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 2018

2018 FINANCIAL HIGHLIGHTS

	2018	2017	Change
	RMB million	*RMB million*	*%*
Revenue	**9,169.5**	10,736.5	-14.6
Gross profit	**1,178.9**	1,716.3	-31.3
(Loss) profit for the year	**(480.4)**	47.6	-1,109.2
Total assets	**9,965.2**	10,605.0	-6.0
Net assets	**1,798.0**	2,311.7	-22.2
Basic (loss) earnings per share *(RMB cents)*	**(5.92)**	0.35	-1,791.4
Interim dividends *(HK cents)*	**–**	–	–
Proposed final dividends *(HK cents)*	**–**	–	–
Gross margin	**12.9%**	16.0%	-3.1 percentage points
Net (loss) profit margin	**(5.2)%**	0.4%	-5.6 percentage points

2018 OPERATION HIGHLIGHTS			
	2018	2017	Change
	RMB million	*RMB million*	*%*
PRC sales	**5,596.2**	6,427.7	-12.9
Overseas sales	**3,573.3**	4,308.8	-17.1
Major products type			
Residential air-conditioners	**6,318.2**	7,909.1	-20.1
Commercial air-conditioning products	**1,713.2**	1,444.6	+18.6
Air-conditioner parts and components	**499.6**	797.5	-37.4
Other products	**638.5**	585.3	+9.1
Residential air-conditioning products sold *('000 sets/units)*	**4,330**	5,482	-21.0
Commercial air-conditioning products sold *('000 sets)*	**356**	312	+14.1

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 2018 together with the comparative figures for the corresponding period of 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	**2018**	2017
		RMB'000	*RMB'000*
Revenue	*4*	**9,169,525**	10,736,454
Cost of sales		**(7,990,617)**	(9,020,154)
Gross profit		**1,178,908**	1,716,300
Other income		**65,327**	52,385
Selling and distribution costs		**(860,169)**	(879,656)
Administrative expenses		**(440,442)**	(430,292)
Research and development costs		**(193,007)**	(182,689)
Other expenses		**(5,384)**	(3,944)
Other gains and losses		**41,119**	(44,663)
Impairment losses, net of reversal		**(54,880)**	(6,760)
Net loss in fair value changes on foreign currency forward contracts		**(12,976)**	–
Finance costs		**(184,720)**	(153,985)
(Loss) profit before taxation	*5*	**(466,224)**	66,696
Taxation	*6*	**(14,213)**	(19,065)
(Loss) profit for the year		**(480,437)**	47,631
Other comprehensive expense:			
Item that will not be reclassified subsequently to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(6,309)**	–
Other comprehensive expense for the year		**(6,309)**	–
Total comprehensive (expense) income for the year		**(486,746)**	47,631
(Loss) profit for the year attributable to:			
– owners of the Company		**(499,325)**	29,792
– non-controlling interests		**18,888**	17,839
		(480,437)	47,631
Total comprehensive (expense) income for the year attributable to:			
– owners of the Company		**(505,634)**	29,792
– non-controlling interests		**18,888**	17,839
		(486,746)	47,631
(Loss) earnings per share	*7*		
– Basic and diluted		**(5.92) cents**	0.35 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	NOTES	**2018**	2017
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**1,218,774**	1,300,478
Land use rights		**193,962**	199,260
Intangible assets		**499**	579
Prepaid lease payments		**185,813**	193,599
Deposits paid for acquisition of property, plant and equipment		**36,099**	46,987
Available-for-sale investments		**–**	23,000
Equity instruments at fair value through other comprehensive income		**15,378**	–
Deferred tax assets		**18,713**	21,054
Taxation recoverable		**8,202**	–
		1,677,440	1,784,957
Current assets			
Inventories		**1,941,744**	2,601,656
Trade and other receivables	*8*	**4,912,925**	4,569,165
Land use rights		**5,378**	5,378
Prepaid lease payments		**16,394**	18,310
Taxation recoverable		**860**	9,491
Derivative financial instruments		**4,160**	–
Short-term investments		**–**	1,990
Financial assets at fair value through profit or loss		**14,530**	–
Restricted deposits		**–**	39,205
Pledged bank deposits		**1,054,811**	916,804
Bank balances and cash		**336,918**	658,047
		8,287,720	8,820,046
Current liabilities			
Trade and other payables	*9*	**4,350,008**	4,912,504
Warranty provision		**54,241**	55,620
Taxation payable		**164,818**	161,878
Contract liabilities		**324,543**	–
Borrowings related to bills discounted with recourse		**1,264,567**	965,392
Borrowings		**1,733,291**	1,807,061
Derivative financial instruments		**26**	–
Obligations under finance leases		**139,319**	145,029
		8,030,813	8,047,484
Net current assets		**256,907**	772,562
Total assets less current liabilities		**1,934,347**	2,557,519

	NOTES	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Government grants		**32,328**	33,616
Borrowings		**16,160**	75,589
Obligations under finance leases		**61,981**	110,732
Deferred tax liabilities		**25,837**	25,837
		136,306	245,774
Net assets		**1,798,041**	2,311,745
Capital and reserves			
Share capital	*10*	**71,906**	71,906
Reserves		**1,677,492**	2,191,784
Equity attributable to owners of the Company		**1,749,398**	2,263,690
Non-controlling interests		**48,643**	48,055
Total equity		**1,798,041**	2,311,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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 amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1 January 2021
[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
[5] Effective for annual periods beginning on or after 1 January 2020

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 and by the Hong Kong Companies Ordinance.

4. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	2018	2017
	RMB'000	*RMB'000*
Type of goods:		
Sales of air-conditioning products		
Residential air-conditioners	**6,318,171**	7,909,070
Commercial air-conditioners	**1,713,248**	1,444,565
Air-conditioners' parts and components	**499,557**	797,536
Others	**638,549**	585,283
Total	**9,169,525**	10,736,454
Geographical markets:		
The PRC	**5,596,176**	6,427,673
Asia (excluding PRC)	**1,483,874**	2,104,991
Americas	**1,282,319**	1,378,434
Africa	**288,041**	241,064
Europe	**510,002**	565,326
Oceania	**9,113**	18,966
Total	**9,169,525**	10,736,454

The Group is principally engaged in the manufacturing and sale of air-conditioning products. All revenue generated by the Group is recognised at a point in time when control of the goods has transferred to the customers, being when the goods have been shipped to the specific location (delivery).

All contracts for sales of air-conditioning products are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The PRC	**5,596,176**	6,427,673	**724,577**	1,191,441
Asia (excluding the PRC)	**1,483,874**	2,104,991	**202,812**	275,905
Americas	**1,282,319**	1,378,434	**153,001**	154,633
Africa	**288,041**	241,064	**32,812**	26,899
Europe	**510,002**	565,326	**63,736**	63,401
Oceania	**9,113**	18,966	**1,970**	4,021
	9,169,525	10,736,454	**1,178,908**	1,716,300
Unallocated other income			**65,327**	52,385
Unallocated expenses			**(1,034,375)**	(1,073,680)
Staff costs included in selling and distribution costs and administrative expenses			**(423,139)**	(467,281)
Charitable donations			**(369)**	(283)
Impairment loss recognised in respect of trade receivables			**(54,880)**	(41,422)
Impairment loss reversed in respect of trade receivables			**–**	34,662
Net loss in fair value changes on foreign currency forward contracts			**(12,976)**	–
Finance costs			**(184,720)**	(153,985)
(Loss) profit before taxation			**(466,224)**	66,696

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other income, gains or losses, selling and distribution costs, administrative and other expenses, research and development costs, net loss in fair value changes on foreign currency forward contracts and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

5. (LOSS) PROFIT BEFORE TAXATION

	2018	2017
	RMB'000	*RMB'000*
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration	**2,337**	1,717
Other staff's retirement benefits scheme contributions	**64,941**	70,349
Other staff costs	**779,950**	841,642
	847,228	913,708
Less: Staff costs included in research and development costs	**(50,404)**	(61,354)
Less: Staff costs capitalised as inventories	**(101,089)**	(103,175)
	695,735	749,179
Amortisation of intangible assets included in administrative expenses	**80**	182
Auditor's remuneration	**3,507**	3,359
Cost of inventories recognised as an expense including write down on inventories of RMB7,559,000 (2017: RMB32,952,000)	**7,933,674**	8,969,622
Total depreciation of property, plant and equipment	**186,426**	239,848
Less: Capitalised in inventories	**(25,948)**	(34,321)
	160,478	205,527
Provision for warranty	**56,943**	50,532
Net exchange losses included in other gains and losses	**–**	61,796
Release of prepaid lease payments	**16,844**	20,134
Loss on disposal of property, plant and equipment included in other gains and losses	**–**	2,548
and after crediting:		
Amortisation of government grants	**1,288**	2,738
Government subsidies*	**17,067**	6,512
Interest income	**13,499**	14,163
Net exchange gains included in other gains and losses	**39,989**	–
Sales of scrap materials	**2,930**	6,876
Gain on disposal of property, plant and equipment included in other gains and losses	**1,130**	–
Gain on disposal of a subsidiary included in other gains and losses	**–**	19,681

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

6. TAXATION

	2018	2017
	RMB'000	*RMB'000*
The charge comprises:		
The PRC income tax	**14,798**	24,836
Over provision for prior year	**(2,926)**	(6,723)
Deferred taxation	**2,341**	952
	14,213	19,065

The PRC income tax is calculated at 25% in accordance with the relevant laws and regulations in the PRC except that certain PRC subsidiaries was officially endorsed as High-New Technology Enterprises and eligible to preferential Enterprise Income Tax ("**EIT**") rate of 15% from year 2018 to 2020 (2017: 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. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the year attributable to owners of the Company of RMB499,325,000 (2017: profit of RMB29,792,000) and on the weighted average number of 8,434,178,000 (2017: 8,434,178,000) ordinary shares in issue during the year.

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options because their assumed exercise would result in a decrease in loss per share. The computation of diluted earnings per share for the year ended 31 December 2017 did not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for shares during the year ended 31 December 2017.

8. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**4,936,183**	4,439,268
Less: Allowance for credit losses	**(154,975)**	(93,196)
	4,781,208	4,346,072
Deposits paid to suppliers	**32,347**	59,207
Prepayments	**17,608**	30,722
Advances to staff	**3,844**	6,218
Value-added tax recoverable *(note a)*	**16,754**	11,636
Value-added tax refundable *(note b)*	**9,322**	27,751
Consideration receivables from disposal of a subsidiary	**–**	20,020
Other deposits and receivables	**51,842**	67,539
	4,912,925	4,569,165

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

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

At 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB4,781,208,000 and RMB4,346,072,000, respectively.

The following is an aging analysis of trade receivables net of credit losses presented based on the invoice dates.

	2018	2017
	RMB'000	*RMB'000*
Age		
0 – 30 days	**689,858**	663,833
31 – 60 days	**840,579**	495,122
61 – 90 days	**777,684**	755,313
91 – 180 days	**1,817,086**	1,826,299
181 – 365 days	**436,240**	469,923
Over 1 year	**219,761**	135,582
	4,781,208	4,346,072

9. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**1,511,701**	1,377,004
Bills payables	**2,184,126**	2,541,686
	3,695,827	3,918,690
Advance receipts from customers	**–**	376,659
Payroll and welfare payables	**72,678**	92,928
Other tax payables	**68,247**	67,275
Accruals	**30,843**	16,989
Other interest bearing payables	**71,987**	77,272
Advertising and promotion costs payable	**26,893**	18,677
Transportation costs payable	**7,938**	5,778
Provision for energy-saving subsidies refundable	**199,190**	199,190
Other payables	**176,405**	139,046
	4,350,008	4,912,504

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

	2018	2017
	RMB'000	*RMB'000*
Age		
0 – 90 days	**1,156,928**	1,098,635
91 – 180 days	**1,141,695**	1,400,256
181 – 365 days	**1,350,095**	1,368,307
1 – 2 years	**47,109**	51,492
	3,695,827	3,918,690

10. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	*HKD'000*	*'000*	*HKD'000*
Ordinary shares of HK$0.01 each				
At 1 January 2017, 31 December 2017 and 2018	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at – 31 December 2018 and 2017	71,906

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2018, China's air-conditioning products became more and more popular in the third and fourth-tier markets, and the market saw a continued increase in demand. In China, consumers' demands and choices for air-conditioning products were also more refined than before. Air-conditioning manufacturers took advantage of this opportunity to develop new consumer networks and end-user markets. Through adopting relevant promotional activities and brand publicity means, such products maintained growth in the domestic market, and recorded a year-on-year sales growth compared to last year. However, the air-conditioning product market witnessed a growth slowdown due to two important factors, namely, the lack of widespread hot weather and the underperformance of China's real estate market due to purchase restrictions. The air-conditioning products market witnessed a favourable operating environment at the beginning of 2018. However, after entering the second half, this environment reversed. Due to the continuous control over the real estate market by the Chinese government and the uncertain impact of trade friction between China and the United States, consumers and customers were not optimistic about the market. Consumption intentions and order-placing plans suddenly became cautious and conservative, resulting in a decline in the market performance. Due to the worsening market climate, competition in the air-conditioning industry became increasingly fierce, which generated a pressure on the price of air-conditioning products, resulting in a slight year-on-year decline in annual sales.

In view of the dramatic changes in the business environment in 2018, the domestic sales team of the Group adopted flexible business strategies and continued to adhere to promoting "monthly promotions and weekly discounts" activities, so as to reduce inventories and stimulate sales. The Group also strived to open up new consumer networks and end-user markets, while starting new retail markets at the same time. During the reporting period, in order to promote sales, the Group has implemented a pilot online wholesale strategy in some parts of the country.

As to export of air-conditioning products, according to market data, the Chinese overall market registered a year-on-year growth both in export volume and export sales in 2018.

For the year ended 31 December 2018, the continuous increase in labour costs, raw material costs and logistics costs has caused the Group to increase its export price of air-conditioning products. This has prevented the growth of sales to some extent. In addition, air-conditioning products relied heavily on raw materials. The rising prices of raw materials in China has also increased business risks and pressure. Furthermore, changes in the structure of air-conditioning products, low-price competition among enterprises and other factors have also led to a decline in the average export price. The rising costs and falling export prices have further narrowed air-conditioning export enterprises' profit margins.

Since the beginning of 2018, the fluctuation of RMB exchange rate has brought more challenges to export enterprises. In the short run, the depreciation of RMB (the decline in exchange rate) will bring certain price advantages to the export of household air-conditioning products. In the short run, it can enlarge the profit margin in the export of household air-conditioning products, enhance the international competitiveness of such products, and thus to a certain extent, expand the export volume which may, in turn, increase export orders. However, in the long run, the continued depreciation of RMB will increase the bargaining pressure of export enterprises, which is not conducive to the long-term planning of enterprises, and will cause the cost of overseas importers to rise.

In addition, the uncertainty of the areas to which air-conditioning products were exported during the reporting period, such as political changes in the Middle-East, also hindered the development of the local market, resulting in a year-on-year decline in the volume of air-conditioning products exported to the region.

