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 2017

2017 FINANCIAL HIGHLIGHTS

	2017	2016	Change
	RMB million	*RMB million*	*%*
Revenue	**10,736.5**	9,301.8	+15.4
Gross profit	**1,716.3**	1,446.9	+18.6
Profit for the year	**47.6**	67.6	-29.6
Total assets	**10,605.0**	10,236.1	+3.6
Net assets	**2,311.7**	2,278.5	+1.5
Basic earnings per share *(RMB cents)*	**0.35**	0.68	-48.5
Interim dividends *(HK cents)*	**–**	–	–
Proposed final dividends *(HK cents)*	**–**	–	–
Gross margin	**16.0%**	15.6%	+0.4 percentage points
Net profit margin	**0.4%**	0.7%	-0.3 percentage points

2017 OPERATION HIGHLIGHTS			
	2017	2016	Change
	RMB million	*RMB million*	*%*
PRC sales	**6,427.7**	5,374.1	+19.6
Overseas sales	**4,308.8**	3,927.7	+9.7
Major products type			
Residential air-conditioners	**7,909.1**	7,230.1	+9.4
Commercial air-conditioning products	**1,444.6**	885.0	+63.2
Air-conditioner parts and components	**797.5**	696.8	+14.5
Other products	**585.3**	489.9	+19.5
Residential air-conditioning products sold *('000 sets/units)*	**5,482**	5,213	+5.2
Commercial air-conditioning products sold *('000 sets)*	**312**	184	+69.6

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 2017 together with the comparative figures for the corresponding period of 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	**2017**	2016
		RMB'000	*RMB'000*
Revenue		**10,736,454**	9,301,753
Cost of sales		**(9,020,154)**	(7,854,874)
Gross profit		**1,716,300**	1,446,879
Other income		**52,385**	43,402
Selling and distribution costs			
– equity-settled share based payments		**–**	(1,268)
– other selling and distribution costs		**(879,656)**	(764,043)
Administrative expenses			
– equity-settled share based payments		**–**	(4,361)
– other administrative expenses		**(430,292)**	(403,552)
Research and development costs		**(182,689)**	(135,869)
Other expenses		**(3,944)**	(5,341)
Other gains and losses		**(51,423)**	57,953
Net gain in fair value changes on foreign currency forward contracts		**–**	2,508
Finance costs		**(153,985)**	(150,190)
Profit before taxation	*5*	**66,696**	86,118
Taxation	*6*	**(19,065)**	(18,526)
Profit for the year and total comprehensive income for the year		**47,631**	67,592
Profit for the year and total comprehensive income for the year attributable to:			
– owners of the Company		**29,792**	57,036
– non-controlling interests		**17,839**	10,556
		47,631	67,592
Earnings per share			
– Basic and diluted	*7*	**0.35 cents**	0.68 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	**2017**	2016
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**1,300,478**	1,381,385
Land use rights		**199,260**	204,638
Intangible assets		**579**	493
Prepaid lease payments		**193,599**	202,059
Deposits paid for acquisition of property, plant and equipment		**46,987**	51,258
Available-for-sale investments		**23,000**	23,000
Deferred tax assets		**21,054**	21,364
		1,784,957	1,884,197
Current assets			
Inventories		**2,601,656**	2,151,943
Trade and other receivables	*8*	**4,569,165**	4,496,312
Land use rights		**5,378**	5,378
Prepaid lease payments		**18,310**	17,653
Taxation recoverable		**9,491**	8,202
Short-term investments		**1,990**	–
Restricted deposits		**39,205**	20,000
Pledged bank deposits		**916,804**	860,517
Bank balances and cash		**658,047**	791,864
		8,820,046	8,351,869
Current liabilities			
Trade and other payables	*9*	**4,912,504**	4,590,592
Warranty provision		**55,620**	42,010
Taxation payable		**161,878**	164,984
Borrowings related to bills discounted with recourse		**965,392**	1,058,452
Current portion of long-term debentures		**–**	52,271
Borrowings		**1,807,061**	1,623,985
Obligations under finance leases		**145,029**	145,916
		8,047,484	7,678,210
Net current assets		**772,562**	673,659
Total assets less current liabilities		**2,557,519**	2,557,856

	NOTES	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Government grants		**33,616**	36,354
Long-term debentures		**–**	–
Borrowings		**75,589**	98,580
Obligations under finance leases		**110,732**	119,213
Deferred tax liabilities		**25,837**	25,195
		245,774	279,342
Net assets		**2,311,745**	2,278,514
Capital and reserves			
Share capital	*10*	**71,906**	71,906
Reserves		**2,191,784**	2,161,992
Equity attributable to owners of the Company		**2,263,690**	2,233,898
Non-controlling interests		**48,055**	44,616
Total equity		**2,311,745**	2,278,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 principal activities of the Company and its subsidiaries (the "**Group**") are the design, development, manufacture and sale of air-conditioning products.

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 ("**HKICPA**") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

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]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[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 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRS Standards 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2015 – 2017 Cycle[2]

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 2021

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 of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance ("**CO**").

