,602
Taxation paid		**(12,987)**	(22,317)
Taxation refund		**21,295**	16,590
Net cash (used in) generated from operating activities		**(318,212)**	1,184,875

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	NOTE	2013 RMB'000	2012 RMB'000
Investing activities			
Placement of pledged bank deposits		**(2,723,056)**	(2,242,666)
Purchase of property, plant and equipment		**(436,667)**	(215,322)
Deposits paid on acquisition of property, plant and equipment		**(37,971)**	(79,061)
Prepaid lease payments paid		**(29,707)**	(77,833)
Purchase of intangible assets		**(68)**	–
Withdrawal of pledged bank deposits		**2,558,062**	2,294,350
Interest received		**50,608**	34,405
Net cash inflow on acquisition of a subsidiary	*31*	**14,599**	–
Proceeds from disposal of property, plant and equipment		**4,362**	22,306
Net cash used in investing activities		**(599,838)**	(263,821)
Financing activities			
Bank loans raised		**4,017,515**	2,299,548
Proceeds from issue of short-term debentures		**150,000**	800,000
Repayment of bank loans		**(2,398,024)**	(2,576,431)
Repayment of short-term debentures		**(800,000)**	(800,000)
Interest paid		**(217,443)**	(261,659)
Expenses incurred in connection with the issue of short-term debentures		**(1,350)**	(8,000)
Net cash from (used in) financing activities		**750,698**	(546,542)
Net (decrease) increase in cash and cash equivalents		**(167,352)**	374,512
Cash and cash equivalents at 1 January		**923,860**	549,348
Cash and cash equivalents at 31 December, represented by bank balances and cash		**756,508**	923,860

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
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 HKAS 1	Presentation of items of other comprehensive income
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

AMENDMENTS TO HKFRS 7 DISCLOSURES – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group has applied the amendments to HKFRS 7 "Disclosures – Offsetting financial assets and financial liabilities" for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

a) recognised financial instruments that are set off in accordance with HKAS 32 "Financial instruments: Presentation"; and

b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The amendments to HKFRS 7 have been applied retrospectively. The application of the amendments has had no material impact on the amounts reported in the Group's consolidated financial statements.

NEW AND REVISED STANDARDS ON CONSOLIDATION, JOINT ARRANGEMENTS, ASSOCIATES AND DISCLOSURES

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 "Consolidated financial statements", HKFRS 11 "Joint arrangements", HKFRS 12 "Disclosure of interests in other entities", HKAS 27 (as revised in 2011) "Separate financial statements" and HKAS 28 (as revised in 2011) "Investments in associates and joint ventures", together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of HKFRS 10 and HKFRS 12 are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

IMPACT OF THE APPLICATION OF HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

HKFRS 13 FAIR VALUE MEASUREMENT

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of 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.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see note 6 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

AMENDMENTS TO HKAS 1 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, 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 option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle[2]
HKFRS 9	Financial instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
HKFRS 14	Regulatory deferral accounts[5]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HK(IFRIC) – INT 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014.
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for annual periods beginning on or after 1 January 2016.

HKFRS 9 FINANCIAL INSTRUMENTS

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 FINANCIAL INSTRUMENTS *(Continued)*

The directors of the Company anticipate that the adoption of these new and revised HKFRSs will have no material impact on the amounts reported in the Group's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values. The consolidated financial statements have also been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION *(Continued)*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sales of goods is recognised when the goods are delivered and title have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

The cost of buildings is depreciated over the shorter of the unexpired lease term of the land which the buildings are located or their estimated useful lives of 8 to 30 years after the date of completion.

Depreciation is recognised to write off the cost of other property, plant and equipment, using the straight line method, over their estimated useful lives as follows:

Furniture, fixtures and equipment	3 – 6 years
Motor vehicles	5 years
Plant and machinery	5 – 10 years

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Patents and trademarks

Purchased patents and trademarks are stated at cost less accumulated amortisation and any identified impairment losses. Amortisation is calculated on a straight line basis over its estimated useful economic life, starting from the time when the patent is available for use. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financing assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Financial assets at FVTPL

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. They are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of them, the estimated future cash flows of loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Derivatives financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Other financial liabilities

Other financial liabilities including borrowings related to bills discounted with recourse, bank loans, debentures and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity (Continued)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

IMPAIRMENT

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows where the effect of the time value of money is material.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rental income from operating leases are charged to the profit or loss on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASEHOLD LAND AND BUILDING

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each elements have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases are presented as "land use rights" in the consolidated statement of financial position.

The up-front payments to acquire leasehold interest in land that are accounted for as operating leases and are stated at cost and released over the lease term on a straight line basis.

GOVERNMENT GRANTS AND SUBSIDIES

Government grants and subsidies are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants and subsidies related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Other government grants and subsidies are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants and subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are reported separately as "other income".

RETIREMENT BENEFITS COSTS

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF") are charged as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies detailed in note 3, management has made the following estimation that have significant effect on the amounts recognised in the consolidated financial statements. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

WARRANTY OBLIGATION

The Group provides free repairing services for its products and free replacement of the major components of its products for 3 to 6 years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation. The costs are estimated by the management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results. When a material defect is subsequently tested and identified, further warranty provision may arise. As at 31 December 2013, the carrying amount of warranty provision is RMB26,862,000 (2012: RMB30,606,000). Details of the movements are disclosed in note 24.

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of trade receivables is RMB3,063,598,000, net of allowance for doubtful debts of RMB35,338,000 (2012: RMB2,857,113,000, net of allowance for doubtful debts of RMB22,424,000).

INCOME TAXES

There are certain non-deductible expenses for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

No deferred tax assets have been recognised on unused tax losses and certain deductible temporary differences arising from the Group's subsidiaries in PRC due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax assets would be recognised in profit or loss for the period. Details of the tax losses for the year ended 31 December 2013 are disclosed in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance.

The capital structure of the Group consists of bank loans, debentures, borrowings related to bills discounted with recourse, net of pledged bank deposits and bank balances and cash and equity attributable to owners of the Company, comprising share capital, reserves and retained profits as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues of the Company as well as the raising of bank and other borrowings.

6. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2013	2012
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**7,589,939**	6,434,538
Fair value through profit or loss – held for trading	**59,477**	31,856
	7,649,416	6,466,394
Financial liabilities		
Amortised cost	**8,427,324**	7,104,926

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, derivative financial instruments, borrowings related to bills discounted with recourse, debentures, and bank loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

CREDIT RISK

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits and bank balances is limited as such amounts are placed in banks with good reputation.

The Group is also exposed to credit risk arising from the failure to discharge of obligation by the counterparties in foreign currency contracts. However, the directors of the Company consider such risk is minimal as those contracts were entered with banks with good reputation.

Other than concentration of credit risk on liquid funds, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers which spread across diverse industries and geographical locations.

MARKET RISK

Foreign currency risk

The Group has certain transactions that denominated in foreign currencies, hence exposures to foreign currency risk. Approximately 45% (2012: 46%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, mainly in United States dollars whilst all of the costs are denominated in the group entity's functional currency. The Group also has certain monetary items that denominated in foreign currencies which have exposed the Group to foreign currency risk. The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are disclosed in respective notes. During the years ended 31 December 2012 and 2013, the Group has entered into certain foreign currency contracts. The management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Foreign currency risk *(Continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2013		2012	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
United States dollars ("USD")	**890,303**	**692,428**	621,714	319,704
Hong Kong dollars ("HKD")	**1,392**	**–**	89	–
Euro	**39,708**	**–**	4,594	–

The Group mainly exposes to currencies of USD, HKD and Euro. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, including the trade and other receivables, pledged bank deposits, bank balances, borrowings related to bills discounted with recourse, bank loans, debentures and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number indicates a decrease in profit for the year where the RMB strengthens against the relevant currencies. There would be an equal and opposite impact on the profit for the year where the RMB weakens against the relevant currencies.

	2013 RMB'000	2012 RMB'000
USD	**(9,894)**	(15,101)
HKD	**70**	5
Euro	**1,985**	(230)

Details of the Group's exposure in respect of the foreign currency contracts are set out in other price risk disclosed below.

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing pledged bank deposits, bank balances and variable rate bank loans at prevailing market interest rates. The Group's fair value interest rate risk relates primarily to its debentures and borrowings related to discounted bills with recourse, of which are subjected to negotiations at each renewal date. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk management *(Continued)*

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing pledged bank deposits, bank balances and variable rate bank loans and assumed that the amount of assets outstanding at the end of the reporting period were outstanding for the whole year.

If interest rates on pledged bank deposits, bank balances and variable rate bank loans had been 30 basis points higher and all other variables were held constant, the potential effect on profit/loss for the year is as follows:

	2013 RMB'000	2012 RMB'000
(Decrease) increase in profit for the year	**(8,681)**	5,612

There will be an equal and opposite impact on the profit for the year where there had been 30 basis points lower.

Other price risk

The Group was exposed to other price risk arising from the outstanding foreign currency contracts with predetermined exercisable period and maturity dates. The fair value of these foreign currency contracts was calculated using the forward pricing model and option pricing model. Details of these foreign currency contracts are set out in note 21.

The sensitivity analysis includes the outstanding foreign currency contracts as at the end of the reporting period and adjust at the year end for a 5% change in the relevant forward rates, holding other variables constant.

If the input of market forward rate to the valuation models of these foreign currency contracts had been 5% higher against RMB while all other variables were held constant, the profit for the year would decrease as follows:

	2013 RMB'000	2012 RMB'000
USD forward rate	**107,555**	98,203

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Other price risk *(Continued)*

There will be an equal and opposite impact on the profit for the year where there had been 5% lower.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the these contracts which involves multiple variables are interdependent.

The Group was also exposed to other price risk arising from the foreign currency contracts with different strike rate. The fair values of these contracts were calculated using the Black-Scholes Model. Details of these derivative financial instruments are set out in note 21.

Other than the price risk arising from foreign currency contracts, the Group also entered into certain commodity derivative contracts during the year ended 31 December 2013. The Group's operations will consume 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 the year which had all been settled as at 31 December 2013. Due to an unexpected decrease in copper price, a realised loss of RMB76,325,000 is resulted and recognised in profit or loss.

LIQUIDITY RISK MANAGEMENT

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities.

The following tables detail the remaining contractual maturity for the non-derivative financial liabilities and foreign currency contracts. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the agreed repayment terms. The tables include both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash (inflows) outflows are presented. Whereas they require gross settlement, the undiscounted gross (inflows) and outflows on these derivatives are shown in the tables. For foreign currency contracts with predetermined exercisable period with gross settlement, the tables have been drawn up based on the assumption that the Group will exercise such contracts on the maturity of the exercisable period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

For the foreign currency contracts with different strike rate, undiscounted gross inflows/outflows are not presented since the Group is unable to estimate the ultimate timing and settlement amount of these contracts.

	Weighted average interest rate %	On demand and less than 3 months RMB'000	Over 3 months but not more than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities							
As at 31 December 2013							
Trade and other payables	–	3,413,687	251,558	–	–	3,665,245	3,665,245
Borrowings related to bills discounted with recourse*	–	1,053,304	363,552	–	–	1,416,856	1,416,856
Long-term debentures	6.50	–	–	–	177,866	177,866	154,600
Long-term bank loans	2.32	–	–	–	178,844	178,844	172,219
Short-term bank loans	5.17	2,249,859	222,596	588,575	–	3,061,030	3,018,404
		6,716,850	837,706	588,575	356,710	8,499,841	8,427,324
Foreign currency contracts assets – gross settlement							
As at 31 December 2013							
Foreign currency contracts							
– inflows		(613,735)	(898,653)	(843,016)	–	(2,355,404)	(2,313,699)
– outflows		593,414	876,178	828,656	–	2,298,248	2,258,524
		(20,321)	(22,475)	(14,360)	–	(57,156)	(55,175)
Foreign currency contracts assets – net settlement							
As at 31 December 2013							
Foreign currency contracts		(1,213)	(418)	(484)	–	(2,115)	(2,087)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