The main business strategies adopted by the Group in export include (1) giving priority to profits and taking into account the scale of sales; quickly adjusting its price strategy and appropriately reducing orders which will bring loss, especially through strengthening the control over the number of orders from low-price regions; (2) strengthening the products, and maintaining investment. The Group saw a significantly-increased sales share of its new series products. According to the different consumption habits and energy efficiency requirements of the markets of different countries, the Group continuously increased investments in research and development of inverter technology, speeded up research and development of environmentally-friendly refrigerant products, and developed more suitable products for different markets; (3) optimizing the layout to ensure the completion of the key tasks. The Group, in a timely manner, made adjustments to its marketing strategy and market layout to maintain its sales in Latin American and North American markets; (4) enhancing brand image and promoting development. The Group developed more diversified independent brand products to enhance brand influence, which had driven the rise of the gross profit and the increase in OEM brand sales; and (5) strengthening internal capability and enhancing management. The Group has always regarded quality as the lifeline of enterprises, and its goal is to create world-class quality. In recent years, through the help of production system and the improvement of product quality system, the quality of the Group's product has improved comprehensively.

Throughout the year 2018, the Group's commercial air-conditioning sector continued to maintain good performance. The Group recorded a decent growth in all aspects, i.e. sales volume, amount of sales, average unit price of products, and product profits in respect of this sector, which has made a good contribution to the Group's performance for the year ended 31 December 2018.

Operation Review

Sales from major product groups and gross margins

	Year ended 31 December					
	2018		2017		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
Residential air-conditioners						
– split type	**5,809.9**	**63.3**	7,294.4	67.9	-1,484.5	-20.4
– window type	**418.4**	**4.6**	525.8	4.9	-107.4	-20.4
– portable type	**89.9**	**1.0**	88.9	0.8	+1.0	+1.1
	6,318.2	**68.9**	7,909.1	73.6	-1,590.9	-20.1
Commercial air-conditioners	**1,713.2**	**18.7**	1,444.6	13.5	+268.6	+18.6
Air-conditioner parts and components	**499.6**	**5.4**	797.5	7.4	-297.9	-37.4
Others	**638.5**	**7.0**	585.3	5.5	+53.2	+9.1
	9,169.5	**100.0**	10,736.5	100.0	-1,567.0	-14.6

Residential air-conditioning products are the major source of income of the Group and accounted for 68.9% of the total revenue for the year ended 31 December 2018. As the average sales prices increased slightly, but the sales volume of residential air-conditioners decreased remarkably during the reporting period, sales of residential air-conditioners of the Group decreased by 20.1% during the year ended 31 December 2018. As both the average sales prices and sales volume of commercial air-conditioning products of the Group increased year on year, the revenue derived from commercial air-conditioners rose by 18.6% and contributed 18.7% of the total revenue to the Group during the year.

The revenue of air-conditioner parts and components declined by 37.4% during the year mainly due to a decrease 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 2018, revenue of other products increased by 9.1% during the year ended 31 December 2018.

Due to the relative increase in the prices of major raw materials and keen market competition during the year ended 31 December 2018, the gross margin of the Group's residential air-conditioning products dropped from 15.2% in 2017 to 10.3% for the reporting period.

With an increase in the sales ratio of larger and more expensive models elevated, the average selling prices of the Group's commercial products increased. However, this was offset by the increase in average cost of sales, resulting in a decline in the average gross margin of the Group's commercial segment declined from 23.9% in 2017 to 21.9% during the year.

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

	Year ended 31 December					
	2018		2017		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
PRC sales						
CHIGO brand	**4,919.8**	**53.6**	5,495.2	51.2	-575.4	-10.5
HYUNDAI brand	**52.0**	**0.6**	78.7	0.7	-26.7	-33.9
Air-conditioner parts and components	**239.4**	**2.6**	481.2	4.5	-241.8	-50.2
Other products	**385.0**	**4.2**	372.6	3.5	+12.4	+3.3
	5,596.2	**61.0**	6,427.7	59.9	-831.5	-12.9
Overseas sales						
CHIGO brand	**655.2**	**7.2**	666.9	6.2	-11.7	-1.8
OEM	**2,404.4**	**26.2**	3,112.8	29.0	-708.4	-22.8
Air-conditioner parts and components	**260.2**	**2.8**	316.4	2.9	-56.2	-17.8
Other products	**253.5**	**2.8**	212.7	2.0	+40.8	+19.2
	3,573.3	**39.0**	4,308.8	40.1	-735.5	-17.1
	9,169.5	**100.0**	10,736.5	100.0	-1,567.0	-14.6

Due to the strained trade relationship between China and the United States and the continuous control of domestic real estate policies, the market economy became uncertain, causing consumers and end-users to be cautious and conservative. Air-conditioning products sold by the Group in China under the CHIGO brand decreased by 10.5% and accounted for 87.9% of the Group's PRC sales during the year ended 31 December 2018. As the overall sales and production scale of the Group declined in 2018, sales of parts and components in China dropped by 50.2%. As a result of the increases in resale of raw materials and sales of electrical appliances, such as dehumidifiers, sales of other products in China increased by 3.3% during the reporting period.

