CHIGO

CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

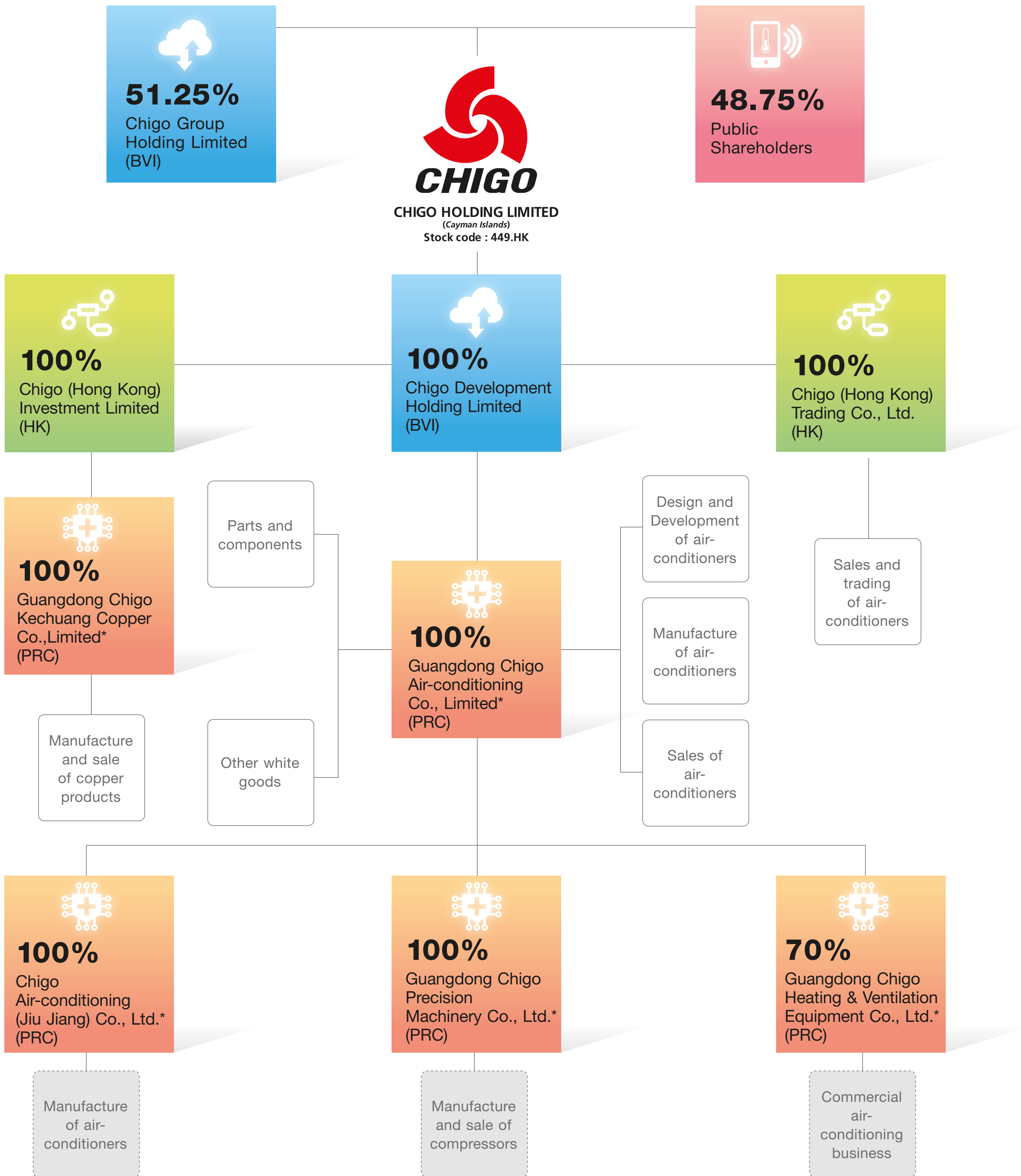
Stock Code: 449

ANNUAL REPORT 2017

CONTENTS


CHIGO
LEADER OF HIGH-END AIR-CONDITIONING

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 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
Ms. Huang Guijian
Mr. Yang Xiangwen *(appointed on 20 April 2018)*
Mr. Cheng Jian *(resigned on 20 April 2018)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

SMP Partners (Cayman) Limited
Royal Bank House - 3rd Floor
24 Shedden Road
P.O. Box 1586
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 2017:	
No. of shares issued:	8,434,178,000 shares
Market capitalisation:	HKD1.07 billion

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

JAN

Mr. Li Xinghao was invited to attend Trump, U.S. President's inauguration dinner

On 20 January (U.S. time), Mr. Li Xinghao, the Chairman and President of the Chigo Group was invited to go to Washington to participate in President Trump's inauguration dinner as one of the representatives of Chinese entrepreneurs, together with political and business leaders from around the world.

MAR

Chigo won the "User Satisfaction" award

On the eve of "March Fifteenth" in 2017, the investigation report "User Satisfaction for China Air-conditioner Brands for the year of 2016" was published. Chigo's air-conditioners ranked first in the "Top Ten Air-conditioner Brands in User Satisfaction for the year of 2016" with a comprehensive score of 87.33.

Jackie Chan, International superstar visited Chigo

On 30 March, Jackie Chan, international superstar as well as Chigo's spokesperson visited Chigo's headquarters. The event became a hot talk among friends' circles.

APR

Authoritative media of the Central Government paid close attention to reporting Chigo's participation in the Canton Fair

In April 2017, the Chigo Group participated in the 121st Canton Fair wherein it exhibited its full range of products. The event was covered by authoritative media such as China Central Television's "Xinwen Lianbo" and "Nightly News", the China National Radio and Guangdong Television's "Xinwen Lianbo".

We renewed our 10-year long-term contract with Jackie Chan, with an aim at making the "Made in China" manufacturing great again

On 19 April, Making "Made-in-China" Manufacturing Great Again – the "Made-in-China" Innovation and Development Forum cum Jackie Chan's Contract Renewal Ceremony was held at the Great Hall of the People in Beijing, in which Chigo announced its 10-year contract renewal with Jackie Chan. It was the first ten-year brand endorsement cooperation for once in the household electronic appliance industry which surprised the corporate sector in the country. The Making "Made-in-China" Manufacturing Great Again initiative that was originated from Chigo not only raised the Chigo's brand name to a new height, but also established a benchmark for products made in China.

JUL

“The Manual of The Philosophical System of Managing Corporate Culture” was published

On 21 July, Chigo held a conference for the publication and promotion of “The Manual of The Philosophical System of Managing Corporate Culture” which formally established “Chigo’s philosophical system of managing corporate culture” as the highest action plan of all Chigo’s staff. All cadres and staff members were required to take “making the same achievement with the same faith, same goal and same determination” as their intellectual and behavioral principles, thereby reacting closely to the needs of business reforms and strategic development while persisting in improving its operation, building a great organization, sticking to the “sure-win” belief and creating an excellent system.

AUG

Chigo was granted advanced certification “Authorized Economic Operator” (the “AEO”) by the customs

In August, Chigo’s air-conditioners successfully passed the re-certification of the “AEO Advanced Certified Enterprise” conducted by the customs and is now incorporated into the customs’ managerial system with advanced certification. Currently, the customs’ “AEO Advanced Certification” is the highest credit rating jointly recognized by the customs in various countries for international trading enterprises.

OCT

Authoritative media of the Central Government paid close attention to reporting Chigo's participation in the Canton Fair

In October 2017, the Chigo Group participated in the 122nd Canton Fair wherein it exhibited its full range of products. The event was covered by authoritative media such as the "Xinwen Lianbo" and "Nightly News" programs by China Central Television, the China National Radio, and the "Xinwen Lianbo" program by Guangdong Television.

NOV

The Global Distributors Conference was moved to Bali

On 3 November, the Chigo Global Distributors Conference for The Cold Year of 2018, which took "work together, share globally" as its theme, was extravagantly held in Bali with the integration of three strategies "sophistication, intelligence and globalization" directly targeting world-class enterprises.