	Weighted average interest rate	On demand and less than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities							
As at 31 December 2012							
Trade and other payables	–	2,499,473	1,274,007	7,148	7,973	3,788,601	3,788,601
Borrowings related to bills discounted with recourse*	–	895,401	89,045	4,947	–	989,393	989,393
Short-term debentures	5.90	–	–	847,200	–	847,200	805,800
Short-term bank loans	6.31	608,497	201,946	740,854	–	1,551,297	1,521,132
		4,003,371	1,564,998	1,600,149	7,973	7,176,491	7,104,926
Foreign currency contracts assets – gross settlement							
As at 31 December 2012							
Foreign currency contracts							
– inflows		(470,682)	(817,418)	(608,759)	–	(1,896,859)	(1,875,267)
– outflows		465,917	804,539	596,298	–	1,866,754	1,845,464
		(4,765)	(12,879)	(12,461)	–	(30,105)	(29,803)
Foreign currency contracts assets – net settlement							
As at 31 December 2012							
Foreign currency contracts		(137)	(934)	(1,010)	–	(2,081)	(2,053)

* The amounts included above for borrowings related to bills discounted with recourse are the maximum amounts the Group could be required to pay for the discounted bills if the bills receivables are not paid at maturity. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that these amount will be settled by the counterparties who issued the relevant bills which have been discounted to the banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

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 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).

Financial assets	Fair value as at 31 December 2013	Fair value hierarchy	Valuation technique(s) and key input(s)
Foreign currency contracts classified as derivative financial instruments in the consolidated statement of financial position	Current assets – RMB2,087,000	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 – RMB55,175,000		***(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

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

Financial assets	Fair value as at 31 December 2013	Fair value hierarchy	Valuation technique(s) and key input(s)
			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.
	Non-current assets – RMB2,215,000	Level 2	***(3) Forward contracts with flexible exchange rate*** **Black-Scholes Model** The key determinants of the model are predetermined range exchange rates, predetermined forward exchange rates, predetermined upper trigger exchange rate, spot exchange rates, market risk free interest rate.

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

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

7. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. SEGMENT INFORMATION *(Continued)*

SEGMENT REVENUES AND RESULTS

The following is an analysis of the Group's revenue and results by operating and reportable segments for the year.

	Turnover		Results	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Mainland China (the "PRC")	**5,067,659**	4,825,947	**1,136,480**	844,853
Asia (excluding PRC)	**1,944,879**	2,064,919	**223,540**	271,659
Americas	**1,048,492**	920,828	**152,718**	156,856
Africa	**567,893**	458,079	**68,881**	67,098
Europe	**542,653**	525,406	**77,617**	70,956
Oceania	**12,102**	6,635	**3,612**	1,936
	9,183,678	8,801,814	**1,662,848**	1,413,358
Unallocated other income			**86,218**	63,128
Unallocated expenses			**(826,160)**	(738,788)
Staff costs included in selling and distribution costs and administrative expenses			**(417,964)**	(363,334)
Charitable donations			**(1,355)**	(1,150)
Allowance for doubtful debts			**(22,649)**	(18,718)
Net gain in fair value changes on foreign currency forward contracts			**70,682**	42,168
Net (loss) gain in fair value changes on commodity derivative contracts			**(76,325)**	1,372
Finance costs			**(217,593)**	(261,870)
Profit before taxation			**257,702**	136,166

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION

Geographical information

The Group's operations are located in PRC (country of domicile).

The Group's revenue from external customers and information about its non-current assets other than deferred tax assets by geographical location of the assets are detailed below:

	Revenue from external customers		**Non-current assets other than deferred tax assets**	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**5,067,659**	4,825,947	**1,859,867**	1,410,933
Asia (excluding PRC)	**1,944,879**	2,064,919	**–**	–
Americas	**1,048,492**	920,828	**–**	–
Africa	**567,893**	458,079	**–**	–
Europe	**542,653**	525,406	**–**	–
Oceania	**12,102**	6,635	**–**	–
	9,183,678	8,801,814	**1,859,867**	1,410,933

The management considered that the cost to develop the revenue by individual countries other than PRC and Americas are excessive and revenues other than "PRC" and "Americas" above attributed to each individual country are not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION *(Continued)*

Revenue from major products

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

	2013 **RMB'000**	2012 RMB'000
Residential air-conditioners		
– split type	**7,161,766**	7,193,119
– window type	**325,616**	280,517
– portable type	**33,141**	32,748
	7,520,523	7,506,384
Commercial air-conditioners	**740,716**	618,872
Air-conditioners' parts and components	**676,472**	410,068
Others	**245,967**	266,490
	9,183,678	8,801,814

Information about major customers

For the year ended 31 December 2013 and 31 December 2012, none of the Group's customer had individually accounted for more than 10% of the Group's total revenue.

Analysis of capital additions, depreciation, amortisation of intangible assets and operating lease rentals on land use rights by location of customers were not presented as in the opinion of the directors, there is no appropriate basis in allocating the property, plant and equipment, intangible assets and land use rights by location of customers.

The goods sold to various geographical market were principally produced from the same production facilities situated in the PRC. Moreover, all of the Group's assets and liabilities at 31 December 2013 and 31 December 2012 were located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

In order to promote the high energy-saving products, the PRC government announced the "Promotion of energy efficient appliances scheme" (the "Energy-Saving Scheme") on 18 May 2009. Under the Energy-Saving Scheme, manufacturing entities are eligible for government subsidies on their manufactured high energy-saving electrical products upon reporting of its sales to the PRC government authority. The Energy-Saving Scheme was expired on 1 June 2011. On 25 May 2012, the PRC government announced a new Energy-Saving Scheme which is effective for the period form 1 June 2012 to 31 May 2013 (the "New Energy-Saving Scheme").

During the year, the Group was entitled to these government subsidies of RMB27,015,000 (2012: RMB116,740,000) in respect of high energy-saving products sold under the Energy-Saving Scheme and RMB179,905,000 (2012: RMB4,010,000) in respect of high energy-saving products sold under the New Energy-Saving Scheme.