The Group faced many problems in 2018 including the rising costs, exchange rate fluctuation, and the implementation of trade tax policies and barriers in various overseas regions, and accordingly its OEM sales decreased by 22.8% during the year. Despite the Group's continued efforts in concentrating its resources and strengthening its own brand promotion, a slight decrease of 1.8% in sales under the CHIGO brand was still recorded during the reporting period. As a result, the CHIGO brand and OEM customers contributed to 32.7% and 67.3% of the total overseas sales in 2018 respectively (2017: 27.8% and 72.2% respectively).

Sales and distribution

	Year ended 31 December					
	2018		2017		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
PRC						
Household appliances retail chain operators	**959.8**	**10.5**	1,153.2	10.8	-193.4	-16.8
Regional distributors	**4,636.4**	**50.5**	5,274.5	49.1	-638.1	-12.1
PRC Total	**5,596.2**	**61.0**	6,427.7	59.9	-831.5	-12.9
Overseas						
Regional distributors	**1,168.9**	**12.8**	1,196.0	11.1	-27.1	-2.3
OEM manufacturers	**2,404.4**	**26.2**	3,112.8	29.0	-708.4	-22.8
Overseas Total	**3,573.3**	**39.0**	4,308.8	40.1	-735.5	-17.1
Total Revenue	**9,169.5**	**100.0**	10,736.5	100.0	-1,567.0	-14.6

During the year ended 31 December 2018, due to the decrease in sales of residential air-conditioning products in China, sales from regional distributors decreased by 12.1% and contributed to 82.8% of the Group's PRC sales (2017: 82.1%). Sales generated from household appliances retail chain operators decreased by 16.8% and accounted for 17.2% of the PRC sales in 2018 (2017: 17.9%).

For the overseas markets, although the Group continued to strengthen its brand promotion, its own brand sales decreased during the reporting period, and sales from regional distributors dropped slightly by 2.3%. Furthermore, sales from OEM customers was affected by the weak economy and growth in the major overseas markets and sales from overseas OEM customers decreased by 22.8% in 2018. As such, approximately 67.3% and 32.7% (2017: 72.2% and 27.8%) of the overseas sales were distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2018.

Sets/units sold volume and average sales prices

	Year ended 31 December		Change
	2018	2017	%
Residential air-conditioning products sold *('000 sets/units)*	**4,330**	5,482	-21.0
Commercial air-conditioning products sold *('000 sets)*	**356**	312	+14.1
Average sales price – residential air-conditioning product (per unit)	**RMB1,459**	RMB1,443	+1.1
Average sales price – commercial air-conditioning product (per set)	**RMB4,813**	RMB4,630	+4.0

During the year ended 31 December 2018, sales volume of the Group's residential air-conditioning products decreased by 21.0% as compared to that of 2017. Sales volume of commercial air-conditioning products increased year-on-year and recorded an increase of 14.1% in 2018. In total, the Group sold approximately 4,686,000 units/sets of air-conditioners within the reporting period.

As the domestic market conditions reversed and competition in the air-conditioning industry became fiercer during the year, average selling prices of the Group's residential air-conditioning products increased slightly by 1.1%. Due to the relative increase 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 commercial air-conditioning products during the year ended 31 December 2018.

Breakdown of cost of sales

During the two years ended 31 December 2018, breakdown of the Group's total cost of sales was shown as follows:

	Year ended 31 December					
	2018		2017		Change	
	RMB million	**% of Cost of sales**	*RMB million*	% of Cost of sales	*RMB million*	Change %
Raw materials, parts and components:						
Compressors	**1,826.0**	**22.8**	1,959.0	21.7	-133.0	-6.8
Copper	**1,638.2**	**20.5**	1,778.3	19.7	-140.1	-7.9
Plastic chips	**749.8**	**9.4**	938.0	10.4	-188.2	-20.1
Aluminum	**293.0**	**3.7**	330.3	3.7	-37.3	-11.3
Steel plates	**657.1**	**8.2**	738.2	8.2	-81.1	-11.0
Others *(note)*	**1,831.7**	**22.9**	2,268.4	25.1	-436.7	-19.3
Total	**6,995.8**	**87.5**	8,012.2	88.8	-1,016.4	-12.7
Direct labour cost	**375.2**	**4.7**	392.5	4.4	-17.3	-4.4
Utilities	**61.5**	**0.8**	61.1	0.7	+0.4	+0.7
Production cost	**237.5**	**3.0**	236.3	2.6	+1.2	+0.5
Others	**320.6**	**4.0**	318.1	3.5	+2.5	+0.8
Total cost of sales	**7,990.6**	**100.0**	9,020.2	100.0	-1,029.6	-11.4

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 2018, as the sales scale and volume decreased, the Group's cost of major materials decreased by RMB1,029.6 million or 11.4%.

