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 2015

2015 FINANCIAL HIGHLIGHTS

	2015	2014	Change
	RMB million	*RMB million*	*%*
Revenue	**7,774.2**	9,233.2	-15.8
Gross profit	**1,065.7**	1,603.3	-33.5
Loss for the year	**(665.5)**	(60.4)	-1,001.8
Total assets	**10,221.7**	11,162.0	-8.4
Net assets	**2,230.6**	2,906.3	-23.2
Basic loss per share *(RMB cents)*	**(8.19)**	(0.96)	-753.1
Interim dividends *(HK cents)*	**–**	–	–
Proposed final dividends *(HK cents)*	**–**	–	–
Gross margin	**13.7%**	17.4%	-3.7 percentage points
Net loss margin	**(8.6)%**	(0.7)%	-7.9 percentage points

2015 OPERATION HIGHLIGHTS			
	2015	2014	Change
	RMB million	*RMB million*	*%*
PRC sales	**3,856.6**	5,162.1	-25.3
Overseas sales	**3,917.6**	4,071.1	-3.8
Major products type			
Residential air-conditioners	**6,272.5**	7,401.2	-15.3
Commercial air-conditioning products	**890.3**	925.4	-3.8
Air-conditioner parts and components	**368.8**	598.0	-38.3
Other products	**242.6**	308.6	-21.4
Residential air-conditioning products sold *('000 units)*	**4,438**	4,569	-2.9
Commercial air-conditioning products sold *('000 sets)*	**179**	200	-10.5

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 2015 together with the comparative figures for the corresponding period of 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	NOTES	2015 RMB'000	2014 RMB'000
Revenue		**7,774,156**	9,233,191
Cost of goods sold		**(6,708,438)**	(7,629,877)
Gross profit		**1,065,718**	1,603,314
Other income		**69,751**	54,227
Selling and distribution costs			
– equity-settled share based payments		**(1,620)**	(2,262)
– other selling and distribution costs		**(841,549)**	(829,922)
Administrative expenses			
– equity-settled share based payments		**(5,794)**	(7,994)
– other administrative expenses		**(412,094)**	(412,030)
Research and development costs		**(99,723)**	(93,217)
Other expenses		**(209,030)**	(30,575)
Other gains and losses		**(36,177)**	3,975
Net gain (loss) in fair value changes on foreign currency forward contracts		**3,638**	(32,046)
Finance costs		**(186,169)**	(262,042)
Loss before taxation	*5*	**(653,049)**	(8,572)
Taxation	*6*	**(12,483)**	(51,807)
Loss for the year and total comprehensive expense for the year		**(665,532)**	(60,379)
Loss for the year and total comprehensive expense for the year attributable to:			
– owners of the Company		**(690,473)**	(81,039)
– non-controlling interests		**24,941**	20,660
		(665,532)	(60,379)
Loss per share	*7*		
– Basic and diluted		**(8.19) cents**	(0.96) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment		**1,469,012**	1,498,581
Land use rights		**210,016**	215,394
Intangible assets		**733**	1,083
Prepaid lease payments		**213,598**	226,624
Deposits paid for acquisition of property, plant and equipment		**51,551**	37,726
Available-for-sale investment		**20,000**	20,000
Deferred tax assets		**6,756**	13,085
		1,971,666	2,012,493
Current assets			
Inventories		**1,835,328**	1,780,851
Trade and other receivables	8	**4,983,817**	5,792,561
Land use rights		**5,378**	5,378
Prepaid lease payments		**16,700**	16,653
Taxation recoverable		**8,792**	9,021
Derivative financial instruments		**–**	2,818
Short-term investments		**40,000**	–
Restricted deposits		**45,000**	–
Pledged bank deposits		**896,853**	1,077,745
Bank balances and cash		**418,197**	464,502
		8,250,065	9,149,529
Current liabilities			
Trade and other payables	9	**4,809,187**	4,128,367
Warranty provision		**17,078**	25,641
Taxation payable		**155,518**	156,450
Derivative financial instruments		**23,723**	6,091
Borrowings related to bills discounted with recourse		**1,139,440**	1,574,021
Current portion of long-term debentures		**155,500**	–
Short-term bank loans		**1,402,183**	1,940,861
Current portion of long-term bank loans		**6,250**	147,736
Obligations under finance lease		**78,822**	–
		7,787,701	7,979,167
Net current assets		**462,364**	1,170,362
Total assets less current liabilities		**2,434,030**	3,182,855

	NOTES	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Government grants		**36,192**	37,480
Long-term debentures		**52,121**	207,021
Long-term bank loans		**–**	6,250
Obligations under finance lease		**83,753**	–
Derivative financial instruments		**9,405**	3,877
Deferred tax liabilities		**21,937**	21,937
		203,408	276,565
Net assets		**2,230,622**	2,906,290
Capital and reserves			
Share capital	*10*	**71,906**	71,906
Reserves		**2,099,327**	2,782,386
Equity attributable to owners of the Company		**2,171,233**	2,854,292
Non-controlling interests		**59,389**	51,998
Total equity		**2,230,622**	2,906,290

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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle

Except as described below, the application of the amendments to 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.

