CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 449

CHIGO •
LEADER OF HIGH-END AIR-CONDITIONING

Annual Report

2016

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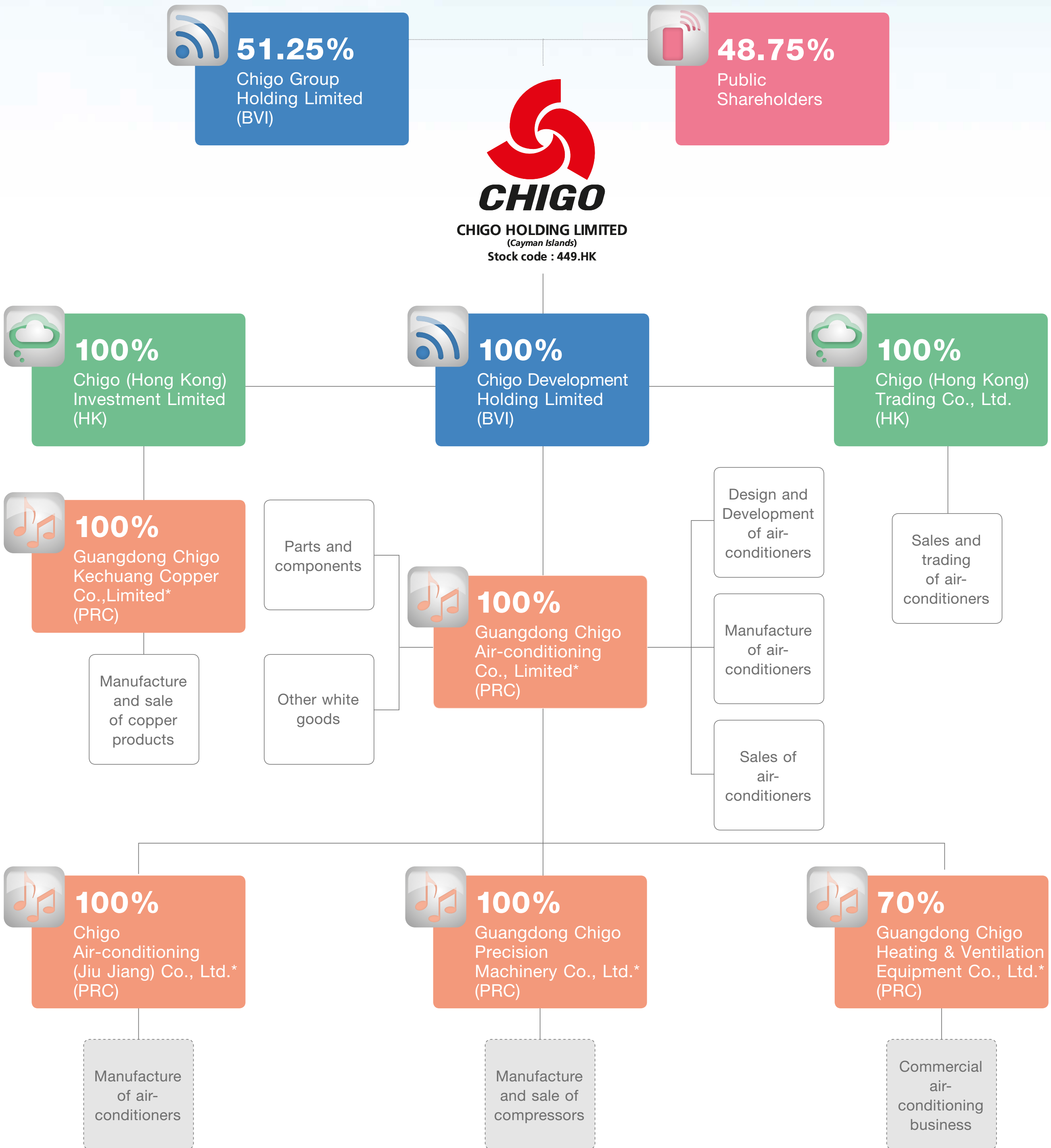
GROUP STRUCTURE



* The English names are provided for identification purpose only

Chigo Holding Limited (the "Company") and its subsidiaries (together with the Company "Chigo" or the "Group") were founded in 1994, and has become one of the top air-conditioner brands in the People's of Republic of China (the "PRC"). The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products.

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Ms. Li Xiuhui *(appointed on 13 July 2016)*
Mr. Cheng Jian *(appointed on 13 July 2016)*
Ms. Huang Guijian *(appointed on 2 September 2016)*
Dr. Zheng Zuyi *(resigned on 13 July 2016)*
Dr. Ding Xiaojiang *(resigned on 2 September 2016)*
Mr. Huang Xingke *(resigned on 13 July 2016)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Xiaoming
Mr. Fu Xiaosi
Mr. Wang Manping *(appointed on 13 July 2016)*
Mr. Wan Junchu *(resigned on 13 July 2016)*

COMPANY SECRETARY

Mr. Leung Hon Man

REGISTERED OFFICE OF THE COMPANY

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 01, 9th Floor
Greenfield Tower (South Tower)
Concordia Plaza
No.1 Science Museum Road
Tsimshatsui, Kowloon
Hong Kong

HEADQUARTERS OF THE GROUP

Shengli Industrial District, Lishui Town
Nanhai, Foshan, Guangdong
China
Post Code: 528244

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Bank of China, Foshan Nanhai Lishui Branch
China Construction Bank, Foshan Nanhai Lishui Branch
China Citic Bank, Foshan Branch
China Minsheng Bank, Foshan Branch
Agricultural Bank of China, Foshan Nanhai Lishui Branch
China Everbright Bank, Shenzhen Huali Road Branch
Bank of Communications, Foshan Branch
Standard Chartered Bank (Hong Kong) Limited

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER AS TO HONG KONG LAW

Reed Smith Richards Butler

LISTING INFORMATION

Listing:	Main Board of The Stock Exchange of Hong Kong Limited
Stock code:	449
Listing date:	13 July 2009
Board lot size:	2,000 shares
As at 31 December 2016:	
No. of shares issued:	8,434,178,000 shares
Market capitalisation:	HKD868.7 million

CORPORATE WEBSITES

www.china-chigo.com
www.irasia.com/listco/hk/chigo/index.htm

CORPORATE CONTACT INFORMATION FOR SHAREHOLDERS AND INVESTORS

HONG KONG

Please contact our Company Secretary at:
Telephone: (852) 2997 7449
Facsimile: (852) 2997 7446
Email: ir@china-chigo.com.hk

PRC

Please contact our Investment and Securities Department at:
Telephone: (86) 757 8878 3289
Facsimile: (86) 757 8562 8012

March

According to the newly released Survey Report on the Online Market Reputation of Chinese Air-conditioner Brands 2016 (2016年度中國空調市場品牌網絡口碑調查研究報告), among the top 10 air-conditioner brands, Chigo has achieved excellent performance in various indicators with a combined score of 90.15 in terms of the three indictors in respect of online reputation, topping the list among the top 10 air-conditioner brands in this regard.


中国空调品牌
网络口碑调查研究报告

中国十大空调品牌网络口碑排行榜

1	志高	90.15	志高空调
2	海尔	89.15	Haier
3	松下	85.47	Panasonic
4	美的	82.05	Midea
5	格力	75.28	GREE
6	格兰仕	72.80	Galanz 格兰仕
7	奥克斯	72.59	AUX
8	长虹	70.71	CHANGHONG
9	TCL	69.14	TCL
10	海信科龙	55.90	Hisense

Chigo was selected as the "Benchmark Enterprise for Application of Rights of Industrial Intelligent Property (工業智慧財產權運用標杆企業)" in China. Only 60 enterprises from different sectors across the country were selected, and Chigo was the only professional air-conditioner manufacturer on the list.

The air-conditioners manufactured by Chigo won the procurement tender of residential air-conditioners project of Rio Olympics. 20,000 sets of split type air-conditioners were installed in Rio Olympic Village, which marked another benchmark global project for Chigo in the overseas market.

April

The opening of the 119th Canton Fair took place on 15 April. Chigo participated in the fair with the whole series of its products and was again covered in authoritative media such as CCTV's News Simulcast and Guangdong TV's News Simulcast, through which the brand image of "Chigo • Leader of high-end air-conditioning" has gained extensive attention and recognition from the society.

May

The Evaluation Committee for Top 500 Chinese Enterprises by Brand Value (中國品牌價值500強評審委員會) announced the 10th Top 500 Chinese Enterprises by Brand Value (第十屆中國品牌價值500強榜單) on 12 May. With its strong brand influence and consistent outstanding market performance in China, Chigo ranked 197th with a brand value of RMB16.721 billion.

July

After winning the procurement tender of phase 1 of the centralized procurement project of air-conditioner of Central Government departments (中央國家機關空調集採專案一期), Chigo once again won the tender of all projects under phase 3 of the 2016 centralized bulk procurement project of air-conditioner of Central Government departments (中央國家機關2016年空調批量集中採購專案第三期) on 21 July, with a tender amount of RMB27.60 million.

Sep

On 3 September, Chigo officially commenced the establishment of Amoeba operating system to release the potential of its corporate operation by continuing to deepen the transformation of its corporate operating system and building a mechanism for all employees to participate in the operation.

As one of the top four air-conditioner manufacturers in the industry in China, Chigo organized the "New Product Launch and Master Series Experience Event of 3rd Generation CHIGO Smart King (志高智能王第3代新品發佈暨工匠大師精品全民體驗會)" in Heshan, Guangdong in the morning on 23 September. Under the theme of "High-end air-conditioning makes cleaner air (高端空調讓空氣更甜)", the product launch marked the debut of the "3rd Generation CHIGO Smart King Air-conditioner (第3代智慧王空調)" and the experience programme with an insurance amount of RMB4 billion, which were well received by the household appliance industry.

Nov

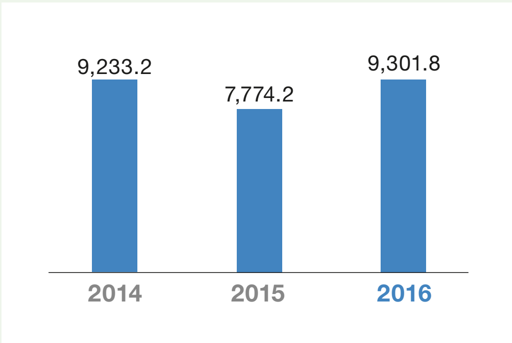
Consumer Report, a third party authoritative media, purchased the inverter air-conditioners with over 1 HP and Grade 1 energy efficiency from six brands, namely Haier, Gree, Media, Chigo, Panasonic and Daikin, and sent these air-conditioners to a third party authoritative testing organization for comparative tests in terms of energy consumption, cooling performance and smart experience. The test results indicated that Chigo ranked first in smart index and was the all-round champion in terms of combined performance.

On 17 November, the Global Distributor Conference 2017 of the Chigo Group with a theme of "Thankful • Win-Win • Transcending" was grandly held in Dubai, which was the first time for Chigo to hold its distributor conference overseas. Over 200 overseas distributor representatives were invited to meet in Dubai, "the Venice of the East", from all over the world to discuss the development of internationalisation of Chigo.

FINANCIAL HIGHLIGHTS

REVENUE

19.6%

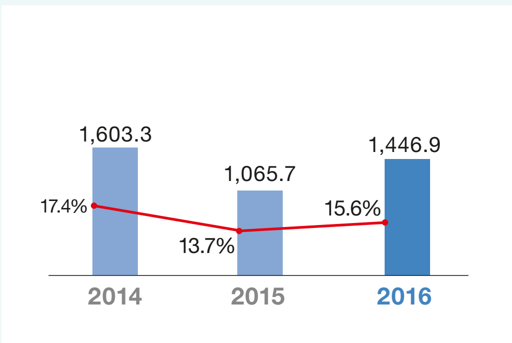


- **Revenue increased by 19.6% in 2016**

Revenue *(RMB million)*

GROSS PROFIT AND GROSS MARGIN

35.8%

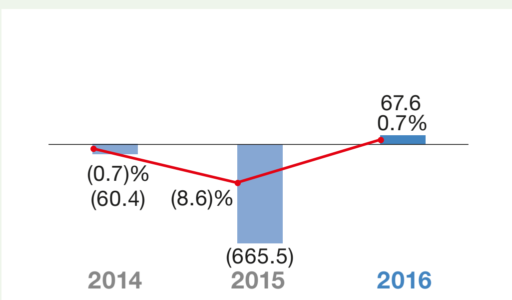


- **Gross profit increased by 35.8%**
- Gross margin improved from 13.7% to 15.6%

Gross profit *(RMB million)*

PROFIT FOR THE YEAR AND NET PROFIT MARGIN

110.2%

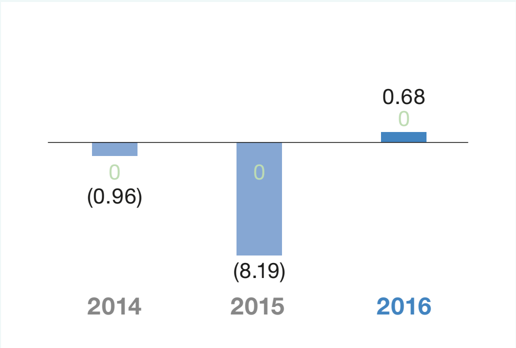


- **Due to (i) the increases in revenue and gross profit; (ii) decrease in finance costs; and (iii) no provision in respect of the possible return of certain subsidies for the sale of energy-saving air-conditioners has been made for the current year.**
- Net profit increased by 110.2%
- Net profit margin improved to 0.7% for the year

Net profit (loss) *(RMB million)*

EARNINGS PER SHARE (EPS) AND DIVIDEND PER SHARE (DPS)

108.3%

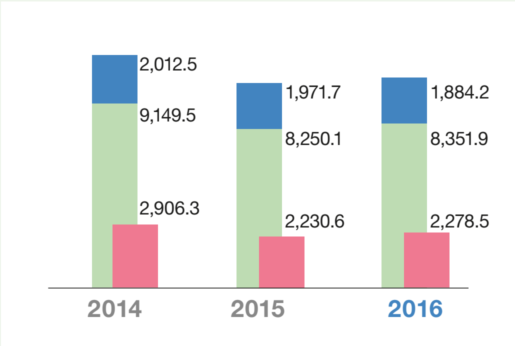


- **Net profit for the year increased substantially**
- Basic earnings per share increased by 108.3%
- No final dividend was declared for the year ended 31 December 2016

Earnings (loss) per share *(RMB cents)*
DPS *(HK cents)*

TOTAL ASSETS AND NET ASSETS

0.14%



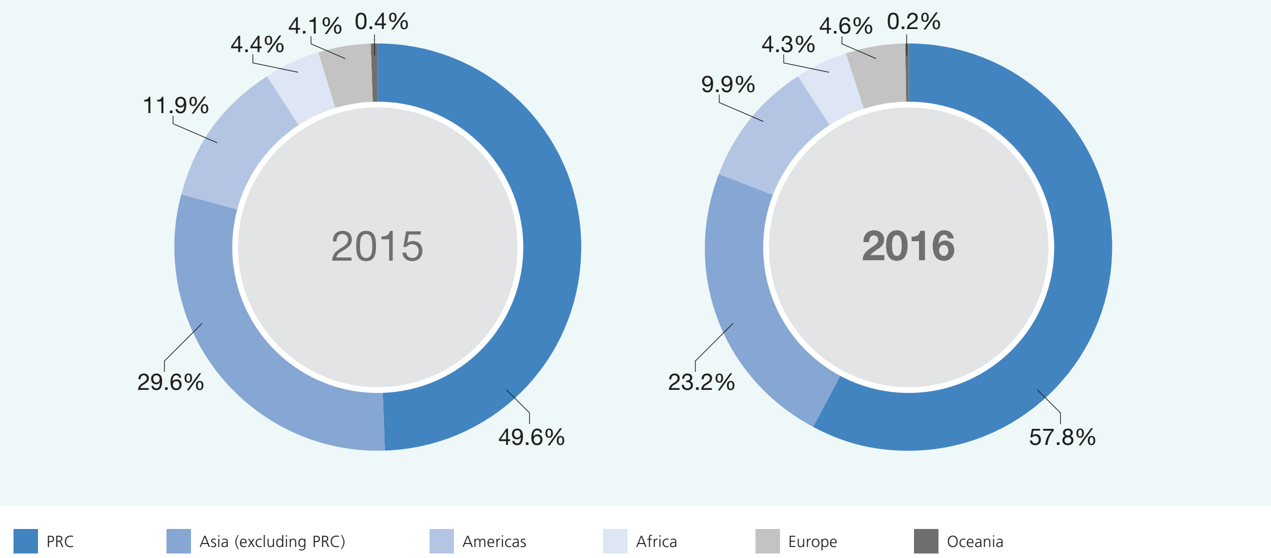
- **Non-current assets decreased by 4.4% and current assets increased by 1.2%**
- Total consolidated assets increased by 0.14%
- As the Group recorded a net profit for the year Net assets increased by 2.1%

Non-current assets *(RMB million)*
Current assets *(RMB million)*
Net assets *(RMB million)*

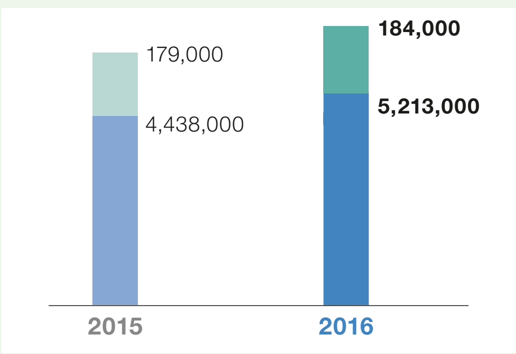
OPERATION HIGHLIGHTS

PRC AND OVERSEAS SALES

- **PRC sales increased sharply by 39.3% and amounted to 57.8% of the total revenue**
- **Overseas sales increased slightly by 0.3% and amounted to 42.2% of the total revenue**