DEC

Chigo received the China Excellence Patent Award

On 13 December, the 19th China Patent Awards Conference was jointly organized by the National Intellectual Property Bureau and the World Intellectual Property Rights Organization in Beijing. The "cloud air-conditioning system basing on cloud computing" that was developed by Guangdong Chigo Air-conditioning Co., Limited (Patent No.: ZL201210321826.9) received a high degree of recognition due to its pioneering use of the cloud computing technology in air-conditioners. It won the 19th China Patent Excellence Award.

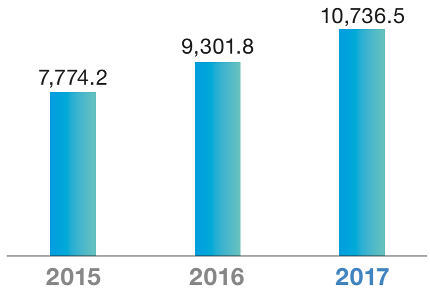
The brand value of Chigo reached RMB17.095 billion

The Evaluation Committee for Top 500 Chinese Enterprises by Brand Value announced the 11th Top 500 Chinese Enterprises by Brand Value in December. The brand valuation of Chigo has increased from 10.521 billion dollars in 2014 to 17.095 billion dollars in 2017, ranking the 246th, with its growth in brand value reaching 62% within 4 years.

FINANCIAL HIGHLIGHTS

REVENUE

15.4%

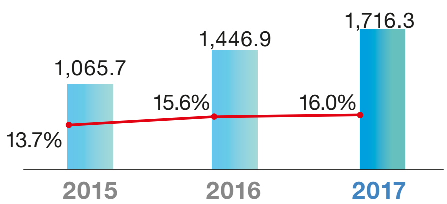


- Revenue increased by 15.4% in 2017

Revenue *(RMB million)*

GROSS PROFIT AND GROSS MARGIN

18.6%

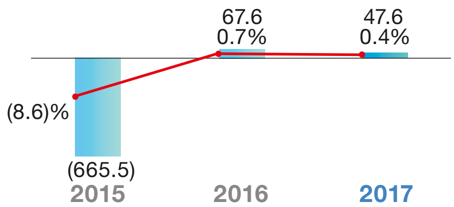


- Gross profit increased by 18.6%
- Gross margin improved from 15.6% to 16.0%

Gross profit *(RMB million)*

PROFIT FOR THE YEAR AND NET PROFIT MARGIN

29.6%

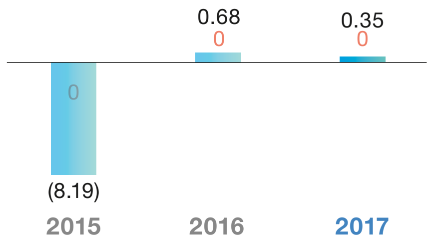


- Despite the increase in the Group's revenue and gross profit during the year, the Group recorded net exchange losses as Renminbi had appreciated against the USD dollar and offset the increase in gross profit
- Net profit decreased by 29.6%
- Net profit margin dropped slightly to 0.4% for the year

Net profit (loss) *(RMB million)*

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

48.5%

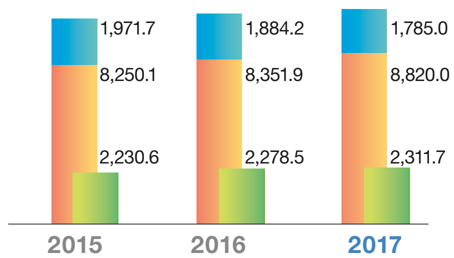


- Net profit of the Group decreased during the reporting period
- Basic earnings per share decreased by 48.5%
- No final dividend was declared for the year ended 31 December 2017

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

TOTAL ASSETS AND NET ASSETS

3.6%



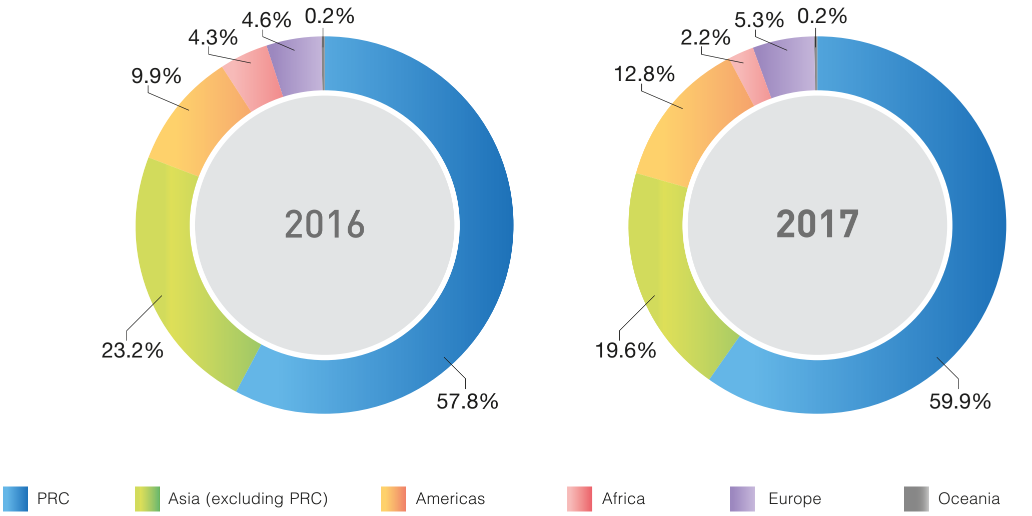
- Non-current assets decreased by 5.3% and current assets increased by 5.6%
- Total consolidated assets increased by 3.6%
- As the Group recorded a net profit for the year Net assets increased by 1.5%

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

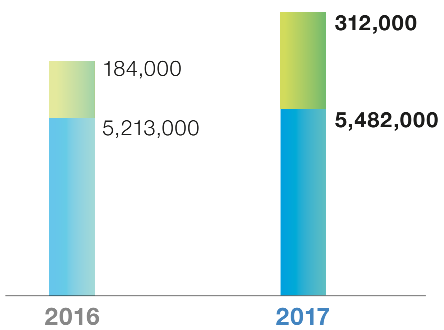
OPERATION HIGHLIGHTS

PRC AND OVERSEAS SALES

- PRC sales increased by 19.6% and amounted to 59.9% of the total revenue
- Overseas sales increased slightly by 9.7% and amounted to 40.1% of the total revenue



UNIT SALES VOLUME



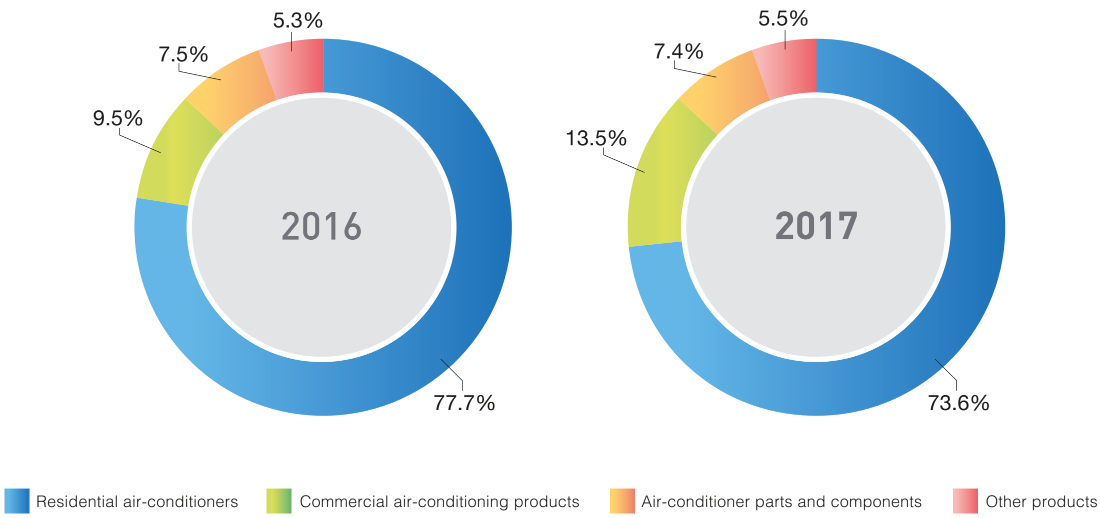
- Approximately 5.5 million sets/units of residential air-conditioners sold and increased by 5.2%
- 312,000 sets of commercial air-conditioners sold and increased significantly by 69.6%