Amendments to HKFRS 8

The amendments to HKFRS 8 "Operating segments" require entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of HKFRS 8. The Group has aggregated several operating segments into a single operating segment based on the aggregation criteria set out in paragraph 12 of HKFRS 8 and made the required disclosures in Note 7 to the Group's consolidated financial statements.

The application of the other amendments has had no other impact on the disclosures or amounts recognised in the Group's 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[2]
HKFRS 15	Revenue from contracts with customers[2]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations[1]
Amendments to HKAS 1	Disclosure initiative[1]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[1]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle[1]
Amendments to HKAS 27	Equity method in separate financial statements[1]

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after a date to be determined.

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 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:

All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. 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

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 in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") and by the Hong Kong Companies Ordinance ("**CO**").

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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.

	Revenue		Results	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China (the "**PRC**")	**3,856,611**	5,162,050	**534,014**	1,094,773
Asia (excluding PRC)	**2,301,759**	2,088,574	**271,634**	177,793
Americas	**922,343**	1,182,835	**169,204**	190,821
Africa	**347,398**	387,663	**33,812**	67,535
Europe	**316,561**	391,677	**51,032**	68,149
Oceania	**29,484**	20,392	**6,022**	4,243
	7,774,156	9,233,191	**1,065,718**	1,603,314
Unallocated other income			**69,751**	54,227
Unallocated expenses			**(1,035,206)**	(847,075)
Staff costs included in selling and distribution costs and administrative expenses			**(479,760)**	(487,994)
Charitable donations			**(2,762)**	(679)
Allowance for doubtful debts			**(88,259)**	(36,277)
Net gain (loss) in fair value changes on foreign currency forward contracts			**3,638**	(32,046)
Finance costs			**(186,169)**	(262,042)
Loss before taxation			**(653,049)**	(8,572)

Revenue 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 by each segment. This is the measure reported to the CODM 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).

Information about the Group's revenue from external customers is detailed in the segment revenue analyses above. All of the Group's non-current assets (other than deferred tax assets) are geographically located in the PRC.

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:

	2015	2014
	RMB'000	*RMB'000*
Residential air-conditioners		
– split type	**5,756,030**	7,031,397
– window type	**487,197**	339,347
– portable type	**29,217**	30,479
	6,272,444	7,401,223
Commercial air-conditioners	**890,313**	925,416
Air-conditioners' parts and components	**368,762**	597,941
Others	**242,637**	308,611
	7,774,156	9,233,191

Information about major customers

For the year ended 31 December 2015 and 31 December 2014, none of the Group's customers 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, prepaid lease payments 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 2015 and 31 December 2014 were located in the PRC.

5. LOSS BEFORE TAXATION

	2015	2014
	RMB'000	*RMB'000*
Loss before taxation has been arrived at after charging:		
Directors' remuneration	**2,580**	2,661
Other staff's retirement benefits scheme contributions	**66,932**	70,230
Other staff's equity-settled share based payments	**6,608**	9,451
Other staff costs	**774,989**	794,370
	851,109	876,712
Less: Staff costs included in research and development costs	**(59,123)**	(56,984)
	791,986	819,728
Allowance for doubtful debts included in other gains and losses	**88,259**	36,277
Amortisation of intangible assets included in administrative expenses	**350**	345
Auditor's remuneration	**2,262**	2,272
Cost of inventories recognised as an expense including written down on inventories of RMB10,814,000 (2014: RMB20,752,000)	**6,708,438**	7,629,877
Depreciation of property, plant and equipment	**175,714**	149,396
Impairment of goodwill included in other expenses	**–**	9,857
Operating lease rentals in respect of		
– land use rights	**5,378**	5,378
– rented premises	**29,590**	46,468
Provision for warranty included in cost of goods sold	**29,939**	29,967
Release of prepaid lease payments	**17,251**	16,872
Write-off/loss on disposal of property, plant and equipment	**4,582**	216
Advertising and promotion costs	**264,651**	231,999
Transportation costs	**141,445**	132,329
and after crediting:		
Amortisation of government grants	**1,288**	1,288
Government subsidies included in other income*	**3,906**	4,812
Interest income	**50,419**	30,847
Net exchange gains included in other gains and losses	**30,494**	6,993
Reversal of doubtful debts included in other gains and losses	**26,171**	33,475
Sales of scrap materials	**1**	7,453

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

6. TAXATION

	2015	2014
	RMB'000	*RMB'000*
The charge comprises:		
PRC income tax	**(15,199)**	(53,751)
Over-provision for prior year	**9,045**	3,523
Deferred taxation	**(6,329)**	(1,579)
	(12,483)	(51,807)

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 is 25% except that certain PRC subsidiaries were officially endorsed as High-New Technology Enterprises and eligible to preferential Enterprise Income Tax ("**EIT**") rate of 15% from year 2014 to 2016.