UNIT SALES VOLUME



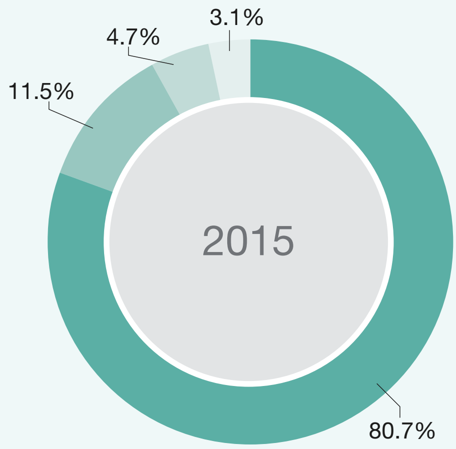
- **5.2 million sets/units** of residential air-conditioners **sold and increased by 17.5%**
- **184,000 sets** of commercial air-conditioners **sold and increased by 2.8%**

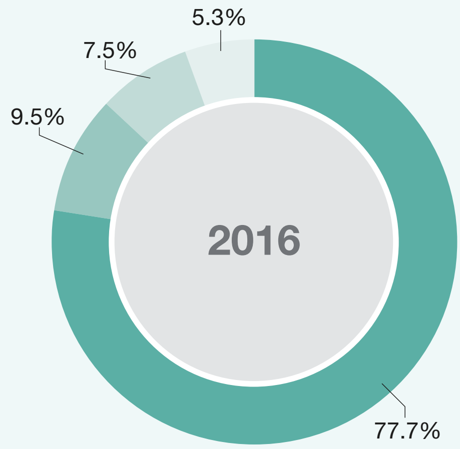
Commercial air-conditioning products *(Sets)*

Residential air-conditioning products *(Sets/units)*

MAJOR PRODUCTS TYPE

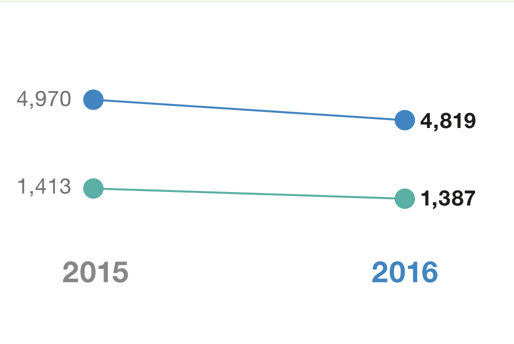
- Despite the slight decrease in average sales prices, the sales volume increased remarkably
  Sales of residential air-conditioners increased by 15.3% and accounted for 77.7% of the total revenue
  Revenue of commercial air-conditioners dropped slightly by 0.6% and contributed 9.5% of the total revenue to the Group
- Revenue of **air-conditioners parts and components increased sharply by 88.9%**
- Revenue of other products increased significantly by 101.9%





Residential air-conditioners | Commercial air-conditioning products | Air-conditioner parts and components | Other products

AVERAGE SELLING PRICE (ASP)



- Due to the decreases in prices of the major raw materials, the ASP of the **residential air-conditioning products decreased slightly** by **1.8%**
- The ASP of the **commercial air-conditioning products fell slightly by 3.0%**

Residential air-conditioning products *(RMB)*

Commercial air-conditioning products *(RMB)*

CHAIRMAN'S STATEMENT

"CHIGO • LEADER OF HIGH-END AIR-CONDITIONING"

Li Xinghao
Chairman and Chief Executive Officer

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Chigo Holding Limited, I am pleased to present the audited annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016.

SUMMARY OF BUSINESS RESULTS

Looking back a year ago, I had announced that Chigo would enter a term of transformation, upgrade and reform and I promised to take the lead by example, and lead the Group to enhance its operational efficiency with the strategy of "four enhancements": brand enhancement, products enhancement, team capacity enhancement and services enhancement. Now Chigo has the result. For the year ended 31 December 2016, the results of the Group have not only seen a turnaround, but also shown significant improvement in revenue and operating performance. During 2016, revenue increased by 19.6% to approximately RMB9.3 billion. On the other hand, the Group launched three key strategies, namely, high-end, intelligence and globally-oriented branding, on its products. The business development of Chigo was very encouraging in the domestic market and abroad during 2016. Despite the downturn of the general economy, Chigo achieved outstanding result of improvement in both sales amount and volume.

In 2016, the Group launched a series of online and offline marketing and promotional activities featuring our intelligent and sophisticated branding. We rely on value-based competition and become one of a few companies with sustainable growth. During the year, the domestic sales of the Group recorded a remarkable growth and the domestic operating revenue increased by nearly 40%. As for the overseas presence, Chigo has its global business coverage of more than 200 countries and regions since its efforts of exploring the overseas market for at least a decade and has now registered its proprietary trademark of 'CHIGO' in more than 150 countries. In addition, Chigo has been granted various certifications internationally, paving the way for the global development of the Group in full swing. As such, the Group maintained a steady growth in exports for 2016; in particular, Chigo recorded a strong growth in developed markets such as North America and Europe where global high-end brands have their presence, resulting in an outstanding performance in first-tier overseas markets.

In 2016, the Commercial Team of the Group still had very outstanding performance, despite a slight drop in revenue, the operational efficiency and gross margin were maintained. This made an enormous contribution to the Group.

During the period under review, the Group put in efforts in controlling operating expenses. Coupling with the increase in revenue and gross profit arising from the improved business performance, Chigo avoided the unfavorable factors in the general industry and made breakthrough with an exceptional growth in 2016. The annual results recorded a net profit of RMB67.60 million, representing a turnaround year-on-year.

OUR GOAL OF 2017: STRIVING FOR THE LEADING POSITION IN THE INDUSTRY

Chigo will continue to push forward the "Amoeba" operating mode and effectively implement the concept of "layer-by-layer leadership, everyone is in charge, comprehensive data management" so as to acquire a leading position in terms of products, quality and management. I hereby call for all staff of Chigo to well-equip themselves with ambition, self-confidence, perseverance, humility, gratefulness and conscience in order to further gain market share and strive for the victory over the competitors in terms of the peak-season sales with every confidence.

Without exception, Chigo look abroad in 2017. Leveraging on the two competitive edges of intelligence and high-end oriented branding, Chigo will continue to cooperate with our global partners. The Group believes that proprietary brand comprises the foundation of corporate development. Based on the strategic planning of China and our own development needs, Chigo will vigorously explore the overseas market. With the competitive advantages recognized by distributors such as satisfactory products, services and high cost-effectiveness, Chigo will develop the sales network of its proprietary brand.

ACKNOWLEDGEMENT

Lastly, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and suppliers, banks and outstanding staff for their support and trust. The Group is confident in its future prospect and hopes to make progress in joint efforts with all its stakeholders to bring about better results for Chigo.

Li Xinghao
Chairman and Chief Executive Officer
Foshan, 29 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

As the domestic air-conditioning market was still challenging in 2016, the Group adjusted its strategy by strengthening its cooperation with traditional distributors, chain stores and e-commerce operators to realise the development depth in distribution channels and to share value with its customers. As such, the domestic sales and the domestic market share of the Group improved remarkably. Furthermore, the extensively hot summer in China led to a surge in demand for air-conditioning products, which also had a positive effect on the sales of domestic

air-conditioning products and helped digest inventories. During the year, the Group's sales of self-manufactured air-conditioner parts and components rose sharply. As a result, during the year ended 31 December 2016, domestic sales and revenue of the Group's major air-conditioning products recorded a substantial increase as compared to that of the same period in 2015.

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

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

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

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

OPERATION REVIEW

SALES FROM MAJOR PRODUCT GROUPS AND GROSS MARGINS

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

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

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

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

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

SALES FROM BRANDS AND ORIGINAL EQUIPMENT MANUFACTURING ("OEM")

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

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

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

SALES AND DISTRIBUTION

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

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

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

SETS/UNITS SOLD VOLUME AND AVERAGE SALES PRICES

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

During the year ended 31 December 2016, sales volume of the Group's residential air-conditioning products rose by 17.5% as compared to that of 2015. Sales volume of commercial air-conditioning products increased year-on-year and recorded an increase of 2.8% in 2016. In total, the Group sold approximately 5,397,000 units/sets of air-conditioners within the reporting period.

Due to the decreases in prices of the major raw materials, average cost of sales of air-conditioning products declined which in turn slowed down the growth in selling prices during the year ended 31 December 2016. As market competition was fierce in the air-conditioning industry, the average selling prices of the Group's residential and commercial air-conditioning products fell slightly by 1.8% and 3.0% respectively.

BREAKDOWN OF COST OF SALES

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

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

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

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

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

FINANCIAL REVIEW

REVENUE

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

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

PRC SALES

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

OVERSEAS SALES

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

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

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

COST OF SALES

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

GROSS PROFIT

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

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

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

OTHER INCOME

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

SELLING AND DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

EQUITY-SETTLED SHARE BASED PAYMENTS

The Group recorded an equity-settled share based payments of RMB5.6 million (2015: RMB7.4 million) for the year ended 31 December 2016 in relation to the share options granted by the Company to certain employees (including directors) and customers in 2011. This non-cash expense decreased by RMB1.8 million or 24.3% during the year.

RESEARCH AND DEVELOPMENT COSTS

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

OTHER EXPENSES

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

OTHER GAINS AND LOSSES

The Group recorded other gains of RMB58.0 million (2015: other losses of RMB36.2 million) in 2016. The other gains were mainly the exchange gains recorded during the year.

NET GAIN IN FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group had entered into certain foreign currency forward contracts to sell and buy US dollar with financial institutes to hedge against part of its overseas sales income and US dollar loans respectively. The Group recorded a net gain in fair value changes of approximately RMB2.5 million (2015: RMB3.6 million) under its foreign currency forward contracts of the Group during the year ended 31 December 2016.

FINANCE COSTS

The Group financed its working capital requirement through different arrangements including bank loans, discounted bills receivable from customers to financial institutes, corporate debentures and finance lease. During the year ended 31 December 2016, the finance costs of the Group decreased by RMB36.0 million or 19.3% to RMB150.2 million (2015: RMB186.2 million) due to a lower average balance of bank borrowings and average interest rate on borrowings.

TAXATION

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

PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

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

FINANCIAL POSITION

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

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

As the Group recorded a net profit for the year, the Group's net assets increased by 2.1% or RMB47.9 million to RMB2,278.5 million at the end of 2016 (2015: RMB2,230.6 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The funding policy of the Group is to secure sufficient funding to meet its working capital requirements and to maintain smooth operations. The Group will also utilise different equity and debt instruments of different tenures to obtain funding from the capital and financial markets in Hong Kong or in the PRC to achieve these objectives.

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

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

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

The Group experiences a certain degree of seasonal fluctuations in its air-conditioning business. Accordingly, the Group's operations, including its sales, production, working capital and operating cashflow, are closely related to seasonal factors. Demands for air-conditioners are usually higher during summer each year. In order to facilitate production prior to the domestic peak season and to meet the overseas orders, the Group normally experiences temporarily higher funding requirements in the middle and at the end of each year.

In recent years, the Group has made several investments in connection with the vertical integration of its production line. Accordingly, debentures and borrowings of longer tenure matching with the project period were sought for from the banks to serve this purpose.

In 2016, the Group had obtained funding for its business operation from different financial arrangements including bank loans, debentures and funding from finance lease. As at 31 December 2016, the balances of short-term and long-term bank loans utilised by the Group were RMB1,624.0 million and RMB98.6 million respectively (2015: RMB1,402.2 million and RMB6.2 million respectively). Short-term and long term bank loans increased by RMB221.8 million and RMB92.4 million during the year. The bank loans were used for working capital purposes, majority of the loans are charged at fixed interest rates, repayable within one year, and are made and repaid in Renminbi. As at the end of the reporting period, the Group had an outstanding current portion of long-term debentures of approximately RMB52.3 million (2015: long-term debentures of RMB207.6 million).

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

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group increased to 19.9% as at 31 December 2016 (2015: 17.4%) because the Group's total borrowings increased substantially by RMB196.5 million during the year.

In order to reduce finance costs, the Group arranged some of its borrowings by obtaining bank loans which are denominated in foreign currency and offered at lower lending rates during the year. Both short-term and long-term borrowings had been used and provided the Group with a better mix of debt financing to fund its business operation. During the year, due to the reduced average balance of borrowing and average interest rate on borrowings reduced, the Group decreased its finance cost by 19.3% or RMB36.0 million for the year ended 31 December 2016 as compared to the same period in 2015.

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

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

As at 31 December 2016, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue and all of the issued shares were ordinary shares. Since the Group recorded a net profit for the year, the shareholders' equity increased to RMB2,278.5 million as at 31 December 2016 (2015: RMB2,230.6 million).

Other than the above, there were no other equity or debt instruments issued by the Company during the reporting period and at the end of 2016.

CASH FLOWS

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Operating cash flows before movements in working capital	**513.3**	(208.7)
Movements in working capital	**(151.8)**	1,347.0
Net cash from operating activities	**361.5**	1,138.3
Net cash from (used in) investing activities	**8.8**	(22.5)
Net cash from (used in) financing activities	**3.4**	(1,162.1)
Net increase (decrease) in cash and cash equivalents	**373.7**	(46.3)
Cash and cash equivalents at 31 December	**791.9**	418.2

For the year ended 31 December 2016, the Group had operating cash inflows of RMB513.3 million (2015: cash outflows of RMB208.7 million). During the year, the Group paid off trade payables and increased inventories to meet customers' orders and prepare for the forthcoming peak season. Total cash used for such working capital amounted to approximately RMB151.8 million. As such, the Group generated net cash of RMB361.5 million (2015: cash inflow of RMB1,138.3 million) from its operating activities for the year ended 31 December 2016.

The Group withdrew pledged bank deposits of net amount of RMB36.3 million and restricted bank deposits of RMB25.0 million. The Group also generated additional cash inflow of RMB40.0 million from disposal of short-term investment. The Group applied part of the cash generated amounting to RMB57.1 million for the acquisitions of property, plant and equipment and RMB51.3 million for the payment of deposits in respect of such acquisitions. As a result, the Group generated net cash of RMB8.8 million (2015: cash outflow RMB22.5 million) from its investing activities in 2016.

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

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

FINANCE LEASE ARRANGEMENTS

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

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

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

MATERIAL ACQUISITIONS AND DISPOSALS, SIGNIFICANT INVESTMENTS

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

CHARGE ON ASSETS

As at 31 December 2016, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB860.5 million (2015: RMB910.4 million) were pledged to certain banks for securing the banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

During the year ended 31 December 2016, approximately 42.2% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risk. During the reporting period, the Group had entered into certain foreign currency forward contracts and derivative financial instruments to hedge against foreign exchange risk. Since the exchange rate of Renminbi against the US dollar was relatively stable during the year, the Group gained on the foreign currency forward contracts upon settlement. All the foreign currency forward contracts were settled and there were no foreign currency financial instruments outstanding as at the year end. The Directors believe that the Group's exposure to foreign currency risks was not significant.

During and as at the end of the reporting period, most of the assets and liabilities of the Group were denominated in Renminbi. The Directors believe that the Group's exposure to exchange rate fluctuations is minimal in this respect.

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

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment and capital and contribution to subsidiaries amounted to approximately RMB90.3 million (2015: approximately RMB98.6 million). The Group expects that the capital commitments will be funded by internal resources and/or external finance from financial institutions.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2016.

EMPLOYEES AND REMUNERATION

As at 31 December 2016, the Group employed 13,102 employees (2015: 13,084 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages are reviewed on a yearly basis. The Group also provides its employees with welfare benefits including medical care, meal subsidies, education subsidies and housing etc.

In order to attract, motivate and retain high calibre personnel, the Group also has a share option scheme in place in which the employees and directors of the Group are entitled to participate.

EVENTS AFTER THE END OF THE REPORTING PERIOD

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

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

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

OUTLOOK AND FUTURE PLANS

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

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

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

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

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

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. LI XINGHAO

Mr. Li, aged 62, is the founder of the Group. He was appointed as an executive Director on 24 April 2006. Mr. Li is also the Chairman and Chief Executive Officer of the Company and is primarily responsible for the formulation of the Group's development strategies, as well as supervising the Group's overall business and operation management. He is one of the founders of Nanhai Chigo Factory, the predecessor of Guangdong Chigo, established in 1994 and has over 23 years of experience in the air-conditioning industry. Mr. Li graduated from the Party School of the Central Committee of C.P.C. (中共中央黨校) in 2000. He obtained a masters degree in Western Economics Studies from Nankai University (南開大學) in July 2004. Mr. Li is currently the Chairman of Guangdong Credit Association (廣東省信用協會), and is the father of Ms. Li Xiuhui, who is an executive Director of the Company.

MS. LI XIUHUI

Ms. Li, aged 30, graduated from Neusoft Institute of Information, Nanhai (now known as Neusoft Institute, Guangdong) in 2008, majoring in financial information management. After graduation, she joined the Group in June 2009 and is currently the Controller of Guangdong Chigo's procurement centre. Ms. Li has extensive experience in materials procurement and supply chain management. Ms. Li is the daughter of Mr. Li Xinghao, who is the chairman, an executive Director and the controlling shareholder of the Company.

MR. CHENG JIAN

Mr. Cheng, aged 44, is the director and vice president of Guangdong Chigo. He joined the Group in 2001 and is in charge of the Overseas Marketing Division. Mr. Cheng graduated and obtained a bachelor degree in refrigeration engineering from Xi'an Jiaotong University in 1995. Mr. Cheng also holds the professional qualifications as a mechanical engineer in Guangdong. After graduating from the university, he worked in Mitsubishi Electric Compressor Company (三菱電機壓縮公司) and was sent to Japan for training for a year. Thereafter, he joined a well-known air-conditioning corporation in China. Mr. Cheng has ample experience in development and management, and sales of air-conditioning products. After joining the Group, Mr. Cheng had been assigned to various senior management positions of the commercial air-conditioning business department and quality control centre of the Group.