4. REVENUE AND SEGMENT INFORMATION

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

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**	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China (the "**PRC**")	**6,427,673**	5,374,095	**1,191,441**	933,056
Asia (excluding PRC)	**2,104,991**	2,156,672	**275,905**	276,978
Americas	**1,378,434**	918,154	**154,633**	140,213
Africa	**241,064**	404,543	**26,899**	36,120
Europe	**565,326**	431,297	**63,401**	56,148
Oceania	**18,966**	16,992	**4,021**	4,364
	10,736,454	9,301,753	**1,716,300**	1,446,879
Unallocated other income			**52,385**	43,402
Unallocated expenses			**(1,039,018)**	(754,632)
Staff costs included in selling and distribution costs and administrative expenses			**(467,281)**	(467,280)
Charitable donations			**(283)**	(182)
Allowance for doubtful debts			**(41,422)**	(34,387)
Net gain in fair value changes on foreign currency forward contracts			**–**	2,508
Finance costs			**(153,985)**	(150,190)
Profit before taxation			**66,696**	86,118

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 the 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 is 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:

	2017	2016
	RMB'000	*RMB'000*
Residential air-conditioners		
– split type	**7,294,361**	6,713,061
– window type	**525,847**	481,862
– portable type	**88,862**	35,157
	7,909,070	7,230,080
Commercial air-conditioners	**1,444,565**	884,982
Air-conditioners' parts and components	**797,536**	696,786
Others	**585,283**	489,905
	10,736,454	9,301,753

Information about major customers

For the year ended 31 December 2017 and 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 BEFORE TAXATION

	2017	2016
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**1,717**	2,076
Other staff's retirement benefits scheme contributions	**70,349**	72,426
Other staff's equity-settled share based payments	**–**	5,040
Other staff costs	**841,642**	799,507
	913,708	879,049
Less: Staff costs included in research and development costs	**(61,354)**	(58,470)
	852,354	820,579
Allowance for doubtful debts included in other gains and losses	**41,422**	37,767
Amortisation of intangible assets included in administrative expenses	**182**	352
Auditor's remuneration	**1,751**	2,243
Cost of inventories recognised as an expense	**8,969,622**	7,773,601
Depreciation of property, plant and equipment	**239,848**	191,004
Operating lease rentals in respect of		
– land use rights	**5,378**	5,378
– rented premises	**29,953**	32,387
Provision for warranty	**50,532**	81,273
Net exchange losses included in other gains and losses	**61,796**	–
Release of prepaid lease payments	**20,134**	16,960
Loss on disposal of property, plant and equipment included in other gains and losses	**2,548**	113
and after crediting:		
Amortisation of government grants	**2,738**	1,288
Government subsidies	**6,512**	11,504
Interest income	**14,163**	20,122
Net exchange gains included in other gains and losses	**–**	48,977
Reversal of doubtful debts included in other gains and losses	**34,662**	48,010
Sales of scrap materials	**6,876**	542
Gain on disposal of a subsidiary included in other gains and losses	**19,681**	–

6. TAXATION

	2017	2016
	RMB'000	*RMB'000*
The charge comprises:		
PRC income tax	**24,836**	28,662
(Over) under provision for prior year	**(6,723)**	1,214
Deferred taxation	**952**	(11,350)
	19,065	18,526

The PRC income tax is calculated at 25% in accordance with the relevant laws and regulations in the PRC 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 2015 to 2017.

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 PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of RMB29,792,000 (2016: profit of RMB57,036,000) and on the weighted average number of 8,434,178,000 (2016: 8,434,178,000) ordinary shares in issue during the year.

The computation of earnings per share does not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for shares during both years ended 31 December 2017 and 31 December 2016.

8. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**2,944,791**	2,868,579
Less: allowance for doubtful debts	**(93,196)**	(86,436)
	2,851,595	2,782,143
Bills receivables	**1,494,477**	1,468,064
	4,346,072	4,250,207
Deposits paid to suppliers	**59,207**	135,092
Prepayments	**30,722**	21,924
Advances to staff	**6,218**	6,488
Value-added tax recoverable *(Note 1)*	**11,636**	20,843
Value-added tax refundable *(Note 2)*	**27,751**	9,560
Consideration receivables from disposal of a subsidiary	**20,020**	–
Other receivables	**67,539**	52,198
	4,569,165	4,496,312

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.

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 date and receipt date of bills.

	2017	2016
	RMB'000	*RMB'000*
Age		
0 – 30 days	**1,219,173**	920,605
31 – 60 days	**484,084**	509,542
61 – 90 days	**603,543**	554,117
91 – 180 days	**1,674,788**	1,939,525
181 – 365 days	**229,902**	201,327
Over 1 year	**134,582**	125,091
	4,346,072	4,250,207

The Group closely monitors the credit quality of trade receivables and considers the debtors that are neither past due nor impaired to be of good quality.

Included in the Group's trade receivable balances are trade debtors with an aggregate carrying amount of RMB494,061,000 (2016: RMB577,417,000) 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 recoverability of the debtors.

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

	2017	2016
	RMB'000	*RMB'000*
Age		
31 – 60 days	**1,171**	17
61 – 90 days	**14,904**	7,655
91 – 180 days	**173,052**	311,634
181 – 365 days	**178,213**	144,116
Over 1 year	**126,721**	113,995
	494,061	577,417

The Group does not hold any collateral over these balances. The average age of these receivables is 241 days (2016: 214 days).

9. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**1,377,004**	1,098,447
Bills payables	**2,541,686**	2,150,229
	3,918,690	3,248,676
Customers' deposits	**376,659**	574,450
Payroll and welfare payables	**92,928**	83,597
Other tax payables	**67,275**	64,200
Accruals	**16,989**	83,018
Other interest bearing payables	**77,272**	155,606
Advertising and promotion costs payable	**18,677**	29,040
Transportation costs payable	**5,778**	4,999
Provision for energy-saving subsidies refundable	**199,190**	199,190
Other payables	**139,046**	147,816
	4,912,504	4,590,592

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 and issue date of bills.

	2017	2016
	RMB'000	*RMB'000*
Age		
0– 90 days	**2,298,190**	2,227,556
91 – 180 days	**1,506,032**	874,302
181 – 365 days	**99,776**	132,614
1 – 2 years	**14,692**	14,204
	3,918,690	3,248,676

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 2016, 31 December 2016 and 2017	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at – 31 December 2017 and 2016	71,906

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Since the economic environment in the People's Republic of China (the "**PRC**") continued to improve in 2017, the purchasing power of consumers increased and the domestic residential air-conditioning market benefitted. As consumers pursue quality life, they are more willing to pay for better products with multi-functional features and better services. In the era of intelligence and with the idea of Internet of Things, the market demand for the domestic air-conditioning products has increased gradually during the reporting period.

In addition, as the cost of bulk materials, such as copper prices, rose in 2017, the average price of air-conditioning products also increased gradually. Although the average price of air-conditioning products has risen, due to the favorable economic environment, coupled with the continuing hot weather in China and the recovery of the domestic real estate market, the sales of domestic air-conditioning products rose further.

During the period under review, the Group made appropriate judgments and determinations in respect of the sales and pricing strategies based on market conditions, including focusing on products and network developments, maintaining online and offline balances, and strengthening sales promotion. Having benefitted from the above, during the year ended 31 December 2017, domestic sales and revenue of the Group's major air-conditioning products recorded a satisfactory increase as compared to those of the same period of last year.

Based on the relevant export data, China's residential air-conditioner exports continued its growing trend in 2017. However, due to the impact of the global macroeconomic situation and rising prices of domestic raw materials, the growth rate of residential air-conditioner exports in 2017 has slowed down. However, the export performances of respective markets, including the Americas and Europe were outstanding, and showed rapid growth in export sales. Due to the global extreme hot weather in 2017, many cities in Europe and the Americas experienced a significant increase in the number of days with hot weather, which was favourable to the exports of air-conditioning products.

Since the good sales figures in 2016 led to a low inventory level, overseas customers had to restock during the period under review. As a result, a rapid growth in exports to these European and American markets was recorded during the year ended 31 December 2017. In addition, the continued recovery of the overseas real estate market also drove up the demand for home appliances directly and kept the momentum of growth of air-conditioning products exports.

On the other hand, export sales of residential air-conditioning products to Africa and Asia (excluding the PRC) declined year-on-year. After a year of rapid growth in the African market, export sales began to decline in 2017. The main reasons for the drop were the larger export base in 2016 and the low oil prices in the region. As it is expected that the oil prices will not pick up in the short term, governments of certain African countries made efforts to reduce import expenditure and to avoid continuous decline in their foreign exchange reserves so as to ensure economic stability. As such, export of residential air-conditioning in Africa fell in the year ended 31 December 2017.

Entering 2017, there has been a clear growth trend in the commercial air-conditioning market. With consumers becoming more willing to spend on commercial air-conditioning products, and various government policies being promulgated in China that promoted the demand for commercial air-conditioning products, the Group's commercial air-conditioning unit recorded an impressive growth in both sales volume and revenue in 2017.

Operation Review

Sales from major product groups and gross margins

	Year ended 31 December					
	2017		2016		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
Residential air-conditioners						
– split type	**7,294.4**	**67.9**	6,713.1	72.1	+581.3	+8.7
– window type	**525.8**	**4.9**	481.9	5.2	+43.9	+9.1
– portable type	**88.9**	**0.8**	35.1	0.4	+53.8	+153.3
	7,909.1	**73.6**	7,230.1	77.7	+679.0	+9.4
Commercial air-conditioners	**1,444.6**	**13.5**	885.0	9.5	+559.6	+63.2
Air-conditioners parts and components	**797.5**	**7.4**	696.8	7.5	+100.7	+14.5
Others	**585.3**	**5.5**	489.9	5.3	+95.4	+19.5
	10,736.5	**100.0**	9,301.8	100.0	+1,434.7	+15.4

Residential air-conditioning products are the major source of income of the Group and accounted for 73.6% of the total revenue for the year. As the average sales prices increased and the sales volume of residential air-conditioners also increased remarkably during the reporting period, sales of residential air-conditioners of the Group increased by 9.4% during the year ended 31 December 2017. Despite the fact that the average sales prices of commercial air-conditioning products of the Group decreased slightly year-on-years, the sales volume of commercial air-conditioning products increased significantly, and the revenue derived from commercial air-conditioners rose substantially by 63.2% and contributed 13.5% of the total revenue to the Group during the year.