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.

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of RMB690,473,000 (2014: loss of RMB81,039,000) and on the weighted average number of 8,434,178,000 (2014: 8,434,178,000) shares in issue during the year.

The computation of loss 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 2015 and 31 December 2014.

8. TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables	**3,060,534**	3,425,207
Bills receivables	**1,633,957**	2,106,058
	4,694,491	5,531,265
Deposits paid to suppliers	**101,558**	165,049
Prepayments	**20,420**	18,273
Advances to staff	**6,275**	4,711
Value-added tax recoverables *(Note 1)*	**75,625**	37,932
Value-added tax refundables *(Note 2)*	**41,269**	17,180
Other receivables	**44,179**	18,151
	4,983,817	5,792,561

Note 1: Value-added tax recoverables (VAT) represents the net balance of the deductible VAT over VAT payables for domestic sales.

Note 2: Value-added tax refundable represents the receivables of VAT refund for export sales.

At the end of the reporting date, bills receivables outstanding amounted to RMB1,139,440,000 (2014: RMB1,574,021,000) have been discounted to certain banks. The Group continues to present the discounted bills with recourse as bills receivables until maturity.

Payment terms with customers are mainly on credit. The customers are allowed a credit period of 30 days to 180 days from date of issuance of invoices, while the long-established customers are allowed a credit period of 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.

	2015	2014
	RMB'000	*RMB'000*
Age		
0 – 30 days	**563,226**	831,044
31 – 60 days	**267,919**	782,837
61 – 90 days	**456,846**	760,012
91 – 180 days	**2,684,189**	2,731,926
181 – 365 days	**709,115**	407,236
Over 1 year	**13,196**	18,210
	4,694,491	5,531,265

Included in the Group's trade receivable balances are trade debtors with an aggregate carrying amount of RMB581,869,000 (2014: RMB562,930,000) 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:

	2015	2014
	RMB'000	*RMB'000*
Age		
31 – 60 days	**–**	–
61 – 90 days	**32,609**	35,425
91 – 180 days	**351,373**	337,340
181 – 365 days	**190,685**	171,955
Over 1 year	**7,202**	18,210
	581,869	562,930

The Group does not hold any collateral over these balances. The average age of these receivables is 184 days (2014: 178 days).

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

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

Movement in the allowance for doubtful debts is as follows:

	2015	2014
	RMB'000	*RMB'000*
At 1 January	**34,591**	35,338
Allowances recognised on receivables	**88,259**	36,277
Amount written off during the year as uncollectible	**–**	(3,549)
Amounts recovered during the year	**(26,171)**	(33,475)
At 31 December	**96,679**	34,591

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB96,679,000 (2014: RMB34,591,000) 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:

	2015	2014
	RMB'000	*RMB'000*
USD	**1,158,287**	1,355,388
EURO	**38,868**	39,284

Transfers of financial assets

The following were the Group's financial assets as at 31 December 2015 and 2014 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	
	2015	2014
	RMB'000	*RMB'000*
Carrying amount of transferred assets included in trade receivables	**1,158,266**	1,611,880
Carrying amount of associated liabilities	**1,139,440**	1,574,021

9. TRADE AND OTHER PAYABLES

	2015	2014
	RMB'000	*RMB'000*
Trade payables	**580,174**	540,577
Bills payables	**3,101,776**	2,935,873
	3,681,950	3,476,450
Customers' deposits	**275,760**	257,445
Payroll and welfare payables	**72,583**	67,651
Other tax payables	**54,634**	54,712
Accruals	**68,162**	62,067
Other interest bearing payables	**84,000**	46,000
Advertising and promotion costs payable	**66,055**	25,999
Transportation costs payable	**22,888**	7,586
Provision for energy-saving subsidiaries refundable	**199,190**	–
Provision for the sales rebate	**157,042**	–
Other payables	**126,923**	130,457
	4,809,187	4,128,367

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.

	2015	2014
	RMB'000	*RMB'000*
Age		
0 – 90 days	**2,124,862**	2,155,368
91 – 180 days	**1,439,028**	1,246,853
181 – 365 days	**83,759**	69,509
1 – 2 years	**34,301**	4,720
	3,681,950	3,476,450

10. SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	Number of shares	**Amount**	**Number of shares**	**Amount**
	'000	*HKD'000*	*'000*	*HKD'000*
At 1 January 2014, 31 December 2014 and 2015	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at – 31 December 2015 and 2014	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 2015, the revenue 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.

Looking back on 2015, the air-conditioning industry was facing a very difficult business environment. In the global economic downturn and fluctuations, whether domestic and overseas markets, there were many changing factors that affect sales and profit performance of the enterprises.

The Chinese air-conditioner market was affected by the slowdown in macroeconomic development, the fluctuations in the PRC real estate market and capricious weather in 2015, resulting in the doldrums. Due to weak consumer market demand, competition among enterprises was very fierce, some companies in the industry adopted aggressive pricing strategy to alleviate the pressure of their own inventory and a price war ensued. According to statistics, both the overall retail sales and retail sales volume of the Chinese air-conditioner market in 2015 have recorded a year-on-year decline.

