CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 449)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

FIRST HALF OF 2014 FINANCIAL HIGHLIGHTS

	1H 2014 *RMB million*	1H 2013 *RMB million*	Change %
Turnover	**5,440.4**	5,436.4	+0.1
Gross receipts[1]	**5,440.4**	5,473.0	–0.6
Consolidated segment results[2]	**935.7**	794.9	+17.7
Profit for the period	**48.6**	29.1	+67.0
Total assets (as compared to 31 December 2013)	**11,967.8**	12,049.4	–0.7
Net assets (as compared to 31 December 2013)	**3,010.3**	2,969.9	+1.4
Basic earnings per share *(RMB cents)*	**0.49**	0.26	+88.5
Proposed interim dividends *(HK cents)*	**–**	–	–
Gross margin[3]	**17.2%**	14.6%	+2.6 percentage points
Net profit margin	**0.9%**	0.5%	+0.4 percentage points

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

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

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

FIRST HALF OF 2014 OPERATION HIGHLIGHTS			
	1H 2014	1H 2013	Change
	RMB million	*RMB million*	*%*
PRC sales	**2,826.8**	2,533.7	+11.6
Overseas sales	**2,613.6**	2,902.7	–10.0
Residential air-conditioning products sold *('000 units)*	**2,817**	2,807	+0.4
Commercial air-conditioning products sold *('000 sets)*	**86**	92	–6.5

The board (the "**Board**") of directors (the "**Directors**") of Chigo Holding Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2014 together with the comparative figures for the corresponding period of 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June	
		2014	2013
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Turnover	*3*	**5,440,369**	5,436,372
Cost of goods sold		**(4,504,648)**	(4,678,094)
Gross profit		**935,721**	758,278
Government subsidies for high energy-saving products	*4*	**–**	36,640
Other income		**31,555**	33,565
Selling and distribution costs			
– equity-settled share based payments		**(1,179)**	(2,798)
– other selling and distribution costs		**(459,151)**	(359,545)
Administrative expenses			
– equity-settled share based payments		**(4,147)**	(9,578)
– other administrative expenses		**(239,401)**	(199,501)
Research and development costs		**(15,632)**	(14,096)
Other expenses		**(11,285)**	(1,748)
Other gains and losses		**20,022**	(22,487)
Net (loss) gain in fair value changes on foreign currency forward contracts		**(31,622)**	17,360
Net loss in fair value changes on commodity derivative contracts		**–**	(76,325)
Finance costs		**(122,812)**	(101,390)
Profit before taxation	*5*	**102,069**	58,375
Taxation	*6*	**(53,503)**	(29,264)
Profit for the period and total comprehensive income for the period		**48,566**	29,111
Profit for the period and total comprehensive income for the period attributable to			
– owners of the Company		**41,031**	22,302
– non-controlling interests		**7,535**	6,809
		48,566	29,111
Earnings per share	*8*		
– Basic		**RMB0.49 cents**	RMB0.26 cents
– Diluted		**RMB0.49 cents**	RMB0.26 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	NOTES	**30.6.2014** **RMB'000** **(unaudited)**	31.12.2013 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment		**1,498,890**	1,416,724
Land use rights		**218,434**	220,772
Intangible assets		**1,023**	1,192
Prepaid lease payments		**234,115**	180,993
Deposits made on acquisition of property, plant and equipment		**43,749**	37,971
Derivative financial instruments		**3,004**	2,215
Deferred tax assets		**13,226**	12,907
Available-for-sale investments		**20,000**	–
		2,032,441	1,872,774
Current assets			
Inventories		**1,886,119**	2,294,737
Trade and other receivables	*9*	**6,252,536**	5,925,896
Land use rights		**5,026**	5,378
Prepaid lease payments		**18,859**	14,445
Taxation recoverable		**9,022**	10,523
Derivative financial instruments		**4,976**	57,262
Pledged bank deposits		**1,120,946**	1,111,881
Bank balances and cash		**637,899**	756,508
		9,935,383	10,176,630
Current liabilities			
Trade and other payables	*10*	**4,576,667**	4,096,955
Warranty provision		**27,011**	26,862
Taxation payable		**177,560**	134,647
Borrowings related to bills discounted with recourse		**1,686,976**	1,416,856
Short-term bank loans		**2,175,559**	3,018,404
Derivative financial instruments		**8,421**	–
		8,652,194	8,693,724
Net current assets		**1,283,189**	1,482,906
Total assets less current liabilities		**3,315,630**	3,355,680