Financial Review

Revenue

	Year ended 31 December					
	2018		2017		Change	
	RMB million	**% of Revenue**	*RMB million*	% of Revenue	*RMB million*	Change %
Geographic region						
PRC sales	**5,596.2**	**61.0**	6,427.7	59.9	-831.5	-12.9
Asia (excluding PRC)	**1,483.9**	**16.2**	2,105.0	19.6	-621.1	-29.5
Americas	**1,282.3**	**14.0**	1,378.4	12.8	-96.1	-7.0
Africa	**288.0**	**3.1**	241.1	2.2	+46.9	+19.5
Europe	**510.0**	**5.6**	565.3	5.3	-55.3	-9.8
Oceania	**9.1**	**0.1**	19.0	0.2	-9.9	-52.1
Overseas sales	**3,573.3**	**39.0**	4,308.8	40.1	-735.5	-17.1
Total revenue	**9,169.5**	**100.0**	10,736.5	100.0	-1,567.0	-14.6

During the year ended 31 December 2018, the Group's total revenue was approximately RMB9,169.5 million (2017: RMB10,736.5 million), representing a decrease of RMB1,567.0 million, or 14.6% as compared to the corresponding period in 2017. The decrease in revenue was principally due to the deterioration in the global economic conditions, particularly in the second half of 2018.

PRC Sales

Due to the strained trade relationship between China and the United States and the continuous control of domestic real estate policies, the market economy became uncertain, causing consumers and end-users to be cautious and conservative, the Group's PRC sales decreased by RMB831.5 million or 12.9% to RMB5,596.2 million (2017: RMB6,427.7 million) for the year ended 31 December 2018. As a result, domestic sales accounted for 61.0% (2017: 59.9%) of the Group's total revenue during the year ended 31 December 2018.

Overseas Sales

For the year ended 31 December 2018, the Group's overseas sales was adversely affected by the rising costs, exchange rate fluctuation, and the implementation of trade tax policies and barriers in various overseas regions and dropped to RMB3,573.3 million (2017: RMB4,308.8 million). The decrease in overseas sales amounted to RMB735.5 million, representing a year-on-year decrease of 17.1%.

The Group saw decreases in sales in most of the overseas regions. Asia (excluding PRC), Americas, Europe and Oceania declined by 29.5%, 7.0%, 9.8% and 52.1% respectively. However, the Group had sales rebound in Africa and recorded an increase of 19.5% in 2018. Among the overseas markets of the Group, the main sources of revenue were Asia (excluding PRC) and Americas, which accounted for 16.2% and 14.0% respectively (2017: 19.6% and 12.8% respectively) of the Group's revenue during the year ended 31 December 2018.

Since the Group's overseas sales had recorded a greater decrease, export sales decreased to 39.0% (2017: 40.1%) of the Group's total revenue for the year ended 31 December 2018.

Cost of sales

Due to the decreased sales and revenue in 2018, cost of sales dropped to RMB7,990.6 million (2017: RMB9,020.2 million), representing a decrease of RMB1,029.6 million or 11.4% as compared to that of 2017.

Gross profit

Due to the decrease in its revenue and relative increase in costs of major raw materials during the year, the Group recorded a gross profit of RMB1,178.9 million for the year ended 31 December 2018 (2017: RMB1,716.3 million), which represented a decrease of RMB537.4 million or 31.3%.

As a result, the Group's gross margin deteriorated from 16.0% in 2017 to 12.9% for the year ended 31 December 2018.

Because of the rapid reversal of the favorable situation in the domestic market during the year, and the fierce competition in the air-conditioning industry, the Group's gross margin of PRC sales narrowed down to 12.9% (2017: 18.5%) in 2018. On the other hand, due to the appreciation of US dollars to Renminbi and the cutting back of some unprofitable orders, the gross margin of overseas sales of the Group increased slightly to 12.7% (2017: 12.2%) in 2018. All the overseas sales regions recorded profit margin growth in 2018, while Asia (excluding PRC) and Oceania contributed the most to the profitability of the Group and achieved gross margins of 13.7% and 21.6% respectively.

Other income

Other income which included mainly the interest income and non-operating income was RMB65.3 million (2017: RMB52.4 million), representing an increase of RMB12.9 million or 24.6%.

Selling and distribution costs

The Group's selling and distribution costs decreased to RMB860.2 million (2017: RMB879.7 million), representing a decrease of RMB19.5 million or 2.2% for the year ended 31 December 2018. The decrease in selling and distribution costs was mainly due to the decreases in (i) salaries and benefits of the selling and distribution staff; and (ii) transportation costs during the year.

Administrative expenses

Administrative expenses of the Group increased and amounted to RMB440.4 million (2017: RMB430.3 million), representing an increase of RMB10.1 million or 2.3% for the year ended 31 December 2018. The increase in administrative expenses was mainly due to increases in (i) accruals; and (ii) inspection and appraisal fees during the year.

Research and development costs

Research and development ("**R&D**") costs increased to RMB193.0 million (2017: RMB182.7 million) by 5.6% or RMB10.3 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 rose by RMB1.4 million or 36.5% during the year ended 31 December 2018 (2017: RMB3.9 million) and amounted to RMB5.4 million. Other expenses were mainly non-operating expenses and donations.

Other gains and losses

The Group recorded other gains of RMB41.1 million (2017: losses of RMB44.7 million) in 2018. The other gains were mainly the net exchange gains recorded during the year.

Net impairment losses

The net amount of impairment losses recognised on trade receivables was RMB54.9 million (2017: RMB6.8 million) in 2018. The increase was mainly due to no reversal of impairment losses recorded in the period under review.

