CHIGO

CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 449)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

2014 FINANCIAL HIGHLIGHTS

	2014	2013	Change
	RMB million	*RMB million*	*%*
Turnover	**9,233.2**	9,183.7	+0.5
Gross receipts[1]	**9,233.2**	9,390.6	-1.7
Consolidated segment results[2]	**1,603.3**	1,662.8	-3.6
(Loss) profit for the year	**(60.4)**	214.4	-128.2
Total assets	**11,162.0**	12,049.4	-7.4
Net assets	**2,906.3**	2,969.9	-2.1
Basic (loss) earnings per share *(RMB cents)*	**(0.96)**	2.37	-140.5
Interim dividends *(HK cents)*	**–**	–	–
Proposed final dividends *(HK cents)*	**–**	–	–
Gross margin[3]	**17.4%**	18.1%	-0.7 percentage points
Net (loss) profit margin	**(0.7)%**	2.3%	-3.0 percentage points

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 for the two financial years are calculated as the percentage of consolidated segment results of operation to turnover.

2014 OPERATION HIGHLIGHTS

	2014	2013	Change
	RMB million	*RMB million*	*%*
PRC sales	**5,162.1**	5,067.7	+1.9
Overseas sales	**4,071.1**	4,116.0	-1.1
Major products type			
Residential air-conditioners	**7,401.2**	7,520.5	-1.6
Commercial air-conditioning products	**925.4**	740.7	+24.9
Air-conditioner parts and components	**598.0**	676.5	-11.6
Other products	**308.6**	246.0	+25.4
Residential air-conditioning products sold *('000 units)*	**4,569**	4,582	-0.3
Commercial air-conditioning products sold *('000 sets)*	**200**	174	+14.9

The board (the "**Board**") of directors (the "**Directors**") of Chigo Holding Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2014 together with the comparative figures for the corresponding period of 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	**2014**	2013
		RMB'000	*RMB'000*
Turnover		**9,233,191**	9,183,678
Cost of goods sold		**(7,629,877)**	(7,727,750)
Gross profit		**1,603,314**	1,455,928
Government subsidies for high energy-saving products	*5*	**–**	206,920
Other income		**54,227**	86,218
Selling and distribution costs			
– equity-settled share based payments		**(2,262)**	(4,541)
– other selling and distribution costs		**(829,922)**	(721,966)
Administrative expenses			
– equity-settled share based payments		**(7,994)**	(14,736)
– other administrative expenses		**(412,030)**	(412,114)
Research and development costs		**(93,217)**	(84,976)
Other expenses		**(30,575)**	(10,950)
Other gains and losses		**3,975**	(18,845)
Net (loss) gain in fair value changes on foreign currency forward contracts		**(32,046)**	70,682
Net loss in fair value changes on commodity derivative contracts		**–**	(76,325)
Finance costs		**(262,042)**	(217,593)
(Loss) profit before taxation	*6*	**(8,572)**	257,702
Taxation	*7*	**(51,807)**	(43,283)
(Loss) profit for the year and total comprehensive (expense) income for the year		**(60,379)**	214,419
(Loss) profit for the year and total comprehensive (expense) income for the year attributable to:			
– owners of the Company		**(81,039)**	199,871
– non-controlling interests		**20,660**	14,548
		(60,379)	214,419
(Loss) earnings per share	*8*		
– Basic and diluted		**(0.96) cents**	2.37 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

	NOTES	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment		**1,498,581**	1,416,724
Land use rights		**215,394**	220,772
Intangible assets		**1,083**	1,192
Prepaid lease payments		**226,624**	180,993
Deposits paid on acquisition of property, plant and equipment		**37,726**	37,971
Available-for-sale investment		**20,000**	–
Derivative financial instruments		**–**	2,215
Deferred tax assets		**13,085**	12,907
		2,012,493	1,872,774
Current assets			
Inventories		**1,780,851**	2,294,737
Trade and other receivables	9	**5,792,561**	5,925,896
Land use rights		**5,378**	5,378
Prepaid lease payments		**16,653**	14,445
Taxation recoverable		**9,021**	10,523
Derivative financial instruments		**2,818**	57,262
Pledged bank deposits		**1,077,745**	1,111,881
Bank balances and cash		**464,502**	756,508
		9,149,529	10,176,630
Current liabilities			
Trade and other payables	10	**4,128,367**	4,096,955
Warranty provision		**25,641**	26,862
Taxation payable		**156,450**	134,647
Derivative financial instruments		**6,091**	–
Borrowings related to bills discounted with recourse		**1,574,021**	1,416,856
Short-term bank loans		**1,940,861**	3,018,404
Current portion of long-term bank loans		**147,736**	–
		7,979,167	8,693,724
Net current assets		**1,170,362**	1,482,906
Total assets less current liabilities		**3,182,855**	3,355,680

	NOTES	2014 RMB'000	2013 RMB'000
Non-current liabilities			
Government grants		**37,480**	38,768
Long-term debentures		**207,021**	154,600
Long-term bank loans		**6,250**	172,219
Derivative financial instruments		**3,877**	–
Deferred tax liabilities		**21,937**	20,180
		276,565	385,767
Net assets		**2,906,290**	2,969,913
Capital and reserves			
Share capital	*11*	**71,906**	71,906
Reserves		**2,782,386**	2,853,169
Equity attributable to owners of the Company		**2,854,292**	2,925,075
Non-controlling interests		**51,998**	44,838
Total equity		**2,906,290**	2,969,913

NOTES

1. GENERAL

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

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

2. 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 HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK (IFRIC*) – INT 21	Levies

* IFRIC represents the International Financial Reporting Standards Interpretations Committee.