Commercial air-conditioning products *(sets)*

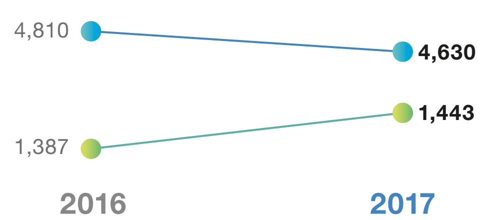
Residential air-conditioning products *(sets/units)*

MAJOR PRODUCTS TYPE

- Sales of residential air-conditioners increased by 9.4% and accounted for 73.6% of the total revenue
- Despite the slight decrease in average sales prices, the sales volume increased remarkably Revenue of commercial air-conditioners rose substantially by 63.2% and contributed 13.5% of the total revenue to the Group
- Revenue of air-conditioners parts and components increased by 14.5%
- Revenue of other products increased significantly by 19.5%



AVERAGE SELLING PRICE (ASP)



- Due to the increases in prices of the major raw materials, the ASP of the residential air-conditioning products increased by 4.0%
- The ASP of the commercial air-conditioning products fell slightly by 3.7%

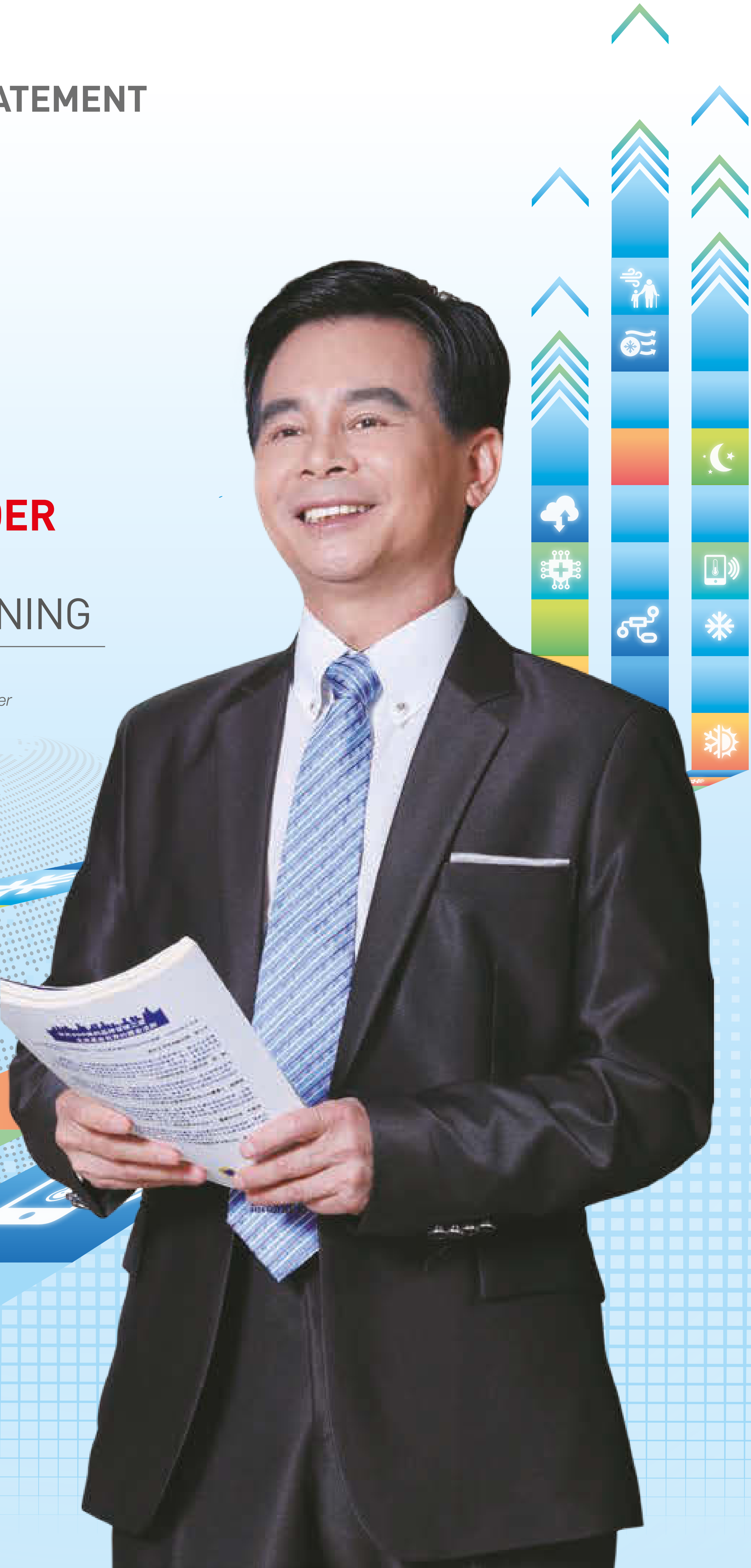
Residential air-conditioning products *(RMB)*

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 2017.

SUMMARY OF BUSINESS RESULTS: ACHIEVED REVENUE OVER RMB10 BILLION OF REVENUE FOR THE YEAR

Chigo has pushed forward its operation thoroughly and truly implemented the concept of "layer-by-layer leadership, everyone is in charge, comprehensive data management" in 2017 to further acquire a leading position in terms of products, quality and management. As of 31 December 2017, the total revenue from operation of the Company amounted to RMB10.74 billion during the achievement period, representing an increase of 15.4% over the same period of 2016. The increase was principally due to the substantial increase in the domestic sales during the year. In particular, the Company achieved a gross profit of RMB1.72 billion, an increase of 18.6% over the same period last year.

During the period under review, the Group adjusted its strategies, including focusing on products and network developments, maintaining online and offline balances, and strengthening sales promotion. The Group's domestic sales volume and revenue of air-conditioning products recorded an ideal increase over the same period of last year. The sales of Chigo in China region reached RMB6.43 billion, representing a substantial year-on-year increase of 19.6% over the last year.

As for overseas markets, the Group's overseas sales benefited from the overall improvement in China's export of air-conditioning products and increased to RMB4.31 billion, with a year-on-year increase of 9.7% recorded. In particular, Chigo's sales in Americas, Europe and Oceania achieved a satisfying increase of 50.1%, 31.1% and 11.8% respectively.

The Group's commercial team continued its outstanding performance in 2017 and made a significant contribution to the Group's performance. During the year, the Group's commercial air-conditioning products has an encouraging growth in sales and revenue.

During the period under review, apart from improving its business, the Group has also striven to control its operation fees and expenses. Although adversely affected by exchange rate fluctuations and certain profits were offset by exchange losses, the Group still recorded a net profit of RMB47.63 million during the year.

THEME OF 2018: "WORK TOGETHER, SHARE GLOBALLY"

The multiple benefits achieved in 2017 have enabled Chigo to maintain its leading position as it "discarded the old and welcomed the new" and demonstrate its leadership in the industry. 2018 is set to be a brand new development, a new trend and a brand new opportunity for Chigo. With the existence of market-oriented traction, Chigo will showcase more impulse in air-conditioning sales competition by achieving efficient integration of resources in the new year.

For Chigo, there must be a precise and proactive marketing plan in order to achieve an improvement in quantity, profit, and quality in 2018. Marketing is like a battle. To win, we must rely on our system and our team. Building a great system to incorporate all business partners of Chigo's air-conditioning business is Chigo's current task. We hope that all marketing and sales staff can make an effort to strive for the advantageous position, so as to achieve the position of the largest market share and establish Chigo as a great corporate.

In 2018, Chigo also uncovered its new journey of the "Strategy of Wisdom" globalization strategy. With its globalized operation, Chigo not only exported smart products to the world, but also takes the lead in the industry and proposed a brand new model of overseas exports. Whether it is Chigo, suppliers or distributors, we must change the original "OEM mindset" and work as a "business partner" to achieve long-term cooperation. As a result, it accelerates Chigo's globalization process. Hence, the Group will continue to focus on brand building as well as investing in more resources and manpower to enhance its brand influence and reputation.