	NOTES	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
Non-current liabilities			
Government grants		**38,124**	38,768
Long-term debentures		**199,513**	154,600
Long-term bank loans		**43,750**	172,219
Deferred tax liabilities		**23,938**	20,180
		305,325	385,767
Net assets		**3,010,305**	2,969,913
Capital and reserves			
Share capital	*11*	**71,906**	71,906
Reserves		**2,899,526**	2,853,169
Equity attributable to owners of the Company		**2,971,432**	2,925,075
Non-controlling interests		**38,873**	44,838
Total equity		**3,010,305**	2,969,913

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

In the current interim period, the Group has applied, for the first time, certain new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

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

3. SEGMENT INFORMATION

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

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

	Turnover		**Results**	
	For the six months ended		**For the six months ended**	
	30.6.2014	30.6.2013	**30.6.2014**	30.6.2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Mainland China (the "PRC")	**2,826,820**	2,533,700	**622,908**	458,027
Asia (excluding PRC)	**1,359,288**	1,538,407	**148,594**	163,301
Americas	**664,328**	483,327	**95,087**	70,497
Africa	**276,062**	439,578	**28,438**	49,720
Europe	**308,872**	435,458	**39,334**	51,714
Oceania	**4,999**	5,902	**1,360**	1,659
	5,440,369	5,436,372	**935,721**	794,918
Unallocated other income			**31,555**	33,565
Unallocated expenses			**(468,487)**	(440,701)
Staff costs included in selling and distribution costs and administrative expenses			**(223,745)**	(156,648)
Allowance for doubtful debts			**(18,541)**	(12,404)
Net loss in fair value changes on commodity derivative contracts			**–**	(76,325)
Net (loss) gain in fair value changes on foreign currency forward contracts			**(31,622)**	17,360
Finance costs			**(122,812)**	(101,390)
Profit before taxation			**102,069**	58,375

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

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

4. GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

During the period, no government subsidies in respect of high energy-saving products sold was entitled by the Group (2013: RMB36,640,000).

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:		
Allowance for doubtful debts included in other gains and losses	**18,541**	12,404
Amortisation of intangible assets included in administrative expense	**169**	167
Charitable donations in the PRC	**422**	249
Depreciation of property, plant and equipment	**67,554**	53,016
Net loss in fair value changes on commodity derivative contracts *(note a)*	**–**	76,325
Provision for warranty included in cost of goods sold	**15,488**	12,053
Release of prepaid lease payments	**8,090**	8,230
Write down on inventories	**3,802**	2,501
and after crediting:		
Amortisation of government grants	**644**	644
Government subsidies included in other income *(note b)*	**4,005**	3,627
Interest income	**24,653**	18,646
Reversal of doubtful debts included in other gains and losses	**31,390**	11,007

Notes:

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

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

6. TAXATION

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The charge comprises:		
PRC income tax		
– current period	**(50,064)**	(26,023)
Deferred taxation	**(3,439)**	(3,241)
	(53,503)	(29,264)

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 period ended 30 June 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 period ended 30 June 2014 and 30 June 2013 have been accrued at the tax rate of 10% on the expected dividend stream of 30% which is determined by the directors of the Company.

7. DIVIDENDS

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

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the profit for the period attributable to owners of the Company of RMB41,031,000 (2013: RMB22,302,000) and on the weighted average number of 8,434,178,000 (2013: 8,434,178,000) shares in issue during the period.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for shares during the periods presented.

9. TRADE AND OTHER RECEIVABLES

	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**3,319,145**	3,063,598
Bills receivables	**2,701,443**	2,609,731
	6,020,588	5,673,329
Deposits paid to suppliers	**121,421**	172,988
Prepayments	**2,282**	1,474
Advances to staff	**15,981**	19,248
Value-added tax recoverable	**68,967**	28,958
Other receivables	**23,297**	29,899
	6,252,536	5,925,896

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

	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Age		
0 – 30 days	**3,387,850**	1,016,746
31 – 60 days	**768,459**	1,008,698
61 – 90 days	**742,468**	674,014
91 – 180 days	**935,468**	2,713,480
181 – 365 days	**186,343**	204,154
Over 1 year	**–**	56,237
	6,020,588	5,673,329