As one of the leading enterprises in the PRC air-conditioning industry, the Group's annual results for the year ended 31 December 2015 followed the trend of the industry to fall inevitably and recorded a remarkable drop comparing to that of the year before. Moreover, stiff price competition in the domestic market had posed adverse impact on the average selling and profitability of the Group's domestic products.

As for exports of the Chinese air-conditioning products, although the situation was slightly better than the domestic market, due to the impact of the economic downturn in the world's major economies and the slowdown of emerging market development, the annual cumulative amount and annual cumulative quantity of Chinese air-conditioning products exports in 2015 fell year-on-year according to the Chinese customs statistics.

Although the scale of the Group's export sales declined during the year ended 31 December 2015, its export performance has been better than the industry and ranked one of the top exporters in the year.

During the year, the overseas team of the Group achieved good sales performance in markets such as Middle East, West Asia and North Africa. Whereas in Latin America, South Asia, Southeast Asia, the Group maintained a steady growth in exports. On the other hand, due to local currency devaluation, exchange controls and fluctuation of the local economy, the Group recorded different degrees of decline in exports to the emerging markets such as Brazil and Russia.

In 2015, the operating scale of the Group's commercial air-conditioners dropped slightly. However, since the average selling price has improved, the commercial air-conditioning segment was able to maintain a stable total sales.

Operation Review

Sales from major product groups and gross margins

	Year ended 31 December					
	2015		2014		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
Residential air-conditioners						
– split type	**5,756.1**	**74.0**	7,031.4	76.2	-1,275.3	-18.1
– window type	**487.2**	**6.3**	339.3	3.7	+147.9	+43.6
– portable type	**29.2**	**0.4**	30.5	0.3	-1.3	-4.3
	6,272.5	**80.7**	7,401.2	80.2	-1,128.7	-15.3
Commercial air-conditioners	**890.3**	**11.5**	925.4	10.0	-35.1	-3.8
Air-conditioners parts and components	**368.8**	**4.7**	598.0	6.5	-229.2	-38.3
Others	**242.6**	**3.1**	308.6	3.3	-66.0	-21.4
	7,774.2	**100.0**	9,233.2	100.0	-1,459.0	-15.8

Residential air-conditioning products are the major source of income of the Group and accounted for 80.7% of the total revenue. As both the sales volume and average sales prices decreased, sales of residential air-conditioners decreased by 15.3% during the year ended 31 December 2015. Although the average sales prices increased, sales volume of commercial air-conditioning products of the Group decreased slightly year-on-year. Revenue derived from commercial air-conditioners dropped slightly by 3.8% and contributed 11.5% of the total revenue to the Group during the year.

The volume of business, sales of air-conditioner parts and components decreased sharply by 38.3% during the year mainly due to a decline in overseas sales as a result of the economic slowdown in emerging markets. The Group's other operating income such as resale of raw materials dropped in 2015, as a result, sales of other products decreased significantly by 21.4% during the year ended 31 December 2015.

Due to the poor demand and stiff price competition in the domestic market, the average selling prices of the residential air-conditioning products decreased during the year ended 31 December 2015. As a result, the gross margin of the Group's residential air-conditioning products dropped to 11.3% for the reporting period from 16.8% in 2014.

As the average selling prices of its commercial products increased, the Group's commercial unit continued to elevate its profit margin. The average gross margin of the Group's commercial segment increased from 26.1% in 2014 to 28.8% during the year.

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

	Year ended 31 December					
	2015		2014		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
PRC sales						
CHIGO brand	**3,497.9**	**45.0**	4,733.5	51.3	-1,235.6	-26.1
HYUNDAI brand	**49.8**	**0.7**	61.5	0.7	-11.7	-19.0
Air-conditioner parts and components	**81.6**	**1.0**	60.3	0.6	+21.3	+35.3
Other products	**227.3**	**2.9**	306.8	3.3	-79.5	-25.9
	3,856.6	**49.6**	5,162.1	55.9	-1,305.5	-25.3
Overseas sales						
CHIGO brand	**514.2**	**6.6**	523.7	5.7	-9.5	-1.8
OEM	**3,100.9**	**39.9**	3,007.9	32.6	+93.0	+3.1
Air-conditioner parts and components	**287.2**	**3.7**	537.7	5.8	-250.5	-46.6
Other products	**15.3**	**0.2**	1.8	0.0	+13.5	+750.0
	3,917.6	**50.4**	4,071.1	44.1	-153.5	-3.8
	7,774.2	**100.0**	9,233.2	100.0	-1,459.0	-15.8

Due to the poor sales of the domestic air-conditioner industry as a whole, air-conditioning products sold by the Group in China under CHIGO brand decreased by 26.1% and accounted for 98.7% of the Group's PRC sales during the year ended 31 December 2015. Sales of parts and components in China increased by 35.3% after the renegotiation of business cooperation strategy with customers in 2014. Due to the drop of other operating income, sales of other products decreased by 25.9% during the reporting period.