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 to Chigo.

Li Xinghao
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
Foshan, 29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

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

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

OPERATION REVIEW

SALES FROM MAJOR PRODUCT GROUPS AND GROSS MARGINS

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

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

The revenue of air-conditioner parts and components rose by 14.5% during the year mainly due to an increase in sales of self-manufactured parts and components. Since the Group's other operating income such as resale of raw materials and sales of electrical appliances, such as dehumidifiers, had improved in 2017, revenue of other products increased significantly by 19.5% during the year ended 31 December 2017.

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

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

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

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

Due to the surge in demand for home appliances as a whole and the hot weather during the peak season in China, air-conditioning products sold by the Group in China under the CHIGO brand increased by 23.3% and accounted for 85.5% of the Group's PRC sales during the year ended 31 December 2017. As parts and components were mainly supplied to the Group for the production of air-conditioning products, sales to external customers had decreased in 2017. Sales of parts and components in China dropped by 6.3%. As a result of the increases in resale of raw materials and sales of electrical appliances, such as dehumidifiers, sales of other products increased substantially by 12.9% during the reporting period.

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

SALES AND DISTRIBUTION

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

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

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

SETS/UNITS SOLD VOLUME AND AVERAGE SALES PRICES

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

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

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

BREAKDOWN OF COST OF SALES

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

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

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

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

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

FINANCIAL REVIEW

REVENUE

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

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

PRC SALES

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

OVERSEAS SALES

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

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

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

COST OF SALES

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

GROSS PROFIT

Due to the sharp increase in its revenue during the year which outweigh that of the cost of sales, the Group recorded a gross profit of RMB1,716.3 million for the year ended 31 December 2017 (2016: RMB1,446.9 million), which represented an increase of RMB269.4 million or 18.6%.

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

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

OTHER INCOME

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

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs (excluding equity-settled share based payments) increased to RMB879.7 million (2016: RMB764.0 million), representing an increase of RMB115.7 million or 15.1% for the year ended 31 December 2017. As the Group's sales increased in 2017, the increase in selling and distribution costs was mainly due to the increases in (i) advertising and promotion expenses; and (ii) transportation costs during the year.

ADMINISTRATIVE EXPENSES

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

EQUITY-SETTLED SHARE BASED PAYMENTS

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

RESEARCH AND DEVELOPMENT COSTS

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

OTHER EXPENSES

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

OTHER GAINS AND LOSSES

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

FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

FINANCE COSTS

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

TAXATION

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

PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

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

FINANCIAL POSITION

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

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

As the Group recorded a net profit for the year, the Group's net assets increased by 1.5% or RMB33.2 million to RMB2,311.7 million at the end of 2017 (2016: RMB2,278.5 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

The Group has adopted a prudent financial management approach towards its funding and treasury policies so as to maintain a healthy liquidity position. The management, with the assistance of the Group's finance and treasury departments, will closely monitor the market conditions and the needs of the Group when implementing the Group's funding and treasury policies.

As at 31 December 2017, the Group had current assets amounted to RMB8,820.0 million (2016: RMB8,351.9 million) and current liabilities amounted to RMB8,047.5 million (2016: RMB7,678.2 million). The Group's working capital increased by RMB98.9 million or 14.7% from RMB673.7 million as at the end of 2016 to RMB772.6 million at the end of 2017. Despite the Group's net current assets increased, current ratio remained at 1.1 times (2016: 1.1 times) as at 31 December 2017.

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

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

In 2017, the Group had obtained funding for its business operation from different financial arrangements including bank loans and funding from finance lease. As at 31 December 2017, the balances of short-term and long-term borrowings utilised by the Group were RMB1,807.1 million and RMB75.6 million respectively (2016: RMB1,624.0 million and RMB98.6 million respectively). Short-term borrowings increased by RMB183.1 million and long term borrowings decreased by RMB23.0 million respectively during the year. The borrowings were used for working capital purposes, majority of the loans are charged at fixed interest rates, repayable within one year, and are made and repaid in Renminbi. The Group did not have any debentures (31 December 2016: RMB52.3 million) outstanding as at the end of the reporting period.

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

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group increased slightly to 20.2% as at 31 December 2017 (2016: 19.9%) during the year.

In order to reduce finance costs, the Group arranged some of its borrowings by obtaining bank loans which are denominated in foreign currency and offered at lower lending rates during the year. Both short-term and long-term borrowings had been used and provided the Group with a better mix of debt financing to fund its business operation. During the year, due to the higher average balance of borrowing, the Group increased its finance cost by 2.5% or RMB3.8 million for the year ended 31 December 2017 as compared to the same period in 2016.

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

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

As at 31 December 2017, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue and all of the issued shares were ordinary shares. Since the Group recorded a net profit for the year, the shareholders' equity increased to RMB2,311.7 million as at 31 December 2017 (2016: RMB2,278.5 million).

Other than the above, there were no other equity or debt instruments issued by the Company during the reporting period and at the end of 2017.

CASH FLOWS

	Year ended 31 December	
	2017	2016
	RMB million	RMB million
Operating cash flows before movements in working capital	**542.4**	513.3
Movements in working capital	**(281.9)**	(151.8)
Net cash from operating activities	**260.5**	361.5
Net cash (used) from in investing activities	**(235.6)**	8.8
Net cash (used) from in financing activities	**(158.8)**	3.4
Net (decrease) increase in cash and cash equivalents	**(133.9)**	373.7
Cash and cash equivalents at 31 December	**658.0**	791.9

For the year ended 31 December 2017, the Group had operating cash inflows of RMB542.4 million (2016: RMB513.3 million). During the year, the Group increased trade payables and inventories to meet customers' orders and prepare for the forthcoming peak season. Total cash used for such working capital amounted to approximately RMB281.9 million. As such, the Group generated net cash of RMB260.5 million (2016: RMB361.5 million) from its operating activities for the year ended 31 December 2017.

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

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

As a result of the foregoing, the Group's cash balances decreased by RMB133.9 million during the year ended 31 December 2017 and bank balances and cash amounted to RMB658.0 million at the end of 2017 (2016: RMB791.9 million). The majority of the bank balances and cash were denominated in Renminbi and certain amounts were denominated in US dollars, Euros and Hong Kong dollars.

FINANCE LEASE ARRANGEMENTS

On 20 January 2017, Guangdong Chigo Air-conditioning Co., Limited ("**Guangdong Chigo**") had entered into a finance lease contract with Ping An International Financial Leasing Co., Ltd. ("**Ping An Leasing**"), pursuant to which Ping An Leasing had conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of RMB31,591,928 and lease the equipment back to Guangdong Chigo for a period of 36 months.

On 28 February 2017, Guangdong Chigo had entered into a finance lease arrangement with International Far Eastern Leasing Co., Ltd. ("**FE Leasing**"), pursuant to which FE Leasing had conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of RMB27,965,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

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

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

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

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

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

On 19 December 2017, Guangdong Chigo had entered into a finance lease arrangement with Guangdong Guangwu Finance Lease Co., Ltd. ("**Guangwu Leasing**") pursuant to which Guangwu Leasing had conditionally agreed to purchase certain equipment from Guangdong Chigo at an aggregate consideration of RMB95,000 and lease the equipment back to Guangdong Chigo for a period of 12 months (the "**Guangwu Finance Lease Arrangement**"). As all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Guangwu Finance Lease Arrangement were less than 5%, the Guangwu Finance Lease Arrangement was exempt from the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

MATERIAL ACQUISITIONS AND DISPOSALS, SIGNIFICANT INVESTMENTS

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

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

CHARGE ON ASSETS

As at 31 December 2017, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB916.8 million (2016: RMB860.5 million) were pledged to certain banks for securing the banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

During the year ended 31 December 2017, approximately 40.1% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risks. During the reporting period, the Group had not entered into any foreign currency forward contracts and derivative financial instruments to hedge against foreign exchange risk. Since Renminbi had appreciated against the US dollar during the year, the Group recorded net exchange losses for the year ended 31 December 2017.

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

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

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisitions of property, plant and equipment and capital, and contribution to subsidiaries amounted to approximately RMB76.4 million (2016: approximately RMB90.3 million). The Group expects that the capital commitments will be funded by internal resources and/or external finance from financial institutions.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2017.