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

New and revised HKFRSs in issue 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:

HKFRS 9	Financial instruments[1]
HKFRS 14	Regulatory deferral accounts[2]
HKFRS 15	Revenue from contracts with customers[3]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations[5]
Amendments to HKAS 1	Disclosure initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[5]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle[6]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[5]
Amendments to HKAS 27	Equity method in separate financial statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on the amounts reported in respect of the Group's financial assets. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from contracts with customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Apart from HKFRS 9 and HKFRS 15, the directors of the Company do not anticipate that the application of the other new and revised HKFRSs issued but not yet effective will have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

4. SEGMENT INFORMATION

Segment information has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), the chief executive officer ("CEO"), for the purpose of allocating resources to segments and assessing their performance. The CODM reviews the revenue and result by geographical location of customers for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Segment revenues and results

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

	Turnover		**Results**	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China (the "PRC")	**5,162,050**	5,067,659	**1,094,773**	1,136,480
Asia (excluding PRC)	**2,088,574**	1,944,879	**177,794**	223,540
Americas	**1,182,835**	1,048,492	**68,149**	152,718
Africa	**387,663**	567,893	**67,535**	68,881
Europe	**391,677**	542,653	**190,821**	77,617
Oceania	**20,392**	12,102	**4,242**	3,612
	9,233,191	9,183,678	**1,603,314**	1,662,848
Unallocated other income			**54,227**	86,218
Unallocated expenses			**(847,075)**	(826,160)
Staff costs included in selling and distribution costs and administrative expenses			**(487,994)**	(417,964)
Charitable donations			**(679)**	(1,355)
Allowance for doubtful debts			**(36,277)**	(22,649)
Net (loss) gain in fair value changes on foreign currency forward contracts			**(32,046)**	70,682
Net loss in fair value changes on commodity derivative contracts			**–**	(76,325)
Finance costs			**(262,042)**	(217,593)
(Loss) profit before taxation			**(8,572)**	257,702

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

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

Other segment information

Geographical information

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

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

	Revenue from external customers		Non-current assets other than deferred tax assets	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**5,162,050**	5,067,659	**1,999,408**	1,859,867
Asia (excluding PRC)	**2,088,574**	1,944,879	**–**	–
Americas	**1,182,835**	1,048,492	**–**	–
Africa	**387,663**	567,893	**–**	–
Europe	**391,677**	542,653	**–**	–
Oceania	**20,392**	12,102	**–**	–
	9,233,191	9,183,678	**1,999,408**	1,859,867

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

Revenue from major products

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

	2014	2013
	RMB'000	*RMB'000*
Residential air-conditioners		
– split type	**7,031,397**	7,161,766
– window type	**339,347**	325,616
– portable type	**30,479**	33,141
	7,401,223	7,520,523
Commercial air-conditioners	**925,416**	740,716
Air-conditioners' parts and components	**597,941**	676,472
Others	**308,611**	245,967
	9,233,191	9,183,678

Information about major customers

For the year ended 31 December 2014 and 31 December 2013, 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 2014 and 31 December 2013 were located in the PRC.

5. GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

During the current year, no government subsidies in respect of high energy saving products sold was entitled by the Group as the relevant scheme was expired in May 2013 (2013: RMB206,920,000).

6. (LOSS) PROFIT BEFORE TAXATION

	2014 *RMB'000*	2013 *RMB'000*
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration	**2,661**	3,296
Other staff's retirement benefits scheme contributions	**70,230**	75,813
Other staff's equity-settled share based payments	**9,451**	17,834
Other staff costs	**794,370**	713,522
	876,712	810,465
Less: Staff costs included in research and development costs	**(56,984)**	(52,291)
	819,728	758,174
Allowance for doubtful debts included in other gains and losses	**36,277**	22,649
Amortisation of intangible assets included in administrative expenses	**345**	337
Auditor's remuneration	**2,272**	2,173
Cost of inventories recognised as an expense including write down on inventories of RMB20,752,000 (2013: RMB10,447,000)	**7,629,877**	7,727,750
Depreciation of property, plant and equipment	**149,396**	111,090
Impairment of goodwill included in other expenses	**9,857**	–
Net exchange losses included in other gains and losses	**–**	5,931
Operating lease rentals in respect of		
– land use rights	**5,378**	5,270
– rented premises	**46,468**	39,877
Provision for warranty included in cost of goods sold	**29,967**	26,089
Release of prepaid lease payments	**16,872**	16,048
Write-off/loss on disposal of property, plant and equipment	**216**	–
and after crediting:		
Amortisation of government grants	**1,288**	1,288
Gain on disposal of property, plant and equipment	**–**	25
Government subsidies included in other income*	**4,812**	6,866
Interest income	**30,847**	50,608
Net exchange gains included in other gains and losses	**6,993**	–
Reversal of doubtful debts included in other gains and losses	**33,475**	9,735
Sales of scrap materials	**7,453**	1,475

* The government subsidies provided by the PRC government to the Group were paid as an incentive for research and development on new environmental friendly products. There are no conditions and contingencies attached to the receipt of the government subsidies.

7. TAXATION

	2014	2013
	RMB'000	*RMB'000*
The charge comprises:		
PRC income tax		
– current year	**(50,228)**	(40,923)
Deferred taxation	**(1,579)**	(2,360)
	(51,807)	(43,283)

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 2014.

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.

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the year attributable to owners of the Company of RMB81,039,000 (2013: earnings of RMB199,871,000) and on the weighted average number of 8,434,178,000 (2013: 8,434,178,000) shares in issue during the year.

The computation of diluted (loss) 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 2014 and 31 December 2013.

9. TRADE AND OTHER RECEIVABLES

	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**3,425,207**	3,063,598
Bills receivables	**2,106,058**	2,609,731
	5,531,265	5,673,329
Deposits paid to suppliers	**165,049**	172,988
Prepayments	**18,273**	1,474
Advances to staff	**4,711**	19,248
Value-added tax recoverable	**37,932**	28,958
Other receivables	**35,331**	29,899
	5,792,561	5,925,896

At the end of the reporting date, bills receivables outstanding amounted to RMB1,574,021,000 (2013: RMB1,416,856,000) 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.

	2014	2013
	RMB'000	*RMB'000*
Age		
0 – 30 days	**831,044**	1,016,746
31 – 60 days	**782,837**	1,008,698
61 – 90 days	**760,012**	674,014
91 – 180 days	**2,731,926**	2,713,480
181 – 365 days	**407,236**	204,154
Over 1 year	**18,210**	56,237
	5,531,265	5,673,329

Included in the Group's trade receivable balances are trade debtors with an aggregate carrying amount of RMB562,930,000 (2013: RMB115,352,000) 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:

	2014	2013
	RMB'000	*RMB'000*
Age		
31 – 60 days	**–**	6,993
61 – 90 days	**35,425**	35,733
91 – 180 days	**337,340**	10,700
181 – 365 days	**171,955**	5,689
Over 1 year	**18,210**	56,237
	562,930	115,352

The Group does not hold any collateral over these balances. The average age of these receivables is 178 days (2013: 230 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 estimated future cash flow discounted at the original effective interest rate.