The revenue of air-conditioner parts and components rose by 14.5% 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 2017, revenue of other products increased significantly by 19.5% during the year ended 31 December 2017.

Due to a greater increase in the PRC sales of the residential air-conditioning products during the year ended 31 December 2017, the gross margin of the Group's residential air-conditioning products elevated from 14.4% in 2016 to 15.2% for the reporting period.

As the average selling prices of its commercial products decreased slightly, the average gross margin of the Group's commercial segment decreased from 27.9% in 2016 to 23.9% during the year.

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

	Year ended 31 December					
	2017		2016		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
PRC sales						
CHIGO brand	**5,495.2**	**51.2**	4,457.6	47.9	+1,037.6	+23.3
HYUNDAI brand	**78.7**	**0.7**	72.8	0.8	+5.9	+8.1
Air-conditioner parts and components	**481.2**	**4.5**	513.8	5.5	-32.6	-6.3
Other products	**372.6**	**3.5**	329.9	3.6	+42.7	+12.9
	6,427.7	**59.9**	5,374.1	57.8	+1,053.6	+19.6
Overseas sales						
CHIGO brand	**666.9**	**6.2**	649.1	7.0	+17.8	+2.7
OEM	**3,112.8**	**29.0**	2,935.6	31.5	+177.2	+6.0
Air-conditioner parts and components	**316.4**	**2.9**	183.0	2.0	+133.4	+72.9
Other products	**212.7**	**2.0**	160.0	1.7	+52.7	+32.9
	4,308.8	**40.1**	3,927.7	42.2	+381.1	+9.7
	10,736.5	**100.0**	9,301.8	100.0	+1,434.7	+15.4

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 23.3% and accounted for 85.5% of the Group's PRC sales during the year ended 31 December 2017. As parts and components were mainly supplied to the Group for the production of air-conditioning products, sales to external customers had decreased in 2017. Sales of parts and components in China dropped by 6.3%. 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 12.9% during the reporting period.

The Group enjoyed the overall improvement in the PRC's export of air-conditioning products in 2017, its OEM sales increased by 6.0% during the year. With the Group concentrating its resources and strengthening its own brand promotion, an increase of 2.7% in sales under the CHIGO brand was recorded during the reporting period. As a result, the CHIGO brand and OEM customers contributed to 27.8% and 72.2% of the total overseas sales in 2017 respectively (2016: 25.3% and 74.7% respectively).

Sales and distribution

	Year ended 31 December					
	2017		2016		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
PRC						
Household appliances retail chain operators	**1,153.2**	**10.8**	1,246.3	13.4	-93.1	-7.5
Regional distributors	**5,274.5**	**49.1**	4,127.8	44.4	+1,146.7	+27.8
PRC Total	**6,427.7**	**59.9**	5,374.1	57.8	+1,053.6	+19.6
Overseas						
Regional distributors	**1,196.0**	**11.1**	992.1	10.7	+203.9	+20.6
OEM manufacturers	**3,112.8**	**29.0**	2,935.6	31.5	+177.2	+6.0
Overseas Total	**4,308.8**	**40.1**	3,927.7	42.2	+381.1	+9.7
Total Revenue	**10,736.5**	**100.0**	9,301.8	100.0	+1,434.7	+15.4

During the year ended 31 December 2017, the Group focused on the development and quality of customer networks, hence, sales from regional distributors increased significantly by 27.8% and contributed to 82.1% of the Group's PRC sales (2016: 76.8%). Sales generated from household appliances retail chain operators decreased by 7.5% and accounted for 17.9% of the PRC sales in 2017 (2016: 23.2%).

For the overseas markets, the Group continued to strengthen its brand promotion, its own brand sales increased remarkably during the reporting period, and sales from regional distributors rose by 20.6%. However, sales from OEM customers was partly affected by the weak economy and growth in the overseas developing markets and sales from overseas OEM customers increased relatively slower by 6.0% in 2017. As such, approximately 72.2% and 27.8% (2016: 74.7% and 25.3%) of the overseas sales were distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2017.

Sets/units sold volume and average sales prices

	Year ended 31 December		Change
	2017	2016	%
Residential air-conditioning products sold *('000 sets/units)*	**5,482**	5,213	+5.2
Commercial air-conditioning products sold *('000 sets)*	**312**	184	+69.6
Average sales price – residential air-conditioning product (per unit)	**RMB1,443**	RMB1,387	+4.0
Average sales price – commercial air-conditioning product (per set)	**RMB4,630**	RMB4,810	-3.7

During the year ended 31 December 2017, sales volume of the Group's residential air-conditioning products rose by 5.2% as compared to that of 2016. Sales volume of commercial air-conditioning products increased significantly year-on-year and recorded an increase of 69.6% in 2017. In total, the Group sold approximately 5,794,000 units/sets of air-conditioners within the reporting period.

Due to the increases in prices of the major raw materials, average cost of sales of air-conditioning products rose, which brought a growth of 4.0% in average selling prices of the Group's residential air-conditioning products during the year ended 31 December 2017. With the change in the product structure and that the commercial sales in 2017 were mainly derived from the sale of small air-conditioning models, the average selling prices of the Group's commercial air-conditioning products fell slightly by 3.7%.