Since the individual emerging markets has been affected by the macroeconomic environment, leading to decline in sales performance in these regions, export under CHIGO brand recorded a slight drop of 1.8% during the year. However, the drop in sales from CHIGO brand was offset by the increase of 3.1% from OEM sales. As a result, CHIGO brand and OEM customers contributed 20.8% and 79.2% of the total overseas sales in 2015 respectively (2014: 26.1% and 73.9% respectively).

Sales and distribution

	Year ended 31 December					
	2015		2014		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
PRC						
Household appliances retail chain operators	**1,342.4**	**17.3**	1,265.1	13.7	+77.3	+6.1
Regional distributors	**2,514.2**	**32.3**	3,897.0	42.2	-1,382.8	-35.5
PRC Total	**3,856.6**	**49.6**	5,162.1	55.9	-1,305.5	-25.3
Overseas						
Regional distributors	**816.7**	**10.5**	1,063.2	11.5	-246.5	-23.2
OEM manufacturers	**3,100.9**	**39.9**	3,007.9	32.6	+93.0	+3.1
Overseas Total	**3,917.6**	**50.4**	4,071.1	44.1	-153.6	-3.8
Total Revenue	**7,774.2**	**100.0**	9,233.2	100.0	-1,459.0	-15.8

During the year ended 31 December 2015, the Group strengthened the cooperation with the household appliances retail chain operators, sales from these customers increased by 6.1% and contributed to 34.8% of the Group's PRC sales (2014: 24.5%). Sales generated from regional distributors decreased by 35.5% and accounted for 65.2% of the PRC sales in 2015 (2014: 75.5%).

For the overseas markets, as own brand sales decreased during the reporting period, sales from regional distributors dropped by 23.2%. 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 3.1% in 2015. As such, approximately 79.2% and 20.8% (2014: 73.9% and 26.1%) of the overseas sales were distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2015.

Units sold volume and average sales prices

	Year ended 31 December		Change
	2015	2014	%
Residential air-conditioning products sold *('000 units)*	**4,438**	4,569	-2.9
Commercial air-conditioning products sold *('000 sets)*	**179**	200	-10.5
Average sales price – residential air-conditioning product (per unit)	**RMB1,413**	RMB1,620	-12.8
Average sales price – commercial air-conditioning product (per set)	**RMB4,970**	RMB4,619	+7.6

During the year ended 31 December 2015, sales volume of the Group's residential air-conditioning products dropped by 2.9% as compared to that of 2014. Sales volume of commercial air-conditioning products declined year-on-year and recorded a decrease of 10.5% in 2015. In total, the Group sold approximately 4,617,000 units/sets of air-conditioners within the reporting period.

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 the growth in selling prices during the year ended 31 December 2015. Furthermore, the price competition was very keen in the air-conditioning industry, as a result, the average selling prices of the Group's residential air-conditioning products dropped by 12.8%. Despite the decreases in cost of sales in 2015, the Group was able to adjust the average sales prices of commercial air-conditioning products upwards by 7.6%.

Breakdown of cost of goods sold

During the two years ended 31 December 2015, breakdown of the Group's total cost of goods sold was shown as follows:

	Year ended 31 December					
	2015		2014			
	RMB million	**% of Cost of goods sold**	*RMB million*	% of Cost of goods sold	*Change RMB million*	Change %
Raw materials, parts and components:						
Compressors	**1,473.7**	**22.0**	1,674.1	21.9	-200.4	-12.0
Copper	**1,488.6**	**22.2**	1,777.8	23.3	-289.2	-16.3
Plastic chips	**626.7**	**9.3**	680.1	8.9	-53.4	-7.9
Aluminum	**279.5**	**4.2**	371.4	4.9	-91.9	-24.7
Steel plates	**523.0**	**7.8**	770.9	10.1	-247.9	-32.2
Others *(note)*	**1,464.1**	**21.8**	1,442.2	18.9	+21.9	+1.5
Total	**5,855.6**	**87.3**	6,716.5	88.0	-860.9	-12.8
Direct labour cost	**323.1**	**4.8**	347.8	4.6	-24.7	-7.1
Utilities	**61.5**	**0.9**	73.7	1.0	-12.2	-16.6
Production cost	**240.8**	**3.6**	254.5	3.3	-13.7	-5.4
Others	**227.4**	**3.4**	237.4	3.1	-10.0	-4.2
Total cost of goods sold	**6,708.4**	**100.0**	7,629.9	100.0	-921.5	-12.1

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 2015, as the prices of major raw materials, such as copper and aluminum, dropped substantially, the Group's cost of major materials reduced by RMB860.9 million or 12.8%. Because of the lower sales and production in China, direct labour cost decreased slightly by 7.1% during the year ended 31 December 2015.