Movement in the allowance for doubtful debts is as follows:

	2014	2013
	RMB'000	*RMB'000*
At 1 January	**35,338**	22,424
Allowances recognised on receivables	**36,277**	22,649
Amount written off during the year as uncollectible	**(3,549)**	–
Amounts recovered during the year	**(33,475)**	(9,735)
At 31 December	**34,591**	35,338

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB34,591,000 (2013: RMB35,338,000) 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:

	2014	2013
	RMB'000	*RMB'000*
USD	**1,355,388**	732,788
Euro	**39,284**	39,285

Transfers of financial assets

The following were the Group's financial assets as at 31 December 2014 and 2013 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	
	2014	2013
	RMB'000	*RMB'000*
Carrying amount of transferred assets included in trade receivables	**1,611,880**	1,426,843
Carrying amount of associated liabilities	**1,574,021**	1,416,856

10. TRADE AND OTHER PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade payables	**540,577**	762,452
Bills payables	**2,935,873**	2,675,546
	3,476,450	3,437,998
Customers' deposits	**257,445**	212,634
Payroll and welfare payables	**67,651**	58,957
Other tax payables	**54,712**	51,033
Accruals	**95,652**	118,624
Other interest bearing payables	**46,000**	59,000
Other payables	**130,457**	158,709
	4,128,367	4,096,955

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.

	2014	2013
	RMB'000	*RMB'000*
Age		
0 – 90 days	**2,155,368**	2,338,191
91 – 180 days	**1,246,853**	1,078,485
181 – 365 days	**69,509**	8,053
1 – 2 years	**4,720**	13,269
	3,476,450	3,437,998

11. SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	Number of shares	**Amount**	**Number of shares**	**Amount**
	'000	*HKD'000*	*'000*	*HKD'000*
– at 1 January 2013, 31 December 2013 and 2014	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at	
– 31 December 2014 and 2013	71,906

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 2014, 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.

Due to the continuing unfavorable factors, such as the slowdown in the domestic economy, the real estate market downturn and the cool summer weather, there was a lack of momentum in the growth of the residential air-conditioning market in 2014. According to market data, retail sales volume of the PRC residential air-conditioning market only recorded a slight increase in 2014. Overall air-conditioning market size was just the same as that in the previous year.

The performance of the domestic air-conditioning market was remarkable in the first half of 2014. In the second half of 2014, the growth of the air-conditioning market was weak showing "anticlimactic" phenomenon. Due to the sluggish performance of the domestic air-conditioning market since the third quarter of 2014, the market growth achieved in the beginning of the year was completely exhausted and the average growth rate of the air-conditioning market throughout the year was dragged down accordingly.

During the year, the competition in the domestic air-conditioning market became fiercer. Certain air-conditioner manufacturers implemented aggressive pricing strategy in order to maintain sales volume and accelerate inventory digestion. Nevertheless, the competition in the PRC air-conditioning industry still remains healthy. In addition to the increased competition, the focus of the 2014 air-conditioning market rested on the issues of intelligence and quality upgrades which were indicated by the increases in proportion of sales of inverter and smart air-conditioners in the industry. The Group has always been at the forefront in the fields of high energy-saving, intelligent and high-end air-conditioning products, so such development of the domestic air-conditioning market in 2014 would be very beneficial to the Group's business in the long run.

As for the export markets, air-conditioner manufacturers were under a lot of pressure for the year end 31 December 2014. The exchange rate of RMB against the US dollar changed from a one-way appreciation to two-way fluctuations gradually since the beginning of 2014. At the end of the year, RMB has depreciated against the US dollar to some extent. For home appliance export enterprises, a weak RMB would be appealing; but on the other hand, it brought uncertainty to the export enterprises in foreign currency risk control. According to customs statistics, the total export of residential air-conditioners from the PRC in 2014 decreased slightly year-on-year. However, the exports to Latin American and Asian markets saw growth in the last twelve months which were driven by good domestic economic conditions, strong market demand for consumption and increased efforts for business development in these markets by the air-conditioning export enterprises. As a result, orders increased significantly in 2014. On the other hand, there were more unfavourable factors in Europe including sluggish economic conditions, bad weather and weak overall demand for air-conditioners. As such, less export orders were placed by customers and annual export volume declined year-on-year. Besides, with a number of European countries were suffering from substantial currency depreciation and limited consumer demand, more export orders for home appliance were canceled or delayed. In addition, for some of European countries, 2014 represented a turning point where new energy product eco-design requirements and channel inventory clean-up were imposed, leading to confusion in the market and severe price competition, which indirectly caused exports to fall sharply. Exports to African air-conditioning market dropped significantly in 2014 due to the unusual weather in some areas where the temperature was lower than in previous years. Although there were signs of recovery in the second half of 2014, overall demand was not as good as before.

Although the Group was also affected by the decline in exports throughout the entire air-conditioning industry, sales performance of respective overseas markets, such as those in the Americas and Oceania regions were impressive in 2014.

Sharp growth in central air-conditioning market was one of the highlights of the industry in 2014. Commercial air-conditioning market grew at a rate faster than that of the residential counterpart. Domestic brands and foreign brands in the PRC market competed against each other to grasp market share. In 2014, the Group's commercial team was able to leverage on its excellent sales strategy to produce brilliant business results.

For the year ended 31 December 2014, prices of the major raw materials showed a decline. Copper prices continued to slump and reached a level lower than that of the same period in 2013. Although aluminum prices have rebounded, it was still low. Since the major raw material prices during the year generally went down, the Group was able to reduce the production costs and further improve its gross margins.