9. FINANCE COSTS

	2013 **RMB'000**	2012 RMB'000
Interests on:		
Bank loan wholly repayable within five years	**124,275**	108,445
Debentures	**41,088**	73,614
Other borrowings wholly repayable within five years	**62,573**	79,811
Total borrowing costs	**227,936**	261,870
Less: amounts capitalised in the cost of qualifying assets	**(10,343)**	–
	217,593	261,870

During the year, interest charged on bank borrowings of RMB10,343,000 has been capitalised to the expenditure on the cost of construction in progress with a capitalisation rate of 6.6% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. PROFIT BEFORE TAXATION

	2013 RMB'000	2012 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 11)*	**4,403**	3,906
Other staff's retirement benefits scheme contributions	**75,813**	37,830
Other staff's equity-settled share based payments	**16,727**	24,006
Other staff costs	**713,522**	609,621
	810,465	675,363
Less: Staff costs included in research and development costs	**(52,291)**	(43,940)
	758,174	631,423
Allowance for doubtful debts included in other gains and losses	**22,649**	18,718
Amortisation of intangible assets included in administrative expenses	**337**	369
Auditor's remuneration	**2,830**	2,173
Cost of inventories recognised as an expense including write down on inventories of RMB10,447,000 (2012: RMB22,887,000)	**7,701,661**	7,486,467
Depreciation of property, plant and equipment	**111,090**	102,961
Net exchange losses included in other gains and losses	**5,931**	3,275
Operating lease rentals in respect of		
– land use rights	**5,270**	5,026
– rented premises	**39,877**	36,731
Provision for warranty included in cost of goods sold	**26,089**	22,739
Release of prepaid lease payments	**16,048**	11,261
Write-off/loss on disposal of property, plant and equipment	**–**	249
and after crediting:		
Amortisation of government grants	**1,288**	1,288
Government subsidies included in other income*	**6,866**	4,655
Interest income	**50,608**	34,405
Reversal of doubtful debts included in other gains and losses	**9,735**	7,544
Gain on disposal of property, plant and equipment	**25**	–
Sales of scrap materials	**1,475**	8,491

* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of directors during the year are analysed as follows:

	2013					2012				
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Equity-settled share based payments	Total	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Equity-settled share based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors										
– Mr. Li Xinghao Executive	–	361	4	219	584	–	361	4	324	689
– Dr. Zheng Zuyi Executive (appointed on 4 January 2012)	–	619	4	1,371	1,994	–	614	3	–	617
– Dr. Ding Xiaojiang Executive	–	–	–	274	274	–	–	–	404	404
– Mr. Huang Xingke Executive	–	500	5	686	1,191	–	499	4	1,011	1,514
– Mr. Lei Jianghang (resigned on 4 January 2012)	–	–	–	–	–	–	–	–	202	202
Independent non-executive directors										
– Mr. Wan Junchu	120	–	–	–	120	120	–	–	40	160
– Mr. Zhang Xiaoming	120	–	–	–	120	120	–	–	40	160
– Mr. Fu Xiaosi	120	–	–	–	120	120	–	–	40	160
	360	1,480	13	2,550	4,403	360	1,474	11	2,061	3,906

The five highest paid individuals included two (2012: one) director of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2012: four) highest paid employees are as follows:

	2013 RMB'000	2012 RMB'000
Employee		
– basic salaries and allowances	1,596	2,559
– retirement benefits scheme contributions	8	10
– equity-settled share based payments	1,289	2,638
	2,893	5,207

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

	Number of employees	
	2013	2012
Up to HKD1,000,000	**1**	2
HKD1,000,001 to HKD1,500,000	**2**	1
HKD1,500,001 to HKD2,000,000	**–**	1

Mr. Li Xinghao is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

12. TAXATION

	2013	2012
	RMB'000	RMB'000
The charge comprises:		
PRC income tax		
– current year	**(40,923)**	(33,088)
Deferred taxation *(note 18)*	**(2,360)**	(4,624)
	(43,283)	(37,712)

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 certain PRC subsidiaries were officially endorsed as High-New Technology Enterprises and eligible to preferential Enterprise Income Tax ("EIT") rate of 15% during the year ended 31 December 2013.

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 year has been accrued at the tax rate of 10% on the expected dividend stream of 30% of the relevant subsidiary which is determined by the directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

12. TAXATION *(Continued)*

The charge for the year is reconciled to profit before taxation as follows:

	2013 **RMB'000**	2012 RMB'000
Profit before taxation	**257,702**	136,166
Tax at the applicable income tax rate of 25%	**(64,426)**	(34,042)
Effect of expenses not deductible for tax purposes (i)	**(56,233)**	(51,144)
Effect of income not taxable for tax purposes (ii)	**53,770**	32,332
Tax effect of deductible temporary differences not recognised	**(1,780)**	(8,346)
Utilised tax loss previously not recognised	**–**	5,075
Tax effect of a subsidiary with preferential tax rate	**30,340**	21,310
PRC withholding tax on undistributed earnings	**(4,954)**	(2,897)
Tax charge and effective tax rate for the year	**(43,283)**	(37,712)

(i) Effect of expenses not deductible for tax purposes includes amounts of non-deductible expenses incurred in respect of the manufacture of high energy-saving products.

(ii) Effect of income not taxable for tax purposes includes amounts of non-taxable government subsidies for high energy-saving products.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings for the year attributable to owners of the Company of RMB199,871,000 (2012: RMB92,055,000) and on the weighted average number of 8,434,178,000 (2012: 8,434,178,000) shares in issue during the year.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for shares during both years ended 31 December 2013 and 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2012	246,346	128,756	44,940	600,590	71,212	1,091,844
Additions	250	16,610	6,070	129,665	146,345	298,940
Write-off/disposals	–	(4,876)	(918)	(43,723)	(3,451)	(52,968)
Transfers	9,458	–	–	2,560	(12,018)	–
At 31 December 2012	256,054	140,490	50,092	689,092	202,088	1,337,816
Additions	16,301	19,920	4,481	106,538	368,488	515,728
Write-off/disposals	(48)	(5,014)	(2,845)	(40,028)	–	(47,935)
Acquired on acquisition of a subsidiary	–	75	3	6,750	53,782	60,610
Transfers	158,394	2,899	49	9,740	(171,082)	–
At 31 December 2013	430,701	158,370	51,780	772,092	453,276	1,866,219
DEPRECIATION						
At 1 January 2012	17,099	64,797	20,182	207,377	–	309,455
Provided for the year	8,511	16,019	4,925	73,506	–	102,961
Eliminated on write-off/ disposals	–	(3,332)	(453)	(26,628)	–	(30,413)
At 31 December 2012	25,610	77,484	24,654	254,255	–	382,003
Provided for the year	9,347	18,524	4,569	78,650	–	111,090
Eliminated on write-off/ disposals	–	(4,175)	(2,312)	(37,111)	–	(43,598)
At 31 December 2013	34,957	91,833	26,911	295,794	–	449,495
CARRYING VALUES						
At 31 December 2013	395,744	66,537	24,869	476,298	453,276	1,416,724
At 31 December 2012	230,444	63,006	25,438	434,837	202,088	955,813

The Group's buildings are erected on land held under medium-term land use rights in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. LAND USE RIGHTS

	2013 RMB'000	2012 RMB'000
Analysed for reporting purposes as		
– non-current assets	**220,772**	203,874
– current assets	**5,378**	5,026
	226,150	208,900

The balance represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 44 years or 50 years.