Net loss in fair value changes of foreign currency forward contracts

The Group had entered into certain foreign currency forward contracts to sell US dollars with financial institutes to hedge against part of its overseas sales income. The Group recorded a net loss in fair value changes of approximately RMB13.0 million (2017: nil) under its foreign currency forward contracts during the year ended 31 December 2018.

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 2018, the finance costs of the Group increased by RMB30.7 million or 19.9% to RMB184.7 million (2017: RMB154.0 million) due to a higher average balance of borrowings.

Taxation

As the Group recorded a loss before taxation, the Group's tax charge for the year ended 31 December 2018 decreased by RMB4.9 million or 25.7% to RMB14.2 million (2017: RMB19.1 million).

Loss for the year and total comprehensive expense for the year

As a result of the foregoing, the Group recorded a loss of RMB480.4 million for the year ended 31 December 2018 (2017: profit of RMB47.6 million), representing a decrease of RMB528.0 million or 1,109.2% as compared to the corresponding period in 2017. As the Group recorded a loss during the reporting period, its net loss margin was 5.2% (2017: net profit margin of 0.4%) for the year ended 31 December 2018 accordingly.

Financial position

	As at 31 December			
	2018	2017	Change	Change
	RMB million	*RMB million*	*RMB million*	*%*
Non-current assets	**1,677.4**	1,785.0	-107.6	-6.0
Current assets	**8,287.7**	8,820.0	-532.3	-6.0
Current liabilities	**8,030.8**	8,047.5	-16.7	-0.2
Non-current liabilities	**136.3**	245.8	-109.5	-44.5
Net assets	**1,798.0**	2,311.7	-513.7	-22.2

As at 31 December 2018, the Group's total consolidated assets decreased by RMB639.9 million or 6.0% to RMB9,965.1 million (2017: RMB10,605.0 million). The decrease was mainly due to the decrease in inventories (decreased by RMB660.0 million) and cash and bank balance (decreased by RMB321.1 million), which was partly offset by the increase in trade and other receivables (increased by RMB343.8 million). Total consolidated liabilities of the Group as at 31 December 2018 amounted to RMB8,167.1 million (31 December 2017: RMB8,293.3 million) and decreased by RMB126.2 million or 1.5%. The major liabilities that decreased in the period were trade and other payables (decreased by RMB562.5 million), borrowings (decreased by RMB133.2 million) and obligations under finance leases (decreased by RMB54.5 million), which was offset by the increases in borrowings related to bills discounted with recourse (increased by RMB299.2 million) and contract liabilities (increased by RMB324.5 million).

As the Group recorded a net loss for the year, the Group's net assets decreased by 22.2% or RMB513.7 million to RMB1,798.0 million at the end of 2018 (2017: RMB2,311.7 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 2018, the Group had current assets amounted to RMB8,287.7 million (2017: RMB8,820.0 million) and current liabilities amounted to RMB8,030.8 million (2017: RMB8,047.5 million). The Group's working capital decreased by RMB515.6 million or 66.7% from RMB772.5 million as at the end of 2017 to RMB256.9 million at the end of 2018. Due to the decrease in the Group's net current assets, current ratio declined to 1.0 times (2017: 1.1 times) as at 31 December 2018.

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, borrowings and finance lease arrangements of longer tenure matching with the project period were sought for from the banks to serve this purpose.

In 2018, 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 2018, the balances of short-term and long-term borrowings utilised by the Group were RMB1,733.3 million and RMB16.2 million respectively (2017: RMB1,807.1 million and RMB75.6 million respectively). Short-term and long term borrowings decreased by RMB73.8 million and RMB59.4 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.

For the year ended 31 December 2018, the Group also enhanced its working capital position and obtained medium term financing by entering into finance lease arrangements. As at the end of 2018, the Group had an obligation under finance leases of approximately RMB201.3 million (2017: RMB255.8 million).

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased slightly to 19.5% as at 31 December 2018 (2017: 20.2%) 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 19.9% or RMB30.7 million for the year ended 31 December 2018 as compared to the same period in 2017.

Since the Group recorded a net loss for the year, the Group's ability to meet finance costs, as indicated by interest cover, dropped and deteriorated during the reporting period (2018: N/A, 2017: 1.4 times).

During the year, the Group entered into certain foreign currency forward contracts to hedge against part of its exposure on potential variability of foreign currency risk. The net financial exposure of the Group to these foreign currency financial instruments was net assets of approximately RMB4.1 million (2017: nil) as at the year end.

As at 31 December 2018, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue and all of the issued shares were ordinary shares. Since the Group recorded a net loss for the year, the shareholders' equity decreased to RMB1,798.0 million as at 31 December 2018 (2017: RMB2,311.7 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 2018.

Cash flows

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Operating cash flows before movements in working capital	**43.7**	542.4
Movements in working capital	**194.4**	(375.0)
Net cash from operating activities	**238.1**	167.4
Net cash used in investing activities	**(177.7)**	(235.6)
Net cash used in financing activities	**(381.5)**	(65.7)
Net decrease in cash and cash equivalents	**(321.1)**	(133.9)
Cash and cash equivalents at 31 December	**336.9**	658.0

For the year ended 31 December 2018, the Group had operating cash inflows of RMB43.7 million (2017: inflows of RMB542.4 million). During the year, due to the worsening market conditions, the Group reduced its inventories, but the trade and other receivables also increased in the same period. Total cash generated from such working capital amounted to approximately RMB194.4 million. As such, the Group generated net cash of RMB238.1 million (2017: RMB167.4 million) from its operating activities for the year ended 31 December 2018.