MS. HUANG GUIJIAN

Ms. Huang, aged 42, graduated from the Correspondence Institute of the Central Party School of C.P.C. (中共中央黨校函授學院) in December 2002, majoring in economic management. She also holds the occupational qualifications as a senior logistician in China. Ms. Huang joined the Group in March 1999 and is currently the secretary to the Chief Executive Officer of the Group. Before joining the Group, Ms. Huang worked in Chongqing Three Gorges Investment Co., Ltd. (重慶三峽投資有限公司). Ms. Huang has extensive experience in business administration, investment management and project coordination.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. ZHANG XIAOMING

Mr. Zhang, aged 63, was appointed as an independent non-executive Director on 26 August 2008. He graduated from South China Normal University (華南師範大學) majoring in economic and management in August 1992. He has over 38 years of working experience in the household electrical appliance industry in the PRC and held various positions including senior chief economist and general manager. Mr. Zhang has also participated in the research, planning and formulation of the development strategy in the household electrical appliance industry in Guangdong. He also organized and participated in work for management guidance in the household electrical appliances and hardware industries in Guangdong. Since 2003, Mr. Zhang has been appointed as the panel member of the Guangdong Top Brand accreditation group (廣東省名牌產品組織評審專家組成員). Since 2005, he has been appointed as a member of the expert group of special funds for SME development project in Guangdong Province (廣東省中小企業發展專項資金項目專家組成員), and a panel member of the expert group of Famous Trademarks in Guangdong Province and participated in assessment and promotion of Famous Trademarks and famous brand products in Guangdong Province. He is the managing vice chairman of Guangdong Household Electrical Appliances Trade Association (廣東省家用電器行業協會) and the president of Guangdong Hardware Association (廣東省五金製品協會).

MR. FU XIAOSI

Mr. Fu, aged 57, was appointed as an independent non-executive Director on 26 August 2008. He graduated from Huazhong University of Science and Technology (華中科技大學) (formerly known as 華中工學院) in July 1986. He obtained a bachelor degree in economics from Zhongnan University of Economics and Law (中南財經政法大學 formerly known as 中南財經大學) in 1999. He qualified as an accountant in 1991. Mr. Fu obtained the relevant qualification as a registered accountant from the Chinese Institute of Certified Public Accountants in the PRC in 1994. He has been promoted as a senior accountant while working at China State Ship Building Corporation (中國船舶工業總公司) in 1997. Mr. Fu completed the training course for independent non-executive directors of the listed companies organised by Fudan University (復旦大學) in 2002. From November 2000 to May 2006, he worked at Zhong Qin Wan Xin Accounting Firm (中勤萬信會計師事務所) and held positions including senior manager, department manager, vice chief accountant and senior partner, responsible for auditing financial statements for various listed companies. During the period between May 2006 and November 2012, he was the chief accountant of Tri-Ring Group (三環集團). Currently, he is the deputy general manager and financial controller of (Hubei Jiuzhiyang Infrared System Company Limited (湖北久之洋紅外系統股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange and is an external supervisor of CSSC Offshore & Marine Engineering (Group) Company Limited (中船海洋與防務裝備股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange. Mr. Fu is also the independent director of Hubei Xingfa Chemicals Group Co., Ltd. (湖北興發化工集團股份有限公司, a company whose shares are listed on the Shanghai Stock Exchange) and Xiang Yang Automobile Bearing Co., Ltd. (襄陽汽車軸承股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange).

MR. WANG MANPING

Mr. Wang, aged 51, graduated from Tianjin University and obtained a bachelor of engineering degree in electrical engineering and automation in July 1987. Between July 1987 and September 1995, Mr. Wang taught at the department of computer science at North China Institute of Technology (now known as North University of China). During the period from September 1995 to December 2012, Mr. Wang worked as the deputy director of the press centre, the person-in-charge of the website and person-in-charge in Guangdong of 新華月報 (Xinhua Monthly). Since January 2013, Mr. Wang has served as the managing vice chairman and secretary of 廣東省企業品牌建設促進會 (Guangdong Enterprise Brand Construction Promotion Association) and the chief editor of 廣東品牌新媒體 (Guangdong Brand New Media).

SENIOR MANAGEMENT

MR. LIN KUN

Mr. Lin, aged 45, is the director and vice president of Guangdong Chigo. He joined the Group in October 2005. Mr. Lin graduated from Chongqing University in thermal engineering in June 1994 and was awarded a master degree in thermal engineering by Chongqing University in June 1999. In July 2002, he obtained the qualification of refrigeration and cryogenic technology engineer. Mr. Lin further obtained the qualification of 輕工制冷設備工程高級工程師 (Senior Engineer of light industrial refrigerating equipment engineering) in March 2011. Before joining the Group, Mr. Lin had been working in various senior positions in products design in Research Centre Gree Electric Appliances of Zhuhai, Guangdong (廣東珠海格力電器股份有限公司研究所) and Kelon Electrical Corporation (科龍電器公司) respectively. He has extensive experience in air-conditioning technology. Since Mr. Lin had joined the Group in 2005, he held different senior positions as Deputy Chief Engineer and Head of Technical Centre of Guangdong Chigo.

MR. JIN SHANDONG

Mr. Jin, aged 52, is the director, vice president of Guangdong Chigo. He joined the Group in September 2005 and is responsible for the financial management of Guangdong Chigo. Mr. Jin graduated from Zhongnan University of Economics and Law (中南財經政法大學 formerly known as 中南財經大學) in industrial economics and received a master degree in Business Administration at Southwest Jiaotong University in 2013. He also has the qualifications as a senior accountant and registered accountant in the PRC. From December 1999 to May 2004, Mr. Jin worked at Zhong Qin Wan Xin Accounting Firm (中勤萬信會計師事務所) as project manager and was responsible for auditing listed companies. During May 2004 and September 2005, he worked in Nanhai motor factory of Beiqi Foton Motor Co., Ltd as the head of finance department and was in charge of the overall financial management.

MR. LEUNG HON MAN

Mr. Leung, aged 50, joined the Company as the Chief Financial Officer since 18 December 2007 and was appointed as the company secretary of the Company on 26 August 2008. He has over 18 years of experience in company management, accounting and company secretarial matters. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, Certified Practising Accountant of CPA Australia. Mr. Leung received a Professional Diploma in Business (Banking) at the Hong Kong Polytechnic University in 1990 and a master degree in Business Administration at Andrews University in 1996 and a master degree in Accounting at Central Queensland University in 1999. From 1990 to 1994, he had experience working as a senior officer in the Hong Kong Branch of the Kwangtung Provincial Bank, which is now known as Bank of China (Hong Kong) Limited after consolidation. From May 1994 to August 2000, he had experience working as a finance manager in Soundwill Holdings Limited (878), a company listed on The Stock Exchange of Hong Kong Limited. Since 2000, he has worked in Sanyuan Group Limited, a company formerly listed on The Stock Exchange of Hong Kong Limited, where he held various positions including company secretary, financial controller and executive director. Mr. Leung is an independent non-executive director of Guangdong Join-Share Financing Guarantee Investment Co., Ltd., (1543) (廣東中盈盛達融資擔保投資股份有限公司), a company listed on The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting and maintaining good corporate governance standard with a strong emphasis on integrity, efficiency, transparency and accountability to enhance shareholders' welfare.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted and applied its corporate governance practices which are in line with the code provisions contained in the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

During the year ended 31 December 2016, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provisions A.2.1 and A.6.7 of the CG Code.

CODE PROVISION A.2.1

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

During the year ended 31 December 2016, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer (the "CEO") of the Company.

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

Mr. Li is the founder of the Group and has over 23 years of experience in the air-conditioning industry.

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

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

CODE PROVISION A.6.7

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings. An independent non-executive director of the Company was unable to attend the Annual General Meeting of the Company held on 8 June 2016 ("2016 AGM") as he had other business engagements.

Pursuant to the Code Provision E.1.2, the chairman of the Board should invite the chairmen of the audit, remuneration, nomination committees to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. The chairman of the remuneration committee was unable to attend the 2016 AGM as he had other business engagements. Accordingly, he appointed another member of the remuneration committee as his representative to attend the 2016 AGM.

THE BOARD OF DIRECTORS

BOARD COMPOSITION

The Board comprised four executive Directors and three independent non-executive Directors. The following are the current members of the Board:

Executive Directors

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Ms. Li Xiuhui
Mr. Cheng Jian
Ms. Huang Guijian

Independent Non-executive Directors

Mr. Zhang Xiaoming
Mr. Fu Xiaosi
Mr. Wang Manping

The biographical details of the Directors are set out on pages 31 to 32 of this report.

FUNCTION OF THE BOARD

The business of the Group are conducted and managed by the Board. The Board is responsible for the overall management of the business, strategic development and significant policies and transactions of the Group. The management was delegated the authority and responsibility by the Board for the day-to-day management, administration and operation of the Group. In addition, the Board has also delegated various responsibilities to the various board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") of the Company.

The Board is responsible for performing the corporate governance duties set out in the CG code and had adopted the terms of reference in relation to its corporate governance functions ("Corporate Governance Functions") on 29 March 2012.

During the year under review, the Board had performed the following Corporate Governance Functions:

(a) reviewed the Company's policies and practices on corporate governance;

(b) reviewed and monitored the training and continuous professional development of the Directors and the Company Secretary;

(c) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;

(d) reviewed and monitored the Model Code for Securities Transactions by the Directors of Listed Issuers; and

(e) reviewed the Company's compliance with the CG Code and disclosure in the corporate governance report.

RELATIONSHIP OF THE BOARD MEMBERS

Other than Ms. Li Xiuhui being the daughter of Mr. Li Xinghao, there is no family relationship, nor any financial, business, or other material or relevant relationships, among the Directors and between each of the Directors.

RELATIONSHIP WITH SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016 and the date of this report, Chigo Group Holding Limited owned 4,322,234,210 shares, representing approximately 51.25% of shareholding in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance. The following Director of the Company is a director or employee of such substantial shareholder:

Name of Director	**Relationship with substantial shareholder**
Li Xinghao	Director of Chigo Group Holding Limited

NUMBER OF BOARD AND GENERAL MEETINGS AND DIRECTORS' ATTENDANCE

The Board meetings and committee meetings are conducted on a regular basis and on an ad hoc basis, as required. The articles of association of the Company allow the Directors to participate in any meeting of the Board by means of a conference telephone or other communications equipment. Before the Board or committee meetings, members of the Board will receive information about the businesses and matters to be discussed.

During the year ended 31 December 2016, Board meetings and committee meetings were held. The Directors also attended the general meeting of the Company held on 8 June 2016. The attendance record of each of the Directors is set out below:

	Number of board meetings attended/held	**Number of Audit Committee meetings attended/held**	**Number of Remuneration Committee meetings attended/held**	**Number of Nomination Committee meetings attended/held**	**Number of general meetings attended/held**
Executive Directors					
Mr. Li Xinghao	7/7	N/A	N/A	N/A	1/1
Ms. Li Xiuhui *(note 1)*	3/7	N/A	N/A	N/A	N/A
Mr. Cheng Jian *(note 1)*	3/7	N/A	N/A	N/A	N/A
Ms. Huang Guijian *(note 3)*	1/7	N/A	N/A	N/A	N/A
Dr. Zheng Zuyi *(note 2)*	3/7	N/A	N/A	N/A	0/1
Dr. Ding Xiaojiang *(note 4)*	5/7	N/A	N/A	N/A	0/1
Mr. Huang Xingke *(note 2)*	3/7	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Mr. Zhang Xiaoming	7/7	2/2	1/1	2/2	1/1
Mr. Fu Xiaosi	7/7	2/2	1/1	2/2	1/1
Mr. Wang Manping *(note 1)*	3/7	N/A	N/A	1/2	N/A
Mr. Wan Junchu *(note 2)*	3/7	1/2	1/1	0/0	0/1

Notes: 1. Ms. Li and Mr. Cheng were appointed as executive directors, and Mr. Wang was appointed as an independent non-executive director of the Company on 13 July 2016.
2. Dr. Zheng and Mr. Huang resigned as executive directors, and Mr. Wan resigned as an independent non-executive director of the Company on 13 July 2016.
3. Ms. Huang was appointed as an executive director of the Company on 2 September 2016.
4. Dr. Ding resigned as an executive director of the Company on 2 September 2016.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT ("CPD")

All Directors are encouraged to participate in CPD to develop and refresh their knowledge and skills. During the year under review, Directors had participated in different CPD and each Directors provided their records of training to the Company respectively. A summary of training received by Directors during the year is as follows:

Directors	**Types of CPD**
Li Xinghao	1
Li Xiuhui	2
Cheng Jian	2
Huang Guijian	2
Zhang Xiaoming	4
Fu Xiaosi	2,3
Wang Manping	2

Notes: 1. Participating as speaker/presenter on corporate management and other relevant topics.
2. Attending seminars on directors' training, corporate governance and Listing Rules.
3. Attending seminars and business delegation relating to director training, professional performance training and corporate management.
4. Reading related journals or/and learning materials.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate insurance coverage for directors' and officers' liabilities incurred by them in discharge of their duties while holding office as the Directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2016, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer of the Company which deviated from Code Provision A.2.1 of the CG Code and is explained in the paragraph headed "Compliance with the Corporate Governance Code" above.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors are appointed for a specific term and are subject to retirement by rotation. No independent non-executive Director has served the Company for more than nine years.

Mr. Wan Junchu, Mr. Zhang Xiaoming and Mr. Fu Xiaosi had been re-elected at the annual general meeting of the Company held on 5 June 2015, and Mr. Wan Junchu resigned as an independent non-executive Director on 13 July 2016. In accordance with the article of association of the Company, Mr. Wang Manping, who was appointed as an independent non-executive Director on 13 July 2016, will hold office until the forthcoming annual general meeting and being eligible, will offer himself for re-election at the annual general meeting.

The independent non-executive Directors' remuneration was determined by the Company with regard to their experience, performance, duties and the prevailing market conditions. During the year ended 31 December 2016, the total remuneration paid to the independent non-executive Directors was approximately RMB414,000 including directors' fees.

ADOPTION OF MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

BOARD COMMITTEES

The Company has established three Board committees (the "Board Committees"), namely the Audit Committee, the Remuneration Committee and the Nomination Committee to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expenses.

AUDIT COMMITTEE

The Company established the Audit Committee on 19 June 2009 with written terms of reference (revised and adopted on 29 March 2012) in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee comprises the three independent non-executive Directors, namely, Mr. Fu Xiaosi, Mr. Zhang Xiaoming and Mr. Wang Manping. Mr. Fu Xiaosi, being the Director with appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the Audit Committee.

During the year ended 31 December 2016, the Audit Committee had:

- held two committee meetings and reviewed the Company's annual results for the year ended 31 December 2015 and interim results for the six months ended 30 June 2016 respectively, financial and accounting policies and practices and relevant disclosure requirements under the Listing Rules with the management and the external auditor of the Company;
- reviewed with the management the Company's financial controls, internal control and risk management systems;
- attended a meeting with the external auditor without executive Board members present and discussed about the nature and scope of the audit before the audit commences; and
- approved the remuneration and terms of engagement of the external auditor.

The Audit Committee plans to conduct meetings at least twice a year.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 19 June 2009 with written terms of reference (revised and adopted on 29 March 2012) in compliance with the CG Code. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies.

The Remuneration Committee comprises the three independent non-executive Directors, namely, Mr. Wang Manping, Mr. Fu Xiaosi and Mr. Zhang Xiaoming. Mr. Wang Manping is the chairman of the Remuneration Committee.

A Remuneration Committee meeting in relation to the general review of the remuneration policies of the Group was held during the year ended 31 December 2016. The Remuneration Committee had also assessed the performance of executive directors, approved the terms of executive directors' service contracts.

For the year ended 31 December 2016, the remuneration of the members of the senior management (three persons) falls into the band range of HKD0 to HKD1,500,000.

The Remuneration Committee plans to conduct meetings at least once a year.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 19 June 2009 with written terms of reference (revised and adopted on 29 March 2012) in compliance with the CG Code. The primary duty of the Nomination Committee is to make recommendations to the Board on the appointment of Directors and senior management.

The Nomination Committee comprises the three independent non-executive Directors, namely, Mr. Zhang Xiaoming, Mr. Fu Xiaosi and Mr. Wang Manping. Mr. Zhang Xiaoming is the chairman of the Nomination Committee.

During the year ended 31 December 2016, two Nomination Committee meetings were held. The Nomination Committee has adopted a board diversity policy with effect from 28 August 2013 in compliance with the code provision A.5.6 of the CG Code. The policy sets out the approach to achieve diversity in the Company's Board to ensure that the Board has the balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Committee will conduct meetings when it is necessary.

COMPANY SECRETARY

The Company Secretary of the Company is Mr. Leung Hon Man. The Company Secretary is responsible for assisting the Board by ensuring good information flow and communications within the Board as well as Board policy and procedures are followed. During the year ended 31 December 2016, Mr. Leung had taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statement of the Group in accordance with statutory requirements and accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements for the Group are published in a timely manner. The Directors' and auditors' responsibilities in respect of the financial statements are set out on page 62 in this report.

INTERNAL CONTROL

The Board is responsible for the internal control system of the Group and has the responsibility for reviewing its effectiveness including financial, operational and compliance controls. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets.

An Internal Audit Department has been established by the Group to carry out independent evaluations of its operating units. The Internal Audit Department has unrestricted access to the Group's operating units as well as all records, properties and personnel relevant to any function under review. Independent review on the operating and financial control of the Group has been conducted by the Internal Audit Department on an on-going basis. The Internal Audit Department reports its findings and irregularities (if any) and makes recommendations to the Board.