Breakdown of cost of sales

During the two years ended 31 December 2017, breakdown of the Group's total cost of sales was shown as follows:

	Year ended 31 December					
	2017		2016		Change	
	RMB million	**% of Cost of sales**	*RMB million*	% of Cost of sales	*RMB million*	Change %
Raw materials, parts and components:						
Compressors	**1,959.0**	**21.7**	1,684.6	21.5	+274.4	+16.3
Copper	**1,778.3**	**19.7**	1,589.2	20.2	+189.1	+11.9
Plastic chips	**938.0**	**10.4**	660.7	8.4	+277.3	+42.0
Aluminum	**330.3**	**3.7**	292.5	3.7	+37.8	+12.9
Steel plates	**738.2**	**8.2**	634.8	8.1	+103.4	+16.3
Others *(note)*	**2,268.4**	**25.1**	2,052.0	26.1	+216.4	+10.5
Total	**8,012.2**	**88.8**	6,913.8	88.0	+1,098.4	+15.9
Direct labour cost	**392.5**	**4.4**	374.4	4.8	+18.1	+4.8
Utilities	**61.1**	**0.7**	80.0	1.0	-18.9	-23.6
Production cost	**236.3**	**2.6**	234.6	3.0	+1.7	+0.7
Others	**318.1**	**3.5**	252.0	3.2	+66.1	+26.2
Total cost of sales	**9,020.2**	**100.0**	7,854.8	100.0	+1,165.4	+14.8

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 2017, as the sales scale and volume increased, the Group's cost of major materials rose by RMB1,098.4 million or 15.9%. Because of the higher sales and production in China, direct labour cost increased by 4.8% during the year ended 31 December 2017.

Other cost of sales increased by 26.2% mainly attributed to the increases in write-down on inventories and other business cost, such as the cost of raw material resold by the Group.

Financial Review

Revenue

	Year ended 31 December					
	2017		2016		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
Geographic region						
PRC sales	**6,427.7**	**59.9**	5,374.1	57.8	+1,053.6	+19.6
Asia (excluding PRC)	**2,105.0**	**19.6**	2,156.7	23.2	-51.7	–2.4
Americas	**1,378.4**	**12.8**	918.2	9.9	+460.2	+50.1
Africa	**241.1**	**2.2**	404.5	4.3	-163.4	–40.4
Europe	**565.3**	**5.3**	431.3	4.6	+134.0	+31.1
Oceania	**19.0**	**0.2**	17.0	0.2	+2.0	+11.8
Overseas sales	**4,308.8**	**40.1**	3,927.7	42.2	+381.1	+9.7
Total revenue	**10,736.5**	**100.0**	9,301.8	100.0	+1,434.7	+15.4

During the year ended 31 December 2017, the Group's total revenue was approximately RMB10,736.5 million (2016: RMB9,301.8 million), representing a remarkable increase of RMB1,434.7 million, or 15.4% as compared to the corresponding period in 2016. The increase was principally due to the substantial increase in the domestic sales during the year.

PRC Sales

Due to improved market environment and continuing hot weather as mentioned above, the Group's PRC sales increased sharply by RMB1,053.6 million or 19.6% to RMB6,427.7 million (2016: RMB5,374.1 million) for the year ended 31 December 2017. As a result, domestic sales accounted for 59.9% (2016: 57.8%) of the Group's total revenue during the year ended 31 December 2017.

Overseas Sales

For the year ended 31 December 2017, the Group's overseas sales also benefitted from the overall improvement in the PRC's export of air-conditioning products and rose to RMB4,308.8 million (2016: RMB3,927.7 million). The increase in overseas sales amounted to RMB381.1 million representing a year-on-year increase of 9.7%.

The Group saw decreases in sales in Asia (excluding PRC) and Africa by 2.4% and 40.4% respectively. However, the Group recorded satisfactory growths in sales in Americas, Europe and Oceania of 50.1%, 31.1% and 11.8% respectively which offset the sales drop in Asia (excluding PRC) and Africa. Among the overseas markets of the Group, the main sources of revenue were Asia (excluding PRC) and Americas, which accounted for 19.6% and 12.8% respectively (2016: 23.2% and 9.9% respectively) of the Group's revenue during the year ended 31 December 2017.

Since the Group's sales in the PRC had recorded a greater increase, export sales decreased to 40.1% (2016: 42.2%) of the Group's total revenue for the year ended 31 December 2017.

Cost of sales

Due to the increased sales and revenue in 2017 and increases in prices of major raw materials, cost of sales rose to RMB9,020.2 million (2016: RMB7,854.8 million), representing an increase of RMB1,165.4 million or 14.8% as compared to that of 2016.

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 RMB1,716.3 million for the year ended 31 December 2017 (2016: RMB1,446.9 million), which represented an increase of RMB269.4 million or 18.6%.

The Group's gross margin improved from 15.6% in 2016 to 16.0% for the year ended 31 December 2017.

