Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2016

2016 FINANCIAL HIGHLIGHTS

	2016	2015	Change
	RMB million	*RMB million*	*%*
Revenue	**9,301.8**	7,774.2	+19.6
Gross profit	**1,446.9**	1,065.7	+35.8
Profit (loss) for the year	**67.6**	(665.5)	+110.2
Total assets	**10,236.1**	10,221.7	+0.14
Net assets	**2,278.5**	2,230.6	+2.1
Basic earnings (loss) per share *(RMB cents)*	**0.68**	(8.19)	+108.3
Interim dividends *(HK cents)*	**–**	–	–
Proposed final dividends *(HK cents)*	**–**	–	–
Gross margin	**15.6%**	13.7%	+1.9 percentage points
Net profit (loss) margin	**0.7%**	(8.6)%	+9.3 percentage points

2016 OPERATION HIGHLIGHTS			
	2016	2015	Change
	RMB million	*RMB million*	*%*
PRC sales	**5,374.1**	3,856.6	+39.3
Overseas sales	**3,927.7**	3,917.6	+0.3
Major products type			
Residential air-conditioners	**7,230.1**	6,272.5	+15.3
Commercial air-conditioning products	**885.0**	890.3	-0.6
Air-conditioner parts and components	**696.8**	368.8	+88.9
Other products	**489.9**	242.6	+101.9
Residential air-conditioning products sold *('000 sets/units)*	**5,213**	4,438	+17.5
Commercial air-conditioning products sold *('000 sets)*	**184**	179	+2.8

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 2016 together with the comparative figures for the corresponding period of 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	**2016**	2015
		RMB'000	*RMB'000*
Revenue		**9,301,753**	7,774,156
Cost of sales		**(7,854,874)**	(6,708,438)
Gross profit		**1,446,879**	1,065,718
Other income		**43,402**	69,751
Selling and distribution costs			
– equity-settled share based payments		**(1,268)**	(1,620)
– other selling and distribution costs		**(764,043)**	(841,549)
Administrative expenses			
– equity-settled share based payments		**(4,361)**	(5,794)
– other administrative expenses		**(403,552)**	(412,094)
Research and development costs		**(135,869)**	(99,723)
Other expenses		**(5,341)**	(209,030)
Other gains and losses		**57,953**	(36,177)
Net gain in fair value changes on foreign currency forward contracts		**2,508**	3,638
Finance costs		**(150,190)**	(186,169)
Profit (loss) before taxation	*5*	**86,118**	(653,049)
Taxation	*6*	**(18,526)**	(12,483)
Profit (loss) for the year and total comprehensive income (expense) for the year		**67,592**	(665,532)
Profit (loss) for the year and total comprehensive income (expense) for the year attributable to:			
– owners of the Company		**57,036**	(690,473)
– non-controlling interests		**10,556**	24,941
		67,592	(665,532)
Earnings (loss) per share	*7*		
– Basic and diluted		**0.68 cents**	(8.19) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	**2016**	2015
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**1,381,385**	1,469,012
Land use rights		**204,638**	210,016
Intangible assets		**493**	733
Prepaid lease payments		**202,059**	213,598
Deposits paid for acquisition of property, plant and equipment		**51,258**	51,551
Available-for-sale investments		**23,000**	20,000
Deferred tax assets		**21,364**	6,756
		1,884,197	1,971,666
Current assets			
Inventories		**2,151,943**	1,835,328
Trade and other receivables	*8*	**4,496,312**	4,983,817
Land use rights		**5,378**	5,378
Prepaid lease payments		**17,653**	16,700
Taxation recoverable		**8,202**	8,792
Short-term investments		**-**	40,000
Restricted deposits		**20,000**	45,000
Pledged bank deposits		**860,517**	896,853
Bank balances and cash		**791,864**	418,197
		8,351,869	8,250,065
Current liabilities			
Trade and other payables	*9*	**4,590,592**	4,809,187
Warranty provision		**42,010**	17,078
Taxation payable		**164,984**	155,518
Derivative financial instruments		**–**	23,723
Borrowings related to bills discounted with recourse		**1,058,452**	1,139,440
Current portion of long-term debentures		**52,271**	155,500
Short-term bank loans		**1,623,985**	1,402,183
Current portion of long-term bank loans		**–**	6,250
Obligations under finance leases		**145,916**	78,822
		7,678,210	7,787,701
Net current assets		**673,659**	462,364
Total assets less current liabilities		**2,557,856**	2,434,030

	NOTES	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Government grants		**36,354**	36,192
Long-term debentures		**–**	52,121
Long-term bank loans		**98,580**	–
Obligations under finance leases		**119,213**	83,753
Derivative financial instruments		**–**	9,405
Deferred tax liabilities		**25,195**	21,937
		279,342	203,408
Net assets		**2,278,514**	2,230,622
Capital and reserves			
Share capital	*10*	**71,906**	71,906
Reserves		**2,161,992**	2,099,327
Equity attributable to owners of the Company		**2,233,898**	2,171,233
Non-controlling interests		**44,616**	59,389
Total equity		**2,278,514**	2,230,622

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time in the current year.

Amendments to HKFRS 11	Accounting for acquisitions of interest in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception

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.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments, with HKFRS 4 Insurance contracts[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 HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

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**").