During the year ended 31 December 2016, the Audit Committee had reviewed the risk management and the internal control system of the Group with the management covering financial, operational, compliance and all other material controls of the Group. The Board will continue to review the system and procedures from time to time to maintain a high standard of internal control and will make appropriate changes to the internal control system, if necessary. Both the Board and the Audit Committee considered that the risk management and internal control system of the Group is effective and adequate.

INVESTORS RELATIONS AND COMMUNICATION CHANNELS

The Directors recognise the importance of long-term support from the shareholders of the Company. The Board highly respects the shareholders' rights to express their views and appreciates the shareholders to make suggestions to the Company. On top of the regular members' meetings to be held yearly, the Company has adopted a Shareholder's Communication Policy and also established different channels, including the corporate website with updated Company's news and information, corporate email and public relations department, to (i) promote effective communication between the Company and its shareholders; (ii) release the latest news, information and announcements of the Company in a timely manner; and (iii) handle shareholders' enquiries and suggestions.

During the year, the Company actively attended different investment conferences organised by various investment banks, arranged investors' tours to visit the headquarters of the Group and conducted telephone conferences with financial analysts, fund managers and investors with an aim to enhancing the transparency of the Group's business and investors relations.

SHAREHOLDERS' RIGHTS

Under the Articles of Association, the Shareholder's Communication Policy and procedures for shareholders to propose a person for election as a director adopted by the Company, the shareholders of the Company enjoy, among others, the following rights:

PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING

Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR PROPOSING A PERSON FOR ELECTION AS A DIRECTOR

If a shareholder wishes to propose a person (the "Candidate") for election as a director of the Company at a general meeting, he/she shall deposit a written notice (the "Notice") at (i) the Head Office and Principal Place of Business of the Company in Hong Kong or (ii) the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited.

The Notice (i) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information.

The period for lodgment of the Notice shall commence on the day after the despatch of the notice of general meeting and end no later than seven (7) days prior to the date of such general meeting.

PROCEDURES FOR MAKING ENQUIRIES

Shareholders should direct their questions about their shareholdings to the Company's Registrar.

If the Shareholders and the investors make a request for the Company's information, the Company will provide such information provided that it is publicly available.

Shareholders and the investors may communicate with the Company through designated contacts, email addresses and enquiry lines of the Company.

The following are the contact information of the Company and the share registrar:

THE COMPANY – HONG KONG
Unit 01, 9th Floor
Greenfield Tower (South Tower)
Concordia Plaza
No.1 Science Museum Road
Tsimshatsui, Kowloon
Hong Kong
Please contact our Company Secretary at:
Telephone: (852) 2997 7449
Facsimile: (852) 2997 7446
Email: ir@china-chigo.com.hk

THE COMPANY – PRC
Shengli Industrial District, Lishui Town
Nanhai, Foshan, Guangdong
China
Post Code: 528244
Please contact our Investment and Securities Department at:
Telephone: (86) 757 8878 3289
Facsimile: (86) 757 8562 8012

PRINCIPAL SHARE REGISTRAR
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit and non-audit services for the year ended 31 December 2016 amounted to HKD2,750,000 and HKD1,162,000 respectively. The non-audit services provided during the period were interim financial statements review and taxation services.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income statement on page 65 of this annual report.

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

BUSINESS REVIEW AND FUTURE DEVELOPMENT

A review of the business of the Group, a discussion and analysis, including the analysis using financial key performance indicators of the Group's performance during the year and the material factors underlying its results and financial position are provided in the "Chairman's Statement" and "Management Discussion and Analysis" respectively from pages 12 to 14 and pages 15 to 30 of this Annual Report. The future development in the Group's business is discussed in the "Outlook and Future Plans" from page 29 of this Annual Report and throughout this Annual Report.

PRINCIPAL RISKS AND UNCERTAINTIES

In the normal course of business, the Group's operations, business performance, financial position and prospects may be exposed to the following risks and uncertainties:–

1. ECONOMIC CONDITIONS AND MARKET RISK

The impact of economic conditions on consumer confidence and buying habits would affect the sales, revenue and results of the Group. The economic growth or decline in respective geographical markets that affected consumer spending on air-conditioning products would also affect the Group's business. The Group continues to implement its strategies to develop and strengthen penetration of different geographical markets thereby reducing its dependency on specific markets.

2. CREDIT RISK

The Group's major financial instruments include trade and other receivables, short-term investments, restricted deposits, pledged bank deposits, bank balances and cash, trade and other payables, derivative financial instruments, borrowings related to bills discounted with recourse, debentures, bank loans and obligations under finance lease.

Details of the Group's credit risk are set out in note 33 to the consolidated financial statements.

3. FOREIGN CURRENCY RISK

The Group has sales and certain transactions that are denominated in foreign currencies, hence there are exposures to foreign currency risk. The Group also has certain monetary items that denominated in foreign currencies which have exposed the Group to foreign currency risk.

Details of the Group's foreign currency risk are set out in note 33 to the consolidated financial statements.

4. INTEREST RATE RISK

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing financial assets and liabilities, mainly interest-bearing pledged bank deposits, bank balances and other borrowings at prevailing market interest rates. The Group's interest rate risk relates primarily to its fixed rate bank loans subject to negotiations at each renewal date. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

Details of the Group's interest rate risk are set out in note 33 to the consolidated financial statements.

5. RISK RELATING TO OUTSTANDING FOREIGN CURRENCY CONTRACTS

The Group was exposed to other price risk arising from the outstanding foreign currency contracts with predetermined exercisable period and maturity dates. The fair value of these foreign currency contracts was calculated using the forward pricing model and option pricing model.

Details of the Group's other price risk are set out in note 33 to the consolidated financial statements.

6. COMMODITIES RISK

The Group is exposed to fluctuations in the prices of commodities used as raw materials in the manufacturing process, primarily copper and aluminium. While the Group may be able to partially offset these fluctuations with a flexible pricing policy, the Group bears the risks of fluctuation in the costs of these materials. Accordingly, rising prices for commodities has affected and is expected to continue to affect the Group's cost of goods sold in the form of higher raw materials prices. On the other hand, decreases in prices for commodities may affect the value of the Group's inventories. The Group currently does not use any derivative contracts to hedge its exposure to commodities risk. However, the management will consider hedging significant commodities risk should the need arise.

ENVIRONMENT, SOCIETY AND GOVERNANCE

The Group is committed to promote its business growth and long-term sustainable development, improve the brand and market status, and also attaches great importance to the social responsibility of the enterprise, and complies with laws and regulations, as well as pays close attention to the interests and opinions of different stakeholders including shareholders, clients, suppliers, employees and community, etc. In this regard, the Group has formulated a series of measures, and through communication with the stakeholders from time to time, has revised and optimized the measures on environment and enterprise social responsibility of the Group, with the view of improving the competitiveness of the Group and making contribution to the society.

ENVIRONMENTAL PROTECTION

1. Emission Level

As a large-scale air-conditioner manufacturer, the Group has always placed emphasis on environmental protection and has taken the initiatives to comply with regulations and policies of the PRC on relevant aspects as well as relevant standard. The Group also encourages the employees to improve the awareness of environmental protection, and protect the environment.

The Group owns an integrated production system and ancillary production facilities for various spare and accessory parts, it is inevitable for the Group to produce some industrial wastes and emissions in the course of its production. However, the Group is subject to the environmental protection laws and regulations promulgated by the PRC government. During the process of production, the Group has complied with applicable national and municipal environmental protection regulations applicable to disposal of waste water, gaseous emissions, metal and plastic waste, and industrial waste which are produced during the production process. The Group has implemented a set of waste treatment procedures in its production facilities during the production process. Therefore, the Group's manufacturing process does not generate significant chemical wastes, waste water or other industrial wastes. The impact of the Group's production process on the environment is limited.

The Group has devised and carried out an environmental protection plan by establishing its own internal environmental monitoring and survey procedural manual, pursuant to which the relevant manufacturing department would be responsible for the collection of waste water/gas emission data and report to the Quality Control Committee. The Group's Quality Control Committee closely monitors the Group's production process. The Quality Control Committee conducts random inspection for the relevant departments' operational control on a regular basis and a full-scale inspection of the same on a quarterly basis. In order to address any potential pollution problem in a timely manner. The Group has taken measures to ensure that industrial wastes and by-products produced as a result of the operations are properly disposed of in order to minimize adverse effects to the environment.

The Group has also established an environmental protection team who is responsible for formulating and carrying out the measures complied with the environment standard. Such team members generally have many years of experience in environmental compliance.

2. Resource Usage

The Group is an enterprise who attaches importance to the environment concept, apart from actively cooperating with the national policies, designing, producing and promoting high energy saving air-conditioner production, we also advocate energy saving and effectively resource usage to reduce waste inside the Group. As a production integration enterprise, the Group can use and recycle the raw materials more effectively during the production process, and can also save resource usage for transportation,etc. From the office aspect, the Group also sets out guidance to remind and encourage employees to properly use the resources, try to reduce the consumption of water, electricity and paper in order to support environmental protection.

OPERATING PRACTICES

1. Supply Chain Management

The Group has implemented a set of quality control standards for its air-conditioners manufacturing. In the procurement of raw materials, the Group has set up and implemented an "Suppliers Quality Management Manual" requiring that the raw material suppliers comply with the directives to ensure achieving the standard of the Group.

Before selecting and sourcing raw materials, parts and components from external suppliers, the Group would inspect their facilities and require the external suppliers to supply raw materials, parts and components to check that they meet with the recognized environmental standards.

2. Product Quality Control and Warranty

The Group's air-conditioners are sold all over the world, therefore, the Group attaches great importance to the design and quality of its products. Generally, the Group provides free post-sale repair services for its products for six years and free replacement of the major components of its products. As mentioned above, the Group carries out strict quality control standards for air-conditioner manufactured, has implemented a comprehensive quality control system covering major stages of production, and received several quality management and environmental management system standard certifications.

To ensure ongoing compliance with the accreditation requirements, all the Group's production lines are monitored at various stages to ensure the quality in the Group's products manufactured. The Group also implemented a set of quality control manuals, giving guidance and instructions for the relevant production process regarding the quality control procedures, including the production monitoring procurement procedure, defect control, product lines quality control, and safety testing. In addition, the Group has established a Quality Control Committee, which is headed by the senior management of the Group. The Quality Control Committee conducts yearly reviews and assessments over the quality control procedures in the Group's production process. Should any of the Group's production processes be found not to be in compliance with the requirements for accreditation, action would be taken to rectify the problems.

The Group also owns the experienced and devoted staff who are in charge of day-to-day implementation of the quality control procedures throughout the production process from inspection of raw materials, parts and components to examination of finished products, and report to the Quality Control Committee.

3. Customer Services and Opinions

The Group's customer services department of the Group's head office has overall responsibility for formulating the Group's customer services standards, and the Group sets up several customer services centers in different places of China to be responsible for monitoring the customer services points managed by the Group, its regional distributor and re-sellers, and collecting market intelligence. Apart from the above mentioned customer services, the Group also has 24 hour telephone hot-lines to respond to end-users' inquiries and listen to customer opinions.

Given the increasing popularity of the internet and mobile communication devices in recent years, the Group also invests and develops multi-type electronic platforms, including internet, Cloud and mobile telephone applications, etc., combining with the intelligent air-conditioners product of the Group to widen the channels of contact and communication with the client base and social mass.

4. Corruption Prevention

As a responsible enterprise, the Group ensures that our management and staff are honest and incorruptible. In view of this, at the time of recruitment entry of the employees, the Group stipulates under the provisions of the terms that staff shall not be in any terms or forms to ask for or receive the interest from the business transaction companies, while adopting a clear guideline regarding the transfer of benefits. Such approaches ensure that our staff abides by relevant laws and guidelines and performs their duties with credibility. The Group stringently monitors the conduct of our staff and prohibits them from corrupting for personal interests and providing or receiving cash and other valuables to or from customers and suppliers.

WORK ENVIRONMENT

1. Appointment Based on Merit

The Group believe that successful implementation of the growth and business strategies of the Group relies on a team of experienced, motivated and well-trained management and employees at all levels. The Group is an equal opportunity employer and encourages diversity regardless of age, gender, marital status, religious belief and race. A Board Diversity Policy, with the aim of enhancing the quality of the Board's performance by diversity, was adopted in 28 August 2013.

2. Health and Safety

The Group gives priority for providing an appropriate, safe and convenient working environment to employees to fully ensure the health of the employees.

The Group has formulated a series of codes of practice for safety at work, comprised of codes for sanitation and clean, machine operation, smoking prohibition and fire prevention, hazardous materials handling, anti-typhoon and storm, as well as emergency treatment, etc. The Group provides training for code of practice of safety at work and requires employees strictly comply with the code.

The government authorities keeps regular monitoring on the Group's working environment. Rectification will be made by the Group in accordance with the monitoring results.

3. Relationship with staff

In order to enhance the morale and productivity of the employees, employees are remunerated based on their performance, experience and prevailing industry practices. Compensation policies and packages of management staff and functional head are being also be awarded to employees based on internal performance evaluation. The Group also provides its employees with other welfare benefits including medical care, meal subsidies, education subsidies, housing, transportation and other retirement benefits in accordance with applicable regulations and the internal policies of the Group.

The Group invests in continuing education and training programmes for the management staff and other employees with a view to upgrade their skills and knowledge. These training courses include internal courses run by the Group's management and external courses provided by professional trainers. They range from technical training to the production staff, to financial and administrative training to the management staff.

In accordance with applicable PRC laws and regulations, as well as compulsory requirements of the local authorities where the branch of the Group is located, the Group participates in a pension contribution plan, a work-related injury insurance plan, an unemployment insurance plan, a medical insurance plan and an accident insurance plan for the employees.

As required by the relevant PRC regulations, the Group has a workers' union which protects employees' rights and welfare benefits, encourages employee participation in management decisions, and assists in mediating disputes between the Group and individual employees. The constitution and operation of such workers' union are in compliance with relevant PRC regulations. The Group has not experienced any strike or other labour disturbance which has interfered with the Group's operations, and the Directors believe that the Group has good relationships with its employees.

Information relating to the Group's corporate governance practices are set out in the Corporate Governance Report on pages 34 to 42.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 132.

SHARE CAPITAL AND DEBENTURE OF THE COMPANY

During the year ended 31 December 2016, no new shares had been issued in relation to the exercise of share options.

As at 31 December 2016 and the date of this report, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue. All of the issued shares were ordinary shares.

Details of movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

During the year under review, no debentures had been issued. At the end of 2016, the Group had long-term debentures of approximately RMB52.3 million outstanding and was repayable within one year.

Save as disclosed in this report, the Group did not issue any convertible securities, options, warrants or similar rights or exercised such rights during the year ended 31 December 2016.

RESERVES

Details of movement in the reserves of the Group during the year ended 31 December 2016 are set out in the Consolidated Statement of Changes in Equity on pages 68 to 69.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2016, the Company did not have any reserve available for cash distribution to the Shareholders of the Company.

Under the Companies Law of the Cayman Islands, the share premium of the Company amounting to RMB938,187,000 (2015: RMB938,187,000) is available for distribution or paying dividends to the Company's shareholders subject to the provisions of its memorandum of association and the articles of association (the "Articles") and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

EXECUTIVE DIRECTORS

Mr. Li Xinghao
Ms. Li Xiuhui *(appointed on 13 July 2016)*
Mr. Cheng Jian *(appointed on 13 July 2016)*
Ms. Huang Guijian *(appointed on 2 September 2016)*
Dr. Zheng Zuyi *(resigned on 13 July 2016)*
Dr. Ding Xiaojiang *(resigned on 2 September 2016)*
Mr. Huang Xingke *(resigned on 13 July 2016)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Xiaoming
Mr. Fu Xiaosi
Mr. Wang Manping *(appointed on 13 July 2016)*
Mr. Wan Junchu *(resigned on 13 July 2016)*

The biographical details of the Directors are set out on pages 31 to 32 of this report.

In accordance with Article 84(1) of the Articles, each of Ms. Li Xiuhui, Mr. Cheng Jian, Mr. Wang Manping and Ms. Huang Guijian will retire from office by rotation at the upcoming annual general meeting (the "Annual General Meeting") and, being eligible, offer themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 9 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 December 2016, the interests of the Directors and chief executive in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

LONG POSITION IN THE ORDINARY SHARES OF HKD0.01 EACH OF THE COMPANY

Name of Director	Capacity	Number of issued ordinary shares held as at 31 December 2016	Approximate percentage of shareholding *(note 1)*
Mr. Li Xinghao *(note 2)*	Held by controlled corporation	4,322,234,210	51.25
Ms. Li Xiuhui	Beneficial owner	25,256,000	0.30
Mr. Cheng Jian	Beneficial owner	1,000	0.00001
Ms. Huang Guijian	Beneficial owner	2,700,000	0.03
		4,350,191,210	51.58

Notes:

1. Based on 8,434,178,000 shares of the Company in issue as at 31 December 2016.

2. Mr. Li Xinghao beneficially owns approximately 99.46% of the issued share capital of Chigo Group Holding Limited which beneficially owns 4,322,234,210 ordinary shares of the Company.

LONG POSITION IN THE SHARES OF ASSOCIATED CORPORATION

Name of Director	Associated Corporation	Capacity	Number of issued ordinary shares held as at 31 December 2016	Approximate percentage of shareholding
Mr. Li Xinghao	Chigo Group Holding Limited	Beneficial owner	9,946.1036	99.46

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

Name of Director	Capacity	Number of share options held as at 31 December 2016	Number of underlying shares
Mr. Li Xinghao	Beneficial owner	8,000,000	8,000,000
Ms. Li Xiuhui	Beneficial owner	10,050,000	10,050,000
Mr. Cheng Jian	Beneficial owner	10,000,000	10,000,000
Ms. Huang Guijian	Beneficial owner	1,650,000	1,650,000
Mr. Zhang Xiaoming	Beneficial owner	1,000,000	1,000,000
Mr. Fu Xiaosi	Beneficial owner	1,000,000	1,000,000
		31,700,000	31,700,000

Other than as disclosed above, none of the Directors, the chief executive nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporation as at 31 December 2016.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a Director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors had interests in any business (including any interests acquired after listing) which directly or indirectly competes, or is likely to compete with the business of the Group.