In order to implement the next year's marketing plan and global brand strategy, the Group engaged an international superstar, Mr. Jackie Chan as CHIGO brand spokesperson during the year. In addition, in order to promote the sales of air-conditioning products through cross-industry platform and to strengthen its overseas sales channels and enhance the Group's overseas brand recognition, the Group acquired a financial intermediary company and prepared for the establishment of its own overseas sales distribution companies. The management believes that different types of customers with strong spending power will be referred to the Group through the new sales platform. As the size of new target customers group is expected to increase, the Group would benefit from the increasing air-conditioners sales. On the other hand, the Group could use the existing distribution network to market financial products and insurance services to the end customers, thereby increasing the other operating income of the Group in the future. The management expects that the new sales platform would make contribution to the Group commencing the first half of 2015.

To sum up, the Group's turnover remained stable but recorded a loss in 2014, which was mainly attributable to (i) gradual price adjustments of products to offset the effect of the absence of government subsidies for high energy-saving products; (ii) substantial increases in selling and distribution costs and administrative expenses in the first half of 2014; (iii) a net loss in fair value changes under its foreign currency forward contracts; and (iv) higher amortization expenses in early operational phase relating to the Group's new production facilities for major parts.

Operation Review

Sales from major product groups and gross margins

	Year ended 31 December					
	2014		2013		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
Residential air-conditioners						
– split type	**7,031.4**	**76.2**	7,161.8	78.0	-130.4	-1.8
– window type	**339.3**	**3.7**	325.6	3.5	+13.7	+4.2
– portable type	**30.5**	**0.3**	33.1	0.4	-2.6	-7.9
	7,401.2	**80.2**	7,520.5	81.9	-119.3	-1.6
Commercial air-conditioners	**925.4**	**10.0**	740.7	8.0	+184.7	+24.9
Air-conditioners parts and components	**598.0**	**6.5**	676.5	7.4	-78.5	-11.6
Others	**308.6**	**3.3**	246.0	2.7	+62.6	+25.4
	9,233.2	**100.0**	9,183.7	100.0	+49.5	+0.5

Residential air-conditioning products are the major source of income of the Group and accounted for 80.2% of the total turnover. Sales of residential air-conditioners decreased slightly by 1.6% during the year ended 31 December 2014, principally because of the decrease in average sales prices of these air-conditioning products during the year. As both the sales volume and average sales prices increased, turnover derived from commercial air-conditioners rose remarkably by 24.9% and contributed 10.0% of the total turnover to the Group during the year. Due to the changes in overseas customer mix and renegotiation of business cooperation strategy leading to decline in volume of business, sales of air-conditioner parts and components decreased by 11.6% during the year. The Group expanded its domestic distribution channel of other products during the year and increased its other operating income, such as resale of raw materials, as a result, sales of other products recorded a satisfactory growth in China and increased by 25.4% in 2014.

As the Group took time to increase the average selling prices of its products gradually after the expiry of high energy-saving programmes in May 2013, the gross margin (including government subsidies for energy-saving products) of residential air-conditioning products dropped slightly to 16.8% for the reporting period from 17.6% in 2013.

The Group's commercial unit continued to elevate its profit margin. The average gross margin of the Group's commercial segment increased from 25.2% in 2013 to 26.1% during the year.

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

	Year ended 31 December					
	2014		2013		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
PRC sales						
CHIGO brand	**4,733.5**	**51.3**	4,656.5	50.7	+77.0	+1.7
HYUNDAI brand	**61.5**	**0.7**	92.3	1.0	-30.8	-33.4
Air-conditioner parts and components	**60.3**	**0.6**	75.9	0.8	-15.6	-20.6
Other products	**306.8**	**3.3**	243.0	2.7	+63.8	+26.3
	5,162.1	**55.9**	5,067.7	55.2	+94.4	+1.9
Overseas sales						
CHIGO brand	**523.7**	**5.7**	641.0	7.0	-117.3	-18.3
OEM	**3,007.9**	**32.6**	2,871.4	31.3	+136.5	+4.8
Air-conditioner parts and components	**537.7**	**5.8**	600.6	6.5	-62.9	-10.5
Other products	**1.8**	**0.0**	3.0	0.0	-1.2	-40.0
	4,071.1	**44.1**	4,116.0	44.8	-44.9	-1.1
	9,233.2	**100.0**	9,183.7	100.0	+49.5	+0.5

The Group continued to improve brand awareness in China. Most of its air-conditioning products sold in China were under CHIGO brand which increased by 1.7% and accounted for 98.8% of the Group's PRC sales during the year ended 31 December 2014. Sales of parts and components in China decreased by 20.6% due to renegotiation of business cooperation strategy with customers resulting in a drop in business volume. As the Group expanded its domestic distribution channel of other products, sales of other products increased by 26.3% during the reporting period.

Since the Group had adjusted its customer mix and business strategy in overseas markets to cope with the rapid global economic changes, export under CHIGO brand recorded a drop of 18.3% during the year due to changes in customers' demands. However, the drop in sales from CHIGO brand was offset by the increase of 4.8% from OEM sales. As a result, CHIGO brand and OEM customers contributed 26.1% and 73.9% of the total overseas sales in 2014 respectively (2013: 30.2% and 69.8% respectively).

__Sales and distribution__

	Year ended 31 December					
	2014		2013		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
PRC						
Household appliances retail chain operators	**1,265.1**	**13.7**	1,356.3	14.8	-91.2	-6.7
Regional distributors	**3,897.0**	**42.2**	3,711.4	40.4	+185.6	+5.0
PRC Total	**5,162.1**	**55.9**	5,067.7	55.2	+94.4	+1.9
Overseas						
Regional distributors	**1,063.2**	**11.5**	1,244.6	13.5	-181.4	-14.6
OEM manufacturers	**3,007.9**	**32.6**	2,871.4	31.3	+136.5	+4.8
Overseas Total	**4,071.1**	**44.1**	4,116.0	44.8	-44.9	-1.1
Total Turnover	**9,233.2**	**100.0**	9,183.7	100.0	+49.5	+0.5

During the year ended 31 December 2014, sales from household appliances retail chain operators decreased by 6.7% and contributed to 24.5% of the Group's PRC sales (2013: 26.8%). Sales generated from regional distributors increased by 5.0% and accounted for 75.5% of the PRC sales in 2014 (2013: 73.2%).