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**	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China (the "**PRC**")	**5,374,095**	3,856,611	**933,056**	534,014
Asia (excluding PRC)	**2,156,672**	2,301,759	**276,978**	271,634
Americas	**918,154**	922,343	**140,213**	169,204
Africa	**404,543**	347,398	**36,120**	33,812
Europe	**431,297**	316,561	**56,148**	51,032
Oceania	**16,992**	29,484	**4,364**	6,022
	9,301,753	7,774,156	**1,446,879**	1,065,718
Unallocated other income			**43,402**	69,751
Unallocated expenses			**(754,632)**	(1,035,206)
Staff costs included in selling and distribution costs and administrative expenses			**(467,280)**	(479,760)
Charitable donations			**(182)**	(2,762)
Allowance for doubtful debts			**(34,387)**	(88,259)
Net gain in fair value changes on foreign currency forward contracts			**2,508**	3,638
Finance costs			**(150,190)**	(186,169)
Profit (loss) before taxation			**86,118**	(653,049)

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 earned 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:

	2016	2015
	RMB'000	*RMB'000*
Residential air-conditioners		
– split type	**6,713,061**	5,756,030
– window type	**481,862**	487,197
– portable type	**35,157**	29,217
	7,230,080	6,272,444
Commercial air-conditioners	**884,982**	890,313
Air-conditioners' parts and components	**696,786**	368,762
Others	**489,905**	242,637
	9,301,753	7,774,156

Information about major customers

For the year ended 31 December 2016, 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 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.

5. PROFIT (LOSS) BEFORE TAXATION

	2016	2015
	RMB'000	*RMB'000*
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration	**2,234**	2,580
Other staff's retirement benefits scheme contributions	**72,420**	66,932
Other staff's equity-settled share based payments	**5,040**	6,608
Other staff costs	**799,355**	774,989
	879,049	851,109
Less: Staff costs included in research and development costs	**(58,470)**	(59,123)
	820,579	791,986
Allowance for doubtful debts included in other gains and losses	**37,767**	88,259
Amortisation of intangible assets included in administrative expenses	**352**	350
Auditor's remuneration	**2,243**	2,262
Cost of inventories recognised as an expense including write down on inventories of RMB10,448,000 (2015: RMB10,814,000)	**7,763,153**	6,708,438
Depreciation of property, plant and equipment	**191,004**	175,714
Operating lease rentals in respect of		
– land use rights	**5,378**	5,378
– rented premises	**32,387**	29,590
Provision for warranty included in cost of sales	**81,273**	29,939
Release of prepaid lease payments	**16,960**	17,251
Loss on disposal of property, plant and equipment	**113**	4,582
Advertising and promotion fees	**237,400**	264,651
Transportation fees	**115,068**	141,445
and after crediting:		
Amortisation of government grants	**1,288**	1,288
Government subsidies included in other income	**11,504**	3,906
Interest income	**20,122**	50,419
Net exchange gains included in other gains and losses	**48,977**	30,494
Reversal of doubtful debts included in other gains and losses	**48,010**	26,171
Sales of scrap materials	**542**	1

6. TAXATION

	2016	2015
	RMB'000	*RMB'000*
The charge comprises:		
PRC income tax	**(28,662)**	(15,199)
Over-provision for prior year	**(1,214)**	9,045
Deferred taxation	**11,350**	(6,329)
	(18,526)	(12,483)

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 subsidiary was 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. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit for the year attributable to owners of the Company of RMB57,036,000 (2015: loss of RMB690,473,000) and on the weighted average number of 8,434,178,000 (2015: 8,434,178,000) shares in issue during the year.

The computation of earnings (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 2016 and 31 December 2015.

8. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**2,782,143**	3,060,534
Bills receivables	**1,468,064**	1,633,957
	4,250,207	4,694,491
Deposits paid to suppliers	**135,092**	101,558
Prepayments	**21,924**	20,420
Advances to staff	**6,488**	6,275
Value-added tax recoverable *(Note 1)*	**20,843**	75,625
Value-added tax refundable *(Note 2)*	**9,560**	41,269
Other receivables	**52,198**	44,179
	4,496,312	4,983,817

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

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

At the end of the reporting date, bills receivables outstanding amounting to RMB1,074,714,000 (2015: RMB1,139,440,000) 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 the 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.

	2016	2015
	RMB'000	*RMB'000*
Age		
0 – 30 days	**920,605**	563,226
31 – 60 days	**509,542**	267,919
61 – 90 days	**554,117**	456,846
91 – 180 days	**1,939,525**	2,684,189
181 – 365 days	**201,327**	709,115
Over 1 year	**125,091**	13,196
	4,250,207	4,694,491

Included in the Group's trade receivable balances are trade debtors with an aggregate carrying amount of RMB701,283,000 (2015: RMB581,869,000) 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:

	2016	2015
	RMB'000	*RMB'000*
Age		
1 – 30 days	**–**	–
31 – 60 days	**17**	–
61 – 90 days	**7,655**	32,609
91 – 180 days	**311,634**	351,373
181 – 365 days	**214,626**	190,685
Over 1 year	**167,351**	7,202
	701,283	581,869

The Group does not hold any collateral over these balances. The average age of these receivables is 95 days (2015: 184 days).