PERMITTED INDEMNITY PROVISION

The Company has arranged appropriate insurance coverage for directors' and officers' liabilities incurred by them in discharge of their duties while holding office as the Directors and officers of the Company.

Under Articles of Association 164(1) of the Company's articles, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attached to any of them. Such permitted indemnity provision is currently in force and was in force throughout the year under review.

CONTINUING CONNECTED TRANSACTION

Particulars of the related party transaction are disclosed in note 37 to the consolidated financial statements.

Foshan Nahai Lishui Zhongya Restaurant (the "Restaurant"), a restaurant controlled by Mr. Li Xinghao who is a connected person of the Company under the Listing Rules, and the Company had entered into an agreement to provide restaurant services to the Group. During the year, the Group paid messing expenses to the Restaurant. The related party transaction is regarded as a continuing connected transaction under Rule 14A.76(1) of the Listing Rules which is exempted from the reporting, announcement and independent shareholders' approval requirements.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, there was no other connected transaction and/or continuing connected transaction during the year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted by the written resolution of the shareholders on 19 June 2009. Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

The following table discloses movements in the Company's share options and the underlying shares during the year:

		Underlying shares exercisable under the share options				
	Exercise period	**Exercise Price (HKD)**	**Outstanding at beginning of the year**	**Lapsed during the year**	**Transferred during the year**	**Outstanding at end of the year**
Category 1: Directors						
Li Xinghao	2013.9.23 – 2018.9.22	0.45	2,400,000	–	–	2,400,000
	2016.9.23 – 2018.9.22	0.45	5,600,000	–	–	5,600,000
			8,000,000	–	–	8,000,000
Li Xiuhui	2013.9.23 – 2018.9.22	0.45	–	–	3,014,000	3,014,000
(appointed on 13 July 2016)	2016.9.23 – 2018.9.22	0.45	–	–	7,036,000	7,036,000
			–	–	10,050,000	10,050,000
Cheng Jian	2013.9.23 – 2018.9.22	0.45	–	–	3,000,000	3,000,000
(appointed on 13 July 2016)	2016.9.23 – 2018.9.22	0.45	–	–	7,000,000	7,000,000
			–	–	10,000,000	10,000,000
Huang Guijian	2013.9.23 – 2018.9.22	0.45	–	–	494,000	494,000
(appointed on 2 September 2016)	2016.9.23 – 2018.9.22	0.45	–	–	1,156,000	1,156,000
			–	–	1,650,000	1,650,000
Zhang Xiaoming	2013.9.23 – 2018.9.22	0.45	300,000	–	–	300,000
	2016.9.23 – 2018.9.22	0.45	700,000	–	–	700,000
			1,000,000	–	–	1,000,000
Fu Xiaosi	2013.9.23 – 2018.9.22	0.45	300,000	–	–	300,000
	2016.9.23 – 2018.9.22	0.45	700,000	–	–	700,000
			1,000,000	–	–	1,000,000
Zheng Zuyi	2013.9.23 – 2018.9.22	0.45	15,000,000	–	(15,000,000)	–
(resigned on 13 July 2016)	2016.9.23 – 2018.9.22	0.45	35,000,000	–	(35,000,000)	–
			50,000,000	–	(50,000,000)	–
Ding Xiaojiang	2013.9.23 – 2018.9.22	0.45	3,000,000	–	(3,000,000)	–
(resigned on 2 September 2016)	2016.9.23 – 2018.9.22	0.45	7,000,000	–	(7,000,000)	–
			10,000,000	–	(10,000,000)	–
Huang Xingke	2013.9.23 – 2018.9.22	0.45	7,500,000	(7,500,000)	–	–
(resigned on 13 July 2016)	2016.9.23 – 2018.9.22	0.45	17,500,000	(17,500,000)	–	–
			25,000,000	(25,000,000)	–	–

	Exercise period	Exercise Price (HKD)	Outstanding at beginning of the year	Lapsed during the year	Transferred during the year	Outstanding at end of the year
		Underlying shares exercisable under the share options				
Wan Junchu	2013.9.23 – 2018.9.22	0.45	300,000	(300,000)	–	–
(resigned on 13 July 2016)	2016.9.23 – 2018.9.22	0.45	700,000	(700,000)	–	–
			1,000,000	(1,000,000)	–	–
Sub-total			**96,000,000**	**(26,000,000)**	**(38,300,000)**	**31,700,000**
Category 2: Employees						
Employees	2013.9.23 – 2018.9.22	0.45	163,578,000	(7,484,000)	11,492,000	167,586,000
	2016.9.23 – 2018.9.22	0.45	381,772,000	(17,466,000)	26,808,000	391,114,000
Sub-total			**545,350,000**	**(24,950,000)**	**38,300,000**	**558,700,000**
Category 3: Customers						
Customers	2013.9.23 – 2018.9.22	0.45	2,932,000	–	–	2,932,000
	2016.9.23 – 2018.9.22	0.45	6,918,000	–	–	6,918,000
Sub-total			**9,850,000**	**–**	**–**	**9,850,000**
Total			**651,200,000**	**(50,950,000)**	**–**	**600,250,000**

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests and short position in the issued share capital of the Company.

INTERESTS AND SHORT POSITION IN THE ORDINARY SHARES OF HKD0.01 EACH OF THE COMPANY

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of shareholding *(note 1)*
Chigo Group Holding Limited *(note 2)*	Beneficial owner	4,322,234,210	51.25
Skyworth TV Holdings Limited	Beneficial owner	425,000,000	5.04

Notes:

1. Based on 8,434,178,000 shares of the Company in issue as at 31 December 2016.

2. Chigo Group Holding Limited is owned as to approximately 99.46% by Mr. Li Xinghao, a Director of the Company and as to approximately 0.54% by Mr. Li Longyi who is the son of the elder brother of Mr. Li Xinghao.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2016.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emolument of the Directors are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 31 to the consolidated financial statements.

PENSION SCHEMES

The pension schemes of the Group are primarily in the form of contributions to Hong Kong's Mandatory Provident Funds and the China statutory public welfare fund.

The Mandatory Provident Fund scheme is operated by an independent service provider. Mandatory contributions are made by both the employer and the employees at 5% of the employees' monthly relevant income, up to a limit of HKD30,000 (HKD25,000 prior to 1 June 2014). The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

During the year, the retirement benefits scheme contributions charged to the consolidated statement of profit or loss and other comprehensive income amounted to RMB72,432,000 (2015: RMB66,941,000)

Details of the Group's pension scheme are set out in note 36 to the consolidated financial statements.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2016, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors believe that successful implementation of the growth and business strategies of the Group relies on a team of experienced, motivated and well-trained management and employees at all levels. Members of the senior management team have extensive operating expertise and in-depth understanding of the air-conditioners products market, or the retail and logistics industries generally. The Group pays close attention to the interests and opinions of employees and communicates with the employees from time to time. The Group has also formulated a series of measures set out in the section headed ''Environmental, social and governance – Work Environment – Relationship with staff'' in this report. The Group has not experienced any strike or other labour disturbance which has interfered with the Group's operations, and the Directors believe that the Group has good relationships with its employees.

The Group has an extensive sales and distribution network in the PRC and it sells its products through independent regional distributors and household appliances retail chain operators. For overseas sales of the Group's products, the Group sells its products to overseas distributors and air-conditioning products manufacturers in the other Asian countries, the European market, the American market, the Middle East and African markets and other markets. The Group maintains long-term relationships with a majority of the regional distributors and household appliances retail chain operators which had been in cooperation with the Group for many years.

A majority of the raw materials, parts and components used by the Group in its manufacture of air-conditioners were sourced from suppliers based in the PRC. Suppliers are chosen based on a number of criteria, including the quality of the raw materials supplied, stability of supply in the past, delivery time, pricing of the raw materials as well as the financial and industrial status of the supplier. The Group's sourcing strategy is to avoid heavily relying on any single supplier and seek to source the same type of raw material, part or component from different suppliers so as to ensure stable supply and cost competitiveness. Since the Group has maintained long-term and stable relationships with its major suppliers, and the Group usually sources the same type of raw material, part and component from multiple suppliers, the Group believes that it has good relationships with its suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

TAX RELIEF FOR SHAREHOLDERS

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holding of the shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float during the year ended 31 December 2016 and the date of this report.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company during the year ended 31 December 2016.

FIXED ASSETS

Details of the movement in fixed assets during the year are set out in note 12 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in notes 25 to 28 to the financial statements.

BORROWING COSTS CAPITALISATION

There was no borrowing costs capitalised by the Group during the year (2015: nil).

EQUITY-LINKED AGREEMENT

During the year ended 31 December 2016, the Company has not entered into any equity-linked agreement (as defined in section 6 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)).

Save as disclosed under the section headed "Share Option Scheme", no equity-linked agreement was subsisted at the end of the year.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately RMB182,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's sales to the five largest customers accounted for less than 30% of the Group's total revenue for the year.

During the year, the Group's purchases attributable to the five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

EVENTS AFTER THE END OF THE REPORTING PERIOD

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

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

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

CLOSURE OF REGISTER OF MEMBERS

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

AUDITOR

The consolidated financial statements for the two years ended 31 December 2015 and 2016 have been audited by the external auditor of the Company, Deloitte Touche Tohmatsu.

A resolution will be submitted to the forthcoming Annual General Meeting to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at Empire Room I, 1/F, Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong on Wednesday, 7 June 2017 at 2:30 p.m.

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.

On behalf of the Board
Li Xinghao
Chairman

Foshan, 29 March 2017

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHIGO HOLDING LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Chigo Holding Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 65 to 131, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We identified the revenue recognition as a key audit matter due to the significance of the revenue to the consolidated statement of profit or loss and other comprehensive income and material sale transactions may occur close to the end of the reporting period. Revenue from the sales of goods is recognised when the goods are delivered and title have passed. The accounting policy for revenue recognition is disclosed in note 3 to the consolidated financial statements. The Group recognised revenue of approximately RMB9,302 million for the year ended 31 December 2016, which is disclosed in consolidated statement of profit or loss and other comprehensive income and note 5 to the consolidated financial statements.	Our procedures in relation to revenue recognition included: • Obtaining an understanding of the revenue business process; • Understanding and evaluating the key controls over revenue recognition performed by the management; • Performing analytical review on the monthly sales amounts with reference to the sales volume, gross profit margin and other relevant factors; • Checking whether a selection of sales transactions recorded during the year have been properly recognised by checking to the relevant documents; and • Checking whether a selection of sales transactions recorded close to the end of the reporting period have been properly recognised in the appropriate accounting period by checking to the relevant documents.

Key audit matter	How our audit addressed the key audit matter
Valuation of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the significance of the trade receivables to the consolidated financial statements and significant judgement involved by management in the valuation process. As disclosed in note 4 to the consolidated financial statements, the management estimates the allowance for doubtful debts based on the recoverability of trade receivables. The Group takes into consideration the business relationship with customers, credit history, past settlement records including default or delay in payments and collection after the end of the reporting period in estimating the recoverability of trade receivables from major customers assessed individually at the end of the reporting period. In addition, the Group reviews the aging analysis of remaining trade receivables on a collective basis when estimating the recoverability. The Group has trade receivables with carrying amount of approximately RMB2,782 million (net the allowance for doubtful debts of approximately RMB86 million) as at 31 December 2016.	Our procedures in relation to valuation of trade receivables included: • Understanding how the allowance for doubtful debts of trade receivables is estimated by the management; • Understanding how the aging analysis of trade receivables is prepared by the management; • Testing the accuracy of the aging analysis of the trade receivables to the sale invoices, on a sample basis; • Assessing the reasonableness of allowance for doubtful debts made with reference to business relationship with customers, credit history, past settlement records including default or delay in payments and collection after the end of the reporting period, for trade receivables from major customers assessed individually; • Assessing the reasonableness of allowance for doubtful debts made with reference to the aging analysis for trade receivables assessed on a collective basis; • Tracing the subsequent settlements to relevant documents, on a sample basis; and • Evaluating the historical accuracy of the allowance estimation made by management by comparing the historical allowance made against the actual settlement and actual loss incurred.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Stephen C.L. Yuen.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue		**9,301,753**	7,774,156
Cost of sales	*5*	**(7,854,874)**	(6,708,438)
Gross profit		**1,446,879**	1,065,718
Other income		**43,402**	69,751
Selling and distribution costs			
– equity-settled share based payments		**(1,268)**	(1,620)
– other selling and distribution costs		**(764,043)**	(841,549)
Administrative expenses			
– equity-settled share based payments		**(4,361)**	(5,794)
– other administrative expenses		**(403,552)**	(412,094)
Research and development costs		**(135,869)**	(99,723)
Other expenses	*6*	**(5,341)**	(209,030)
Other gains and losses		**57,953**	(36,177)
Net gain in fair value changes on foreign currency forward contracts		**2,508**	3,638
Finance costs	*7*	**(150,190)**	(186,169)
Profit (loss) before taxation	*8*	**86,118**	(653,049)
Taxation	*10*	**(18,526)**	(12,483)
Profit (loss) for the year and total comprehensive income (expense) for the year		**67,592**	(665,532)
Profit (loss) for the year and total comprehensive income (expense) for the year attributable to:			
– owners of the Company		**57,036**	(690,473)
– non-controlling interests		**10,556**	24,941
		67,592	(665,532)
Earnings (loss) per share	*11*		
– Basic and diluted		**RMB0.68 cents**	RMB(8.19) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	**2016** **RMB'000**	2015 RMB'000
Non-current assets			
Property, plant and equipment	*12*	**1,381,385**	1,469,012
Land use rights	*13*	**204,638**	210,016
Intangible assets	*14*	**493**	733
Prepaid lease payments	*15*	**202,059**	213,598
Deposits paid for acquisition of property, plant and equipment		**51,258**	51,551
Available-for-sale investments	*16*	**23,000**	20,000
Deferred tax assets	*17*	**21,364**	6,756
		1,884,197	1,971,666
Current assets			
Inventories	*18*	**2,151,943**	1,835,328
Trade and other receivables	*19*	**4,496,312**	4,983,817
Land use rights	*13*	**5,378**	5,378
Prepaid lease payments	*15*	**17,653**	16,700
Taxation recoverable		**8,202**	8,792
Short-term investments	*21*	**–**	40,000
Restricted deposits	*22*	**20,000**	45,000
Pledged bank deposits	*22*	**860,517**	896,853
Bank balances and cash	*22*	**791,864**	418,197
		8,351,869	8,250,065
Current liabilities			
Trade and other payables	*23*	**4,590,592**	4,809,187
Warranty provision	*24*	**42,010**	17,078
Taxation payable		**164,984**	155,518
Derivative financial instruments	*20*	**–**	23,723
Borrowings related to bills discounted with recourse	*25*	**1,058,452**	1,139,440
Current portion of long-term debentures	*26*	**52,271**	155,500
Short-term bank loans	*27*	**1,623,985**	1,402,183
Current portion of long-term bank loans	*27*	**–**	6,250
Obligations under finance leases	*28*	**145,916**	78,822
		7,678,210	7,787,701
Net current assets		**673,659**	462,364
Total assets less current liabilities		**2,557,856**	2,434,030

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Government grants	29	**36,354**	36,192
Long-term debentures	26	**–**	52,121
Long-term bank loans	27	**98,580**	–
Obligations under finance leases	28	**119,213**	83,753
Derivative financial instruments	20	**–**	9,405
Deferred tax liabilities	17	**25,195**	21,937
		279,342	203,408
Net assets		**2,278,514**	2,230,622
Capital and reserves			
Share capital	30	**71,906**	71,906
Reserves		**2,161,992**	2,099,327
Equity attributable to owners of the Company		**2,233,898**	2,171,233
Non-controlling interests		**44,616**	59,389
Total equity		**2,278,514**	2,230,622

The consolidated financial statements on pages 65 to 131 were approved and authorised for issue by the Board of Directors on 29 March 2017 and are signed on its behalf by:

Mr. Li Xinghao,
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

Ms. Li Xiuhui,
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note a)*	Share compensation reserve RMB'000 *(Note b)*	Share options reserve RMB'000	Statutory surplus reserve fund RMB'000 *(Note c)*	Retained profits RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015	71,906	938,187	(26,408)	63,535	59,998	223,570	1,523,504	2,854,292	51,998	2,906,290
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	450	450
Recognition of equity-settled share based payments	–	–	–	–	7,414	–	–	7,414	–	7,414
Distribution to non-controlling shareholders *(Note d)*	–	–	–	–	–	–	–	–	(18,000)	(18,000)
Transfers	–	–	–	–	–	12,738	(12,738)	–	–	–
	–	–	–	–	7,414	12,738	(12,738)	7,414	(17,550)	(10,136)
(Loss) profit for the year and total comprehensive (expense) income for the year	–	–	–	–	–	–	(690,473)	(690,473)	24,941	(665,532)
At 31 December 2015	71,906	938,187	(26,408)	63,535	67,412	236,308	820,293	2,171,233	59,389	2,230,622
Capital contribution from non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,400**	**2,400**
Recognition of equity-settled share based payments	**–**	**–**	**–**	**–**	**5,629**	**–**	**–**	**5,629**	**–**	**5,629**
Distribution to non-controlling shareholders *(Note d)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(27,729)**	**(27,729)**
Transfers	**–**	**–**	**–**	**–**	**–**	**10,292**	**(10,292)**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**5,629**	**10,292**	**(10,292)**	**5,629**	**(25,329)**	**(19,700)**
Profit for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**57,036**	**57,036**	**10,556**	**67,592**
At 31 December 2016	**71,906**	**938,187**	**(26,408)**	**63,535**	**73,041**	**246,600**	**867,037**	**2,233,898**	**44,616**	**2,278,514**

Notes:

(a) Special reserve represents the difference between the consideration paid for the acquisition of the entire interest in 廣東志高空調有限公司 (Guangdong Chigo Air-Conditioning Co., Ltd.) ("Guangdong Chigo") and the then paid-in capital of Guangdong Chigo upon group reorganisation in 2006.