10. TRADE AND OTHER PAYABLES

	30.6.2014 *RMB'000* (unaudited)	31.12.2013 *RMB'000* (audited)
Trade payables	**933,029**	762,452
Bills payables	**2,882,528**	2,675,546
	3,815,557	3,437,998
Customers' deposits	**239,490**	212,634
Payroll and welfare payables	**87,437**	58,957
Other tax payables	**46,412**	51,033
Accruals	**149,592**	118,624
Other payables *(Note)*	**238,179**	217,709
	4,576,667	4,096,955

Note: As at 30 June 2014 and 31 December 2013, the balance of other payables included interest bearing advances of RMB39,000,000 and RMB20,000,000 from Foshan Suizhou Communications Equipment Co., Ltd. ("Suizhou") and Foshan Nanhai Nanyan Industrial Co., Ltd. ("Nanyan") at fixed interest rates of 12% p.a. and 12% p.a., respectively, which are the suppliers of the Group and the amounts are unsecured and repayable on demand. The liabilities were assumed through acquisition of a subsidiary during the year ended 31 December 2013.

The Group normally receives credit terms of 30 days to 180 days from its suppliers. The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	30.6.2014 *RMB'000* (unaudited)	31.12.2013 *RMB'000* (audited)
Age		
0 – 90 days	**2,538,867**	2,338,191
91 – 180 days	**1,227,534**	1,078,485
181 – 365 days	**39,727**	8,053
Over 1 to 2 years	**9,429**	13,269
	3,815,557	3,437,998

11. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares *'000*	Amount *HKD'000*	Number of shares *'000*	Amount *HKD'000*
Ordinary shares of HKD0.01 each				
At 1 January 2013, 31 December 2013 and 30 June 2014	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the condensed consolidated statement of financial position at 30 June 2014 and 31 December 2013	71,906

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The business performance of the Group in the first half of 2014 was encouraging. During the first six months of 2014, the Group was able to keep its scale of operation and continued to improve its profit and operating efficiency as compared with that of the same period in 2013.

In the first half of 2014, the domestic sales of the Chinese air-conditioning market rebounded from the sluggish condition in 2013 but exports dropped on the contrary. Because of the gradual improvement of the local real estate market and the continued release of purchasing power from the third and fourth-tier cities in China since the latter half of 2013, overall domestic sales of air-conditioners showed a strong recovery during the reporting period as a result of the increasing demand for home improvement. Energy-saving, trendy product design and artificial-intelligence become the focus of purchases in 2014 and customers are willing to pay more for high-quality residential air-conditioning products. The Group as a pioneer in energy-saving and smart air-conditioner manufacturing, by merely innovating its products and adjusting its product mix, managed to increase its PRC sales by double-digit figures during the six months ended 30 June 2014. Following the recovery in the second half of 2013, both the average price and sales volume of domestic products increased steadily during the period.

Since the last government subsidy scheme for high energy-saving products had expired at the end of May 2013, there was no government subsidies recorded in the current reporting period.

According to the national export data, the air-conditioning industry in China recorded a drop in exports for the first six months of 2014. A decrease in exports was due to various reasons including a weak demand for electronic home appliances due to economic slowdown, currency devaluation and inflation in the emerging market countries, unfavourable weather conditions in North America and new foreign technical trade measures imposed by western economies.

The Group was inevitably dragged down by the poor overall economic conditions abroad and recorded a decrease in its overseas sales during the first six months of 2014 comparing to the strong performance last year. As such, the drop in the Group's export sales had offset part of the increase in its PRC sales, and the Group only achieved a slight increase in its turnover for the six months ended 30 June 2014.

Sales of commercial air-conditioning products remained strong in the first half of 2014. Average price, profit margin and sales volume of the Group's commercial products were able to maintain year-on-year growth during the period under review.

Despite the continued improvement of the Group's results during the reporting period, the Group encountered different challenges in the business including an increase in the operating expenses of the Group and the depreciation of the Renminbi. During the six months ended 30 June 2014, both the selling and distribution costs, and administrative expenses of the Group increased at a faster rate and eroded the Group's profit.