EMPLOYEES AND REMUNERATION

As at 31 December 2017, the Group employed 12,869 employees (2016: 13,102 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages are reviewed on a yearly basis. The Group also provides its employees with welfare benefits including medical care, meal subsidies, education subsidies and housing etc.

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

On 9 February 2018, Chigo Precision entered into a finance lease arrangement with FE Leasing, pursuant to which FE Leasing has conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of approximately RMB31,572,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

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

OUTLOOK AND FUTURE PLANS

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

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

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

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

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

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

As at 31 December 2017, the Group had no plans for material investments or acquisitions of capital assets, but will closely monitor market trends and explore potential business collaboration opportunities with various domestic and international well-known enterprises.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. LI XINGHAO

Mr. Li, aged 63, 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, which was established in 1994, and has over 24 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. Mr. Li is also a director of Chigo Group Holding Limited, a controlling shareholder of the Company.

MS. LI XIUHUI

Ms. Li, aged 31, 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.

MS. HUANG GUIJIAN

Ms. Huang, aged 43, 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.

MR. YANG XIANGWEN

Mr. Yang, aged 43, was appointed as an executive Director on 20 April 2018. He joined the Group in October 2014 and is currently the managing vice president of Guangdong Chigo. He is mainly responsible for assisting the president in managing daily operations. Mr. Yang graduated from Changsha Railway Institute (長沙鐵道學院) (now known as Central South University 中南大學) in 1999 with a bachelor's degree in investment economics. Mr. Yang also holds an intermediate qualification in business administration and economics. After graduating from university, he served as the Assistant to General Manager and Controller of Corporate Planning at Zhuhai King Glass Engineering Co., Ltd. (珠海晶藝玻璃工程有限公司) from June 2001 to March 2005. Mr. Yang later joined Zhuhai Gree Electrical Appliance Co., Ltd. in August 2005 and served as Head of Marketing during the period from October 2009 to January 2012. From August 2012 to September 2014, he worked at Haier Electrical Appliances Co., Ltd., where he successively served as Sales Directors of Haier Air Conditioning China and Casarte of Haier Group. After joining the Group in 2014, Mr. Yang has served as the Controllers of the Brand Centre and the Operations Management Centre, the Supervisors of the Product Competitiveness Committee and the Corporate Standardisation Committee and the Executive Supervisor of the Corporate Strategy Committee respectively of Guangdong Chigo.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. ZHANG XIAOMING

Mr. Zhang, aged 64, 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 economics, and management in August 1992. He has over 39 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 management guidance work 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 projects 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 the 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 58, 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 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 etc., in which he was 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 currently 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) and Guangdong Sunwill Precising Plastic Co., Ltd (廣東順威精密塑料股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange).

MR. WANG MANPING

Mr. Wang, aged 52, graduated from Tianjin University and obtained a bachelor's degree in engineering from the faculty of 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. JIN SHANDONG

Mr. Jin, aged 53, 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 the period May 2004 to 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 51, 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 19 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, and a 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 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 2017, 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 2017, 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 24 years of experience in the air-conditioning industry.

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

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

THE BOARD OF DIRECTORS

BOARD COMPOSITION

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

Executive Directors

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Ms. Li Xiuhui
Ms. Huang Guijian
Mr. Yang Xiangwen *(appointed on 20 April 2018)*
Mr. Cheng Jian *(resigned on 20 April 2018)*

Independent Non-executive Directors

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

The biographical details of the current Directors are set out on pages 34 to 36 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 2017 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, COMMITTEE 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 2017, Board meetings and committee meetings were held. Certain Directors also attended the general meeting of the Company held on 7 June 2017. 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	5/5	N/A	N/A	N/A	1/1
Ms. Li Xiuhui	5/5	N/A	N/A	N/A	1/1
Mr. Cheng Jian *(resigned on 20 April 2018)*	5/5	N/A	N/A	N/A	0/1
Ms. Huang Guijian	5/5	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Mr. Zhang Xiaoming	5/5	2/2	1/1	N/A	1/1
Mr. Fu Xiaosi	5/5	2/2	1/1	N/A	1/1
Mr. Wang Manping	4/5	1/2	1/1	N/A	1/1

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 *(resigned on 20 April 2018)*	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 2017, 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. Mr. Zhang Xiaoming and Mr. Fu Xiaosi have served the Company for more than nine years.

Mr. Zhang Xiaoming and Mr. Fu Xiaosi had been re-elected at the annual general meeting of the Company held on 5 June 2015. Mr. Wang Manping had been re-elected at the annual general meeting of the Company held on 7 June 2017. In accordance with the articles of association of the Company, each of Mr. Zhang Xiaoming and Mr. Fu Xiaosi will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves 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 2017, the total remuneration paid to the independent non-executive Directors was approximately RMB360,000 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 2017, the Audit Committee had:

- held two committee meetings and reviewed the Company's annual results for the year ended 31 December 2016 and interim results for the six months ended 30 June 2017 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 2017. 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 2017, the remuneration of the members of the senior management (two 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 2017, no Nomination Committee meetings was 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 2017, 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 65 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 2017, 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 AND PUTTING FORWARD PROPOSALS

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
SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
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

AUDITOR'S 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 2017 amounted to HKD2,770,000 and HKD1,183,000 respectively. The non-audit services provided during the period were interim financial statements review (HKD1,120,000) and taxation services (HKD63,000).

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

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 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income statement on page 68 of this annual report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2017 (31 December 2016: 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 14 to 16 and pages 17 to 33 of this Annual Report. The future development in the Group's business is discussed in the "Outlook and Future Plans" from page 33 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. 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.

ENVIRONMENTAL, SOCIAL 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 37 to 45.

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 2017, no new shares had been issued in relation to the exercise of share options.

As at 31 December 2017 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 29 to the consolidated financial statements.

During the year under review, no debentures had been issued. At the end of 2017, the Group did not have any debentures outstanding.

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 2017.

RESERVES

Details of movement in the reserves of the Group during the year ended 31 December 2017 are set out in the Consolidated Statement of Changes in Equity on pages 71 to 72.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017, 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 (2016: 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 of 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
Ms. Huang Guijian
Mr. Yang Xiangwen *(appointed on 20 April 2018)*
Mr. Cheng Jian *(resigned on 20 April 2018)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The biographical details of the current Directors are set out on pages 34 to 36 of this report.

In accordance with article 84(1) of the Articles, each of Mr. Zhang Xiaoming, Mr. Fu Xiaosi and Li Xinghao will retire from office by rotation at the upcoming annual general meeting (the "**Annual General Meeting**") and, being eligible, will offer themselves for re-election at the Annual General Meeting. Further, in accordance with article 83(3) of the Articles, Mr. Yang Xiangwen who was appointed as an executive Director on 20 April 2018, will be subject to re-election at the Annual General Meeting and, being eligible, will offer himself 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 8 to the consolidated financial statements.

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

As at 31 December 2017, 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 2017	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 2017.

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 2017	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 30 to the consolidated financial statements.

Name of Director	Capacity	Number of share options held as at 31 December 2017	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 2017.

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, an entity connected with a Director or the controlling shareholder of the Company or its subsidiaries 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 38 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 30 to the consolidated financial statements.

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

	Date of grant	Vesting period	Exercise period	Exercise Price (HKD)	Underlying shares exercisable under the share options Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
Category 1: Directors							
Li Xinghao	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	2,400,000	–	2,400,000
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	5,600,000	–	5,600,000
					8,000,000	–	8,000,000
Li Xiuhui	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	3,014,000	–	3,014,000
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	7,036,000	–	7,036,000
					10,050,000	–	10,050,000
Cheng Jian	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	3,000,000	–	3,000,000
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	7,000,000	–	7,000,000
					10,000,000	–	10,000,000
Huang Guijian	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	494,000	–	494,000
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	1,156,000	–	1,156,000
					1,650,000	–	1,650,000
Zhang Xiaoming	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	300,000	–	300,000
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	700,000	–	700,000
					1,000,000	–	1,000,000
Fu Xiaosi	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	300,000	–	300,000
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	700,000	–	700,000
					1,000,000	–	1,000,000
Sub-total					**31,700,000**	**–**	**31,700,000**
Category 2: Employees							
Employees	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	167,586,000	(14,910,000)	152,676,000
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	391,114,000	(34,790,000)	356,324,000
Sub-total					**558,700,000**	**(49,700,000)**	**509,000,000**
Category 3: Customers							
Customers	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	2,932,000	(834,000)	2,098,000
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	6,918,000	(1,966,000)	4,952,000
Sub-total					**9,850,000**	**(2,800,000)**	**7,050,000**
Total					**600,250,000**	**(52,500,000)**	**547,750,000**

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, 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 2017.