Other cost of sales decreased slightly by 4.2% mainly attributed to the decrease in other business cost, such as the cost of raw material resold by the Group.

Financial Review

Revenue

	Year ended 31 December					
	2015		2014		*Change*	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
Geographic region						
PRC sales	**3,856.6**	**49.6**	5,162.1	55.9	-1,305.5	-25.3
Asia (excluding PRC)	**2,301.8**	**29.6**	2,088.6	22.6	+213.1	+10.2
Americas	**922.3**	**11.9**	1,182.8	12.8	-260.5	-22.0
Africa	**347.4**	**4.4**	387.6	4.2	-40.2	-10.4
Europe	**316.6**	**4.1**	391.7	4.3	-75.1	-19.2
Oceania	**29.5**	**0.4**	20.4	0.2	+9.1	+44.6
Overseas sales	**3,917.6**	**50.4**	4,071.1	44.1	-153.6	-3.8
Total revenue	**7,774.2**	**100.0**	9,233.2	100.0	-1,459.0	-15.8

During the year ended 31 December 2015, the Group's total revenue was approximately RMB7,774.2 million (2014: RMB9,233.2 million), representing a significant decrease of RMB1,459.0 million, or 15.8% as compared to the corresponding period in 2014. The decrease was principally due to the weak demand for the domestic sales during the year.

PRC Sales

For the year ended 31 December 2015, the Group's PRC sales decreased sharply by RMB1,305.5 million or 25.3% to RMB3,856.6 million (2014: RMB5,162.1 million). As a result, domestic sales only accounted for 49.6% (2014: 55.9%) of the Group's total revenue during the year ended 31 December 2015.

Overseas Sales

For the year ended 31 December 2015, the Group's overseas sales decreased to RMB3,917.5 million (2014: RMB4,071.1 million). The drop in overseas sales amounted to RMB153.6 million representing a year-on-year decrease of 3.8%.

The Group saw decreases in sales in Americas, Africa and Europe by 22.0%, 10.4% and 19.2% respectively. However, the Group recorded satisfactory growths in sales in Asia (excluding PRC) of 10.2% and Oceania of 44.6% respectively which offset the sales drop in Americas, Africa and Europe. Among the overseas markets of the Group, the main sources of revenue were Asia (excluding PRC) and Americas which accounted for 29.6% and 11.9% (2014: 22.6% and 12.8% respectively) of the Group's revenue during the year ended 31 December 2015, respectively.

Since the Group's sales in the PRC had recorded a greater decline, export sales increased to 50.4% (2014: 44.1%) of the Group's total revenue for the year ended 31 December 2015.

Cost of goods sold

Due to the decrease in prices of major raw materials, parts and components, such as copper and aluminum, in 2015, cost of goods sold decreased to RMB6,708.4 million (2014: RMB7,629.9 million), representing a decrease of RMB921.5 million or 12.1% as compared to that of 2014.

Gross profit

Due to the sharp decline in its revenue during the year which outweigh that of the cost of goods sold, the Group recorded a gross profit of RMB1,065.7 million for the year ended 31 December 2015 (2014: RMB1,603.3 million) which represented a decrease of RMB537.6 million or 33.5%.

The Group's gross margin dropped from 17.4% in 2014 to 13.7% for the year ended 31 December 2015.

In the difficult business environment with intense price competition, the Group's gross margin of PRC sales decreased significantly to 13.8% (2014: 21.2%) in 2015. On the other hand, exports benefitted from the advantages of the strong US dollar and low cost of goods sold, the gross margin of overseas sales of the Group increased to 13.6% (2014: 12.5%) in 2015. Among the overseas sales regions, Asia (excluding PRC) and Americas recorded profit margin growth in 2015 while Americas and Oceania contributed the most to the profitability of the Group and achieved gross margins of 18.4% and 20.4% respectively.

Other income

Other income which included mainly the interest income and non-operating income was RMB69.8 million (2014: RMB54.2 million), representing an increase of RMB15.6 million or 28.8%.

Selling and distribution costs

The Group's selling and distribution costs (excluding equity-settled share based payments) increased to RMB841.5 million (2014: RMB829.9 million), representing an increase of RMB11.6 million or 1.4% for the year ended 31 December 2015. The increase was mainly due to increase in advertising and promotion expenses during the year.

Administrative expenses

Administrative expenses (excluding equity-settled share based payments) of the Group remained stable and amounted to RMB412.1 million (2014: RMB412.0 million) for the year ended 31 December 2015. The administrative expenses included mainly (i) salaries, benefits and social insurance charges relating to administrative staff; (ii) amortization of lease payment; and (iii) depreciation expenses incurred during the year.

Equity-settled share based payments

The Group recorded an equity-settled share based payments of RMB7.4 million (2014: RMB10.3 million) for the year ended 31 December 2015 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 RMB2.9 million or 28.2% during the year.

Research and development costs

Research and development ("**R&D**") costs increased to RMB99.7 million (2014: RMB93.2 million) by 7.0% or RMB6.5 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-conditioning" strategy.