The Group had also entered into certain foreign currency forward contracts for hedging purposes. As Renminbi has been depreciating steadily in the first half of 2014 and reversed a trend of gradual incremental appreciation against the US dollar during the past few years, a net loss in fair value changes on the foreign currency forward contracts was incurred by the Group as compared to a net gain for the same period in 2013. The management expects that this net loss in fair value changes relating to some of the foreign currency forward contracts will reduce towards the end of 2014 as Renminbi rebound gradually and steadily in the second half of 2014.

Operation Review

Results of operations

	Six months ended 30 June					
	2014		2013		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	%
Geographic region						
PRC sales	**2,826.8**	**52.0**	2,533.7	46.6	+293.1	+11.6
Asia (excluding PRC)	**1,359.3**	**25.0**	1,538.4	28.3	–179.1	–11.6
Americas	**664.3**	**12.2**	483.3	8.9	+181.0	+37.5
Africa	**276.1**	**5.0**	439.6	8.1	–163.5	–37.2
Europe	**308.9**	**5.7**	435.5	8.0	–126.6	–29.1
Oceania	**5.0**	**0.1**	5.9	0.1	–0.9	–15.3
Overseas sales	**2,613.6**	**48.0**	2,902.7	53.4	–289.1	–10.0
Total turnover	**5,440.4**	**100.0**	5,436.4	100.0	+4.0	+0.1

PRC Sales

During the reporting period, PRC sales increased year-on-year and contributed 52.0% (30 June 2013: 46.6%) to the Group's turnover during the six months ended 30 June 2014. As both the average selling prices and sales volumes of air-conditioning products increased, the Group recorded PRC sales of RMB2,826.8 million (30 June 2013: RMB2,533.7 million), representing an increase of RMB293.1 million or 11.6%.

Overseas Sales

For the six months ended 30 June 2014, the Group's overseas sales decreased by RMB289.1 million or 10.0% to RMB2,613.6 million (30 June 2013: RMB2,902.7 million) and accounted for 48.0% of the Group's total turnover. Except for the American market where the Group recorded a substantial sales growth of 37.5%, all of the other overseas markets of the Group recorded a drop in sales in the first half of 2014.

Asia and Americas remained the major sources of overseas revenue of the Group. These two markets accounted for 25.0% and 12.2% respectively (30 June 2013: 28.3% and 8.9%) of the Group's turnover during the period under review.

Financial Review

Turnover

During the six months ended 30 June 2014, the Group recorded a total turnover of approximately RMB5,440.4 million (30 June 2013: approximately RMB5,436.4 million), representing a slight increase of RMB4.0 million, or 0.1% as compared to the corresponding period in 2013. The increase was primarily due to the growth in domestic sales slightly outweighing the drop in sales of overseas markets.

As no subsidies for the high energy-saving products were received by the Group during the first half of 2014 (30 June 2013: RMB36.6 million), gross receipts (sum of turnover and government subsidies for high energy-saving products) received by the Group in relation to its principal operation amounted to RMB5,440.4 million (30 June 2013: RMB5,473.0 million) and decreased by 0.6% or RMB32.6 million as compared to the corresponding period in 2013.

Cost of goods sold

Due to the decrease in prices of major raw materials, parts and components during the first half of 2014, cost of goods sold during the period under review reduced to RMB4,504.6 million (30 June 2013: RMB4,678.1 million), representing a decrease of RMB173.5 million or 3.7% as compared to that of the first half of 2013.

Gross profit

During the six months ended 30 June 2014, the Group raised its gross profit by RMB177.4 million or 23.4% to RMB935.7 million (30 June 2013: RMB758.3 million) as the average selling prices of the Group's products increased and overall profitability of the Group continued to improve.

As a result of improving gross profit, the Group's gross margin (calculated as consolidated segment results to turnover) improved sharply to 17.2% in the first half of 2014 as compared to 14.6% for the same period in 2013.

As the Group was able to increase the average selling prices of its products in China, the gross margin of the Group's PRC sales improved to 22.0% (30 June 2013: 18.1%) for the first half of 2014. Despite a decrease in the Group's overseas sales during the reporting period, the average selling prices of the major export air-conditioning products decreased relatively less than the cost of sales, and hence the gross margin of overseas sales also improved to 12.0% (30 June 2013: 11.6%) during the period under review.

Other income

Other income, including mainly the interest income and other operating income, was RMB31.6 million (30 June 2013: RMB33.6 million), representing a decrease of RMB2.0 million or 6.0%.