For the overseas markets, as own brand sales decreased during the reporting period, sales from regional distributors dropped by 14.6%. However, the Group was able to get more sales from OEM customers to compensate the drop in own brand sales and sales from overseas OEM customers increased by 4.8% in 2014. As such, approximately 73.9% and 26.1% (2013: 69.8% and 30.2%) of the overseas sales were distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2014.

Units sold volume and average sales prices

	Year ended 31 December		Change
	2014	2013	%
Residential air-conditioning products sold *('000 units)*	**4,569**	4,582	-0.3
Commercial air-conditioning products sold *('000 sets)*	**200**	174	+14.9
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,620**	RMB1,686	-3.9
Average sales price – commercial air-conditioning product (per set)	**RMB4,619**	RMB4,249	+8.7

During the year ended 31 December 2014, the Group maintained the sales volume of residential air-conditioning products which dropped slightly by 0.3% year-on-year. Sales of commercial air-conditioning products kept growth momentum and achieved an increase in sales volume by 14.9% in 2014. In total, the Group sold more than 4,700,000 units/sets of air-conditioners within the reporting period.

Following the expiry of the subsidy policy for high energy-saving air-conditioning products in China in May 2013, the Group, through adjusting the product mix, raised the selling prices of the relevant products gradually. On the other hand, due to the decreases in prices of the major raw materials, average cost of sales of air-conditioning products declined which in turn slowed down growth in selling prices during the year ended 31 December 2014. As a result, as price adjustments could only be gradual, the average selling prices of the relevant products during 2014 had not yet returned to the level before the subsidy programme and the average selling prices of residential air-conditioning products dropped by 3.9%. Despite the decreases in cost of sales in 2014, the Group was able to adjust the average sales prices of commercial air-conditioning products upwards by 8.7%.

Breakdown of cost of goods sold

During the two years ended 31 December 2014, breakdown of the Group's total cost of goods sold was shown as follows:

	Year ended 31 December					
	2014		2013			
	RMB million	**% of Cost of goods sold**	*RMB million*	% of Cost of goods sold	*Change RMB million*	Change %
Raw materials, parts and components:						
Compressors	**1,674.1**	**21.9**	1,652.8	21.4	+21.3	+1.3
Copper	**1,777.8**	**23.3**	2,110.9	27.3	-333.1	-15.8
Plastic chips	**680.1**	**8.9**	578.0	7.5	+102.1	+17.7
Aluminum	**371.4**	**4.9**	469.7	6.1	-98.3	-20.9
Steel plates	**770.9**	**10.1**	520.6	6.7	+250.3	+48.1
Others *(note)*	**1,442.2**	**18.9**	1,639.5	21.2	-197.3	-12.0
Total	**6,716.5**	**88.0**	6,971.5	90.2	-255.0	-3.7
Direct labour cost	**347.8**	**4.6**	340.7	4.4	+7.1	+2.1
Utilities	**73.7**	**1.0**	65.3	0.8	+8.4	+12.9
Production cost	**254.5**	**3.3**	214.8	2.8	+39.7	+18.5
Others	**237.4**	**3.1**	135.5	1.8	+101.9	+75.2
Total cost of goods sold	**7,629.9**	**100.0**	7,727.8	100.0	-97.9	-1.3

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

During the year ended 31 December 2014, as the prices of major raw materials, such as copper and aluminum, dropped substantially, the Group's cost of major materials reduced by RMB255.0 million or 3.7%. Because of the rising trend of labour costs in China, direct labour cost increased by 2.1% during the year ended 31 December 2014.

Other cost of sales increased substantially by 75.2% mainly attributed to (i) the increase in other business cost, such as the cost of raw material resold by the Group; and (ii) the additional amortization expenses in relation to the Group's new production facilities which have just commenced production and are in their early operational phase.

Financial Review

Turnover

	Year ended 31 December					
	2014		2013		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
Geographic region						
PRC sales	**5,162.1**	**55.9**	5,067.7	55.2	+94.4	+1.9
Asia (excluding PRC)	**2,088.6**	**22.6**	1,944.9	21.2	+143.7	+7.4
Americas	**1,182.8**	**12.8**	1,048.5	11.4	+134.3	+12.8
Africa	**387.6**	**4.2**	567.9	6.2	-180.3	-31.7
Europe	**391.7**	**4.3**	542.6	5.9	-150.9	-27.8
Oceania	**20.4**	**0.2**	12.1	0.1	+8.3	+68.6
Overseas sales	**4,071.1**	**44.1**	4,116.0	44.8	-44.9	-1.1
Total turnover	**9,233.2**	**100.0**	9,183.7	100.0	+49.5	+0.5

During the year ended 31 December 2014, the Group's total turnover was approximately RMB9,233.2 million (2013: RMB9,183.7 million), representing a slight increase of RMB49.5 million, or 0.5% as compared to the corresponding period in 2013. The increase was principally due to the increase in domestic sales which outweighed the decrease in overseas sales during the year.

As there were no subsidies for the high energy-saving products in 2014, 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 RMB9,233.2 million (2013: RMB9,390.6 million), representing a decrease of 1.7% or RMB157.4 million as compared to 2013.

PRC Sales

For the year ended 31 December 2014, the Group's PRC sales increased by RMB94.4 million or 1.9% to RMB5,162.1 million (2013: RMB5,067.7 million). During the year ended 31 December 2014, domestic sales remained the main source of revenue of the Group and amounted to 55.9% of the total turnover (2013: 55.2%).

Overseas Sales

For the year ended 31 December 2014, the Group's overseas sales decreased to RMB4,071.1 million in 2014 (2013: RMB4,116.0 million). The drop in overseas sales amounted to RMB44.9 million representing a year-on-year decrease of 1.1%.

The Group saw decreases in sales in Africa and Europe by 31.7% and 27.8% respectively. However, the Group recorded satisfactory growths in sales in Asia (excluding PRC) of 7.4%, Americas of 12.8% and Oceania of 68.6% respectively which offset the sales drop in Africa and Europe. Among the overseas markets of the Group, the main sources of revenue were Asia (excluding PRC) and Americas which accounted for 22.6% and 12.8% (2013: 21.2% and 11.4% respectively) of the Group's turnover during the year ended 31 December 2014.

Since the Group's sales increased in the PRC but dropped in overseas, export sales dropped slightly to 44.1% (2013: 44.8%) of the Group's total turnover for the year ended 31 December 2014.