As the Group strived to drive sales of high-end products through marketing means during the year and controlled costs moderately, the Group's gross margin of PRC sales increased to 18.5% (2016: 17.4%) in 2017. On the other hand, due to the increase in cost of sales and depreciation of US dollars to Renminbi, the gross margin of overseas sales of the Group dropped slightly to 12.2% (2016: 13.1%) in 2017. Among the overseas sales regions, Asia (excluding PRC) and Africa recorded profit margin growth in 2017, while Asia (excluding PRC) and Oceania contributed the most to the profitability of the Group and achieved gross margins of 13.1% and 21.2% respectively.

Other income

Other income which included mainly the interest income and non-operating income was RMB52.4 million (2016: RMB43.4 million), representing an increase of RMB9.0 million or 20.7%.

Selling and distribution costs

The Group's selling and distribution costs (excluding equity-settled share based payments) increased to RMB879.7 million (2016: RMB764.0 million), representing an increase of RMB115.7 million or 15.1% for the year ended 31 December 2017. As the Group's sales increased in 2017, the increase in selling and distribution costs was mainly due to the increases 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 increased and amounted to RMB430.3 million (2016: RMB403.6 million), representing an increase of RMB26.7 million or 6.6% for the year ended 31 December 2017. The increase in administrative expenses was mainly due to increases in (i) social insurance charges relating to administrative staff; and (ii) rent and long-term amortisation charges during the year.

Equity-settled share based payments

As all the share options granted by the Company to certain employees (including directors) and customers in 2011 had been vested, no equity-settled share based payments were recorded by the Group (2016: expense of RMB5.6 million) for the year ended 31 December 2017.

Research and development costs

Research and development ("**R&D**") costs increased to RMB182.7 million (2016: RMB135.9 million) by 34.4% or RMB46.8 million during the year. The increase was attributed to the increases in R&D investment in high-end advanced air-conditioning products and parts by the Group to implement its "the leader of high-end air-conditioning" strategy.

Other expenses

Other expenses dropped by RMB1.4 million or 26.4% during the year ended 31 December 2017 (2016: RMB5.3 million) and amounted to RMB3.9 million. Other expenses were mainly non-operating expenses and donations.

Other gains and losses

The Group recorded other losses of RMB51.4 million (2016: other gains of RMB58.0 million) in 2017. The other losses were mainly the net exchange losses recorded during the year.

Fair value changes of derivative financial instruments

The Group did not enter into any foreign currency forward contracts in 2017. As a result, no gains or losses (2016: net gain of RMB2.5 million) were recorded in fair value changes of foreign currency forward contracts.

Finance costs

The Group financed its working capital requirement through different arrangements including bank loans, discounted bills receivable from customers to financial institutes and finance leases. During the year ended 31 December 2017, the finance costs of the Group increased slightly by RMB3.8 million or 2.5% to RMB154.0 million (2016: RMB150.2 million) due to a higher average balance of borrowings.

Taxation

As the Group recorded a profit before taxation, the Group's tax charge for the year ended 31 December 2017 increased by RMB0.6 million or 3.2% to RMB19.1 million (2016: RMB18.5 million).

Profit for the year and total comprehensive income for the year

As a result of the foregoing, the Group recorded a profit of RMB47.6 million for the year ended 31 December 2017 (2016: RMB67.6 million), representing a decrease of RMB20.0 million or 29.6% as compared to the corresponding period in 2016. As the net profit of the Group decreased during the reporting period, its net margin dropped slightly to 0.4% (2016: 0.7%) for the year ended 31 December 2017 accordingly.

Financial position

	As at 31 December			
	2017	2016	Change	Change
	RMB million	*RMB million*	*RMB million*	*%*
Non-current assets	**1,785.0**	1,884.2	-99.2	-5.3
Current assets	**8,820.0**	8,351.9	+468.1	+5.6
Current liabilities	**8,047.5**	7,678.2	+369.3	+4.8
Non-current liabilities	**245.8**	279.4	-33.6	-12.0
Net assets	**2,311.7**	2,278.5	+33.2	+1.5

As at 31 December 2017, the Group's total consolidated assets increased by RMB368.9 million or 3.6% to RMB10,605.0 million (2016: RMB10,236.1 million). The increase was mainly due to the increase in inventories (increased by RMB449.7 million) and pledged bank deposits (increased by RMB56.3 million), which was partly offset by the decrease in cash and bank balance (decreased by RMB133.8 million), plant and equipment (decreased by RMB80.9 million). Total consolidated liabilities of the Group as at 31 December 2017 amounted to RMB8,293.3 million (31 December 2016: RMB7,957.6 million) and increased by RMB335.7 million or 4.2%. The major liabilities that increased in the period were trade and other payables (increased by RMB321.9 million) and short-term borrowings (increased by RMB183.1 million), which increase was offset by the decreases in borrowings related to bills discounted with recourse (decreased by RMB93.1 million) and long-term debentures (decreased by RMB52.3 million).

As the Group recorded a net profit for the year, the Group's net assets increased by 1.5% or RMB33.2 million to RMB2,311.7 million at the end of 2017 (2016: RMB2,278.5 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 2017, the Group had current assets amounted to RMB8,820.0 million (2016: RMB8,351.9 million) and current liabilities amounted to RMB8,047.5 million (2016: RMB7,678.2 million). The Group's working capital increased by RMB98.8 million or 14.7% from RMB673.7 million as at the end of 2016 to RMB772.5 million at the end of 2017. Despite the Group's net current assets increased, current ratio remained at 1.1 times (2016: 1.1 times) as at 31 December 2017.