Selling and distribution costs

The Group's selling and distribution costs increased to RMB459.2 million (30 June 2013: RMB359.5 million), representing a sharp increase of RMB99.7 million or 27.7% for the six months ended 30 June 2014. This increase was mainly due to increases in (i) salaries of the selling and distribution staff; and (ii) advertising and promotion fees during the period under review.

Administrative expenses

Administrative expenses of the Group increased by RMB39.9 million or 20.0% to RMB239.4 million (30 June 2013: RMB199.5 million) for the six months ended 30 June 2014. The increase in administrative expenses was primarily due to increases in (i) salaries and benefits of administrative staff; and (ii) social insurance charges relating to administrative staff during the period under review.

Equity-settled share based payments

The Group recorded equity-settled share based payments of RMB5.3 million (30 June 2013: RMB12.4 million) for the six months ended 30 June 2014, representing a decrease of RMB7.1 million or 57.3%. This non-cash expense was mainly the amortisation of share-based payments in relation to the share options granted by the Company to certain directors and employees in September 2011.

Research and development costs

Research and development costs increased to RMB15.6 million (30 June 2013: RMB14.1 million) by 10.6% or RMB1.5 million during the period under review because of the increase in salaries paid to research and development staff.

Other expenses

Other expenses increased substantially by RMB9.6 million or 564.7% during the first half of 2014 and amounted to RMB11.3 million (30 June 2013: RMB1.7 million). The expenses were mainly non-operating expenses during the period under review.

Other gains and losses

The Group recorded other gains of RMB20.0 million (30 June 2013: other losses of RMB22.5 million) in the first half of 2014. The other gains was mainly related to the net recovery of allowance for doubtful debt of RMB12.8 million.

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

The Group had entered into certain foreign currency forward contracts to sell and buy US dollar with financial institutes to hedge against part of its overseas sales income and US dollar loans respectively. Some of the contracts were entered into in 2013 and recorded net gains in fair value changes of foreign currency forward contracts. As the valuation of Renminbi against US dollars dropped during the first half of 2014, those outstanding foreign currency forward contracts incurred net losses in fair value changes for the six months ended 30 June 2014. As a result, the Group recorded a net loss of approximately RMB31.6 million (30 June 2013: net gain of RMB17.4 million) in fair value changes of foreign currency forward contracts.

Finance costs

The Group financed its working capital requirement through obtaining bank loans, discounting part of its bills receivable from customers to financial institutes and issuing corporate debentures. During the period under review, a major subsidiary of the Company had issued medium-term notes of RMB50 million for general working purposes. As at the end of the first half of 2014, the Group had outstanding debentures (including accrued interests) of RMB199.5 million and bank loans of RMB2,219.3 million which had been reduced sharply as compared to the corresponding period in 2013 (Debentures of RMB982.4 million and bank loans of RMB2,457.0). However, average interest rates had increased substantially during the reporting period to 6.97% p.a. (30 June 2013: 5.17% p.a.). Since the Group had discounted more bills receivables for working capital and the interest and discount rates were higher, bills discount charges increased substantially during the first half of 2014. As such, the finance costs of the Group increased by RMB21.4 million or 21.1% to RMB122.8 million (30 June 2013: RMB101.4 million) for the six months ended 30 June 2014.

Taxation

Due to the increase in profit before taxation and tax provision in relation to the government subsidies for high energy-saving products received in previous years, the Group's tax charge for the six months ended 30 June 2014 increased by RMB24.2 million or 82.6% to RMB53.5 million (30 June 2013: RMB29.3 million).

Profit for the period and total comprehensive income for the period

As a result of the foregoing, the Group recorded a profit of RMB48.6 million for the six months ended 30 June 2014 (30 June 2013: RMB29.1 million), representing an increase of RMB19.5 million or 67.0% as compared to the corresponding period in 2013. Since the Group had increased its net profit in the reporting period, the Group improved its net margin to 0.9% for the six months ended 30 June 2014 (30 June 2013: 0.5%) accordingly.