The Group placed net amount of RMB138.0 million as pledged bank deposits. The Group applied part of the cash generated amounting to RMB73.0 million for the acquisitions of property, plant and equipment and RMB36.1 million for the payment of deposits in respect of such acquisitions. As a result, the Group used net cash of RMB177.7 million (2017: RMB235.6 million) in its investing activities in 2018.

The Group obtained funding from sale and leaseback arrangements of RMB113.0 million. Part of the cash generated was applied to repay obligations under finance leases amounting to RMB167.5 million and borrowings of net amount of RMB133.2 million, and to pay interests of RMB175.5 million. As such, the Group used net cash of RMB381.5 million (2017: RMB65.7 million) in its financing activities.

As a result of the foregoing, the Group's cash balances decreased by RMB321.1 million during the year ended 31 December 2018 and bank balances and cash amounted to RMB336.9 million at the end of 2018 (2017: RMB658.0 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 9 February 2018, Chigo Precision Machinery Co., Ltd ("**Chigo Precision**"), 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 Precision at an aggregate consideration of approximately RMB31,572,000 and lease the equipment back to Chigo Precision for a period of 36 months.

On 27 August 2018, Chigo Precision 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 Chigo Precision at an aggregate consideration of RMB20,000,000 and lease the equipment back to Chigo Precision for a period of 36 months.

On 10 September 2018, Guangdong Chigo Kechuang Copper Co., Limited ("**Kechuang**"), an indirect wholly-owned subsidiary of the Company, had entered into a finance lease arrangement with Sinopharm Holding (China) Finance Leasing Co., Ltd. ("**Sinopharm Leasing**"), pursuant to which Sinopharm Leasing had conditionally agreed to purchase certain machinery and equipment from Kechuang at an aggregate consideration of RMB50,000,000 and lease the equipment back to Kechuang 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 2018. During and as at the end of the reporting period, the Group had not held any significant investments.

Charge on assets

As at 31 December 2018, certain bank deposits, bank acceptance bills and inventories of the Group in an aggregate carrying amount of approximately RMB1,115.7 million (2017: RMB1,055.9 million) were pledged to certain banks for securing the banking facilities granted to the Group.

Exposure to fluctuations in exchange rates

During the year ended 31 December 2018, approximately 39% 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 entered into certain foreign currency forward contracts to hedge against foreign exchange risk. Since Renminbi had depreciated against the US dollar during the year, the Group recorded net exchange gains for the year ended 31 December 2018.

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 2018, 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 RMB87.5 million (2017: approximately RMB76.4 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 2018.

Employees and Remuneration

As at 31 December 2018, the Group employed 11,454 employees (2017: 12,869 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 4 January 2019, Guangdong Chigo Air-conditioning Co., Limited ("**Guangdong Chigo**"), an indirect wholly-owned subsidiary of the Company, entered into a finance lease arrangement with Yaoda Leasing, pursuant to which Yaoda Leasing has conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of approximately RMB30,000,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

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

Outlook and Future Plans

In view of the volatility of the market in 2019 and the continued impact of the trade war, the domestic sales team of the Group has slightly lowered the marketing growth goal in 2019, and plans to increase sales by improving product structure and lowering cost, in order to increase average price and gain greater gross margins.

The market economy in 2019 is still uncertain. In order to respond to this situation, the Group has implemented internal reforms, such as establishing six profit centres and business departments for the purpose of breaking bad habits in product R&D and internal management and optimizing its operation strategy and costs, in order to boost the confidence of the teams and customers in the development of the Group and to prove itself through performance.

As to overseas markets, the Group expects that local trade risks still exist. The adjustment of the tariff policy resulting from Sino-US trade war has a certain negative impact on China's air-conditioning manufacturers. However, China is the global manufacturing centre of the air-conditioning industry. It is expected that China's air-conditioning industry will not be shakened by these trade frictions in this market position. Chinese brands have comprehensive advantages in technology, products, market, pipeline and manufacturing. The development of Sino-US trade frictions has also brought great uncertainty to the fluctuation of exchange rate. Since the beginning of 2019, the RMB has been appreciating, which will increase the pressure on air-conditioning export enterprises.

In order to respond to all the above situations, the Group will increase R&D investment overseas. Also, the Group will focus on standardized, smart and customized air-conditioning products in the future under the technology development trend, which will be increasingly energy-saving and environmentally-friendly. In addition, under the changing macro-demand, the Group will upgrade from its traditional output capacity, foreign exchange earnings, and OEM model to one focusing on self-brand promotion, technological innovation, local adaptation and so on.

As at 31 December 2018, 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 2018 (2017: nil).

Purchase, Sale or Redemption of Listed Shares of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company since the shares of the Company were successfully listed on the Main Board of the Stock Exchange during the year ended 31 December 2018.

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 2018, 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 2018, 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 25 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 2018 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 2018 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, 28 March 2019

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