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 2017, the Group had obtained funding for its business operation from different financial arrangements including bank loans and funding from finance lease. As at 31 December 2017, the balances of short-term and long-term borrowings utilised by the Group were RMB1,807.1 million and RMB75.6 million respectively (2016: RMB1,624.0 million and RMB98.6 million respectively). Short-term borrowings increased by RMB183.1 million and long term borrowings decreased by RMB23.0 million respectively during the year. The borrowings 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. The Group did not have any debentures (31 December 2016: RMB52.3 million) outstanding as at the end of the reporting period.

For the year ended 31 December 2017, the Group also enhanced its working capital position and obtained medium term financing by entering into finance lease arrangements. As at the end of 2017, the Group had an obligation under finance leases of approximately RMB255.8 million (2016: RMB265.1 million).

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group increased slightly to 20.2% as at 31 December 2017 (2016: 19.9%) 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 higher average balance of borrowing, the Group increased its finance cost by 2.5% or RMB3.8 million for the year ended 31 December 2017 as compared to the same period in 2016.

Though the Group recorded a net profit for the year, the Group's ability to meet finance costs, as indicated by interest cover, decreased to 1.4 times during the reporting period (2016: 1.6 times).

During the year, the Group did not enter into any foreign currency forward contracts to hedge against part of its exposure on potential variability of foreign currency risk.

As at 31 December 2017, 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 RMB2,311.7 million as at 31 December 2017 (2016: RMB2,278.5 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 2017.

Cash flows

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Operating cash flows before movements in working capital	**542.4**	513.3
Movements in working capital	**(281.8)**	(151.8)
Net cash from operating activities	**260.5**	361.5
Net cash (used) from in investing activities	**(235.6)**	8.8
Net cash (used) from in financing activities	**(158.8)**	3.4
Net (decrease) increase in cash and cash equivalents	**(133.9)**	373.7
Cash and cash equivalents at 31 December	**658.0**	791.9

For the year ended 31 December 2017, the Group had operating cash inflows of RMB542.4 million (2016: RMB513.3 million). During the year, the Group increased trade payables and inventories to meet customers' orders and prepare for the forthcoming peak season. Total cash used for such working capital amounted to approximately RMB281.8 million. As such, the Group generated net cash of RMB260.5 million (2016: RMB361.5 million) from its operating activities for the year ended 31 December 2017.

The Group placed net amount of RMB56.3 million as pledged bank deposits. The Group applied part of the cash generated amounting to RMB113.6 million for the acquisitions of property, plant and equipment and RMB47.0 million for the payment of deposits in respect of such acquisitions. As a result, the Group used net cash of RMB235.6 million (2016: cash inflow of RMB8.8 million) in its investing activities in 2017.

The Group obtained funding from borrowings of net amount of RMB160.1 million. Part of the cash generated was applied to repay short-term debentures amounting to RMB50.0 million and borrowings related to bills discounted amounting to RMB93.1 million, to pay interests of RMB152.1 million. As such, the Group used net cash of RMB158.8 million (2016: cash inflow of RMB3.4 million) in its financing activities.

As a result of the foregoing, the Group's cash balances decreased by RMB133.9 million during the year ended 31 December 2017 and bank balances and cash amounted to RMB658.0 million at the end of 2017 (2016: RMB791.9 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 20 January 2017, Guangdong Chigo Air-conditioning Co., Limited ("**Guangdong Chigo**") had entered into a finance lease contract with Ping An International Financial Leasing Co., Ltd. ("**Ping An Leasing**"), pursuant to which Ping An Leasing had 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 had entered into a finance lease arrangement with International Far Eastern Leasing Co., Ltd. ("**FE Leasing**"), pursuant to which FE Leasing had 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.

On 20 June 2017, Guangdong Chigo had entered into a finance lease arrangement with FE Leasing, pursuant to which FE Leasing had conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of RMB26,714,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

On 14 September 2017, Guangdong Chigo had entered into a finance lease arrangement with Guangdong Yaoda Finance Lease Co., Ltd. ("**Yaoda Leasing**"), pursuant to which Yaoda Leasing had conditionally agreed to purchase certain equipment from Guangdong Chigo at an aggregate consideration of RMB10,000,000 and lease the equipment back to Guangdong Chigo for a period of 36 months (the "**Yaoda Finance Lease Arrangement**"). As all of the relevant percentage ratios (as defined under Rule 14.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) in respect of the Yaoda Finance Lease Arrangement were less than 5%, the Yaoda Finance Lease Arrangement was exempted from the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

On 11 October 2017, Guangdong Chigo had entered into a finance lease arrangement with FE Leasing, pursuant to which FE Leasing had conditionally agreed to purchase certain equipment from Guangdong Chigo at an aggregate consideration of RMB46,082,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

On 13 October 2017, Guangdong Chigo had entered into a finance lease arrangement with Ping An International Financial Leasing (Tianjin) Co., Ltd. ("**Ping An Leasing (Tianjin)**"), pursuant to which Ping An Leasing (Tianjin) had conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of RMB60,000,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

On 19 December 2017, Chigo Precision Machinery Co., Ltd ("**Chigo Precision**") had entered into a finance lease arrangement with FE Leasing, pursuant to which FE Leasing had conditionally agreed to purchase certain equipment from Chigo Precision at an aggregate consideration of RMB35,214,400 and lease the equipment back to Chigo Precision for a period of 36 months.