Cost of goods sold

Due to the decrease in prices of major raw materials, parts and components, such as copper and aluminum, in 2014, cost of goods sold decreased to RMB7,629.9 million (2013: RMB7,727.8 million), representing a decrease of RMB97.9 million or 1.3% as compared to that of 2013.

Gross profit

As its turnover increased while its cost of goods sold reduced, the Group recorded a gross profit of RMB1,603.3 million for the year ended 31 December 2014 (2013: RMB1,455.9 million) which represented an increase of RMB147.4 million or 10.1%. Since there was no government subsidy for high energy-saving products for the year ended 31 December 2014, consolidated segment results of operation (sum of gross profit and the government subsidies for energy-saving products) for the year ended 31 December 2014 totalled RMB1,603.3 million (2013: RMB1,662.8 million) representing a decrease of RMB59.5 million or 3.6% from that of 2013.

Because of the absence of government subsidies for high energy-saving products received by the Group offset the increase in the Group's gross profit recorded in the period, the Group's gross margin (calculated as consolidated segment results to turnover) dropped slightly from 18.1% in 2013 to 17.4% for the year ended 31 December 2014.

Gradual price adjustments also affected the Group's gross margin of PRC sales which decreased to 21.2% (2013: 22.4%) in 2014. Because of the keener competition and unstable economic conditions in the overseas markets during the year, the gross margin of overseas sales of the Group decreased slightly to 12.5% (2013: 12.8%) in 2014. Among the overseas sales regions, Americas, Africa and Europe all recorded profit margin growth in 2014 while Africa and Oceania contributed the most to the profitability of the Group and achieved gross margins of 17.4% and 20.8% respectively.

Other income

Other income which included mainly the interest income and non-operating income was RMB54.2 million (2013: RMB86.2 million), representing a decrease of RMB32.0 million or 37.1%.

Selling and distribution costs

The Group's selling and distribution costs increased to RMB829.9 million (2013: RMB722.0 million), representing an increase of RMB107.9 million or 14.9% for the year ended 31 December 2014. The increase was mainly due to increases in (i) advertising and promotion expenses; and (ii) salary of the sales personnel during the year.

Administrative expenses

Administrative expenses of the Group remained stable and amounted to RMB412.0 million (2013: RMB412.1 million) for the year ended 31 December 2014. The administrative expenses included mainly (i) salaries, benefits and social insurance charges relating to administrative staff; (ii) stock scrap and loss; and (iii) amortization of lease payment incurred during the year.

Equity-settled share based payments

The Group recorded an equity-settled share based payments of RMB10.3 million (2013: RMB19.3 million) for the year ended 31 December 2014 in relation to the share options granted by the Company to certain employees (including directors) and customers in 2011. This non-cash expense decreased by RMB9.0 million or 46.6% during the year.

Research and development costs

Research and development ("**R&D**") costs increased to RMB93.2 million (2013: RMB85.0 million) by 9.6% or RMB8.2 million during the year. The increase was attributed to the increases in R&D investment in high-end advanced air-conditioning products by the Group to implement its "the leader of high-end air-conditioners" strategy in the coming year.

Other expenses

Other expenses were mainly non-operating expenses and donation which increased by RMB19.6 million or 179.2% during the year ended 31 December 2014 and amounted to RMB30.6 million.

Other gains and losses

The Group recorded other gains of RMB4.0 million (2013: other losses of RMB18.8 million) in 2014. The other gains were mainly the net foreign exchange gains incurred during the year.

Net loss in fair value changes of derivative financial instruments

The Group had entered into certain foreign currency forward contracts to sell and buy US dollar with financial institutes to hedge against part of its overseas sales income and US dollar loans respectively. Some of the contracts were entered into in 2013 and recorded net gains in fair value changes of foreign currency forward contracts. As the value of Renminbi against US dollars continued to drop in 2014, the Group incurred a net loss in fair value changes of approximately RMB32.0 million (2013: net gain of RMB70.7 million) under its foreign currency forward contracts of the Group outstanding as at 31 December 2014.

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 additional medium-term notes of RMB50.0 million for general working purposes. As at the end of 2014, the Group had outstanding debentures (including accrued interests) of RMB207.0 million and bank loans of RMB2,094.8 million which reduced sharply as compared to the corresponding period in 2013 (debentures of RMB154.6 million and bank loans of RMB3,190.6 million). However, average interest rates of long-term debentures and bank loans increased substantially during the reporting period to 8.00% and 6.46% p.a. respectively (2013: 6.50% and 2.32% p.a.). Since the Group discounted more bills receivables for working capital and the interest and discount rates were higher, bills discount charges increased substantially during 2014. As such, the finance costs of the Group increased by RMB44.4 million or 20.4% to RMB262.0 million (2013: RMB217.6 million) for the year ended 31 December 2014.

Taxation

The Group recorded a consolidated loss before taxation for the year ended 31 December 2014. Because of (i) the income tax charges incurred by the subsidiaries of the Company and (ii) the effect of non-deductible expenses incurred in respect of the manufacture of high energy-saving products, the Group's tax charge for the year ended 31 December 2014 increased by RMB8.5 million or 19.6% to RMB51.8 million (2013: RMB43.3 million).

Loss for the year and total comprehensive expense for the year

As a result of the foregoing, the Group recorded a loss of RMB60.4 million for the year ended 31 December 2014 (2013: profit of RMB214.4 million), representing a decrease of RMB274.8 million or 128.2% as compared to the corresponding period in 2013. Since the Group had recorded a loss in the reporting period, the Group changed from a net margin of 2.3% in 2013 to a net loss of 0.7% for the year ended 31 December 2014.