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**96,679**	34,591
Allowances recognised on receivables	**37,767**	88,259
Amounts recovered during the year	**(48,010)**	(26,171)
At 31 December	**86,436**	96,679

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB86,436,000 (2015: RMB96,679,000) which have been in 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 entities:

	2016	2015
	RMB'000	*RMB'000*
USD	**1,142,894**	1,158,287
EURO	**35**	38,868

Transfers of financial assets

The following were the Group's financial assets as at 31 December 2016 and 2015 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	
	2016	2015
	RMB'000	*RMB'000*
Carrying amount of transferred assets included in trade receivables	**1,074,714**	1,158,266
Carrying amount of associated liabilities	**1,058,452**	1,139,440

9. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**1,098,447**	580,174
Bills payables	**2,150,229**	3,101,776
	3,248,676	3,681,950
Customers' deposits	**574,450**	275,760
Payroll and welfare payables	**83,597**	72,583
Other tax payables	**64,200**	54,634
Accruals	**83,018**	68,162
Other interest bearing payables	**155,606**	84,000
Provision for the sales rebate	**–**	157,042
Advertising and promotion costs payable	**29,040**	66,055
Transportation costs payable	**4,999**	22,888
Provision for energy-saving subsidies refundable	**199,190**	199,190
Other payables	**147,816**	126,923
	4,590,592	4,809,187

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.

	2016	2015
	RMB'000	*RMB'000*
Age		
0 – 90 days	**2,227,556**	2,124,862
91 – 180 days	**874,302**	1,439,028
181 – 365 days	**132,614**	83,759
1 – 2 years	**14,204**	34,301
	3,248,676	3,681,950

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 2015, 31 December 2015 and 2016	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at – 31 December 2016 and 2015	71,906

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

At the beginning of 2016, the macro-economic climate was still not optimistic, hence, enterprises came up with policies to maximize the release of their inventories and the air-conditioning industry continued to be highly competitive. However, with the recovery of the PRC real estate market and benefitted from high temperatures in the summer, the air-conditioning industry gradually showed signs of rebound and market conditions started to improve. Coupled with hot waves and extreme high temperature in various overseas regions, the Chinese export of air-conditioners to various continents have achieved different rates of growth during the year. Looking back at 2016, the annual sale volume of the air-conditioning industry showed a poor opening, and then grew gradually and reached a substantial high at the end of the year.

As the domestic air-conditioning market was still challenging in 2016, the Group adjusted its strategy by strengthening its cooperation with traditional distributors, chain stores and e-commerce operators to realise the development depth in distribution channels and to share value with its customers. As such, the domestic sales and the domestic market share of the Group improved remarkably. Furthermore, the extensively hot summer in China led to a surge in demand for air-conditioning products, which also had a positive effect on the sales of domestic air-conditioning products and helped digest inventories. During the year, the Group's sales of self-manufactured air-conditioner parts and components rose sharply. As a result, during the year ended 31 December 2016, domestic sales and revenue of the Group's major air-conditioning products recorded a substantial increase as compared to that of the same period in 2015.

Looking at the overseas markets, the economy and the finance sector of many developing countries were affected by the slow growth of the global economy and the continuous drop in commodity prices, such as the price of crude oil, during the year. In addition, these countries also encountered unfavorable factors including the extreme shortage of foreign currency, the continuous depreciation of their national currencies, as well as a slump in international trade. Among these emerging markets, the economy of Latin America experienced the most difficult situation after the global financial crisis. Under such environment, Chinese export of residential air-conditioning products to Latin America was inevitably affected – both the export sales volume and revenue showed a downward trend.

The Group also recorded a drop in its export to Asia (excluding China) because of the economic downturn, leading to a decline in the average selling price of air-conditioning products in the Middle East during the year. On the contrary, following destocking in 2015 and driven by the demand for replacement of old machines and extreme hot weather conditions, there were rapid growths in the European and African markets. As there was a mixed performance of the overseas markets, the Group maintained its export sales and achieved a slight growth in 2016 as compared with the same period in 2015.

During the year ended 31 December 2016, the Group adjusted its overseas sales marketing strategy. Adjustments to regional sales structure were made by focusing on the developing country markets and by putting more development efforts into the developed markets, such as Europe and America. The Group also increased its investment in product development and strengthened price control during the peak season. On the other hand, the Group continued to increase its efforts in promoting and strengthening its own brand, "CHIGO", and in product diversification.

After a year of market slowdown, the Chinese commercial air-conditioning industry returned to the growth track in 2016 and the brand competition in the Chinese commercial air-conditioning industry remained relatively stable. During the reporting period, the Group showed an increase in the sales volume. However, as the average selling price dropped, the revenue of its commercial air-conditioning products recorded a slight decrease.

Operation Review

Sales from major product groups and gross margins

	Year ended 31 December					
	2016		2015		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
Residential air-conditioners						
– split type	**6,713.1**	**72.1**	5,756.1	74.0	+957.0	+16.6
– window type	**481.9**	**5.2**	487.2	6.3	-5.3	-1.1
– portable type	**35.1**	**0.4**	29.2	0.4	+5.9	+20.2
	7,230.1	**77.7**	6,272.5	80.7	+957.6	+15.3
Commercial air-conditioners	**885.0**	**9.5**	890.3	11.5	-5.3	-0.6
Air-conditioners parts and components	**696.8**	**7.5**	368.8	4.7	+328.0	+88.9
Others	**489.9**	**5.3**	242.6	3.1	+247.3	+101.9
	9,301.8	**100.0**	7,774.2	100.0	+1,527.6	+19.6

Residential air-conditioning products are the major source of income of the Group and accounted for 77.7% of the total revenue for the year. Despite the slight decrease in average sales prices, the sales volume of residential air-conditioners increased remarkably during the reporting period. As a result, sales of residential air-conditioners of the Group increased by 15.3% during the year ended 31 December 2016. As the average sales prices of commercial air-conditioning products of the Group decreased slightly year-on-years, the revenue derived from commercial air-conditioners dropped slightly by 0.6% and contributed 9.5% of the total revenue to the Group during the year.