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 2017.

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 30 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 RMB70,361,000 (2016: RMB72,432,000)

Details of the Group's pension scheme are set out in note 37 to the consolidated financial statements.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2017, 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 2017 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 2017.

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 2017 are set out in notes 24 to 26 to the financial statements.

BORROWING COSTS CAPITALISATION

There was no borrowing costs capitalised by the Group during the year (2016: nil).

EQUITY-LINKED AGREEMENT

During the year ended 31 December 2017, 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 RMB283,000.

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 9 February 2018, Chigo Precision entered into a finance lease arrangement with FE Leasing, pursuant to which FE Leasing has conditionally agreed to purchase certain machinery and equipment from Chigo Precision at an aggregate consideration of RMB31,572,000 and lease the equipment back to Guangdong Chigo for a period of 36 months.

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

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Monday, 4 June 2018 to Thursday, 7 June 2018 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 1 June 2018.

AUDITOR

The consolidated financial statements for the two years ended 31 December 2016 and 2017 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 Thursday, 7 June 2018 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 2018

INDEPENDENT AUDITOR'S REPORT

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 68 to 131, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 financial statements 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 has recognised revenue of approximately RMB10,736 million for the year ended 31 December 2017, 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 judgment involved by the 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 collections 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 had trade receivables with carrying amount of approximately RMB2,852 million (net the allowance for doubtful debts of approximately RMB93 million) as at 31 December 2017.	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 collections 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 the 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.

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 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	5	**10,736,454**	9,301,753
Cost of sales		**(9,020,154)**	(7,854,874)
Gross profit		**1,716,300**	1,446,879
Other income		**52,385**	43,402
Selling and distribution costs			
– equity-settled share based payments		**–**	(1,268)
– other selling and distribution costs		**(879,656)**	(764,043)
Administrative expenses			
– equity-settled share based payments		**–**	(4,361)
– other administrative expenses		**(430,292)**	(403,552)
Research and development costs		**(182,689)**	(135,869)
Other expenses		**(3,944)**	(5,341)
Other gains and losses		**(51,423)**	57,953
Net gain in fair value changes on foreign currency forward contracts		**–**	2,508
Finance costs	6	**(153,985)**	(150,190)
Profit before taxation	7	**66,696**	86,118
Taxation	9	**(19,065)**	(18,526)
Profit for the year and total comprehensive income for the year		**47,631**	67,592
Profit for the year and total comprehensive income for the year attributable to:			
– owners of the Company		**29,792**	57,036
– non-controlling interests		**17,839**	10,556
		47,631	67,592
Earnings per share	11		
– Basic and diluted		**0.35 cents**	0.68 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	12	**1,300,478**	1,381,385
Land use rights	13	**199,260**	204,638
Intangible assets	14	**579**	493
Prepaid lease payments	15	**193,599**	202,059
Deposits paid for acquisition of property, plant and equipment		**46,987**	51,258
Available-for-sale investments	16	**23,000**	23,000
Deferred tax assets	17	**21,054**	21,364
		1,784,957	1,884,197
Current assets			
Inventories	18	**2,601,656**	2,151,943
Trade and other receivables	19	**4,569,165**	4,496,312
Land use rights	13	**5,378**	5,378
Prepaid lease payments	15	**18,310**	17,653
Taxation recoverable		**9,491**	8,202
Short-term investments	20	**1,990**	–
Restricted deposits	21	**39,205**	20,000
Pledged bank deposits	21	**916,804**	860,517
Bank balances and cash	21	**658,047**	791,864
		8,820,046	8,351,869
Current liabilities			
Trade and other payables	22	**4,912,504**	4,590,592
Warranty provision	23	**55,620**	42,010
Taxation payable		**161,878**	164,984
Borrowings related to bills discounted with recourse	24	**965,392**	1,058,452
Current portion of long-term debentures	25	**–**	52,271
Borrowings	26	**1,807,061**	1,623,985
Obligations under finance leases	27	**145,029**	145,916
		8,047,484	7,678,210
Net current assets		**772,562**	673,659
Total assets less current liabilities		**2,557,519**	2,557,856

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Government grants	28	**33,616**	36,354
Long-term debentures	25	**–**	–
Borrowings	26	**75,589**	98,580
Obligations under finance leases	27	**110,732**	119,213
Deferred tax liabilities	17	**25,837**	25,195
		245,774	279,342
Net assets		**2,311,745**	2,278,514
Capital and reserves			
Share capital	29	**71,906**	71,906
Reserves		**2,191,784**	2,161,992
Equity attributable to owners of the Company		**2,263,690**	2,233,898
Non-controlling interests		**48,055**	44,616
Total equity		**2,311,745**	2,278,514

The consolidated financial statements on pages 68 to 131 were approved and authorised for issue by the Board of Directors on 29 March 2018 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 2017

	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 2016	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
Lapse of share options	**-**	**-**	**-**	**-**	**(7,254)**	**-**	**7,254**	**-**	**-**	**-**
Distribution to non-controlling shareholders *(Note d)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,400)**	**(14,400)**
Transfers	**-**	**-**	**-**	**-**	**-**	**4,675**	**(4,675)**	**-**	**-**	**-**
	-	**-**	**-**	**-**	**(7,254)**	**4,675**	**2,579**	**-**	**(14,400)**	**(14,400)**
Profit for the year and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**29,792**	**29,792**	**17,839**	**47,631**
At 31 December 2017	**71,906**	**938,187**	**(26,408)**	**63,535**	**65,787**	**251,275**	**899,408**	**2,263,690**	**48,055**	**2,311,745**

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 2017

	2017 RMB'000	2016 RMB'000
Operating activities		
Profit before taxation	**66,696**	86,118
Adjustments for:		
Interest income	**(14,163)**	(20,122)
Finance costs	**153,985**	150,190
Depreciation of property, plant and equipment	**239,848**	191,004
Amortisation of intangible assets	**182**	352
Amortisation of government grants	**(2,738)**	(1,288)
Amortisation of land use rights	**5,378**	5,378
Release of prepaid lease payments	**20,134**	16,960
Loss on disposal of property, plant and equipment	**2,548**	113
Gain on disposal of a subsidiary	**(19,681)**	–
Net gain in fair value changes on foreign currency forward contracts	**–**	(2,508)
Provision for warranty	**50,532**	81,273
Write down on inventories	**32,952**	10,448
Allowance for doubtful debts	**41,422**	37,767
Reversal of doubtful debts	**(34,662)**	(48,010)
Equity-settled share based payments	**–**	5,629
Operating cash flows before movements in working capital	**542,433**	513,304
Increase in inventories	**(482,665)**	(327,063)
(Increase) decrease in trade and other receivables	**(60,139)**	497,748
Change in derivative financial instruments	**–**	(30,620)
Increase (decrease) in trade and other payables	**320,357**	(215,746)
Decrease in warranty provision	**(36,922)**	(56,341)
Cash generated from operations	**283,064**	381,282
Taxation paid	**(22,508)**	(20,409)
Taxation refunded	**–**	590
Net cash generated from operating activities	**260,556**	361,463