(b) Share compensation reserve represents

(i) the difference of fair value of certain shares of 廣東志高空調股份有限公司 (Guangdong Chigo Air-Conditioning Joint Stock Co., Ltd.), the predecessor of Guangdong Chigo, transferred to the Group's certain employees by the shareholders, Messrs. Li Xinghao and Li Longyi and the consideration paid by the employees in obtaining those shares; and

(ii) the fair value of shares of the Company given by the Company's controlling shareholder, Mr. Li Xinghao, at nil consideration, to the Group's employees and to certain customers of the Group, as reward for their past services and loyalty to the Group.

(c) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiaries of the Company are required to maintain a statutory surplus reserve fund which is non-distributable. Appropriation to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries and the allocation basis are decided by its Board of Directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied for conversion into capital by means of capitalisation issue.

(d) Amount represents dividend paid by a non-wholly owned subsidiary of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Operating activities		
Profit (loss) before taxation	**86,118**	(653,049)
Adjustments for:		
Interest income	**(20,122)**	(50,419)
Interest expenses	**150,190**	186,169
Depreciation of property, plant and equipment	**191,004**	175,714
Amortisation of intangible assets	**352**	350
Amortisation of government grants	**(1,288)**	(1,288)
Amortisation of land use rights	**5,378**	5,378
Release of prepaid lease payments	**16,960**	17,251
Loss on disposal of property, plant and equipment	**113**	4,582
Net gain in fair value changes on foreign currency forward contracts	**(2,508)**	(3,638)
Provision for warranty	**81,273**	29,939
Write down on inventories	**10,448**	10,814
Allowance for doubtful debts	**37,767**	88,259
Recovery of doubtful debts	**(48,010)**	(26,171)
Equity-settled share based payments	**5,629**	7,414
Operating cash flows before movements in working capital	**513,304**	(208,695)
Increase in inventories	**(327,063)**	(65,291)
Decrease in trade and other receivables	**497,748**	746,656
Change in derivative financial instruments	**(30,620)**	29,616
(Decrease) increase in trade and other payables	**(215,746)**	681,421
Decrease in warranty provision	**(56,341)**	(38,502)
Cash generated from operations	**381,282**	1,145,205
Taxation paid	**(20,409)**	(16,863)
Taxation refunded	**590**	10,005
Net cash generated from operating activities	**361,463**	1,138,347

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Investing activities		
Placement of pledged bank deposits	**(2,626,481)**	(2,343,453)
Purchase of property, plant and equipment	**(57,052)**	(120,936)
Prepaid lease payments paid	**(6,374)**	(4,272)
Deposits paid for acquisition of property, plant and equipment	**(51,258)**	(51,551)
Purchase of available-for-sale investment	**(3,000)**	–
Proceeds from disposal of (purchase of) short-term investments	**40,000**	(40,000)
Purchase of intangible assets	**(112)**	–
Withdrawal (placement) of restricted deposits	**25,000**	(45,000)
Withdrawal of pledged bank deposits	**2,662,817**	2,524,345
Interest received	**20,122**	50,419
Proceeds from disposal of property, plant and equipment	**5,113**	7,935
Net cash from (used in) investing activities	**8,775**	(22,513)
Financing activities		
Bank loans raised	**3,628,610**	3,441,232
Contribution from non-controlling interests of a subsidiary	**2,400**	450
Proceeds from sale and lease back arrangements	**195,050**	199,990
Interest paid	**(158,390)**	(186,169)
Distribution to non-controlling shareholders	**(27,729)**	(18,000)
Borrowings from bills discounted with recourse	**1,637,732**	2,706,915
Repayment of borrowings related to bills discounted with recourse	**(1,718,720)**	(3,141,496)
Repayment of bank loans	**(3,314,478)**	(4,127,646)
Repayment of obligations under finance leases	**(92,496)**	(37,415)
Repayment of debentures	**(150,000)**	–
Government grants received	**1,450**	–
Net cash from (used in) financing activities	**3,429**	(1,162,139)
Net increase (decrease) in cash and cash equivalents	**373,667**	(46,305)
Cash and cash equivalents at 1 January	**418,197**	464,502
Cash and cash equivalents at 31 December, represented by bank balances and cash	**791,864**	418,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

The Company was incorporated and registered as an exempted company in the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report. Its immediate and ultimate holding company is Chigo Group Holding Limited (the "Chigo Group"), a company which is incorporated in the British Virgin Islands. The ultimate controlling party of Chigo Group is Mr. Li Xinghao.

The 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 (the "HKICPA") for the first time in the current year.

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

NEW AND REVISED 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 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle[5]

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

HKFRS 9 FINANCIAL INSTRUMENTS

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 FINANCIAL INSTRUMENTS *(Continued)*

All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial instruments: Recognition and measurement", the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the directors of the Company considered that the application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios.

Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 LEASES

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 LEASES *(Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HKD28,615,000 as disclosed in note 34. A preliminary assessment indicates that certain of these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company do not anticipate that the application of the other new and amendments to HKFRSs will have material impact on the consolidated financial statements of the Group.

AMENDMENTS TO HKAS 7 DISCLOSURE INITIATIVE

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 changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities 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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 7 DISCLOSURE INITIATIVE *(Continued)*

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

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").

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are carried at fair value at the end of the reporting period, as explained in the accounting polices set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at the acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BUSINESS COMBINATIONS *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

On disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

Revenue from the sales of goods is recognised when the goods are delivered and title have passed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

The cost of buildings is depreciated over the shorter of the unexpired lease term of the land which the buildings are located or their estimated useful lives of 8 to 30 years after the date of completion.

Depreciation is recognised to write off the cost of other property, plant and equipment, using the straight line method, over their estimated useful lives as follows:

Furniture, fixtures and equipment	3 – 6 years
Motor vehicles	5 years
Plant and machinery	5 – 10 years

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

INTANGIBLE ASSETS

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Patents and trademarks

Purchased patents and trademarks are stated at cost less accumulated amortisation and any identified impairment losses. Amortisation is calculated on a straight line basis over its estimated useful economic life, starting from the time when the patent is available for use. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale investment. The classification depends on the nature and purpose of the financing assets and is determined at the time of initial recognition. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of asset within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL *(Continued)*

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item in the consolidated statement of profit or loss and other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, restricted deposits, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. They are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of them, the estimated future cash flows of loans and receivables have been affected.

For available-for-sale equity investments on significant prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Impairment of financial assets *(Continued)*

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at FVTPL

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item in the consolidated statement of profit or loss and other comprehensive income.

Derivatives financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Other financial liabilities

Other financial liabilities including borrowings related to bills discounted with recourse, bank loans, debentures, obligations under finance leases and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows where the effect of the time value of money is material.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASING *(Continued)*

Lease payments are apportioned between finance expenses and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight line basis over the lease term.

Sale and lease back resulting in a finance lease

If a sale and lease back transaction results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not immediately recognised as income by the Group. Instead, it is deferred and amortised over the lease term. If the fair value at the time of a sales and lease back transaction is less than the carrying amount of the asset, no adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to the recoverable amount.

LEASEHOLD LAND AND BUILDING

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position, and is amortised over the lease term on a straight-line basis.

The up-front payments to acquire leasehold land that is accounted for as an operating lease are stated at cost and released over the lease term on a straight line basis.

GOVERNMENT GRANTS AND SUBSIDIES

Government grants and subsidies are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants and subsidies related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants and subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are reported separately as "other income".

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RETIREMENT BENEFITS COSTS

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF") are recognised as an expense when employees have rendered service entitling them to the contributions.

SHORT-TERM AND OTHER LONG-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion on the cost of an asset.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies detailed in note 3, management has made the following estimation that have significant effect on the amounts recognised in the consolidated financial statements. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

VALUATION OF TRADE RECEIVABLES

The management estimates the allowance for doubtful debts based on the recoverability of trade receivables. The Group takes into consideration the objective evidence in estimating the recoverability of trade receivables from major customers assessed individually at the end of the reporting period. Objective evidence includes business relationship with customers, credit history, past settlement records including default or delay in payments and collection after the end of the reporting period. In addition, the Group reviews the aging analysis of remaining trade receivables on a collective basis when estimating the recoverability. Where the actual outcome is different from the original estimates, it will impact the carrying amount of trade receivables and allowance for doubtful debts. As at 31 December 2016, the carrying amount of trade receivables is RMB2,782,143,000 net of allowance for doubtful debts of RMB86,436,000 per note 19 (2015: RMB3,060,534,000, net of allowance for doubtful debts of RMB96,679,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

WARRANTY OBLIGATION

The Group provides free repairing services for its products and free replacement of the major components of its products for 3 to 6 years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation. The costs are estimated by the management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results. When a material defect is subsequently tested and identified, further warranty provision may arise. As at 31 December 2016, the carrying amount of warranty provision is RMB42,010,000 (2015: RMB17,078,000). Details of the movements are disclosed in note 24.

VALUATION OF INVENTORIES

The directors estimate the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an additional write-off or write-down may arise.

INCOME TAXES

There are certain non-deductible expenses for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

No deferred tax assets have been recognised on unused tax losses and certain deductible temporary differences arising from the Group's subsidiaries in PRC due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax assets would be recognised in profit or loss for the period. Details of the tax losses for the year ended 31 December 2016 are disclosed in note 17.

5. REVENUE AND SEGMENT INFORMATION

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

SEGMENT REVENUES AND RESULTS

The following is an analysis of the Group's revenue and results by operating and reportable segments for the year.

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

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

Segment results represent the gross profits earned by each segment. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION

Geographical information

The Group's operations are located in PRC (country of domicile).

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

The management considered that the cost to develop the revenue by individual countries other than PRC and Americas are excessive and revenues other than "PRC" and "Americas" above attributed to each individual country are not material.

Revenue from major products

The following is an analysis of the Group's revenue from major products:

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

Information about major customers

For the year ended 31 December 2016 and 31 December 2015, 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.

6. OTHER EXPENSES

Guangdong Chigo Air-conditioning Co., Ltd. ("Guangdong Chigo"), a wholly owned subsidiary of the Company, participated in the energy-saving subsidy scheme implemented by the National Development and Reform Commission, the Ministry of Industry and Information Technology and the Ministry of Finance of the PRC pursuant to which government subsidies were received in the previous years for the sale of energy-saving residential air-conditioning products in the PRC.

During the year ended 31 December 2015, Guangdong Chigo received a notice from the Finance Bureau of Lishui Town, Nanhai, Foshan, the PRC (the "Lishui Finance Bureau") pursuant to which Lishui Finance Bureau demanded the return of the subsidies received by Guangdong Chigo in previous years amounting to RMB199,190,000. As a result, the Group has made the full provision of the amount (see note 23) and included in other expenses.

7. FINANCE COSTS

	2016 **RMB'000**	2015 RMB'000
Interests on:		
Bank loans	**83,345**	96,320
Debentures	**8,063**	13,750
Finance leases	**11,360**	12,042
Other borrowings	**47,422**	64,057
Total borrowing costs	**150,190**	186,169

8. PROFIT (LOSS) BEFORE TAXATION

	2016 **RMB'000**	2015 RMB'000
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration *(note 9)*	**2,076**	2,580
Other staff's retirement benefits scheme contributions	**72,426**	66,932
Other staff's equity-settled share based payments	**5,040**	6,608
Other staff costs	**799,507**	774,989
	879,049	851,109
Less: Staff costs included in research and development costs	**(58,470)**	(59,123)
	820,579	791,986
Allowance for doubtful debts included in other gains and losses	**37,767**	88,259
Amortisation of intangible assets included in administrative expenses	**352**	350
Auditor's remuneration	**2,243**	2,262
Cost of inventories recognised as an expense including write down on inventories of RMB10,448,000 (2015: RMB10,814,000)	**7,763,153**	6,708,438
Depreciation of property, plant and equipment	**191,004**	175,714
Operating lease rentals in respect of		
– land use rights	**5,378**	5,378
– rented premises	**32,387**	29,590
Provision for warranty included in cost of goods sold	**81,273**	29,939
Release of prepaid lease payments	**16,960**	17,251
Loss on disposal of property, plant and equipment	**113**	4,582
Advertising and promotion fees	**237,400**	264,651
Transportation fees	**115,068**	141,445
and after crediting:		
Amortisation of government grants	**1,288**	1,288
Government subsidies included in other income*	**11,504**	3,906
Interest income	**20,122**	50,419
Net exchange gains included in other gains and losses	**48,977**	30,494
Reversal of doubtful debts included in other gains and losses	**48,010**	26,171
Sales of scrap materials	**542**	1

* 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.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of directors during the year are analysed as follows:

	2016					2015				
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000
Executive directors										
– Mr. Li Xinghao	–	382	–	144	526	–	385	–	67	452
– Dr. Zheng Zuyi	–	310	–	–	310	–	620	5	420	1,045
– Mr. Huang Xingke	–	–	–	–	–	–	401	4	210	615
– Dr. Ding Xiaojiang	–	–	–	–	–	–	–	–	84	84
– Ms. Li Xiuhui	–	109	3	181	293	–	–	–	–	–
– Mr. Cheng Jian	–	285	3	180	468	–	–	–	–	–
– Ms. Huang Guijian	–	35	–	30	65	–	–	–	–	–
Independent non-executive directors										
– Mr. Wan Junchu	65	–	–	18	83	120	–	–	8	128
– Mr. Zhang Xiaoming	120	–	–	18	138	120	–	–	8	128
– Mr. Fu Xiaosi	120	–	–	–	120	120	–	–	8	128
– Mr. Wang Manping	55	–	–	18	73	–	–	–	–	–
	360	1,121	6	589	2,076	360	1,406	9	805	2,580

Mr. Li Xinghao is also the Chief Executive of the Company. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments shown above were for their services as the directors of the Company.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The five highest paid individuals during the year are all employees of the Group. The five highest paid individuals included one director of the Company during the year ended 31 December 2015, details of whose emoluments are set out above. The emoluments of the five (2015: four) highest paid employees are as follows:

	2016 **RMB'000**	2015 RMB'000
Employee		
– basic salaries and allowances	**4,711**	2,826
– retirement benefits scheme contributions	**14**	13
– equity-settled share based payments	**476**	277
	5,201	3,116

Their emoluments were within the following bands:

	Number of employees	
	2016	2015
Up to HKD1,000,000	**3**	3
HKD1,000,001 to HKD1,500,000	**2**	1

10. TAXATION

	2016 **RMB'000**	2015 RMB'000
The charge comprises:		
PRC income tax	**(28,662)**	(15,199)
(Under) over-provision for prior year	**(1,214)**	9,045
Deferred taxation *(note 17)*	**11,350**	(6,329)
	(18,526)	(12,483)

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. In addition, the income tax rate is 25% except that certain PRC subsidiary was officially endorsed as High-New Technology Enterprises and eligible to preferential Enterprise Income Tax ("EIT") rate of 15% from year 2014 to 2016.

10. TAXATION *(Continued)*

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.

The charge for the year is reconciled to profit (loss) before taxation as follows:

	2016 **RMB'000**	2015 RMB'000
Profit (loss) before taxation	**86,118**	(653,049)
Tax at the domestic income tax rate of 25% (2015: 25%)	**(21,529)**	163,262
Effect of expenses not deductible for tax purposes *(i)*	**(12,354)**	(79,972)
Effect of income not taxable for tax purposes	**252**	322
Tax effect of deductible temporary differences not recognised	**(735)**	(27,610)
Tax effect of tax losses not recognised	**(7,805)**	(88,439)
Tax effect of a subsidiary with preferential tax rate	**20,786**	10,127
(Under) over-provision for prior year	**(1,213)**	9,045
Utilisation of tax loss previously not recognised	**4,072**	782
Tax charge for the year	**(18,526)**	(12,483)

(i) Effect of expenses not deductible for tax purposes includes amounts of non-deductible expenses incurred in respect of the manufacture of high energy-saving products.

11. EARNINGS (LOSS) PER SHARE

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

The computation of earnings (loss) per share does not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for shares during both years ended 31 December 2016 and 31 December 2015.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2015	662,904	212,944	52,204	1,057,184	96,013	2,081,249
Additions	7,464	80,830	999	218,353	51,006	358,652
Write-off/disposals	–	(5,423)	(3,413)	(239,107)	–	(247,943)
Transfers	70,418	1,473	–	12,329	(84,220)	–
At 31 December 2015	740,786	289,824	49,790	1,048,759	62,799	2,191,958
Additions	**10,358**	**51,184**	**2,076**	**35,322**	**9,663**	**108,603**
Write-off/disposals	**(3,072)**	**(5,610)**	**(1,045)**	**(88,801)**	**–**	**(98,528)**
Transfers	**5,665**	**8,250**	**–**	**314**	**(14,229)**	**–**
At 31 December 2016	**753,737**	**343,648**	**50,821**	**995,594**	**58,233**	**2,202,033**
DEPRECIATION						
At 1 January 2015	55,317	110,024	27,387	389,940	–	582,668
Provided for the year	25,493	33,477	4,287	112,457	–	175,714
Eliminated on write-off/disposals	–	(4,852)	(3,213)	(27,371)	–	(35,436)
At 31 December 2015	80,810	138,649	28,461	475,026	–	722,946
Provided for the year	**28,848**	**42,562**	**4,289**	**115,305**	**–**	**191,004**
Eliminated on write-off/disposals	**(1,833)**	**(4,908)**	**(938)**	**(85,623)**	**–**	**(93,302)**
At 31 December 2016	**107,825**	**176,303**	**31,812**	**504,708**	**–**	**820,648**
CARRYING VALUES						
At 31 December 2016	**645,912**	**167,345**	**19,009**	**490,886**	**58,233**	**1,381,385**
At 31 December 2015	659,976	151,175	21,329	573,733	62,799	1,469,012

The Group's buildings are erected on land held under land use rights in the PRC.