The revenue of air-conditioner parts and components rose sharply by 88.9% during the year mainly due to an increase in sales of self-manufactured parts and components. Since the Group's other operating income such as resale of raw materials and sales of electrical appliances, such as dehumidifiers had improved in 2016, revenue of other products increased significantly by 101.9% during the year ended 31 December 2016.

Due to a greater decrease in the average costs of the residential air-conditioning products during the year ended 31 December 2016, the gross margin of the Group's residential air-conditioning products elevated to 14.4% for the reporting period from 11.3% in 2015.

As the average selling prices of its commercial products decreased slightly, the average gross margin of the Group's commercial segment decreased from 28.8% in 2015 to 27.9% during the year.

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

	Year ended 31 December					
	2016		2015		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
PRC sales						
CHIGO brand	**4,457.6**	**47.9**	3,497.9	45.0	+959.7	+27.4
HYUNDAI brand	**72.8**	**0.8**	49.8	0.7	+23.0	+46.2
Air-conditioner parts and components	**513.8**	**5.5**	81.6	1.0	+432.2	+529.7
Other products	**329.9**	**3.6**	227.3	2.9	+102.6	+45.1
	5,374.1	**57.8**	3,856.6	49.6	+1,517.5	+39.3
Overseas sales						
CHIGO brand	**649.1**	**7.0**	514.2	6.6	+134.9	+26.2
OEM	**2,935.6**	**31.5**	3,100.9	39.9	-165.3	-5.3
Air-conditioner parts and components	**183.0**	**2.0**	287.2	3.7	-104.2	-36.3
Other products	**160.0**	**1.7**	15.3	0.2	+144.7	+945.8
	3,927.7	**42.2**	3,917.6	50.4	+10.1	+0.3
	9,301.8	**100.0**	7,774.2	100.0	+1,527.6	+19.6

Due to the surge in demand for home appliances as a whole and the hot weather during the peak season in China, air-conditioning products sold by the Group in China under the CHIGO brand increased by 27.4% and accounted for 98.6% of the Group's PRC sales during the year ended 31 December 2016. Sales of parts and components in China also benefited from a favorable market environment and surged by 529.7%. As a result of the increases in resale of raw materials and sales of electrical appliances, such as dehumidifiers, sales of other products increased substantially by 45.1% during the reporting period.

Since certain overseas markets have been affected by the macroeconomic environment, leading to a decline in sales performance in these regions, OEM sales decreased slightly by 5.3% during the year. However, with the Group concentrating its resources and strengthening its own brand promotion during the reporting period, the drop in OEM sales was offset by the remarkable increase of 26.2% in sales under the CHIGO brand. As a result, the CHIGO brand and OEM customers contributed to 25.3% and 74.7% of the total overseas sales in 2016 respectively (2015: 20.8% and 79.2% respectively).

Sales and distribution

	Year ended 31 December					
	2016		2015		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
PRC						
Household appliances retail chain operators	**1,246.3**	**13.4**	1,342.4	17.3	-96.1	-7.2
Regional distributors	**4,127.8**	**44.4**	2,514.2	32.3	+1,613.6	+64.2
PRC Total	**5,374.1**	**57.8**	3,856.6	49.6	+1,517.5	+39.3
Overseas						
Regional distributors	**992.1**	**10.7**	816.7	10.5	+175.4	+21.5
OEM manufacturers	**2,935.6**	**31.5**	3,100.9	39.9	-165.3	-5.3
Overseas Total	**3,927.7**	**42.2**	3,917.6	50.4	+10.1	+0.3
Total Revenue	**9,301.8**	**100.0**	7,774.2	100.0	+1,527.6	+19.6

During the year ended 31 December 2016, the Group opened up new customer networks and terminal consumer markets, hence, sales from regional distributors increased significantly by 64.2% and contributed to 76.8% of the Group's PRC sales (2015: 65.2%). Sales generated from household appliances retail chain operators decreased by 7.2% and accounted for 23.2% of the PRC sales in 2016 (2015: 34.8%).

For the overseas markets, as own brand sales increased during the reporting period, sales from regional distributors rose by 21.5%. However, sales from OEM customers was affected by unstable macroeconomic and keen competition in overseas markets and sales from overseas OEM customers decreased slightly by 5.3% in 2016. As such, approximately 74.7% and 25.3% (2015: 79.2% and 20.8%) of the overseas sales were distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2016.