Other expenses

Other expenses increased sharply by RMB178.4 million or 583.0% during the year ended 31 December 2015 (2014: RMB30.6 million) and amounted to RMB209.0 million. The increase was mainly due to the provisions made by the Group in respect of the possible return of certain subsidies for its sale of energy-saving air-conditioners. Other expenses also non-operating expenses and donations.

Other gains and losses

The Group recorded other losses of RMB36.2 million (2014: other gains of RMB4.0 million) in 2015. The other losses were mainly the allowance for doubtful debts incurred during the year.

Net gain 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. The Group recorded a net gain in fair value changes of approximately RMB3.6 million (2014: net loss of RMB32.0 million) under its foreign currency forward contracts of the Group outstanding as at 31 December 2015.

Finance costs

The Group financed its working capital requirement through different arrangements including bank loans, discounted bills receivable from customers to financial institutes, corporate debentures and finance lease. During the year ended 31 December 2015, the finance costs of the Group decreased by RMB75.8 million or 28.9% to RMB186.2 million (2014: RMB262.0 million) due to lower average balance of bank borrowings.

Taxation

Due to the increase in loss before taxation, the Group's tax charge for the year ended 31 December 2015 decreased by RMB39.3 million or 75.9% to RMB12.5 million (2014: RMB51.8 million).

Loss for the year and total comprehensive expense for the year

As a result of the foregoing, the Group recorded a loss of RMB665.5 million for the year ended 31 December 2015 (2014: RMB60.4 million), representing an increase of RMB605.1 million or 1,001.8% as compared to the corresponding period in 2015. Since the Group had increased its loss substantially in the reporting period, the Group's net loss worsened to 8.6% for the year ended 31 December 2015 (2014: 0.7%).

Financial position

	As at 31 December			
	2015	2014	*Change*	Change
	RMB million	*RMB million*	*RMB million*	*%*
Non-current assets	**1,971.7**	2,012.5	-40.8	-2.0
Current assets	**8,250.1**	9,149.5	-899.4	-9.8
Current liabilities	**7,787.8**	7,979.2	-191.4	-2.4
Non-current liabilities	**203.4**	276.6	-73.2	-26.5
Net assets	**2,230.6**	2,906.3	-675.7	-23.2

As at 31 December 2015, the Group's total consolidated assets decreased by RMB940.3 million or 8.4% to RMB10,221.7 million (2014: RMB11,162.0 million). The decrease was mainly due to the decrease in value of certain current assets such as trade and other receivables (decreased by RMB808.7 million) and pledged bank deposits (decreased by RMB180.9 million), which was partly offset by the increase in inventories (increased by RMB54.5 million). Total consolidated liabilities of the Group as at 31 December 2015 amounted to RMB7,991.1 million (31 December 2014: RMB8,255.8 million) and decreased by RMB264.6 million or 3.2%. The major liabilities that decreased in the period were borrowings related to bills discounted with recourse (decreased by RMB434.6 million), short-term bank loans and long-term bank loans (decreased by RMB538.7 million and RMB141.5 million respectively), which decrease was offset by the increases in trade and other payables and obligation under finance lease (increased by RMB680.9 million and RMB162.6 million respectively).

As the Group recorded a net loss for the year, the Group's net assets decreased by 23.3% or RMB675.7 million to RMB2,230.6 million at the end of 2015 (2014: RMB2,906.3 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 2015, the Group had current assets amounted to RMB8,250.1 million (2014: RMB9,149.5 million) and current liabilities amounted to RMB7,787.7 million (2014: RMB7,979.2 million). The Group's working capital decreased by RMB707.9 million or 60.5% from RMB1,170.3 million as at the end of 2014 to RMB462.4 million at the end of 2015. Despite the Group's net current assets decreased, current ratio remained at 1.1 times (2014: 1.1 times) as at 31 December 2015.

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 2015, the Group had obtained funding for its business operation from different financial arrangements including bank loans, debentures and finance lease. As at 31 December 2015, the balances of short-term and long-term bank loans utilised by the Group were RMB1,402.2 million and nil respectively (2014: RMB1,940.9 million and RMB6.3 million respectively). Short-term and long term bank loans decreased by RMB538.7 million and RMB6.3 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. As at the end of the reporting period, the Group had outstanding long-term debentures of approximately RMB207.6 million (2014: RMB207.0 million).

For the year ended 31 December 2015, the Group also enhance its working capital position and obtained medium term financing by entered into finance lease arrangements. As at the end of 2015, the Group had obligation under finance lease of approximately RMB162.6 million (2014: Nil).

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased and improved to 17.4% as at 31 December 2015 (2014: 20.6%) because the Group's total borrowings decreased substantially by RMB523.2 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, due to the average balance of borrowing reduced, the Group decreased its finance cost by 28.9% or RMB75.9 million for the year ended 31 December 2015 comparing to the same period in 2014.