Financial position

	As at 31 December			
	2014	2013	Change	Change
	RMB million	*RMB million*	*RMB million*	*%*
Non-current assets	**2,012.5**	1,872.8	+139.7	+7.5
Current assets	**9,149.5**	10,176.6	-1,027.1	-10.1
Current liabilities	**7,979.2**	8,693.7	-714.5	-8.2
Non-current liabilities	**276.6**	385.8	-109.2	-28.3
Net assets	**2,906.3**	2,969.9	-63.6	-2.1

As at 31 December 2014, the Group's total consolidated assets decreased by RMB887.4 million or 7.4% to RMB11,162.0 million (2013: RMB12,049.4 million). The decrease was mainly due to the decrease in value of certain current assets such as inventories (decreased by RMB513.9 million), trade and other receivables (decreased by RMB133.3 million) and bank balances and cash (decreased by RMB292.0 million), which was partly offset by the increases in non-current assets such as property, plant and equipment (increased by RMB81.9 million) and prepaid lease payments (increased by RMB45.6 million). Total consolidated liabilities of the Group as at 31 December 2014 amounted to RMB8,255.8 million (31 December 2013: RMB9,079.5 million) and decreased by RMB823.7 million or 9.1%. The major liabilities that decreased in the period were short-term bank loans and long-term bank loans (decreased by RMB1,077.5 million and RMB18.2 million respectively), which decrease was offset by the increases in trade and other payables and borrowings related to bills discounted with recourse (increased by RMB31.4 million and RMB157.2 million respectively).

As the Group recorded a net loss for the year, the Group's net assets decreased by 2.1% or RMB63.6 million to RMB2,906.3 million at the end of 2014 (2013: RMB2,969.9 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 2014, the Group had current assets amounted to RMB9,149.5 million (2013: RMB10,176.6 million) and current liabilities amounted to RMB7,979.2 million (2013: RMB8,693.7 million). The Group's working capital decreased by RMB312.6 million or 21.1% from RMB1,482.9 million as at the end of 2013 to RMB1,170.3 million at the end of 2014. As the Group's net current assets decreased, current ratio decreased to 1.1 times (2013: 1.2 times) as at 31 December 2014.

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 2014, the Group had obtained funding for its business operation from using bank loans and issuing debentures. As at 31 December 2014, the balances of short-term and long-term bank loans utilised by the Group were RMB1,940.9 million and RMB154.0 million respectively (2013: RMB3,018.4 million and RMB172.2 million respectively). Short-term and long term bank loans decreased by RMB1,077.5 million and RMB18.2 million during the 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 2014, the Group also issued additional medium-term notes in an aggregate principal amount of RMB50.0 million in the PRC. As at the end of the reporting period, the Group had outstanding long-term debentures of approximately RMB207.0 million (2013: RMB886.2 million).

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased and improved to 20.6% as at 31 December 2014 (2013: 27.8%) because the Group's total borrowings decreased substantially by RMB1,043.4 million during the year.

In order to reduce finance costs, the Group arranged some 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. During the year, the Group discounted more bills receivables for working capital. As discount charges increased, the Group increased its finance cost by 20.4% or RMB44.4 million for the year ended 31 December 2014 comparing to the same period in 2013.

The Group's ability to meet finance costs, as indicated by interest cover, dropped during the reporting period. Since the Group recorded a net loss for the year and its finance costs increased during the year, interest cover of the Group decreased to 1.0 times for the year ended 31 December 2014 as compared to 2.2 times for the same period in 2013.

During the year, the Group 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 net liabilities of approximately RMB7.2 million (2013: net assets of RMB59.5 million) as at the year end.

As at 31 December 2014, 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 recorded a net loss for the year, the shareholders' equity decreased to RMB2,906.3 million as at 31 December 2014 (2013: RMB2,969.9 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 2014.

Cash flows

	Year ended 31 December	
	2014	2013
	RMB million	*RMB million*
Operating cash flows	**499.2**	554.2
Movements in working capital and taxation	**788.5**	(872.4)
Net cash from (used in) operating activities	**1,287.7**	(318.2)
Net cash used in investing activities	**(260.8)**	(599.8)
Net cash (used in) from financing activities	**(1,318.9)**	750.7
Net decrease in cash and cash equivalents	**(292.0)**	(167.3)
Cash and cash equivalents at 31 December	**464.5**	756.5

For the year ended 31 December 2014, the Group generated operating cash flows of RMB499.2 million (2013: RMB554.2 million). During the year, the Group, by discounting some of the bills receivables to banks, obtained an additional RMB157.2 million for its operation. The Group was also able to reduce the amount of its inventories and trade and other receivable by RMB493.1 million and RMB130.7 million, respectively, during the reporting period. As such, the Group generated net cash of RMB1,287.7 million for its operating activities (2013: net cash outflow of RMB318.2 million) for the year ended 31 December 2014.

The Group applied part of the cash generated amounting to RMB260.8 million (2013: RMB599.8 million) for its investing activities in respect of the future business expansion and development of the Group including mainly the amount of RMB198.4 million for the acquisitions of property, plant and equipment, RMB37.7 million for the payment of deposits in respect of such acquisitions and RMB64.7 million for the prepayment of lease payments.

The Group worked hard to reduce borrowings and applied RMB1,318.9 million (2013: net cash inflow of RMB750.7 million) for its financing activities. During the year ended 31 December 2014, the Group used part of the cash generated to reduce net amount of short-term bank loans by RMB929.8 million and long-term bank loans by RMB166.0 million.

As a result of the foregoing, the Group's cash balances decreased by RMB292.0 million during the year ended 31 December 2014 (2013: net cash outflow of RMB167.3 million) and bank balances and cash amounted to RMB464.5 million at the end of 2014 (2013: RMB756.5 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

In November 2014, the Group acquired 100% of the equity interest of 廣東業誠保險代理有限公司 (Guangdong Y.C. Insurance Agency Co., Ltd.) ("**Guangdong Y.C.**"), for a consideration of RMB10.0 million. Guangdong Y.C. is engaged in insurance agency activities in the PRC. The acquisition was made to enhance the penetration of the Group's customer base in the PRC and to support the future business development of the Group.

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 2014, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB1,077.7 million (2013: RMB1,111.9 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 2014, approximately 44.1% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may expose to foreign currency risk. During the reporting period, the Group had already entered into certain foreign currency forward contracts and derivative financial instruments to hedge against foreign exchange risk. As the exchange rate of Renminbi against the US dollars fluctuated during the reporting period, the Group incurred losses on the foreign currency forward contracts upon settlement. However, the Directors believe 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 management of the Group will monitor foreign currency exposure from time to time and will consider further hedging should the need arise.

Capital commitments

As at 31 December 2014, 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 RMB75.5 million (2013: approximately RMB78.9 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 2014.