Sets/units sold volume and average sales prices

	Year ended 31 December		Change
	2016	2015	%
Residential air-conditioning products sold *('000 sets/units)*	**5,213**	4,438	+17.5
Commercial air-conditioning products sold *('000 sets)*	**184**	179	+2.8
Average sales price – residential air-conditioning product (per unit)	**RMB1,387**	RMB1,413	-1.8
Average sales price – commercial air-conditioning product (per set)	**RMB4,819**	RMB4,970	-3.0

During the year ended 31 December 2016, sales volume of the Group's residential air-conditioning products rose by 17.5% as compared to that of 2015. Sales volume of commercial air-conditioning products increased year-on-year and recorded an increase of 2.8% in 2016. In total, the Group sold approximately 5,397,000 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 2016. As market competition was fierce in the air-conditioning industry, the average selling prices of the Group's residential and commercial air-conditioning products fell slightly by 1.8% and 3.0% respectively.

Breakdown of cost of sales

During the two years ended 31 December 2016, breakdown of the Group's total cost of sales was shown as follows:

	Year ended 31 December					
	2016		2015		Change	
	RMB million	**% of Cost of sales**	*RMB million*	% of Cost of sales	*RMB million*	Change %
Raw materials, parts and components:						
Compressors	**1,684.6**	**21.5**	1,473.7	22.0	+210.9	+14.3
Copper	**1,589.2**	**20.2**	1,488.6	22.2	+100.6	+6.8
Plastic chips	**660.7**	**8.4**	626.7	9.3	+34.0	+5.4
Aluminum	**292.5**	**3.7**	279.5	4.2	+13.0	+4.7
Steel plates	**634.8**	**8.1**	523.0	7.8	+111.8	+21.4
Others *(note)*	**2,052.0**	**26.1**	1,464.1	21.8	+587.9	+40.2
Total	**6,913.8**	**88.0**	5,855.6	87.3	+1,058.2	+18.1
Direct labour cost	**374.4**	**4.8**	323.1	4.8	+51.3	+15.9
Utilities	**80.0**	**1.0**	61.5	0.9	+18.5	+30.1
Production cost	**234.6**	**3.0**	240.8	3.6	-6.2	-2.6
Others	**252.0**	**3.2**	227.4	3.4	+24.6	+10.8
Total cost of sales	**7,854.8**	**100.0**	6,708.4	100.0	+1,146.4	+17.1

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

During the year ended 31 December 2016, as the sales scale and volume increased, the Group's cost of major materials rose by RMB1,058.2 million or 18.1%. Because of the higher sales and production in China, direct labour cost increased by 15.9% during the year ended 31 December 2016.

Other cost of sales increased by 10.8% mainly attributed to the increase in other business cost, such as the cost of raw material resold by the Group.

Financial Review

Revenue

	Year ended 31 December					
	2016		2015		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
Geographic region						
PRC sales	**5,374.1**	**57.8**	**3,856.6**	49.6	+1,517.5	+39.3
Asia (excluding PRC)	**2,156.7**	**23.2**	**2,301.8**	29.6	-145.1	-6.3
Americas	**918.2**	**9.9**	**922.3**	11.9	-4.1	-0.4
Africa	**404.5**	**4.3**	**347.4**	4.4	+57.1	+16.4
Europe	**431.3**	**4.6**	**316.6**	4.1	+114.7	+36.2
Oceania	**17.0**	**0.2**	**29.5**	0.4	-12.5	-42.4
Overseas sales	**3,927.7**	**42.2**	**3,917.6**	50.4	+10.1	+0.3
Total revenue	**9,301.8**	**100.0**	**7,774.2**	100.0	+1,527.6	+19.6

During the year ended 31 December 2016, the Group's total revenue was approximately RMB9,301.8 million (2015: RMB7,774.2 million), representing a remarkable increase of RMB1,527.6 million, or 19.6% as compared to the corresponding period in 2015. The increase was principally due to the substantial increase in the domestic sales during the year.

PRC Sales

Due to improved market environment as mentioned above, the Group's PRC sales increased sharply by RMB1,517.5 million or 39.3% to RMB5,374.1 million (2015: RMB3,856.6 million) for the year ended 31 December 2016. As a result, domestic sales accounted for 57.8% (2015: 49.6%) of the Group's total revenue during the year ended 31 December 2016.

Overseas Sales

For the year ended 31 December 2016, the Group's overseas sales remained relatively stable and rose slightly to RMB3,927.7 million (2015: RMB3,917.6 million). The increase in overseas sales amounted to RMB10.1 million representing a year-on-year increase of 0.3%.

The Group saw decreases in sales in Asia (excluding PRC), Americas and Oceania by 6.3%, 0.4% and 42.4% respectively. However, the Group recorded satisfactory growths in sales in Africa and Europe of 16.4% and 36.2% respectively which offset the sales drop in Asia (excluding PRC), Americas and Oceania. Among the overseas markets of the Group, the main sources of revenue were Asia (excluding PRC) and Americas, which accounted for 23.2% and 9.9% respectively (2015: 29.6% and 11.9% respectively) of the Group's revenue during the year ended 31 December 2016.

Since the Group's sales in the PRC had recorded a greater increase, export sales decreased to 42.2% (2015: 50.4%) of the Group's total revenue for the year ended 31 December 2016.

Cost of sales

Due to the increased sales and revenue in 2016, cost of sales rose to RMB7,854.8 million (2015: RMB6,708.4 million), representing an increase of RMB1,146.4 million or 17.1% as compared to that of 2015.

Gross profit

Due to the sharp increase in its revenue during the year which outweigh that of the cost of sales, the Group recorded a gross profit of RMB1,446.9 million for the year ended 31 December 2016 (2015: RMB1,065.7 million), which represented an increase of RMB381.2 million or 35.8%.