Since the Group recorded a net loss for the year, the Group's ability to meet finance costs, as indicated by interest cover, dropped and deteriorated during the reporting period (2015: N/A, 2014: 1.0 times).

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 RMB33.1 million (2014: RMB7.2 million) as at the year end.

As at 31 December 2015, 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 RMB2,230.6 million as at 31 December 2015 (2014: RMB2,906.3 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 2015.

Cash flows

	Year ended 31 December	
	2015	2014
	RMB million	*RMB million*
Operating cash flows before movements in working capital	**(208.7)**	499.2
Movements in working capital	**1,347.0**	631.4
Net cash from operating activities	**1,138.3**	1,130.6
Net cash used in investing activities	**(22.5)**	(260.8)
Net cash used in financing activities	**(1,162.1)**	(1,161.8)
Net decrease in cash and cash equivalents	**(46.3)**	(292.0)
Cash and cash equivalents at 31 December	**418.2**	464.5

For the year ended 31 December 2015, the Group had operating cash outflows of RMB208.7 million (2014: cash inflow of RMB499.2 million). During the year, the Group accelerated the receivables collection process and bargained for better credit terms from the suppliers to generate additional RMB1,347.0 million for its operations. As such, the Group generated net cash of RMB1,138.3 million (2014: RMB1,130.6 million) from its operating activities for the year ended 31 December 2015.

The Group applied part of the cash generated amounting to RMB22.5 million for its investing activities in respect of the future business expansion and development of the Group including mainly the amount of RMB120.9 million for the acquisitions of property, plant and equipment, RMB51.6 million for the payment of deposits in respect of such acquisitions. The Group withdrew pledged bank deposits of net amount of RMB180.9 million and generated additional RMB7.9 million from disposal of property, plant and equipment. As a result, the Group used net cash of RMB22.5 million (2014: RMB260.8 million) in its investing activities in 2015.

The Group continued to reduce borrowings and used RMB1,162.1 million (2014: RMB1,161.8 million) for its financing activities.

As a result of the foregoing, the Group's cash balances decreased by RMB46.3 million during the year ended 31 December 2015 and bank balances and cash amounted to RMB418.2 million at the end of 2015 (2014: RMB464.5 million). Majority of the bank balances and cash were denominated in Renminbi and certain amounts were denominated in US dollars, EURO and Hong Kong dollars.

Material acquisitions and disposals, significant investments

During the year ended 31 December 2015, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies. As at the end of the reporting period, the Group did not hold any significant investments.

Charge on assets

As at 31 December 2015, certain bank deposits and land use rights of the Group in an aggregate carrying amount of approximately RMB910.4 million (2014: RMB1,091.6 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 2015, approximately 50.4% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may 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 some of 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 2015, 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 RMB98.6 million (2014: approximately RMB77.1 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 2015.

Employees and Remuneration

As at 31 December 2015, the Group employed 13,084 employees (2014: 13,511 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

The Group expects that the business environment in 2016 will remain challenging. Under the current situation, global and domestic macroeconomic conditions are still full of uncertainty. In addition, exchange rate fluctuations and national policies will influence the market demand and consumer sentiment for air-conditioning products.

Combined with market observations, the domestic market in 2016 is not expected to be optimistic. As competition will remain keen, the Group will adopt flexible marketing strategy to respond to the market rapidly.

As for overseas markets, developed markets in Europe, North America are anticipated to have a minimal growth. On the other hand, the emerging markets will be in a standstill and remain low.

Market demand for commercial air-conditioning products keeps growing and remains strong. Commercial air-conditioning products is one of the growth point of the air-conditioning industry. The Group expects its sales of commercial air-conditioning products will be steady in 2016.

In order to improve its operating performance and respond to the difficult operating environment, the Group has deployed the following in the coming year:

1. ***Brand promotion:***

   To use high-end air-conditioning-based strategy as market positioning. The Group will take advantage of its smart and intelligent air conditioning technology to promote "Chigo • Leader of high-end air-conditioning".

2. ***Tap the market:***

   To strengthen and enhance the cooperation with household appliances retail chain operators; and to explore new business opportunities and establish new sales platforms with e-commerce providers, government procurement.

3. ***Product upgrade:***

The Group believes that excellent product quality and innovative products will be the key to market success and growth of customer base. As such, the Group will further strengthen its research and development.

OTHER INFORMATION

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: nil).

Annual General Meeting

The annual general meeting of the Company will be held on Wednesday, 8 June 2016. 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 Tuesday, 7 June 2016 to Wednesday, 8 June 2016 (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 Monday, 6 June 2016.

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 2015.

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 2015, 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 2015, Mr. Li Xinghao ("**Mr. Li**") 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 22 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 5 June 2015 ("**2015 AGM**") due to illness.

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 committees or failing this his duly appointed delegate, to attend. The chairman of the nomination committee was unable to attend the 2015 AGM due to illness. Accordingly, he appointed another member of the Remuneration Committee as his representative to attend the 2015 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 2015 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 2015 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, 31 March 2016.

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.