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
Investing activities			
Placement of pledged bank deposits		**(3,278,482)**	(2,626,481)
Purchase of property, plant and equipment		**(113,636)**	(57,052)
Prepaid lease payments paid		**(12,331)**	(6,374)
Deposits paid for acquisition of property, plant and equipment		**(46,987)**	(51,258)
Purchase of available-for-sale investment		**–**	(3,000)
Purchase of short-term investments		**(1,990)**	–
Proceeds from disposal of short-term investments		**–**	40,000
Purchase of intangible assets		**(268)**	(112)
Placement of restricted deposits		**(39,205)**	(20,000)
Withdrawal of restricted deposits		**20,000**	45,000
Withdrawal of pledged bank deposits		**3,222,195**	2,662,817
Interest received		**14,163**	20,122
Disposal of a subsidiary	*31*	**(2,439)**	–
Proceeds from disposal of property, plant and equipment		**3,405**	5,113
Net cash (used in) from investing activities		**(235,575)**	8,775
Financing activities			
Borrowings raised		**3,110,908**	3,628,610
Contribution from non-controlling interests of a subsidiary		**–**	2,400
Proceeds from sale and lease back arrangements		**167,608**	195,050
Interest paid		**(152,055)**	(158,390)
Distribution to non-controlling shareholders		**(14,400)**	(27,729)
Borrowings from bills discounted with recourse		**1,493,398**	1,637,732
Repayment of borrowings related to bills discounted with recourse		**(1,586,458)**	(1,718,720)
Repayment of borrowings		**(2,950,823)**	(3,314,478)
Repayment of obligations under finance leases		**(176,976)**	(92,496)
Repayment of debentures		**(50,000)**	(150,000)
Government grants received		**–**	1,450
Net cash (used in) from financing activities		**(158,798)**	3,429
Net (decrease) increase in cash and cash equivalents		**(133,817)**	373,667
Cash and cash equivalents at 1 January		**791,864**	418,197
Cash and cash equivalents at 31 December, represented by bank balances and cash		**658,047**	791,864

1. GENERAL

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

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

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

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

AMENDMENTS TO HKFRSS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

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

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

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

AMENDMENTS TO HKAS 7 DISCLOSURE INITIATIVE

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

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

A reconciliation between the opening and closing balances of these items is provided in note 34. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 34, the application of these amendments has had no impact on the Group's 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 revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

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

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**"). All other financial assets 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.

- 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on the initial application of HKFRS 9:

Classification and measurement:

Equity securities classified as available-for-sale investments carried at cost less impairments as disclosed in note 16: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in investments revaluation reserve. Based on the assessment by the directors of the Company, the fair value gain in relation to these securities to be adjusted to investments revaluation reserve as at 1 January 2018 would be immaterial upon initial application of HKFRS 9.

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

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

HKFRS 9 FINANCIAL INSTRUMENTS (Continued)

Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

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

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

HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

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.

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. Upon application of 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 by the Group.

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.

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

HKFRS 16 LEASES (Continued)

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 2017, the Group has non-cancellable operating lease commitments of RMB10,906,000 as disclosed in note 35. A preliminary assessment indicates that certain of these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of RMB4,722,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets. Accordingly, the carrying amounts of such deposits paid may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

Except as described above, the directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements in the future.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 *Share based payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, 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 *Impairment of assets*.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF CONSOLIDATION (Continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS

Research and development expenditure

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets *(Continued)*

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 designated as at FVTPL.

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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. Fair value is determined in the manner described in note 33.

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).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets *(Continued)*

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Impairment of financial assets *(Continued)*

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

Debt 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.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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 amortised cost

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

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 relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) 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 (or a cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

WARRANTIES

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

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 taxation' 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

TAXATION (Continued)

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.

FOREIGN CURRENCIES

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

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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 vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASING

The Group as lessor

Rental income from operation leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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.

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 and presented as "prepaid lease payments" in the consolidated statement of financial position. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT GRANTS AND SUBSIDIES

Government grants and subsidies are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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".

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 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 HKFRS 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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 2017, the carrying amount of trade receivables was RMB2,851,595,000 net of allowance for doubtful debts of RMB93,196,000 as disclosed in note 19 (2016: RMB2,782,143,000, net of allowance for doubtful debts of RMB86,436,000).

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 2017, the carrying amount of warranty provision was RMB55,620,000 (2016: RMB42,010,000). Details of the movements are disclosed in note 23.

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. As at 31 December 2017, the carrying amount of inventories was RMB2,601,656,000 (2016: RMB2,151,943,000) as disclosed in note 18.

INCOME TAXES

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 2017 are disclosed in note 17.

5. REVENUE AND SEGMENT INFORMATION

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

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

SEGMENT REVENUES AND RESULTS

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

	Revenue		Results	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China (the "**PRC**")	**6,427,673**	5,374,095	**1,191,441**	933,056
Asia (excluding the PRC)	**2,104,991**	2,156,672	**275,905**	276,978
Americas	**1,378,434**	918,154	**154,633**	140,213
Africa	**241,064**	404,543	**26,899**	36,120
Europe	**565,326**	431,297	**63,401**	56,148
Oceania	**18,966**	16,992	**4,021**	4,364
	10,736,454	9,301,753	**1,716,300**	1,446,879
Unallocated other income			**52,385**	43,402
Unallocated expenses			**(1,073,680)**	(799,262)
Staff costs included in selling and distribution costs and administrative expenses			**(467,281)**	(467,280)
Charitable donations			**(283)**	(182)
Allowance for doubtful debts			**(41,422)**	(37,767)
Reversal of doubtful debts			**34,662**	48,010
Net gain in fair value changes on foreign currency forward contracts			**–**	2,508
Finance costs			**(153,985)**	(150,190)
Profit before taxation			**66,696**	86,118

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

OTHER SEGMENT INFORMATION

Geographical information

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

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

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

Revenue from major products

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

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

OTHER SEGMENT INFORMATION (Continued)

Information about major customers

For the years ended 31 December 2017 and 2016, none of the Group's customers had individually accounted for more than 10% of the Group's total revenue.

An 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. FINANCE COSTS

	2017 **RMB'000**	2016 RMB'000
Interests on:		
Bank loans	**94,588**	83,345
Debentures	**1,667**	8,063
Finance leases	**15,817**	11,360
Other payables	**7,757**	19,580
Other borrowings	**34,156**	27,842
Total borrowing costs	**153,985**	150,190

7. PROFIT BEFORE TAXATION

	2017 RMB'000	2016 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 8)*	**1,717**	2,076
Other staff's retirement benefits scheme contributions	**70,349**	72,426
Other staff's equity-settled share based payments	**–**	5,040
Other staff costs	**841,642**	799,507
	913,708	879,049
Less: Staff costs included in research and development costs	**(61,354)**	(58,470)
Less: Staff costs capitalised as inventories	**(103,175)**	(96,312)
	749,179	724,267
Allowance for doubtful debts included in other gains and losses	**41,422**	37,767
Amortisation of intangible assets included in administrative expenses	**182**	352
Auditor's remuneration	**3,359**	2,243
Cost of inventories recognised as an expense including write down on inventories of RMB32,952,000 (2016: RMB10,448,000)	**8,969,622**	7,773,601
Total depreciation of property, plant and equipment	**239,848**	191,004
Less: Capitalised in inventories	**(34,321)**	(33,523)
	205,527	157,481
Operating lease rentals in respect of		
– land use rights	**5,378**	5,378
– rented premises	**29,953**	32,387
Provision for warranty	**50,532**	81,273
Net exchange losses included in other gains and losses	**61,796**	–
Release of prepaid lease payments	**20,134**	16,960
Loss on disposal of property, plant and equipment included in other gains and losses	**2,548**	113
and after crediting:		
Amortisation of government grants	**2,738**	1,288
Government subsidies*	**6,512**	11,504
Interest income	**14,163**	20,122
Net exchange gains included in other gains and losses	**–**	48,977
Reversal of doubtful debts included in other gains and losses	**34,662**	48,010
Sales of scrap materials	**6,876**	542
Gain on disposal of a subsidiary included in other gains and losses	**19,681**	–

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

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2017					2016				
	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	–	361	–	–	361	–	382	–	144	526
– Dr. Zheng Zuyi (Note 1)	–	–	–	–	–	–	310	–	–	310
– Mr. Huang Xingke (Note 1)	–	–	–	–	–	–	–	–	–	–
– Dr. Ding Xiaojiang (Note 2)	–	–	–	–	–	–	–	–	–	–
– Ms. Li Xiuhui	–	311	6	–	317	–	109	3	181	293
– Mr. Cheng Jian	–	469	6	–	475	–	285	3	180	468
– Ms. Huang Guijian	–	204	–	–	204	–	35	–	30	65
Independent non-executive directors										
– Mr. Wan Junchu (Note 1)	–	–	–	–	–	65	–	–	18	83
– Mr. Zhang Xiaoming	120	–	–	–	120	120	–	–	18	138
– Mr. Fu Xiaosi	120	–	–	–	120	120	–	–	–	120
– Mr. Wang Manping	120	–	–	–	120	55	–	–	18	73
	360	1,345	12	–	1,717	360	1,121	6	589	2,076

Note 1: Dr. Zheng Zuyi, Mr. Huang Xingke and Mr. Wan Junchu resigned on 13 July 2016.