The Group's gross margin improved from 13.7% in 2015 to 15.6% for the year ended 31 December 2016.

As the Group strived to drive sales of high-end products through marketing means during the year and control costs moderately, the Group's gross margin of PRC sales increased significantly to 17.4% (2015: 13.8%) in 2016. On the other hand, exports benefitted from the strong US dollar and low cost of goods sold, hence, the gross margin of overseas sales of the Group remained stable at 13.1% (2015: 13.6%) in 2016. Among the overseas sales regions, Asia (excluding PRC) and Oceania recorded profit margin growth in 2016, while Americas and Oceania contributed the most to the profitability of the Group and achieved gross margins of 15.3% and 25.7% respectively.

Other income

Other income which included mainly the interest income and non-operating income was RMB43.4 million (2015: RMB69.8 million), representing an decrease of RMB26.4 million or 37.8%. Decrease in other income was mainly due to the decrease in interest income during the year.

Selling and distribution costs

The Group's selling and distribution costs (excluding equity-settled share based payments) decreased to RMB764.0 million (2015: RMB841.5 million), representing a decrease of RMB77.5 million or 9.2% for the year ended 31 December 2016. The decrease was mainly due to decreases in (i) advertising and promotion expenses; and (ii) transportation costs during the year.

Administrative expenses

Administrative expenses (excluding equity-settled share based payments) of the Group decreased and amounted to RMB403.6 million (2015: RMB412.1 million) for the year ended 31 December 2016. The decrease in administrative expenses was mainly due to decreases in (i) salaries, benefits and social insurance charges relating to administrative staff; and (ii) inspection and appraisal fees during the year.

Equity-settled share based payments

The Group recorded an equity-settled share based payments of RMB5.6 million (2015: RMB7.4 million) for the year ended 31 December 2016 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 RMB1.8 million or 24.3% during the year.

Research and development costs

Research and development ("**R&D**") costs increased to RMB135.9 million (2015: RMB99.7 million) by 36.3% or RMB36.2 million during the year. The increase was attributed to the increases in R&D investment in high-end advanced air-conditioning products by the Group to implement its "the leader of high-end air-conditioning" strategy.

Other expenses

Other expenses dropped substantially by RMB203.7 million or 97.5% during the year ended 31 December 2016 (2015: RMB209.0 million) and amounted to RMB5.3 million. The decrease was mainly due to no provision being made for the possible return of certain subsidies for the sale of energy-saving air-conditioners has been made for the current year (corresponding period in 2015: RMB199,190,000). Other expenses also included non-operating expenses and donations.

Other gains and losses

The Group recorded other gains of RMB58.0 million (2015: other losses of RMB36.2 million) in 2016. The other gains were mainly the exchange gains recorded 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 RMB2.5 million (2015: RMB3.6 million) under its foreign currency forward contracts of the Group during the year ended 31 December 2016.

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 2016, the finance costs of the Group decreased by RMB36.0 million or 19.3% to RMB150.2 million (2015: RMB186.2 million) due to a lower average balance of bank borrowings and average interest rate on borrowings.

Taxation

As the Group recorded a profit before taxation, the Group's tax charge for the year ended 31 December 2016 increased by RMB6.0 million or 48.0% to RMB18.5 million (2015: RMB12.5 million).

Profit for the year and total comprehensive income for the year

As a result of the foregoing, the Group recorded a profit of RMB67.6 million for the year ended 31 December 2016 (2015: a loss of RMB665.5 million), representing an increase of RMB733.1 million or 110.2% as compared to the corresponding period in 2015. Since the Group had recorded a profit in the reporting period, the Group's net margin improved from a net loss of 8.6% in 2015 to a net profit margin of 0.7% for the year ended 31 December 2016 accordingly.

Financial position

	As at 31 December			
	2016	2015	Change	Change
	RMB million	*RMB million*	*RMB million*	%
Non-current assets	**1,884.2**	1,971.7	-87.5	-4.4
Current assets	**8,351.9**	8,250.1	+101.8	+1.2
Current liabilities	**7,678.2**	7,787.8	-109.5	-1.4
Non-current liabilities	**279.4**	203.4	+76.0	+37.4
Net assets	**2,278.5**	2,230.6	+47.9	+2.1

As at 31 December 2016, the Group's total consolidated assets increased by RMB14.3 million or 0.14% to RMB10,236.1 million (2015: RMB10,221.8 million). The increase was mainly due to the increase in inventories (increased by RMB316.6 million) and bank balances and cash (increased by RMB373.7 million), which was partly offset by the decrease in value of certain current assets such as trade and other receivables (decreased by RMB487.5 million), pledged bank deposits (decreased by RMB36.3 million) and property, plant and equipment (decreased by RMB87.6 million). Total consolidated liabilities of the Group as at 31 December 2016 amounted to RMB7,957.6 million (31 December 2015: RMB7,991.2 million) and decreased by RMB33.6 million or 0.4%. The major liabilities that decreased in the period were trade and other payables (decreased by RMB218.6 million), borrowings related to bills discounted with recourse (decreased by RMB80.9 million), and long-term debentures (decreased by RMB155.4 million), which decrease was offset by the increases in short-term bank loans (increased by RMB221.8 million) and long-term bank loans (RMB92.3 million).