The net book value of property, plant and machinery of RMB291,780,000 (2015: RMB203,538,000) is held under finance leases.

13. LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as		
– non-current assets	**204,638**	210,016
– current assets	**5,378**	5,378
	210,016	215,394

The balance represents the prepayment of rentals for land use rights situated in the PRC for periods ranging from 44 years to 50 years. The Group has pledged certain land used rights with a carrying amount of nil (2015: RMB13,530,000), to secure bank loans to the Group (see note 27).

14. INTANGIBLE ASSETS

	2016 RMB'000	2015 RMB'000
CARRYING VALUE		
At 1 January	**733**	1,083
Additions	**112**	–
Charged to profit or loss	**(352)**	(350)
At 31 December	**493**	733

Included in intangible assets are patents and trademarks in which patents represent the exclusive rights in connection with certain product design. The cost of patents and trademarks has been amortised on a straight line basis over its estimated useful life of 10 years.

15. PREPAID LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as		
– non-current assets	**202,059**	213,598
– current assets	**17,653**	16,700
	219,712	230,298

The balance represents prepayment of rentals for land and buildings situated in the PRC for a period of 20 years under operating leases.

16. AVAILABLE-FOR-SALE INVESTMENTS

As of 31 December 2016, the available-for-sale investments represent the Group's investments in 10% equity interests in a private limited liability company, 佛山市納新小額貸款有限公司, and 10% equity interest in 廣東壹品會科技有限公司 which was established in the PRC. 佛山市納新小額貸款有限公司 is engaged in financing services and 廣東壹品會科技有限公司 is engaged in promoting brands. These investments are measured at cost less impairment as the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

17. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Accelerated accounting depreciation RMB'000	Warranty provision RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2015	6,179	6,906	(21,937)	(8,852)
Charge to profit or loss	(5,045)	(1,284)	–	(6,329)
At 31 December 2015	1,134	5,622	(21,937)	(15,181)
Credit (charge) to profit or loss	**6,667**	**7,941**	**(3,258)**	**11,350**
At 31 December 2016	**7,801**	**13,563**	**(25,195)**	**(3,831)**

17. DEFERRED TAXATION *(Continued)*

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 **RMB'000**	2015 RMB'000
Deferred tax assets	**21,364**	6,756
Deferred tax liabilities	**(25,195)**	(21,937)
	(3,831)	(15,181)

At 31 December 2016, the Group has unrecognised deferred tax liability of RMB44,875,000 (2015: RMB37,271,000) in relation to PRC withholding tax on undistributed earnings of RMB448,745,000 (2015: RMB372,707,000) due to the retention of undistributed earnings by the PRC subsidiaries determined by the directors of the Company.

At 31 December 2016, the Group has unused tax losses of RMB145,311,000 (2015: RMB136,686,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such loss due to the unpredictability of the future profit streams. The tax loss may be carried forward in five years. Besides, the Group has deductible temporary differences of RMB30,355,000 (2015: RMB110,440,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is uncertain that future taxable profit stream will be available against which the deductible temporary differences can be utilised.

18. INVENTORIES

	2016 **RMB'000**	2015 RMB'000
Raw materials	**420,765**	315,201
Work in progress	**75,867**	59,255
Finished goods	**1,655,311**	1,460,872
	2,151,943	1,835,328

19. TRADE AND OTHER RECEIVABLES

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

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

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

At the end of the reporting date, bills receivables outstanding amounting to RMB1,074,714,000 (2015: RMB1,158,266,000) have been discounted to certain banks. The Group continues to present the discounted bills with recourse as bills receivables until maturity.

Payment terms with customers are mainly on credit. The customers are allowed a credit period of 30 days to 180 days from date of issuance of the invoices, while the long-established customers are allowed a credit period of 210 days. The following is an aged analysis of trade and bills receivables presented based on the invoice dates which approximated the respective revenue recognition dates or the date of receipt of bills.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

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

Included in the Group's trade receivable balances are trade debtors with an aggregate carrying amount of RMB701,283,000 (2015: RMB581,869,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there is no adverse change in the recoverability of the debtors.

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

	2016 **RMB'000**	2015 RMB'000
Age		
31 – 60 days	**17**	–
61 – 90 days	**7,655**	32,609
91 – 180 days	**311,634**	351,373
181 – 365 days	**144,116**	190,685
Over 1 year	**113,995**	7,202
	577,417	581,869

The Group does not hold any collateral over these balances. The average age of these receivables is 214 days (2015: 184 days).

19. TRADE AND OTHER RECEIVABLES *(Continued)*

The management estimates the allowance for doubtful debts based on the recoverability of trade receivables. In determining the recoverability of the trade receivables, the Group considers the objective evidence which includes business relationship with customers, credit history, past settlement records including default or delay in payments and collection after the end of the reporting period. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated. No interest is charged on trade receivables.

Movement in the allowance for doubtful debts is as follows:

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

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB86,436,000 (2015: RMB96,679,000) whose recoverability are in doubt. The Group does not hold any collateral over these balances.

Included in trade and other receivables are the following amounts denominated in currency other than the functional currency of the relevant group entities:

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

19. TRADE AND OTHER RECEIVABLES *(Continued)*

TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2016 and 2015 that were transferred to banks by discounting those receivables on a full recourse basis. If the bills receivables are not paid out at maturity, the Group is required to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable discounted to banks with full recourse	
	2016	2015
	RMB'000	RMB'000
Carrying amount of transferred assets included in trade receivables	**1,074,714**	1,158,266
Carrying amount of associated liabilities	**1,058,452**	1,139,440

20. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Derivatives not under hedge accounting				
– foreign currency contracts - current	**–**	–	**–**	23,723
– foreign currency contracts - non-current	**–**	–	**–**	9,405

20. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

At 31 December 2016, the Group has no outstanding foreign currency contracts.

At 31 December 2015, the Group had the following foreign currency contracts with (i) predetermined exercisable period and maturity dates and (ii) predetermined exercisable period with different strike rate. Their major terms were as follows:

(i) predetermined exercisable period and maturity periods

Principal amount	Exercisable period	Forward contract rates
65 contracts to sell USD145,330,000 (gross settlement)	From 4 January 2016 to 30 December 2016	USD1/RMB6.3032 to USD1/RMB6.5000

Principal amount	Maturity	Forward contract rates
9 contracts to sell USD30,000,000 (net settlement)	From 28 January 2016 to 26 September 2016	USD1/RMB6.4306 to USD1/RMB6.5037

(ii) predetermined exercisable period with different strike rate

Principal amount	Maturity	Upper/lower strike rates
1 contract to sell USD10,000,000 (gross settlement)	From 29 January 2015 to 19 May 2016	USD1/RMB5.7000 to USD1/RMB6.4000

The fair value of the foreign currency contracts was determined based on the valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent valuer of the Group.

20. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The fair value of the foreign currency contracts with predetermined exercisable period are determined using the option pricing model of which the foreign currency contracts embedded a time option where the holder can exercise the foreign currency contracts within a specified period upon presenting the contract to the issuer. The inputs into the model at the respective dates were as follows:

	2016	2015
Volatility	**N/A**	7.0575%
RMB risk-free interest rate	**N/A**	2.5229%
USD risk-free interest rate	**N/A**	0.7185%
Spot price for USD foreign currency contracts	**N/A**	RMB6.4937
USD/RMB market forward rate	**N/A**	USD1/RMB6.3032 to USD1/RMB6.5000

The fair value of the foreign currency contracts with predetermined maturity dates are determined using the forward pricing model based on the difference between the predetermined forward rate on the respective date of which the contracts were entered and the market forward rate at the end of the reporting period. The inputs into the model at the respective dates were as follows:

	2016	2015
RMB risk-free interest rate	**N/A**	2.5229%
USD/RMB market forward rate	**N/A**	USD1/RMB6.4306 to USD1/RMB6.5037

The maximum exposure to credit risk at the reporting dates is the carrying amounts of the Group's restricted deposits. The fair value of the foreign currency contracts with predetermined exercisable period with different strike rate were determined by the respective issuing bank using Black-Scholes Model with reference to predetermined range exchange rates, predetermined forward exchange rates, predetermined upper trigger exchange rate and spot exchange rates.

21. SHORT-TERM INVESTMENTS

As at 31 December 2015, the Group's short-term investments mainly represent financial products issued by banks in the PRC, with an expected but not guaranteed return at 1.72% per annum, depending on the market prices of its underlying financial instruments. The financial products are measured at fair value at the end of the reporting period. The directors of the Company consider the fair value of the financial products approximate to their principal amount as at 31 December 2015. No fair value change is recognised during the year ended 31 December 2015. The short-term investments amounting to RMB40 million were redeemed in January 2016 at the principal amount together with return which approximated the expected return.

22. RESTRICTED DEPOSITS/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The Group's short term restricted deposits represented balances deposited in banks in the PRC, which management believes are of high credit quality and does not expect high credit risks in this respect. The Group's restricted deposits are with initial term from 15 – 90 days and are restricted for obtaining a guarantee interest rate return and are denominated in RMB.

As at 31 December 2016, the weighted average effective interest rates on restricted deposits was 1% per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry interest at the prevailing market interest rate at 0.35% (2015: 0.35% to 0.42%) per annum.

At 31 December 2016, pledged bank deposits represents deposits pledged to banks to secure issuance of bills payables amounting to RMB2,150,229,000 (2015: RMB3,101,776,000) which carry interest at market rates ranged from 1.3% to 2.3% (2015: 2.6% to 3.0%) per annum.

Certain restricted deposits, pledged bank deposits and bank balances and cash of RMB1,399,531,000 (2015: RMB1,268,648,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

Included in pledged bank deposits and bank balances and cash are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2016 RMB'000 equivalent	2015 RMB'000 equivalent
USD	**269,918**	88,173
HKD	**1,653**	2,978
EURO	**1,279**	251

23. TRADE AND OTHER PAYABLES

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

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

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

24. WARRANTY PROVISION

	2016 **RMB'000**	2015 RMB'000
CARRYING VALUE		
At 1 January	**17,078**	25,641
Additional provision for the year	**81,273**	29,939
Utilisation of provision	**(56,341)**	(38,502)
At 31 December	**42,010**	17,078

The warranty provision represents management's best estimate of the Group's liability under 3 to 6 years warranty granted on air-conditioning products, based on prior experience and industry average for defective products.

25. BORROWINGS RELATED TO BILLS DISCOUNTED WITH RECOURSE

During the year, bank bills issued by customers and discounted by the Group carry interest at rates ranging from 2.65% to 4.58% (2015: 2.38% to 5.69%) per annum at the end of reporting period.

During the year ended 31 December 2016, the Group discounted bills receivables with recourse in the aggregated amounts of RMB1,637,732,000 (2015: RMB2,706,915,000) to banks for short-term financing of which the associated borrowings are amounted to RMB1,058,452,000 (2015: RMB1,139,440,000) as at 31 December 2016.

26. DEBENTURES

On 12 May 2014, Guangdong Chigo, the Company's wholly owned subsidiary, issued long-term debentures in an aggregate principal amount of RMB50,000,000 (the "2014 Debentures"). The 2014 Debentures, with a fixed coupon rate of 8.0% per annum and a face value of RMB100 each, were listed and transferrable on the inter-bank debenture market in the PRC, at 100% of its face value with a maturity period of three years.

On 23 May 2013, Guangdong Chigo issued long-term debentures in an aggregate principal amount of RMB150,000,000 (the "2013 Debentures"). The 2013 Debentures, with a fixed coupon rate of 6.50% per annum and a face value of RMB100 each, were listed and transferrable on the inter-bank debenture market in the PRC, at 100% of its face value with a maturity period of three years. The 2013 debentures was fully repaid during the year.

26. DEBENTURES *(Continued)*

The movement of the Debentures during the year is set out below:

	2016 RMB'000	2015 RMB'000
Carrying value at 1 January	**207,621**	207,021
Repayment of debentures and interests thereon	**(163,750)**	(13,750)
Transaction costs	**337**	–
Net proceeds	**44,208**	193,271
Interest expense	**8,063**	14,350
Carrying value at 31 December	**52,271**	207,621
Carrying amount repayable:		
– Within one year	**52,271**	155,500
– More than one year, but not more than two years	**–**	52,121

27. BANK LOANS

	2016 RMB'000	2015 RMB'000
Bank loans		
– unsecured	**1,634,789**	976,303
– secured by bank acceptance notes	**87,776**	425,880
– guaranteed by Mr. Li Xinghao and secured by land used rights	**–**	6,250
	1,722,565	1,408,433

No personal guarantee for banking facilities was given by Mr. Li Xinghao at 31 December 2016.

27. BANK LOANS *(Continued)*

At 31 December 2015, Mr. Li Xinghao, being a director and ultimate controlling party of the Company, has given personal guarantee to certain banks for banking facilities granted to a PRC subsidiary to the extent of RMB6,250,000. In addition, the bank loans are pledged with certain land used rights that situated in PRC with carrying amount of RMB13,530,000.

	2016 RMB'000	2015 RMB'000
Carrying amount repayable:		
Within one year	**1,623,985**	1,408,433
More than one year, but not exceeding two years	**98,580**	–
	1,722,565	1,408,433
Less: Amounts due within one year shown under current liabilities	**(1,623,985)**	(1,408,433)
Amount due after one year	**98,580**	–

Also, at the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB1,733,600,000 (2015: RMB1,386,281,000).

Included in short-term and long-term bank loans are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2016 RMB'000 equivalent	2015 RMB'000 equivalent
USD (mainly charged at LIBOR plus premium)	**125,491**	128,183

The Group's banks loans denominated in RMB are charged at People's Bank of China lending rate plus premium.

27. BANK LOANS *(Continued)*

Average interest rates of the Group's bank borrowings were as follows:

	2016	2015
Bank loans	**5.26%**	4.61%

During the year ended 31 December 2015, in respect of a bank loan with a carrying amount of RMB140,000,000, a subsidiary of the Group breached certain of the terms of the bank loan, which are primarily related to the net profit to sales ratio of the subsidiary. On discovery of the breach, the directors of the Company informed the lender and commenced a renegotiation of the terms of the loan with the relevant banker. The loan has been classified as a current liability as at 31 December 2015 based on its repayment schedule.

28. OBLIGATIONS UNDER FINANCE LEASES

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
– Current liabilities	**145,916**	78,822
– Non-current liabilities	**119,213**	83,753
	265,129	162,575

During the year ended 31 December 2016, the Group entered into five (2015: two) sale and lease back agreements with leasing companies in the PRC. Under the arrangement, the Group sold certain machineries to the leasing company and concurrently leased the assets back for a term of 36 months with monthly rental repayments. At the end of the lease term, the Group has the option to purchase these assets at nominal value. As such, these sale and lease back arrangements resulted in finance leases.

As at 31 December 2016, the finance leases have outstanding obligations of RMB265,129,000. The average effective interest rate of the finance lease is 6.78% per annum. The Group's obligations under finance leases are secured by a corporate guarantee provided by the Company and a wholly-owned subsidiary.

28. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance lease				
Within one year	**166,542**	88,199	**145,383**	78,822
In more than one year but not more than two years	**85,651**	84,711	**68,001**	81,369
In more than two years but not more than three years	**67,278**	2,401	**51,745**	2,384
	319,471	175,311	**265,129**	162,575
Less: future finance charges	**(54,342)**	(12,736)	**–**	–
Present value of lease obligations	**265,129**	162,575		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**145,916**	78,822
Amount due for settlement after 12 months			**119,213**	83,753

29. GOVERNMENT GRANTS

	2016	2015
	RMB'000	RMB'000
At 1 January	**36,192**	37,480
Received during the year	**1,450**	–
Recognised in profit or loss	**(1,288)**	(1,288)
At 31 December	**36,354**	36,192

30. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	Amount HKD'000	Number of shares '000	Amount HKD'000
At 1 January 2015, 31 December 2015 and 2016	50,000,000	500,000	8,434,178	84,341

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

31. EQUITY-SETTLED SHARE BASED PAYMENTS

EQUITY-SETTLED SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 19 June 2009 for the primary purpose of providing incentives to directors, eligible employees and customers. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company. The Scheme will be valid and effective for a period of 10 years from the date of adoption.

At 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 600,250,000 (2015: 651,200,000), representing 7.1% (2015: 7.7%) of the shares of the Company in issue at that date. On 13 May 2011, under the resolution of the annual general meeting of the Company, which was approved by the shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue. Notwithstanding the foregoing, the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares of the Company in issue from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HKD5,000,000 must be approved in advance by the Company's shareholders.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board of Directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

31. EQUITY-SETTLED SHARE BASED PAYMENTS *(Continued)*

EQUITY-SETTLED SHARE OPTION SCHEME *(Continued)*

Details of the movements of the share options granted are as follows:

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2015	Lapsed during the year	Outstanding at 31.12.2015	Lapsed during the year	Transferred during the year	Outstanding at 31.12.2016
				HKD						
Directors	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	28,800,000	–	28,800,000	**(7,800,000)**	**(11,492,000)**	**9,508,000**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	67,200,000	–	67,200,000	**(18,200,000)**	**(26,808,000)**	**22,192,000**
Employees	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	173,958,000	(10,380,000)	163,578,000	**(7,484,000)**	**11,492,000**	**167,586,000**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	405,992,000	(24,220,000)	381,772,000	**(17,466,000)**	**26,808,000**	**391,114,000**
Customers#	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	3,466,000	(534,000)	2,932,000	**–**	**–**	**2,932,000**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	8,184,000	(1,266,000)	6,918,000	**–**	**–**	**6,918,000**
					687,600,000	(36,400,000)	651,200,000	**(50,950,000)**	**–**	**600,250,000**
Exercisable at end of the year							195,310,000			**600,250,000**

\# The Company's share options granted to customers are measured by reference to the fair value of options granted since the fair value of the customer loyalty to the Group cannot be estimated accurately. There are no specified performance conditions to be met. The fair value of share options are charged to profit or loss at the date of grant.