Employees and Remuneration

As at 31 December 2014, the Group employed 13,511 employees (2013: 13,802 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

It is expected that China's economic growth will enter into a new phase, which will show a moderately rapid economic growth, rather than a high-speed growth as shown in the past. Air-conditioning business would be no exception as the industry expects sales growth in the coming year to be relatively stable. Since the capacity of the domestic and global air-conditioning markets is very large, a stable growth in the future will far exceed the rapid growth in the past.

China has entered a period of replacement of old and obsolete air-conditioners, coupled with the low retention rate of residential air-conditioners in the country, it is expected that new home installation and replacement of air-conditioners will create a stable demand for air-conditioning products.

In order to grab hold of market opportunities in the coming year, prepare to face different challenges in the market and achieve long-term healthy development, the management has set "Chigo • the leader of high-end air-conditioners" as the corporate goal of the Group. To achieve this goal, the Group has formulated the following plans and strategies:

1. Lock target customers, enhance marketing and brand positioning

Current market demand of the mainstream customers has shifted to mid-range or above air-conditioning products. In view of this premise and its future development needs, the Group shall achieve sustainable development, shift business focus to high-end customers and pool resources to serve and lock the end customers. At the same time, the Group will put in resources to cultivate high-end customers' relationship. The Group is working on the establishment and optimization of a sound and new product verification system to ensure that the needs of the core high-end users can be fully met.

2. Improve quality standards, creating a win-win strategic supply chain

After the strategic redefinition of its target customers, its product and brand positioning, the Group will implement strategic transformation and upgrading of internal and external suppliers. The Group plans to make investment in its existing quality standards and existing equipment, technology, personnel, operations and parts management to enhance product quality, in order to meet the potential needs of the end-users and reach or go beyond the industry's top-tier standard.

3. Upgrade lean management and reinforce core manufacturing capabilities

During 2014, the Group has made a comprehensive introduction of lean management into its manufacturing system which achieved a very good result and created considerable economic benefits. Based on this, the Group will continue to put in sufficient manpower, material and financial resources in 2015 in order to continue in-depth implementation of the lean management project. The Group also aims to maximize the benefits of resources integration, scientific costs management and improve manufacturing flexibility and capabilities.

4. Innovate marketing system, optimize the market structure and profit model

The management of the Company always has a belief that air-conditioning industry is a big industry and big market, so the Group always focuses on the core business. The Group has to continue to take the advantages of traditional distribution channel, promote a flat distribution network and reduce intermediate links. On the other hand, the Group also plans to (i) expand the channel of chain stores, online shopping and proprietary distribution channel; (ii) explore innovative mobile sales and other business models; and (iii) improve network coverage. In addition, the management is also confident that cross-industry platform sales promotion, such as bi-products and business promotion through financial intermediaries, would provide huge development potential and room for the Group's business.

In overseas markets, while the Group adheres to consolidate its ODM business, it will also speed up the promotion of its own brand. The management believes that, in order to strengthen the control of sales channels and brand awareness, the Group will seek opportunities to expand in the overseas markets. At the right time, the Group would consider setting up the local sales force or marketing companies via own investments or joint ventures. The Group would also consider acquiring local appliance brand and marketing network if a suitable opportunity arises.

5. Business collaboration and capital cooperation

Recently, air-conditioning industry continues to change and cases of business cooperation continue to emerge. The Group has been closely monitoring market trends, exploring potential business collaboration opportunities with various domestic and international well-known enterprises. In order to reserve sufficient financial resources for its business development, the Group will consider from time to time the possibility of cooperation with potential investors. Relevant announcements will be made by the Company as and when appropriate.

OTHER INFORMATION

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: nil).

Annual General Meeting

The annual general meeting of the Company will be held on Friday, 5 June 2015. The notice of the annual general meeting will be published and despatched to the shareholders in due course.

Closure of Register of Members

The Company's Register of Members will be closed from Thursday, 4 June 2015 to Friday, 5 June 2015 (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 Wednesday, 3 June 2015.

Purchase, Sale or Redemption of Listed Shares of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company since the shares of the Company were successfully listed on the Main Board of the Stock Exchange during the year ended 31 December 2014.

Corporate Governance

The Company has adopted its corporate governance practices which are in line with the code provisions contained in the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2014, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provisions A.2.1 and A.6.7 of the CG Code.

Code Provision A.2.1

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

During the year ended 31 December 2014, 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 21 years of experience in the air-conditioning industry. The Directors believe that Mr. Li is a good leader to lead the Board and vesting the roles of Chairman and CEO in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. As such, it is beneficial to the business prospects of the Company.

The Directors will continue to review the effectiveness of the corporate governance structure of the Group and assess whether changes, including the separation of the roles of Chairman and CEO, are necessary.

Code Provision A.6.7

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings. An independent non-executive director of the Company was unable to attend the Annual General Meeting of the Company held on 27 May 2014 ("**2014 AGM**") as he had other business engagements.

Pursuant to the Code Provision E.1.2, the chairman of the Board should invite the chairmen of the audit, remuneration, nomination committees to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. The chairman of the remuneration committee was unable to attend the 2014 AGM as he had other business engagements. Accordingly, he appointed another member of the Remuneration Committee as his representative to attend the 2014 AGM.

Model Code for Securities Transactions by Directors

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

Review of the Annual Results

The audit Committee (the "**Audit Committee**") of the Company comprises of three independent non-executive Directors, namely, Messrs. Fu Xiaosi, Zhang Xiaoming and Wan Junchu. Mr. Fu Xiaosi is the chairman of the Audit Committee.

The Company's annual results for the year ended 31 December 2014 have been reviewed by the Audit Committee with the management of the Company.

Public float

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

Publication of the Annual Results and Annual Report

The electronic version of this announcement will be published on the Stock Exchange's website (www.hkexnews.hk), the Company's official website (www.china-chigo.com) and at irasia.com (www.irasia.com/listco/hk/chigo/index.htm). The annual report of the Company for the year ended 31 December 2014 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and published on the aforementioned websites and webpage in due course.

Appreciation

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

By Order of the Board
Chigo Holding Limited
Li Xinghao
Chairman

Hong Kong, 27 March 2015.

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