Financial position

	As at 30 June 2014 *RMB million*	As at 31 December 2013 *RMB million*	Change *RMB million*	Change *%*
Non-current assets	**2,032.4**	1,872.8	+159.6	+8.5
Current assets	**9,935.4**	10,176.6	–241.2	–2.4
Current liabilities	**8,652.2**	8,693.7	–41.5	–0.5
Non-current liabilities	**305.3**	385.8	–80.5	–20.9
Net assets	**3,010.3**	2,969.9	+40.4	+1.4

As at 30 June 2014, the Group's total consolidated assets decreased by RMB81.6 million or 0.7% to RMB11,967.8 million (31 December 2013: RMB12,049.4 million). The decrease was mainly due to the decrease in value of certain current assets such as inventories (decreased by RMB408.6 million) and bank balances and cash (decreased by RMB118.6 million), which decrease was partly offset by the increases in non-current assets such as property, plant and equipment (increased by RMB82.2 million) and current assets such as trade and other receivables (increased by RMB326.6 million). Total consolidated liabilities of the Group as at 30 June 2014 amounted to RMB8,957.5 million (31 December 2013: RMB9,079.5 million) and decreased by RMB122.0 million or 1.3%. The major liabilities that decreased in the period were short-term bank loans and long-term bank loans (decreased by RMB842.8 million and RMB128.4 million respectively), which decrease was offset by the increases in trade and other payables and borrowings related to bills discounted with recourse (increased by RMB479.7 million and RMB270.1 million respectively).

As the Group recorded a net profit for the period, the Group's net assets increased by 1.4% or RMB40.4 million to RMB3,010.3 million as at 30 June 2014 (31 December 2013: RMB2,969.9 million).

Liquidity, financial resources and capital structure

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

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

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

As at 30 June 2014, the Group's current assets amounted to RMB9,935.4 million (31 December 2013: RMB10,176.6 million) and current liabilities amounted to RMB8,652.2 million (31 December 2013: RMB8,693.7 million). The Group's working capital decreased by RMB199.7 million or 13.5% from RMB1,482.9 million as at the end of 2013 to RMB1,283.2 million as at 30 June 2014. Because of the relatively larger decrease in the Group's current assets, the current ratio dropped to 1.1 times (31 December 2013: 1.2 times) as at 30 June 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.

During the first half of 2014, the Group had obtained funding for its business operation by obtaining bank loans and issuing debentures. As at 30 June 2014, the balances of short-term and long-term bank loans utilised by the Group were RMB2,175.6 million and RMB43.8 million respectively (31 December 2013: RMB3,018.4 million and RMB172.2 million respectively). Short-term loans decreased by RMB842.8 million or 27.9% and the long-term borrowings decreased by RMB128.4 million or 74.6%. 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 medium-term notes in an aggregate principal amount of RMB50 million in the PRC. In addition to the above, the Group had long-term debentures of approximately RMB199.5 million (31 December 2013: RMB154.6 million) outstanding as at the end of the reporting period.

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased to 20.2% as at 30 June 2014 (31 December 2013: 27.8%) because the Group's total borrowings decreased at a faster rate than its total assets.

During the first half of 2014, the Group had discounted more bills receivables for working capital and the interest and the discount rates were higher. Because of higher bills discount charges, the Group increased its finance cost by 21.1% or RMB21.4 million for the first six months comparing to the same period in 2013. However, ability of the Group to service finance costs, as indicated by interest coverage ratio, improved during the reporting period. Since the Group had improved its net profit substantially during the period under review, interest coverage ratio of the Group increased to 1.8 times for the six months ended 30 June 2014 as compared to 1.6 times for the same period in 2013.

During the first half of 2014, the Group had entered into certain foreign currency forward contracts to hedge against part of its exposure on potential variability of foreign currency risk. The net financial liabilities of the Group to these foreign currency forward contracts was approximately RMB0.4 million (31 December 2013: net assets of RMB59.5 million) as at the period end.

As at 30 June 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 had recorded a net profit for the period, the shareholders' equity increased to RMB3,010.3 million as at 30 June 2014 (31 December 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 June 2014.

Cash flows

	Six months ended 30 June	
	2014	2013
	RMB million	*RMB million*
Net cash from (used in) operating activities	**1,169.8**	(804.3)
Net cash used in investing activities	**(225.7)**	(461.7)
Net cash (used in) from financing activities	**(1,062.7)**	933.2
Net decrease in cash and cash equivalents	**(118.6)**	(332.8)
Cash and cash equivalents at 30 June	**637.9**	591.1

For the six months ended 30 June 2014, the Group generated positive cash flow from its operating activities amounting to RMB1,169.8 million and financed its working capital by internally generating cash flow, bank borrowings and debentures.