During the year, four directors of the Company have resigned and two of them remain as employee of the Company. Their share options have been transferred from "Directors" category to "Employees" category.

The Group recognised the total expense of RMB589,000 (2015:RMB805,000) and RMB5,040,000 (2015: RMB6,609,000) for the year ended 31 December 2016 in relation to share options granted by the Company to the Group's directors and employees of the Group respectively. No share options are exercised during both years.

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group mainly consists of bank loans, debentures, borrowings related to bills discounted with recourse, net of pledged bank deposits, restricted deposits, and bank balances and cash and equity attributable to owners of the Company, comprising share capital, reserves and retained profits as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues of the Company as well as the raising of bank and other borrowings.

33. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2016 **RMB'000**	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**5,973,329**	6,097,700
Available-for-sale investments	**23,000**	20,000
– Designated as at FVTPL	**–**	40,000
	5,996,329	6,157,700
Financial liabilities		
Amortised cost	**6,584,576**	6,859,194
Fair value through profit or loss – held for trading	**–**	33,128
Obligations under finance leases	**265,129**	162,575
	6,849,705	7,054,897

33. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, available-for-sale investments, short-term investments, restricted deposits, pledged bank deposits, bank balances and cash, trade and other payables, derivative financial instruments, borrowings related to bills discounted with recourse, debentures, bank loans and obligations under finance lease. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

CREDIT RISK

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group takes into consideration the objective evidence in estimating the recoverability of trade receivables from major customers assessed individually at the end of the reporting period. Objective evidence includes business relationship with customers, credit history, past settlement records including default or delay in payments. In addition, the Group reviews the aging analysis of remaining trade receivables on a collective basis when assessing adequate impairment losses are made for irrecoverable amounts. Furthermore, the Group has applied export insurance to minimise the credit risks arising from overseas customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits and bank balances is limited as such amounts are placed in banks with good reputation.

The Group is also exposed to credit risk arising from the failure to discharge of obligation by the counterparties in foreign currency contracts. However, the directors of the Company consider such risk is minimal as those contracts were entered with banks with good reputation.

Other than concentration of credit risk on liquid funds, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers which spread across diverse industries and geographical locations.

33. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK

Foreign currency risk

The Group has certain transactions that denominated in foreign currencies, hence exposures to foreign currency risk. Approximately 42% (2015: 50%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, mainly in United States dollars whilst all of the costs are denominated in the group entity's functional currency. The Group also has certain monetary items that denominated in foreign currencies which have exposed the Group to foreign currency risk. The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are disclosed in respective notes. The management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2016		2015	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
United States dollars ("USD")	**1,412,812**	**125,491**	1,246,460	128,183
Hong Kong dollars ("HKD")	**1,653**	**–**	2,978	–
EURO	**1,314**	**–**	39,119	–
Vietnamese Dong	**886**	**–**	–	–

The Group mainly exposes to currencies of USD, HKD and EURO. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, including the trade and other receivables, restricted bank deposits, pledged bank deposits, bank balances, borrowings related to bills discounted with recourse, bank loans, debentures and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number indicates a decrease in profit for the year ended 31 December 2016 (increase in loss for the year ended 31 December 2015) where the RMB strengthens against the relevant currencies. There would be an equal and opposite impact on the profit for the year ended 31 December 2016 (loss for the year ended 31 December 2015) where the RMB weakens against the relevant currencies.

33. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Foreign currency risk *(Continued)*

	2016 **RMB'000**	2015 RMB'000
USD	**(64,366)**	(54,236)
HKD	**(80)**	(151)
EURO	**(54)**	(2,229)

Details of the Group's exposure in respect of the foreign currency contracts are set out in other price risk disclosed below.

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing pledged bank deposits, bank balances and variable rate bank loans at prevailing market interest rates. The Group's fair value interest rate risk relates primarily to its debentures and borrowings related to discounted bills with recourse, of which are subjected to negotiations at each renewal date. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing pledged bank deposits, bank balances and variable rate bank loans and assumed that the amount of assets outstanding at the end of the reporting period were outstanding for the whole year.

If interest benchmark rates on pledged bank deposits, bank balances and variable rate bank loans had been 50 basis points higher and all other variables were held constant, the Group's profit (2015: loss) for the year would increase by approximately RMB7,504,000 (2015: decrease by RMB5,179,000).

There will be an equal and opposite impact on the profit for the year ended 31 December 2016 (loss for the year ended 31 December 2015) where there had been 50 basis points lower.

33. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Other price risk

The Group does not have outstanding foreign currency contracts at 31 December 2016.

The Group was exposed to other price risk arising from the outstanding foreign currency contracts at 31 December 2015 with predetermined exercisable period and maturity dates. The fair value of these foreign currency contracts was calculated using the forward pricing model and option pricing model. Details of these foreign currency contracts are set out in note 20.

The sensitivity analysis includes the outstanding foreign currency contracts as at the end of the reporting period and adjust at the year end for a 5% change in the relevant forward rates, holding other variables constant.

If the input of market forward rate to the valuation models of these foreign currency contracts had been 5% higher against RMB while all other variables were held constant, the loss for the year ended 31 December 2015 would decrease by RMB37,832,000.

There will be an equal and opposite impact on the loss for the year ended 31 December 2015 where there had been 5% lower.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of these contracts which involves multiple variables are interdependent.

The Group was also exposed to other price risk arising from the foreign currency contracts with different strike rate. The fair values of these contracts were calculated using the Black-Scholes Model. Details of these derivative financial instruments are set out in note 20.

LIQUIDITY RISK MANAGEMENT

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities.

In respect of bank loans that the Group has breached the terms of bank loan, the Group will renegotiate the terms of such loan with relevant banker. The balance of such bank loan will be reclassified as current liabilities at the end of reporting period when the renegotiation had not been concluded. In any event, should the lender calls for immediate repayment of the loan, the Group will source adequate alternative sources of finance to ensure that there is no threat to the continuing operations of the Group.

33. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

The following tables detail the remaining contractual maturity for the non-derivative financial liabilities and foreign currency contracts. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the agreed repayment terms. The tables include both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash (inflows) outflows are presented. Whereas they require gross settlement, the undiscounted gross (inflows) and outflows on these derivatives are shown in the tables. For foreign currency contracts with predetermined exercisable period with gross settlement, the tables have been drawn up based on the assumption that the Group will exercise such contracts on the maturity of the exercisable period.

For the foreign currency contracts with different strike rates, undiscounted gross inflows/outflows are not presented since the Group is unable to estimate the ultimate timing and settlement amount of these contracts.

	Weighted average interest rate %	On demand and less than 3 months RMB'000	Over 3 months but not more than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities							
As at 31 December 2016							
Trade and other payables	-	2,396,534	1,354,754	–	–	3,751,288	3,751,288
Borrowings related to bills discounted with recourse	-	733,863	324,589	–	–	1,058,452	1,058,452
Long-term debentures	6.88%	–	53,706	–	–	53,706	52,271
Long-term bank loans	4.75%	–	–	–	103,431	103,431	98,580
Short-term bank loans	5.26%	977,755	619,670	54,126	–	1,651,551	1,623,985
Obligations under finance leases	6.78%	37,351	37,351	74,703	120,285	269,690	265,129
		4,145,503	2,390,070	128,829	223,716	6,888,118	6,849,705

33. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

	Weighted average interest rate %	On demand and less than 3 months RMB'000	Over 3 months but not more than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities							
As at 31 December 2015							
Trade and other payables	-	2,360,347	1,743,353	–	–	4,103,700	4,103,700
Borrowings related to bills discounted with recourse*	-	725,759	413,681	–	–	1,139,440	1,139,440
Long-term debentures	6.88	–	163,267	–	53,556	216,823	207,621
Long-term bank loans	5.57	6,327	–	–	–	6,327	6,250
Short-term bank loans	4.93	767,042	400,098	254,048	–	1,421,188	1,402,183
Obligations under finance leases	7.43	22,004	22,034	44,161	87,112	175,311	162,575
		3,881,479	2,742,433	298,209	140,668	7,062,789	7,021,769

	Weighted average interest rate %	On demand and less than 3 months RMB'000	Over 3 months but not more than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Foreign currency contracts assets – gross settlement							
As at 31 December 2015							
Foreign currency contracts							
– inflows		(444,224)	(367,068)	(240,004)	–	(1,051,296)	N/A
– outflows		449,381	378,389	246,379	–	1,074,149	N/A
		5,157	11,321	6,375	–	22,853	N/A
Foreign currency contracts assets – net settlement							
As at 31 December 2015							
Foreign currency contracts		1,100	–	–	–	1,100	1,097

* The amounts included above for borrowings related to bills discounted with recourse are the maximum amounts the Group could be required to pay for the discounted bills if the bills receivables are not paid at maturity. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that these amount will be settled by the counterparties who issued the relevant bills which have been discounted to the banks.

33. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

In estimating the fair value of the Group's financial assets and financial liabilities, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Group will assess the valuation of financial instruments based on discounted cash flow or quoted bid prices of the trading day in the over-the-counter markets at the end of each reporting period. At the end of the reporting period, the management of the Group will exercise their judgements based on their experience to establish and determine the appropriate valuation techniques and inputs to the valuation model. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of directors of the Company.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets	Fair value as at 31 December 2016	Fair value as at 31 December 2015	Fair value hierarchy	Valuation technique(s) and key input(s)
Foreign currency contracts classified as derivative financial instruments in the consolidated statement of financial position	Nil	Current liabilities – RMB2,927,000	Level 2	(1) Outright forward contracts The valuation is estimated based on the difference between the predetermined forward rate and the market forward rate of expiring date of the contracts at the valuation date. And take into account of the time from the valuation date to the contract expiring date and the RMB risk free interest rate.
	Nil	Current liabilities – RMB20,796,000		(2) Forward contracts with flexible settlement dates The valuation is estimated based on the difference between the predetermined forward rate and the market forward rate of expiring date of the contracts at the valuation date. And take into account of the time from the valuation date to the contract expiring date and the RMB risk free interest rate. **Black-Scholes Model and Binomial Model** Black-Scholes Model is used to calculate the value of a European Put option while Binomial Model is used to calculate the value of an American Put option. The key determinants of both models are predetermined forward exchange rate, spot exchange rates and market risk free interest rate.
	Nil	Non-current liabilities –RMB9,405,000	Level 2	(3) Forward contracts with flexible exchange rate **Black-Scholes Model** The key determinants of the model are predetermined range exchange rates, predetermined forward exchange rates, predetermined upper trigger exchange rate, spot exchange rates, market risk free interest rate.

33. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

There were no transfers between Level 1 and 2 in the current and prior years.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The disclosure set out in the table below include financial assets and financial liabilities that are offset in the Group's condensed consolidated statement of financial position.

The Group currently has a legally enforceable right to set off the deposit under the finance leases and the obligations under finance lease payable to the counter party that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position
At 31 December 2016			
Deposit under finance lease	**79,305**	**(79,305)**	**–**
At 31 December 2015			
Deposit under finance lease	42,855	(42,855)	–

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position
At 31 December 2016			
Obligations under finance leases	**(344,434)**	**79,305**	**(265,129)**
At 31 December 2015			
Obligations under finance leases	(205,430)	42,855	(162,575)

34. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**21,172**	24,966
In the second to fifth year inclusive	**7,443**	20,405
After five years	**–**	–
	28,615	45,371

Leases are negotiated and rentals are fixed for lease terms of 1 to 20 years.

35. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the		
– capital contribution to subsidiaries	**20,243**	–
– acquisition of property, plant and equipment	**70,093**	98,645
	90,336	98,645

36. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate in the MPF in Hong Kong. The assets of the MPF are held separately from those of the Group in fund under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF Scheme.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

37. RELATED PARTY TRANSACTIONS

Other than the transactions and balances with related parties disclosed in respective notes in the consolidated financial statements, during the year, the Group paid miscellaneous expenses totalling RMB641,000 (2015: RMB648,000) to a related company which is controlled by Mr. Li Xinghao, a director and ultimate controlling party of the Company.

The details of remuneration of key management personnel, represents emoluments of the directors of the Company and are set out in note 9.

38. PRINCIPAL SUBSIDIARIES

(a) Details of the Company's principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued share capital/registered capital held by the Group indirectly 2016	2015	Principal activity
Guangdong Chigo	PRC as a wholly foreign owned enterprise for a term of 50 years commencing 1 September 2006	Registered capital – RMB996,140,000	**100%**	100%	Manufacture and sales of air-conditioners
志高空調(九江)有限公司 Chigo Air-Conditioning (Jiu Jiang) Co., Ltd.	PRC as a limited liability enterprise for a term of 10 years commencing 1 June 2007	Registered capital – RMB45,000,000	**100%**	100%	Manufacture and sales of air-conditioners
廣東志高暖通設備股份有限公司 Guangdong Chigo Heating and Ventilation Equipment Co., Ltd. ("Chigo Heating")	PRC as a joint stock limited company	Share capital – RMB100,000,000	**70%**	70%	Manufacture and sales of commercial air-conditioners
廣東志高精密機械有限公司 Guangdong Chigo Precision Machinery Co., Ltd.	PRC as a limited liability enterprise	Registered capital – RMB200,000,000	**100%**	100%	Manufacture and sales of compressor
廣東志高科創銅業有限公司 Guangdong Chigo Kechuang Copper Co., Ltd.	PRC as a wholly foreign owned enterprise for a term of 50 years commencing 11 May 2011	Registered capital – RMB100,000,000	**100%**	100%	Manufacturing and sales of copper products

The above table lists the subsidiaries of the Company which, in the opinion of the directors principally affect the results or assets of the Group. To give details of other subsidiaries would in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year except for Guangdong Chigo which has issued debentures (see note 26).

38. PRINCIPAL SUBSIDIARIES *(Continued)*

(b) Details of a non-wholly owned subsidiary that have material non-controlling interests

Summarised financial information of non-wholly owned subsidiary is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Chigo Heating	31.12.2016 RMB'000	31.12.2015 RMB'000
Current assets	**616,799**	526,712
Non-current assets	**88,533**	85,594
Current liabilities	**539,224**	415,993
Equity attributable to owners of the Company	**115,661**	136,924
Non-controlling interests	**50,447**	59,389

	2016 RMB'000	2015 RMB'000
Revenue	**938,258**	937,778
Expenses	**876,556**	853,681
Profit and total comprehensive income for the year	**61,702**	84,097
Profit and total comprehensive income attributable to owners of the Company	**43,192**	59,156
Profit and total comprehensive income attributable to the non-controlling interests	**18,510**	24,941
Profit and total comprehensive income for the year	**61,702**	84,097
Net cash inflows from operating activities	**188,928**	187,462
Net cash outflows from investing activities	**(310)**	(128,103)
Net cash (outflows) inflows from financing activities	**(21,300)**	18,036
Net cash inflows	**167,318**	77,395

The financial statements of non-wholly owned subsidiary were prepared in accordance with relevant accounting principles and the financial reporting framework applicable to the PRC enterprises. Appropriate adjustments have been made to conform the subsidiary's accounting policies to those of the Group.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AND RESERVES OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Investment in a subsidiary	**628,856**	603,057
Amounts due from subsidiaries	**578,866**	504,219
	1,207,722	1,107,276
Current assets		
Other receivables	**90**	84
Amounts due from subsidiaries	**–**	–
Bank balances and cash	**1,283**	2,472
	1,373	2,556
Current liabilities		
Amounts due to subsidiaries	**80,126**	29,174
Accruals and other payables	**144**	95
	80,270	29,269
Net current liabilities	**(78,897)**	(26,713)
Net assets	**1,128,825**	1,080,563
Capital and reserves		
Share capital	**71,906**	71,906
Reserves	**1,056,919**	1,008,657
	1,128,825	1,080,563

MOVEMENT IN THE COMPANY'S RESERVE

	Share premium RMB'000	**Share compensation reserve** RMB'000	**Share options reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2015	938,187	61,568	59,998	(10,435)	1,049,318
Loss for the year	–	–	–	(48,075)	(48,075)
Recognition of equity-settled share based payments	–	–	7,414	–	7,414
At 31 December 2015	938,187	61,568	67,412	(58,510)	1,008,657
Profit for the year	**–**	**–**	**–**	**42,633**	**42,633**
Recognition of equity-settled share based payments	**–**	**–**	**5,629**	**–**	**5,629**
At 31 December 2016	**938,187**	**61,568**	**73,041**	**(15,877)**	**1,056,919**

FINANCIAL SUMMARY

For the year ended 31 December 2016

	Year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016 RMB'000**
RESULTS					
Revenue	8,801,814	9,183,678	9,233,191	7,774,156	**9,301,753**
Profit (loss) before taxation	136,166	257,702	(8,572)	(653,049)	**86,118**
Taxation	(37,712)	(43,283)	(51,807)	(12,483)	**(18,526)**
Profit (loss) for the year	98,454	214,419	(60,379)	(665,532)	**67,592**
Profit (loss) attributable to					
– owners of the Company	92,055	199,871	(81,039)	(690,473)	**57,036**
– non-controlling interests	6,399	14,548	20,660	24,941	**10,556**
	98,454	214,419	(60,379)	(665,532)	**67,592**

	As at 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016 RMB'000**
ASSETS AND LIABILITIES					
Total assets	10,395,717	12,049,404	11,162,022	10,221,731	**10,236,066**
Total liabilities	(7,659,500)	(9,079,491)	(8,255,732)	(7,991,109)	**(7,957,552)**
Net assets	2,736,217	2,969,913	2,906,290	2,230,622	**2,278,514**
Equity attributable to owners of the Company	2,705,927	2,925,075	2,854,292	2,171,233	**2,233,898**
Non-controlling interests	30,290	44,838	51,998	59,389	**44,616**
	2,736,217	2,969,913	2,906,290	2,230,622	**2,278,514**