As the Group recorded a net profit for the year, the Group's net assets increased by 2.1% or RMB47.9 million to RMB2,278.5 million at the end of 2016 (2015: RMB2,230.6 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 2016, the Group had current assets amounted to RMB8,351.9 million (2015: RMB8,250.1 million) and current liabilities amounted to RMB7,678.2 million (2015: RMB7,787.7 million). The Group's working capital increased by RMB211.4 million or 45.7% from RMB462.3 million as at the end of 2015 to RMB673.7 million at the end of 2016. Despite the Group's net current assets increased, current ratio remained at 1.1 times (2015: 1.1 times) as at 31 December 2016.

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 2016, the Group had obtained funding for its business operation from different financial arrangements including bank loans, debentures and funding from finance lease. As at 31 December 2016, the balances of short-term and long-term bank loans utilised by the Group were RMB1,624.0 million and RMB98.6 million respectively (2015: RMB1,402.2 million and RMB6.2 million respectively). Short-term and long term bank loans increased by RMB221.8 million and RMB92.3 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 an outstanding current portion of long-term debentures of approximately RMB52.3 million (2015: long-term debentures of RMB207.6 million).

For the year ended 31 December 2016, the Group also enhance its working capital position and obtained medium term financing by entered into finance lease arrangements. As at the end of 2016, the Group had obligation under finance lease of approximately RMB265.1 million (2015: RMB162.6 million).

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group increased to 19.9% as at 31 December 2016 (2015: 17.4%) because the Group's total borrowings increased substantially by RMB196.5 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 reduced average balance of borrowing and average interest rate on borrowings reduced, the Group decreased its finance cost by 19.3% or RMB36.0 million for the year ended 31 December 2016 as compared to the same period in 2015.

Since the Group recorded a net profit for the year, the Group's ability to meet finance costs, as indicated by interest cover, improved to 1.6 times during the reporting period (2015: N/A).

During the year, the Group entered into certain foreign currency forward contracts or derivative financial instruments to hedge against part of its exposure on potential variability of foreign currency risk. There was no foreign currency financial instruments outstanding as at the year end (2015: net liabilities of RMB33.1 million).

As at 31 December 2016, 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 profit for the year, the shareholders' equity increased to RMB2,278.5 million as at 31 December 2016 (2015: RMB2,230.6 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 2016.

Cash flows

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Operating cash flows before movements in working capital	**511.1**	(208.7)
Movements in working capital	**(148.1)**	1,347.0
Net cash from operating activities	**363.0**	1,138.3
Net cash from (used in) investing activities	**8.8**	(22.5)
Net cash from (used in) financing activities	**1.9**	(1,162.1)
Net increase in cash and cash equivalents	**373.7**	(46.3)
Cash and cash equivalents at 31 December	**791.9**	418.2

For the year ended 31 December 2016, the Group had operating cash inflows of RMB511.1 million (2015: cash outflows of RMB208.7 million). During the year, the Group paid off trade payables and increased inventories to meet customers' orders and prepare for the forthcoming peak season. Total cash used for such working capital amounted to approximately RMB148.1 million. As such, the Group generated net cash of RMB363.0 million (2015: cash inflow of RMB1,138.3 million) from its operating activities for the year ended 31 December 2016.

The Group withdrew pledged bank deposits of net amount of RMB36.3 million and restricted bank deposits of RMB35.0 million. The Group also generated additional cash inflow of RMB40.0 million from disposal of short-term investment. The Group applied part of the cash generated amounting to RMB59.0 million for the acquisitions of property, plant and equipment and RMB51.3 million for the payment of deposits in respect of such acquisitions. As a result, the Group generated net cash of RMB8.8 million (2015: cash outflow RMB22.5 million) from its investing activities in 2016.

The Group obtained funding from bank loans of net amount of RMB314.1 million. Part of the cash generated was applied to repay short-term debentures amounting to RMB150.0 million and to pay interests of RMB158.4 million. As such, the Group generated net cash of RMB1.9 million (2015: cash outflow of RMB1,162.1 million) from its financing activities.

As a result of the foregoing, the Group's cash balances increased by RMB373.7 million during the year ended 31 December 2016 and bank balances and cash amounted to RMB791.9 million at the end of 2016 (2015: RMB418.2 million). The majority of the bank balances and cash were denominated in Renminbi and certain amounts were denominated in US dollars, Euros and Hong Kong dollars.

Finance lease arrangements

On 30 September 2016, Chigo Air-conditioning (Jiu Jiang) Co., Ltd. ("**Chigo Jiujiang**"), an indirect wholly-owned subsidiary of the Company, entered into a finance lease arrangement with International Far Eastern Leasing Co., Ltd. ("**FE Leasing**"), pursuant to which FE Leasing has conditionally agreed to purchase certain machinery and equipment from Chigo Jiujiang at an aggregate consideration of RMB56,830,000 and lease the equipment back to Chigo Jiujiang for a period of 36 months.

On 1 December 2016, Guangdong Chigo Air-conditioning Co., Limited ("**Guangdong Chigo**"), an indirect wholly-owned subsidiary of the Company, entered into a finance lease arrangement with FE Leasing, pursuant to which FE Leasing has conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of RMB64,050,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

On 13 December 2016, Guangdong Chigo entered into a finance lease contract with Ping An International Financial Leasing Co., Ltd. ("**Ping An Leasing**"), pursuant to which Ping An Leasing has conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of RMB60,300,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

Material acquisitions and disposals, significant investments

The Group had not made any material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2016. As at the end of the reporting period, the Group did not hold any significant investments.