During the period under review, the Group continued to invest in fixed assets and applied RMB119.8 million and RMB37.0 million (30 June 2013: RMB157.1 million and RMB141.7 million respectively) for purchase and deposits paid on acquisition of property, plant and equipment respectively for its future business expansion and development.

The Group worked hard to reduce bank borrowings. During the first half of 2014, the Group used part of the cash generated to reduce short-term bank loans by RMB842.8 million and long-term bank loans by RMB128.4 million.

As a result of the foregoing, cash balances of the Group decreased by RMB118.6 million during the six months ended 30 June 2014 (30 June 2013: net cash outflow of RMB332.8 million) and the bank balances and cash reduced to RMB637.9 million as at 30 June 2014 (30 June 2013: RMB591.1 million).

Material acquisitions and disposals, significant investments

During the six months ended 30 June 2014, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies and the Group did not hold any significant investments during the period under review.

Charge on assets

As at 30 June 2014, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB1,120.9 million (31 December 2013: approximately 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 six months ended 30 June 2014, approximately 48.0% of the Group's sales was denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risk. During the reporting period, the Group had entered into certain foreign currency forward contracts to hedge against foreign exchange risk. Though the exchange rate of Renminbi against the US dollar fluctuated in the first half of 2014, 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 period under review, most of the assets and liabilities of the Group were denominated in Renminbi. The Directors believe that the Group's exposure to exchange rate fluctuations is minimal in this aspect.

The management of the Group will monitor foreign currency exposure from time to time and will consider further hedging as required.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2014.

Employees and Remuneration

As at 30 June 2014, the Group employed 13,489 employees (30 June 2013: 15,049 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, there is also a share option scheme in place in which the employees and directors of the Group are entitled to participate.

Significant events

Since the end of the reporting period, no important events affecting the business of the Group have occurred.

Outlook and Future Plans

With an objective to continue to achieve improved financial results of the Group, the management believes that the current corporate strategies adopted by the Group aiming to enhance operational efficiency point towards the correct direction and will produce effective results.

As demands for air-conditioning products from the secondary cities and for replacement of aged air-conditioners in China increase steadily, the Group is of the view that the Chinese air-conditioning market is very promising in the coming future. Coupled with the rebound of PRC sales of the Group in the first half of 2014 and the advantages of developing energy-saving and smart air-conditioners, the management is confident that an ideal annual growth target of domestic sales is achievable.

Despite the decline in export sales of the Group during the six months ended 30 June 2014, it is expected that the overseas market conditions in the second half of 2014 will improve gradually as the year-on-year decline of export sales in air-conditioners has gradually narrowed in recent months.

Besides, Renminbi has recently regain stability and became stronger relative to other foreign currencies after its sudden drop in valuation in the first half of 2014. With such development, the Group expects that the net loss in fair value changes on foreign currency forward contracts will be reduced towards the end of the year.

The new compressor and copper production facilities of the Group have already commenced operation in the first half of 2014 and supplied parts and components to the Group. The management expects that these production facilities will have long-term positive impact on the Group's business and performance in terms of cost effectiveness and product quality. Currently, the Group does not have any plan for material investments or capital assets.

OTHER INFORMATION

Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (30 June 2013: nil).

Purchase, Sale or Redemption of Listed shares of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company during the six months ended 30 June 2014.

Corporate Governance

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

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

During the first half of 2014, Mr. Li Xinghao acted as both Chairman and Chief Executive Officer (the "**CEO**") of the Company.

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

Mr. Li is the founder of the Group and has over 20 years of experience in the air-conditioning industry. The Directors believe that Mr. Li is a good leader to lead the Board and vesting the roles of Chairman and CEO in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. As such, it is beneficial to the business prospects of the Company.

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

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code regarding securities transactions by the Directors (the "**Own Code**"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Own Code. All Directors have confirmed their compliance during the first half of 2014 with required standards set out in the Model Code and the Own Code.

Review of the Interim Results

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

The Company's interim results for the six months ended 30 June 2014 have been reviewed by the Audit Committee with the management of the Company.

Publication of the Interim Results and Interim Report

The electronic version of this announcement will be published on the Stock Exchange 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 interim report of the Company for the six months ended 30 June 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.

By Order of the Board
Chigo Holding Limited
Li Xinghao
Chairman

Hong Kong, 27 August 2014

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.