16. INTANGIBLE ASSETS

	2013 RMB'000	2012 RMB'000
CARRYING VALUE		
At 1 January	**1,461**	1,830
Additions	**68**	–
Charged to profit or loss	**(337)**	(369)
At 31 December	**1,192**	1,461

Included in intangible assets are patents and trademarks in which patents represent the exclusive rights in connection with certain product design. The cost of patents and trademarks has been amortised on a straight line basis over its estimated useful life of 10 years.

17. PREPAID LEASE PAYMENTS

	2013 RMB'000	2012 RMB'000
Analysed for reporting purposes as		
– non-current assets	**180,993**	170,724
– current assets	**14,445**	11,055
	195,438	181,779

The balance represents prepayment of rentals for medium-term land and buildings situated in the PRC for a period of 20 years under operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Accelerated accounting depreciation RMB'000	Warranty provision RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2012	2,795	9,245	(12,329)	(289)
Charged to profit or loss	(133)	(1,594)	(2,897)	(4,624)
At 31 December 2012	2,662	7,651	(15,226)	(4,913)
Credited (charged) to profit or loss	469	2,125	(4,954)	(2,360)
At 31 December 2013	3,131	9,776	(20,180)	(7,273)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2013 RMB'000	2012 RMB'000
Deferred tax assets	**12,907**	10,313
Deferred tax liabilities	**(20,180)**	(15,226)
	(7,273)	(4,913)

At 31 December 2013, the Group has unrecognised deferred tax liability of RMB72,791,000 (2012: RMB56,952,000) in relation to PRC withholding tax on undistributed earnings of RMB727,909,000 (2012: RMB569,520,000) due to the retention of undistributed earnings by the PRC subsidiaries determined by the directors of the Company.

The Group has no unused tax losses as at 31 December 2013 and 31 December 2012 available for offset against future profits. Besides, the Group has deductible temporary differences of RMB47,480,000 (2012: RMB73,514,000) relating to allowance on doubtful debts, payroll and welfare payables and unrealised gain/loss on financial derivatives at 31 December 2013. No deferred tax asset has been recognised in relation to deductible temporary differences as it is uncertain that future taxable profit stream will be available against which the deductible temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

19. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials	**556,616**	626,047
Work in progress	**46,896**	43,601
Finished goods	**1,691,225**	1,619,448
	2,294,737	2,289,096

20. TRADE AND OTHER RECEIVABLES

	2013 RMB'000	2012 RMB'000
Trade receivables	**3,063,598**	2,857,113
Bills receivables	**2,609,731**	1,673,590
	5,673,329	4,530,703
Deposits paid to suppliers	**172,988**	145,484
Prepayments	**1,474**	1,922
Advances to staff	**19,248**	19,072
Value-added tax recoverable	**28,958**	44,695
Other receivables	**29,899**	14,006
	5,925,896	4,755,882

At the end of the reporting date, bills receivables outstanding amounted to RMB1,416,856,000 (2012: RMB989,393,000) have been discounted to certain banks. The Group continues to present the discounted bills as bills receivables until maturity.

Payment terms with customers are mainly on credit. Invoices are normally receivable from 30 days to 180 days from date of issuance, while invoices to long-established customers are normally payable within 210 days. The following is an aged analysis of trade and bills receivables presented based on the invoice dates at the end of the reporting period which approximated the respective revenue recognition dates.

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20. TRADE AND OTHER RECEIVABLES *(Continued)*

	2013 RMB'000	2012 RMB'000
Age		
0 – 30 days	**1,016,746**	2,015,737
31 – 60 days	**1,008,698**	479,221
61 – 90 days	**674,014**	430,879
91 – 180 days	**2,713,480**	1,579,846
181 – 365 days	**204,154**	25,020
Over 1 year	**56,237**	–
	5,673,329	4,530,703

Include in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB115,352,000 (2012: RMB544,203,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date of credit was initially granted.

Aging of trade receivables which are past due but not impaired is as follows:

	2013 RMB'000	2012 RMB'000
Age		
31 – 60 days	**6,993**	8,123
61 – 90 days	**35,733**	33,557
91 – 180 days	**10,700**	486,857
181 – 365 days	**5,689**	15,666
Over 1 year	**56,237**	–
	115,352	544,203

The Group does not hold any collateral over these balances. The average age of these receivables is 139 days (2012: 120 days).

In determining the recoverability of the trade receivables, the Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts is as follows:

	2013 **RMB'000**	2012 RMB'000
At 1 January	**22,424**	11,250
Allowances recognised on receivables	**22,649**	18,718
Amounts recovered during the year	**(9,735)**	(7,544)
At 31 December	**35,338**	22,424

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB35,338,000 (2012: RMB22,424,000) which have been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

Included in trade and other receivables are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2013 **RMB'000**	2012 RMB'000
USD	**732,788**	506,592
Euro	**39,285**	2,223

TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2013 and 2012 that were transferred to banks by discounting those receivables on a full recourse basis. If the bills receivables are not paid out at maturity, the Group is required to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable discounted to banks with full recourse	
	2013 **RMB'000**	2012 RMB'000
Carrying amount of transferred assets included in trade receivables	**1,426,843**	994,928
Carrying amount of associated liabilities	**1,416,856**	989,393

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21. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets	
	2013	2012
	RMB'000	RMB'000
Derivatives not under hedge accounting		
– foreign currency contracts – current	**57,262**	31,856
– foreign currency contracts – non-current	**2,215**	–

At 31 December 2013, the Group has the following foreign currency contracts with (i) predetermined exercisable period and maturity dates and (ii) predetermined exercisable period with different strike rate. Their major terms are as follows:

(i) predetermined exercisable period and maturity period

Notional amount	Exercisable period	Forward contract rates
114 contracts to sell USD377,721,182 (gross settlement)	From 23 January 2014 to 8 December 2014	USD1/RMB6.1232 to USD1/RMB6.3356

Notional amount	Maturity	Forward contract rates
21 contracts to sell USD14,000,000 (net settlement)	From 22 January 2014 to 20 August 2014	USD1/RMB6.0975 to USD1/RMB6.3180

(ii) predetermined exercisable period with different strike rate

Notional amount	Exercisable period	Upper/lower strike rate
3 contracts to sell USD6,000,000 (gross settlement)	From 27 March 2015 to 12 August 2015	USD1/RMB5.5000 to USD1/RMB6.4000

At 31 December 2012, the Group has the following foreign currency contracts with predetermined exercisable period and maturity dates. Their major terms are as follows:

Notional amount	Exercisable period	Forward contract rates
65 contracts to sell USD297,000,000 (gross settlement)	From 5 February 2013 to 9 October 2013	USD1/RMB6.3013 to USD1/RMB6.4768

Notional amount	Maturity	Forward contract rates
19 contracts to sell USD19,000,000 (net settlement)	From 5 March 2013 to 20 August 2013	USD1/RMB6.3540 to USD1/RMB6.4820

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21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The fair value of the foreign currency contracts with predetermined exercisable period and maturity dates were determined based on the valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent valuer of the Group.

The fair value of the foreign currency contracts with predetermined exercisable period are determined using the option pricing model of which the foreign currency contracts embedded a time option where the holder can exercise the foreign currency contracts within a specified period upon presenting the contract to the issuer. The inputs into the model at the respective dates were as follows:

	2013	2012
Volatility	**2.2600%**	2.2500%
RMB risk-free interest rate	**4.2755%**	2.9210%
USD risk-free interest rate	**0.1350%**	0.1407%
Spot price for USD foreign currency contracts	**RMB6.0543**	RMB6.2306
USD/RMB market forward rate	**USD1/RMB6.1232 to USD1/RMB6.3356**	USD1/RMB6.2457 to USD1/RMB6.3356

The fair value of the foreign currency contracts with predetermined maturity dates are determined using the forward pricing model based on the difference between the predetermined forward rate on the respective date of which the contracts were entered and the market forward rate at the end of the reporting period. The inputs into the model at the respective dates were as follows:

	2013	2012
RMB risk-free interest rate	**4.2755%**	2.9210%
USD/RMB market forward rate	**USD1/RMB6.0975 to USD1/RMB6.3180**	USD1/RMB6.3094 to USD1/RMB6.3216

The fair value of the foreign currency contracts with predetermined exercisable period with different strike rate were determined by the respective issuing bank using Black-Scholes Model with reference with predetermined range exchange rates, predetermined forward exchange rates, predetermined upper trigger exchange rate and spot exchange rates.

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry interest at the prevailing market interest rate ranging from 0.35% to 0.39% (2012: 0.35% to 0.5%) per annum.

At 31 December 2013, pledged bank deposits represents deposits pledged to banks to secure issuance of bills payables amounting to RMB2,675,546,000 (2012: RMB3,017,270,000) which carry interest at market rates ranged from 2.6% to 3.1% (2012: 2.4% to 3.6%) per annum.

Certain pledged bank deposits and bank balances and cash of RMB1,431,065,000 (2012: RMB1,561,449,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH *(Continued)*

Included in pledged bank deposits and bank balances and cash are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2013 RMB'000 equivalent	2012 RMB'000 equivalent
USD	**157,515**	115,122
HKD	**1,392**	89
Euro	**423**	2,368

23. TRADE AND OTHER PAYABLES

	2013 RMB'000	2012 RMB'000
Trade payables	**762,452**	612,675
Bills payables	**2,675,546**	3,040,022
	3,437,998	3,652,697
Customers' deposits	**212,634**	250,352
Payroll and welfare payables	**58,957**	40,360
Other tax payables	**51,033**	27,182
Accruals	**118,624**	57,593
Other payables *(note)*	**217,709**	143,401
	4,096,955	4,171,585

Note:

As at 31 December 2013, the balance of other payables included interest bearing advances of RMB39,000,000 and RMB20,000,000 from Foshan Suizhou Communications Equipment Co., Ltd. ("Suizhou") and Foshan Nanhai Nanyan Industrial Co., Ltd. ("Nanyan") at fixed interest rates of 12% p.a. and 12% p.a., respectively, which are the suppliers of the Group and the amounts are unsecured and repayable on demand. The liabilities were assumed through acquisition of a subsidiary during the year (see note 31 for details) RMB27,840,000 and RMB5,000,000 advances from Suizhou and Foshan Zhonggewei Electronics Co., Ltd. ("Zhonggewei"), respectively have been settled by the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. 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.

	2013 **RMB'000**	2012 RMB'000
Age		
0 – 90 days	**2,338,191**	2,363,569
91 – 180 days	**1,078,485**	1,274,007
181 – 365 days	**8,053**	7,148
1 – 2 years	**13,269**	7,973
	3,437,998	3,652,697

24. WARRANTY PROVISION

	2013 **RMB'000**	2012 RMB'000
CARRYING VALUE		
At 1 January	**30,606**	36,980
Additional provision for the year	**26,089**	22,739
Utilisation of provision	**(29,833)**	(29,113)
At 31 December	**26,862**	30,606

The warranty provision represents management's best estimate of the Group's liability under 3 to 6 years warranty granted on air-conditioning products, based on prior experience and industry average for defective products.

25. BORROWINGS RELATED TO BILLS DISCOUNTED WITH RECOURSE

During the year, bank bills issued by customers and discounted by the Group carry interest at rates ranging from 5.60% to 9.60% (2012: 5.80% to 7.00%) per annum at the end of reporting period.

During the year ended 31 December 2013, the Group discounted bills receivables with recourse in the aggregated amounts of RMB14,438,231,000 (2012: RMB9,348,983,000) to banks for short-term financing of which the associated borrowings are amounted to RMB1,416,856,000 (2012: RMB989,393,000) as at 31 December 2013 and the relevant cash flows are presented as operating cash flows in the consolidated statement of cash flows for the year ended as the management considered the cash flows are in substance the receipts from trade customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

26. DEBENTURES

On 23 May 2013, 廣東志高空調有限公司 Guangdong Chigo Air-Conditioning Co., Ltd. ("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, the Company's wholly-owned subsidiary, 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 5.9% per annum and a fair 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 2013.