Charge on assets

As at 31 December 2016, certain bank deposits and land use rights of the Group in an aggregate carrying amount of approximately RMB860.5 million (2015: RMB910.4 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 2016, approximately 42.2% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risk. During the reporting period, the Group had entered into certain foreign currency forward contracts and derivative financial instruments to hedge against foreign exchange risk. Since the exchange rate of Renminbi against the US dollar was relatively stable during the year, the Group gained on the foreign currency forward contracts upon settlement. All the foreign currency forward contracts were settled and there were no foreign currency financial instruments outstanding as at the year end. The Directors believe that the Group's exposure to foreign currency risks 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 respect.

The management of the Group will continue monitoring its foreign currency exposure from time to time and will consider further hedging should the need arise.

Capital commitments

As at 31 December 2016, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment and capital and contribution to subsidiaries amounted to approximately RMB90.3 million (2015: approximately RMB98.6 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 2016.

Employees and Remuneration

As at 31 December 2016, the Group employed 13,102 employees (2015: 13,084 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.

Events after the end of the reporting period

On 20 January 2017, Guangdong Chigo entered into a finance lease contract with Ping An Leasing, pursuant to which Ping An Leasing has conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of RMB31,591,928 and lease the equipment back to Guangdong Chigo for a period of 36 months.

On 28 February 2017, Guangdong Chigo entered into a finance lease arrangement with FE Leasing, pursuant to which FE Leasing has conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of RMB27,965,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

Save as disclosed above, there are no subsequent events after the reporting period.

Outlook and Future Plans

The improvement of the business environment of the domestic air-conditioning market in 2016 is a favorable factor for the development of air-conditioning industry in 2017.

With the continuous improvement of national consumption level, Chinese consumers have higher demands and more expectations for air-conditioning products. Intelligence, personalised functions, health enhancements and comfort are the focus of consumers' attention. Accordingly, the market share of the smart air-conditioning products, accounting for the proportion of the overall domestic air-conditioning market sales, continued to rise throughout 2016. It is expected that the smart air-conditioner will continue to be the growth driver of the PRC air-conditioning industry in 2017. As more companies begin to enter the smart air-conditioning market, the competition between different intelligent air-conditioning brands is expected to increase and will become intense in 2017.

In 2016, one of the reasons for the sales growth in the air-conditioning industry was the hot climate. Despite the fact that the pressure of the inventory on domestic air-conditioning industry significantly reduced, new consumption is still weak. As such, the domestic economic environment does not have the conditions to support an obvious growth in consumer demand in 2017.

The Group will concentrate its resources and efforts on promoting intelligent air-conditioning products in 2017. With its innovation capability, the Group will reinforce its market position as a pioneer in the development of smart air-conditioners. The management is confident that the business development of the Group in 2017 will benefit from the improving market conditions.

The Group collaborated with its customers to implement terminal promotional activities and obtained satisfactory results in 2016. Inventories of the Group were released and a good foundation was laid to boost the sales for the coming year. The Group will continue its strategy of terminal sales and reasonable inventory control with an aim to increase its market share and operation scale in the coming seasons.

After the moderate devaluation in the past two years, the exchange rate of Renminbi has stabilized. A weaker renminbi relative to the US dollars has made Chinese air-conditioners even more competitive in terms of price and is favourable to the air-conditioning export enterprise as there is a positive impact on their revenue. Since the majority of overseas orders are settled in US dollars, the devaluation of the Renminbi would mean that air-conditioning enterprises could get more exchange gains. As such, export enterprises will strengthen their export efforts.

Following the gradual recovery of the world economy, overseas demand for air-conditioning products rose gradually. It is expected that in 2017, except for the Latin American market, various overseas regions will achieve a different range of growth. In terms of competitiveness, Chinese air-conditioning products are very competitive as they account for a major share in the global market and are irreplaceable by other products in the short term. While the current exchange rate of Renminbi declines and remains low, it will enhance the competitiveness of Chinese air-conditioning products. Despite the expectations that the overseas market will remain prosperous for the year ending 31 December 2017, the global economy is still full of political and economic uncertainties. Therefore, the Group will aim at maintaining steady growth in exports and strengthening the promotion of its own brand "Chigo".

As at 31 December 2016, the Group had no plans for material investments or acquisitions of capital assets but will closely monitor market trends and explore potential business collaboration opportunities with various domestic and international well-known enterprises.

OTHER INFORMATION

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

Annual General Meeting

The annual general meeting of the Company will be held on Wednesday, 7 June 2017. 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 Monday, 5 June 2017 to Wednesday, 7 June 2017 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 2 June 2017.

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 2016.

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 2016, 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 2016, 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 23 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 8 June 2016 ("**2016 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 remuneration committee was unable to attend the 2016 AGM as he had other business engagements. Accordingly, he appointed another member of the remuneration Committee as his representative to attend the 2016 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 Wang Manping. Mr. Fu Xiaosi is the chairman of the Audit Committee.

The Company's annual results for the year ended 31 December 2016 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 2016 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, 29 March 2017.

As at the date of this announcement, the executive Directors are Li Xinghao, Li Xiuhui, Cheng Jian and Huang Guijian, and the independent non-executive Directors are Zhang Xiaoming, Fu Xiaosi and Wang Manping.