On 19 December 2017, Guangdong Chigo had entered into a finance lease arrangement with Guangdong Guangwu Finance Lease Co., Ltd. ("**Guangwu Leasing**") pursuant to which Guangwu Leasing had conditionally agreed to purchase certain equipment from Guangdong Chigo at an aggregate consideration of RMB95,000 and lease the equipment back to Guangdong Chigo for a period of 36 months (the "**Guangwu Finance Lease Arrangement**"). As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Guangwu Finance Lease Arrangement were less than 5%, the Guangwu Finance Lease Arrangement was exempt from the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Material acquisitions and disposals, significant investments

As the Group wished to focus on its principal business and foresaw that relevant policies governing insurance agency businesses will be tightened, the Group had disposed of its 100% equity interest in 廣東業誠保險代理有限公司 (Guangdong Y.C. Insurance Agency Co., Ltd.) ("**Guangdong Y.C.**"), for a consideration of RMB20,020,000 on 28 December 2017. Guangdong Y.C. is engaged in insurance agency activities in the PRC.

Other than the above, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2017. As at the end of the reporting period, the Group did not hold any significant investments.

Charge on assets

As at 31 December 2017, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB916.8 million (2016: RMB860.5 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 2017, approximately 40.1% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risks. During the reporting period, the Group had not entered into any foreign currency forward contracts and derivative financial instruments to hedge against foreign exchange risk. Since Renminbi had appreciated against the US dollar during the year, the Group recorded net exchange losses for the year ended 31 December 2017.

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 as most of its business transactions, assets and liabilities are principally denominated in Renminbi.

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 2017, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisitions of property, plant and equipment and capital, and contribution to subsidiaries amounted to approximately RMB76.4 million (2016: approximately RMB90.3 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 2017.

Employees and Remuneration

As at 31 December 2017, the Group employed 12,869 employees (2016: 13,102 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 9 February 2018, Chigo Precision 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 approximately RMB31,572,000 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

After the rapid growth of the air-conditioning market last year, the general view of the industry is that the growth rate of the air-conditioning market in 2018 will slow down. By 2018, it is expected that the price of major raw materials will continue to rise, and due to the tightening of state policies, the real estate market will be expected to enter into a down period. In face of these various unfavorable conditions, the profitability of air-conditioning manufacturers will be further compressed. In addition, the excessive release of market consumer demand in the previous years will cause the growth of the air-conditioning market to begin to decline gradually. Combining the above factors, it can be predicted that the air-conditioning industry will enter a weak cycle in 2018. Besides, with the increase in the number of competitors providing smart air-conditioners in China, the overall competition in the industry will become more keen.

The Group will concentrate its resources and efforts in promoting smart air-conditioning products in 2018. With its innovation capability, the Group will reinforce its market position as a pioneer in the development of smart air-conditioners.

On the export side, the air-conditioning industry is expected to face more challenges and uncertainties in 2018, including increased macroeconomic uncertainties abroad. With a bearish expectation of the medium-term growth expectations of developed economies and emerging market economies, and the weakening in investments, it is expected that the growth of export demand for air-conditioners will slow down.

In addition, upward fluctuations in major raw material prices and the strong exchange rate of RMB against the U.S. dollar are also detrimental to exports of air-conditioning products. There are fluctuations in steel, copper and aluminum, which have impact on the production costs of air-conditioners manufacturers. It is predicted that the trend of increase in cost of these bulk materials will continue in the coming year, which will affect the profitability of enterprises in the industry.

Furthermore, trade barriers and environmental protection barriers have also impacted exports. Though the export of air-conditioners currently shows a trend of substantial growth, the increasing number in trade barriers and environmental protection barriers will pose challenges to China's air-conditioning industry, hence, there will inevitably be a potential downfall in exports. Coupled with the EU's stricter implementation of carbon reduction targets, there will be a significant increase in procurement costs for customers in EU countries, indirectly increasing production costs for manufacturers at the same time. The pressure of rising costs in these aspects will decrease the demand in the EU market in 2018 and reduce the room for growth.

The Group expects that the sales scale of its export of air-conditioning products for the year ended 31 December 2018 will be consistent with that of 2017. The Group will continue to focus on its own brand-building and invest resources and manpower in enhancing brand influence and overseas reputation.

As at 31 December 2017, 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 2017 (2016: nil).

Annual General Meeting

The annual general meeting of the Company will be held on Thursday, 7 June 2018. 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, 4 June 2018 to Thursday, 7 June 2018 (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, 1 June 2018.

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 2017.

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 2017, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provision A.2.1 of the CG Code.

Code Provision A.2.1

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

During the year ended 31 December 2017, 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 24 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 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 2017 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 2017 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 2018.

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.