The principle coupon interest will be repaid upon maturity.

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

	2013 **RMB'000**	2012 RMB'000
Carrying value at 1 January	**805,800**	813,589
Repayment of debentures and interests thereon	**(847,200)**	(863,200)
Proceeds from issue of debentures	**150,000**	800,000
Transaction costs	**(1,350)**	(8,000)
Net proceeds	**107,250**	742,389
Interest expense	**47,350**	63,411
Carrying value at 31 December 2013	**154,600**	805,800
Carrying amount repayable:		
– Within one year	**–**	805,800
– More than one year, but not more than five years	**154,600**	–
	154,600	805,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

27. BANK LOANS

	31.12.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited)
Bank loans		
– unsecured	**2,400,637**	1,480,986
– secured by bank deposits	**739,986**	–
– secured by bank deposits and "Chigo" trademark	**–**	40,146
– guaranteed by Mr. Li Xinghao and secured by land use rights	**50,000**	–
	3,190,623	1,521,132

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 used rights that situated in PRC.

	31.12.2013 RMB'000	31.12.2012 RMB'000
Carrying amount repayable:		
Within one year	**3,018,404**	1,521,132
More than one year, but not exceeding two years	**122,219**	–
More than two years, but not exceeding three years	**50,000**	–
	3,190,623	1,521,132
Less: Amounts due within one year shown under current liabilities	**(3,018,404)**	(1,521,132)
Amount due after one year	**172,219**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

27. BANK LOANS *(Continued)*

Also, at the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB4,602,288,000 (2012: RMB3,318,993,000).

Included in short-term and long-term bank loans are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2013 RMB'000 equivalent	2012 RMB'000 equivalent
USD	**692,428**	319,704

Average interest rates paid were as follows:

	2013	2012
Bank loans	**5.17%**	6.31%

All the bank loans are variable rate borrowings, subject to negotiation at renewal or drawndown date and were denominated in RMB and USD at 31 December 2013 and 31 December 2012.

28. GOVERNMENT GRANTS

In 2006 and 2007, the Group received government grants totalling RMB65,400,000 from the relevant PRC local authorities for the investment in economic development zones located in Anhui province and Jiangxi province in the PRC. They were granted as an incentive for obtaining land use rights amounting to RMB65,400,000 by the Group for the construction of production facilities in the economic development zones. In 2010, the Group received government grants of RMB4,600,000 from relevant PRC local authorities for the acquisition of plant and machinery amounting to RMB9,440,000.

In 2011, the Group returned government grants amounting to RMB24,000,000 in connection with the investment in economic development zone located in Anhui Province in the PRC by surrendering the relevant land use rights to the PRC local authorities.

During the year ended 31 December 2013, the related operating lease rentals in respect of land use rights and related depreciation in respect of plant and machinery which has been charged to profit or loss amounted to RMB941,000 (2012: RMB1,053,000) and RMB944,000 (2012: RMB944,000) respectively and the government grant which was recognised as other income was RMB828,000 (2012: RMB828,000) and RMB460,000 (2012: RMB460,000) respectively. As at 31 December 2013, an amount of RMB38,768,000 (2012: RMB40,056,000) remains unamortised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

29. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Number Amount	of shares	Amount
	'000	HKD'000	'000	HKD'000
– at 1 January 2012, 31 December 2012 and 2013	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at – 31 December 2013 and 2012	71,906

30. EQUITY-SETTLED SHARE BASED PAYMENTS

EQUITY-SETTLED SHARE OPTION SCHEME

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. The Scheme will be valid and effective for a period of 10 years from the date of adoption.

At 31 December 2013, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 702,870,000 (2012: 725,050,000), representing 8.3% (2012: 8.6%) of the shares of the Company in issue at that date. On 13 May 2011, under the resolution of the 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 10% of the shares of the Company in issue on the date of the approval of the resolution. Notwithstanding the foregoing, the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares of the Company in issue from time to 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 0.1% 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. EQUITY-SETTLED SHARE BASED PAYMENTS *(Continued)*

EQUITY-SETTLED SHARE OPTION SCHEME *(Continued)*

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

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HKD	Number of share options: Outstanding at 1.1.2012	Reclassified during the year	Lapsed during the year	Outstanding at 31.12.2012	Lapsed during the year	Outstanding at 31.12.2013
Directors	17.11.2009	17.11.2009 – 16.11.2010	17.11.2010 – 16.11.2012	0.301	4,360,692	(692)	(4,360,000)	–	–	–
		17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	0.301	6,897,478	78,652	(6,976,130)	–	–	–
	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	(6,172,000)	178,536,000
		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	(14,408,000)	416,684,000
Customers#	17.11.2009	17.11.2009 – 16.11.2011	17.11.2011 – 16.11.2012	0.301	275,900	–	(275,900)	–	–	–
	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	3,942,000	–	–	3,942,000	(476,000)	3,466,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	9,308,000	–	–	9,308,000	(1,124,000)	8,184,000
					1,136,490,820	–	(411,440,820)	725,050,000	(22,180,000)	702,870,000
Exercisable at end of the year								–		210,802,000

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

30. EQUITY-SETTLED SHARE BASED PAYMENTS *(Continued)*

EQUITY-SETTLED SHARE OPTION SCHEME *(Continued)*

The Group recognised the total expense of RMB2,550,000 (2012: RMB2,061,000) and RMB16,727,000 (2012: RMB24,006,000) for the year ended 31 December 2013 in relation to share options granted by the Company to the Group's directors and employees of the Group respectively. No share options are exercised during the current year.

31. 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, 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

Note: As at 22 April 2013, the balance included interest bearing advances of RMB66,840,000, RMB20,000,000 and RMB5,000,000 from Suizhou, Nanyan and Zhonggewei 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

32. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2013 RMB'000	2012 RMB'000
Within one year	**21,586**	25,515
In the second to fifth year inclusive	**54,098**	68,698
After five years	**–**	13,523
	75,684	107,736

Leases are negotiated and rentals are fixed for lease terms of 1 to 20 years.

33. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**78,879**	37,872

34. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate in the MPF in Hong Kong. The assets of the MPF are held separately from those of the Group in fund under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF Scheme.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

35. RELATED PARTY TRANSACTIONS

Other than the transactions and balances with related parties disclosed in respective notes in the consolidated financial statements, during the year, the Group paid messing expenses totalling RMB969,000 (2012: RMB980,000) to a related company, which is controlled by Mr. Li Xinghao, a director and ultimate controlling party of the Company.

During the year, 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 31.

The details of remuneration of key management personnel, represents emoluments of the directors of the Company and are set out in note 11.

36. PRINCIPAL SUBSIDIARIES

(a) Details of the Company's principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued share capital/registered capital held by the Group indirectly 2013	2012	Principal activity
Guangdong Chigo	PRC as a wholly foreign owned enterprise for a term of 50 years commencing 1 September 2006	Registered capital – RMB996,140,000	**100%**	100%	Manufacture and sales of air-conditioners
志高空調(九江)有限公司 Chigo Air-Conditioning (Jiu Jiang) Co., Ltd.	PRC as a limited liability enterprise for a term of 10 years commencing 1 June 2007	Registered capital – RMB45,000,000	**100%**	100%	Manufacture and sales of air-conditioners
廣東志高暖通設備股份有限公司 Guangdong Chigo Heating and Ventilation Equipment Co., Ltd. ("Chigo Heating")	PRC as a joint stock limited company	Shares – RMB100,000,000	**70%**	70%	Manufacture and sales of commercial air-conditioners
廣東志高精密機械有限公司 Guangdong Chigo Precision Machinery Co., Ltd.	PRC as a limited liability enterprise	Registered capital – RMB200,000,000	**100%**	100%	Manufacture and sales of compressor
廣東志高科創銅業有限公司 Kechuang Copper Limited	PRC – as a wholly foreign owned enterprise for a term of 50 years commencing 11 May 2011	Registered capital RMB100,000,000	**100%**	–	Manufacturing and sales of copper products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. PRINCIPAL SUBSIDIARIES *(Continued)*

(a) (*Continued*)

The above table lists the subsidiaries of the Company which, in the opinion of the directors principally affect the results or assets of the Group. To give details of other subsidiaries would in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year except for Guangdong Chigo which has issued debentures (see note 26).

(b) Details of a non-wholly owned subsidiary that have material non-controlling interests

Summarised financial information of Chigo Heating is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31.12.2013 RMB'000	31.12.2012 RMB'000
Current assets	**451,526**	361,353
Non-current assets	**92,597**	98,926
Current liabilities	**394,663**	359,310
Equity attributable to owners of the Company	**104,622**	70,679
Non-controlling interests	**44,838**	30,290

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. PRINCIPAL SUBSIDIARIES *(Continued)*

(b) (*Continued*)

	2013 **RMB'000**	2012 RMB'000
Revenue	**795,340**	646,643
Expenses	**746,847**	625,312
Profit and total comprehensive income for the year	**48,493**	21,331
Profit and total comprehensive income attributable to owners of the Company	**33,945**	14,932
Profit and total comprehensive income attributable to the non-controlling interests	**14,548**	6,399
Profit and total comprehensive income for the year	**48,493**	21,331
Net cash inflows from operating activities	**60,174**	160,936
Net cash (outflows) inflows from investing activities	**(22,827)**	33,645
Net cash inflows (outflows) from financing activities	**26,992**	(81,999)
Net cash inflows	**64,339**	112,582

The financial statements of Chigo Heating were prepared in accordance with relevant accounting principles and the financial reporting framework applicable to the PRC enterprises.

37. SUBSEQUENT EVENT

On 10 March 2014, one of the Company's PRC subsidiaries has been approved by 中國銀行間市場交易商協會 (National Association of Financial Market Institutional Investors) to issue medium-term notes in an aggregate principal amount of up to RMB240 million in the PRC ("Note Issuance"). The net proceeds from the Note Issuance will be used for general working capital purposes of the Group and the medium-term notes will be issued to institutional investors in the PRC banking industry.

The transaction of the Note Issuance is not yet completed as at the date of this report.

FINANCIAL SUMMARY

	Year ended 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013 RMB'000**
RESULTS					
Turnover	6,005,495	8,467,723	9,342,025	8,801,814	**9,183,678**
Profit (loss) before taxation	342,530	313,558	(136,148)	136,166	**257,702**
Taxation	(27,751)	(3,705)	(7,875)	(37,712)	**(43,283)**
Profit (loss) for the year	314,779	309,853	(144,023)	98,454	**214,419**
Profit (loss) attributable to					
– owners of the Company	314,779	309,853	(137,914)	92,055	**199,871**
– non-controlling interests	–	–	(6,109)	6,399	**14,548**
	314,779	309,853	(144,023)	98,454	**214,419**

	As at 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013 RMB'000**
ASSETS AND LIABILITIES					
Total assets	5,565,690	7,657,693	9,522,239	10,395,717	**12,049,404**
Total liabilities	(3,719,746)	(5,205,685)	(6,910,543)	(7,659,500)	**(9,079,491)**
Net assets	1,845,944	2,452,008	2,611,696	2,736,217	**2,969,913**
Equity attributable to owners of the Company	1,845,944	2,452,008	2,587,805	2,705,927	**2,925,075**
Non-controlling interests	–	–	23,891	30,290	**44,838**
	1,845,944	2,452,008	2,611,696	2,736,217	**2,969,913**

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2013 RMB'000	2012 RMB'000
Non-current asset		
Investment in a subsidiary	**588,081**	588,081
Amounts due from subsidiaries	**437,488**	482,327
	1,025,569	1,070,408
Current assets		
Other receivables	**78**	82
Amounts due from subsidiaries	**12,990**	4,657
Bank balances and cash	**1,225**	694
	14,293	5,433
Current liabilities		
Amounts due to subsidiaries	**12,098**	5,333
Accruals and other payables	**99**	99
	12,197	5,432
Net current assets	**2,096**	1
Net assets	**1,027,665**	1,070,409
Capital and reserves		
Share capital	**71,906**	71,906
Reserves	**955,759**	998,503
	1,027,665	1,070,409