Note 2: Dr. Ding Xiaojiang resigned on 2 September 2016.

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.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals 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.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals are all employees of the Group during the years ended 31 December 2017 and 2016. The emoluments of the five (2016: five) highest paid employees are as follow:

	2017 **RMB'000**	2016 RMB'000
Employee		
– basic salaries and allowances	**6,523**	4,711
– retirement benefits scheme contributions	**15**	14
– equity-settled share based payments	**–**	476
	6,538	5,201

Their emoluments were within the following bands (presented in Hong Kong dollars ("**HKD**")):

	Number of employees	
	2017	2016
Up to HKD1,000,000	**–**	3
HKD1,000,001 to HKD1,500,000	**2**	2
HKD1,500,001 to HKD2,000,000	**2**	–
HKD2,000,001 to HKD2,500,000	**1**	–

9. TAXATION

	2017 **RMB'000**	2016 RMB'000
The charge comprises:		
The PRC income tax	**24,836**	28,662
(Over) underprovision for prior year	**(6,723)**	1,214
Deferred taxation *(note 17)*	**952**	(11,350)
	19,065	18,526

The PRC income tax is calculated at 25% in accordance with the relevant laws and regulations in the PRC except that certain PRC subsidiary was officially endorsed as High-New Technology Enterprises and eligible to preferential Enterprise Income Tax ("**EIT**") rate of 15% from year 2015 to 2017.

9. 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 before taxation as follows:

	2017 RMB'000	2016 RMB'000
Profit before taxation	**66,696**	86,118
Tax at PRC EIT rate of 25% (2016: 25%)	**16,674**	21,529
Effect of expenses not deductible for tax purposes *(i)*	**16,982**	12,353
Effect of income not taxable for tax purposes	**–**	(252)
Tax effect of deductible temporary differences not recognised	**1,614**	735
Tax effect of tax losses not recognised	**1,984**	7,805
Tax effect of a subsidiary with preferential tax rate	**(6,699)**	(20,786)
(Over) underprovision for prior year	**(6,723)**	1,214
Utilisation of tax loss previously not recognised	**(4,767)**	(4,072)
Tax charge for the year	**19,065**	18,526

(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.

10. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year (2016: Nil), nor has any dividend been proposed since the end of the reporting period (2016:Nil).

11. EARNINGS PER SHARE

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

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

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 2016	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
Additions	**9,518**	**57,772**	**3,547**	**82,060**	**11,997**	**164,894**
Write-off/disposals	**–**	**(4,766)**	**(5,855)**	**(5,990)**	**(2,648)**	**(19,259)**
Transfers	**18,482**	**14,979**	**–**	**7,605**	**(41,066)**	**–**
At 31 December 2017	**781,737**	**411,633**	**48,513**	**1,079,269**	**26,516**	**2,347,668**
DEPRECIATION						
At 1 January 2016	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
Provided for the year	**30,288**	**47,520**	**4,121**	**157,919**	**–**	**239,848**
Eliminated on write-off/disposals	**–**	**(4,346)**	**(4,861)**	**(4,099)**	**–**	**(13,306)**
At 31 December 2017	**138,113**	**219,477**	**31,072**	**658,528**	**–**	**1,047,190**
CARRYING VALUES						
At 31 December 2017	**643,624**	**192,156**	**17,441**	**420,741**	**26,516**	**1,300,478**
At 31 December 2016	645,912	167,345	19,009	490,886	58,233	1,381,385

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 RMB307,958,000 (2016: RMB291,780,000) is held under finance leases.

13. LAND USE RIGHTS

	2017 **RMB'000**	2016 RMB'000
Analysed for reporting purposes as		
– non-current assets	**199,260**	204,638
– current assets	**5,378**	5,378
	204,638	210,016

The balance represents the prepayment of rentals for land use rights situated in the PRC for periods ranging from 44 years to 50 years.

14. INTANGIBLE ASSETS

	2017 **RMB'000**	2016 RMB'000
CARRYING VALUE		
At 1 January	**493**	733
Additions	**268**	112
Charged to profit or loss	**(182)**	(352)
At 31 December	**579**	493

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

	2017 RMB'000	2016 RMB'000
Analysed for reporting purposes as		
– non-current assets	**193,599**	202,059
– current assets	**18,310**	17,653
	211,909	219,712

The balance represents prepayment of rentals for land and buildings situated in the PRC for a period of 2 to 20 years under operating leases.

16. AVAILABLE-FOR-SALE INVESTMENTS

As of 31 December 2017, the available-for-sale investments represent the Group's investments in 10% equity interest 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 were 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 assets (liabilities) recognised and movements thereon during the current and prior year:

	Accelerated accounting depreciation RMB'000	Warranty provision RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2016	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)
Credit (charge) to profit or loss	**1,850**	**(2,160)**	**(642)**	**(952)**
At 31 December 2017	**9,651**	**11,403**	**(25,837)**	**(4,783)**

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**21,054**	21,364
Deferred tax liabilities	**(25,837)**	(25,195)
	(4,783)	(3,831)

At 31 December 2017, the Group has unrecognised deferred tax liability of RMB46,372,000 (2016: RMB44,875,000 in relation to PRC withholding tax on undistributed earnings of RMB463,717,000 (2016: RMB448,745,000) due to the retention of undistributed earnings by the PRC subsidiaries determined by the directors of the Company.

At 31 December 2017, the Group has unused tax losses of RMB87,415,000 (2016: RMB145,311,000) 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.

18. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**538,989**	420,765
Work in progress	**96,419**	75,867
Finished goods	**1,966,248**	1,655,311
	2,601,656	2,151,943

19. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**2,944,791**	2,868,579
Less: allowance for doubtful debts	**(93,196)**	(86,436)
	2,851,595	2,782,143
Bills receivables	**1,494,477**	1,468,064
Deposits paid to suppliers	**59,207**	135,092
Prepayments	**30,722**	21,924
Advances to staff	**6,218**	6,488
Value-added tax recoverable *(note a)*	**11,636**	20,843
Value-added tax refundable *(note b)*	**27,751**	9,560
Consideration receivables from disposal of a subsidiary *(note 31)*	**20,020**	–
Other receivables	**67,539**	52,198
	4,569,165	4,496,312

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

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

At the end of the reporting date, included in bills receivables are bills outstanding amounting to RMB992,115,000 (2016: RMB1,074,714,000) which have been discounted to certain banks. The Group continues to present the discounted bills with recourse as bills receivables until maturity.

19. TRADE AND OTHER RECEIVABLES (Continued)

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 aging analysis of trade and bills receivables presented based on the invoice date and receipt date of bills.

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

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

Included in the Group's trade receivable balances are trade debtors with an aggregate carrying amount of RMB494,061,000 (2016: RMB577,417,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there is no adverse change in the recoverability of the debtors.

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

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

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

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:

	2017 **RMB'000**	2016 RMB'000
At 1 January	**86,436**	96,679
Allowances recognised on receivables	**41,422**	37,767
Amounts recovered during the year	**(34,662)**	(48,010)
At 31 December	**93,196**	86,436

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB93,196,000 (2016: RMB86,436,000) which have been in financial difficulties. The Group does not hold any collateral over these balances.

Included in the bills receivables balance are bills amounting to RMB338,576,000 pledged to banks for securing the issuance of bank's acceptance bills.

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

	2017 **RMB'000**	2016 RMB'000
United States dollars ("**USD**")	**693,376**	1,142,894
EURO	**59**	35

19. TRADE AND OTHER RECEIVABLES (Continued)

TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2017 and 2016 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	
	2017	2016
	RMB'000	RMB'000
Carrying amount of transferred assets included in trade receivables	**992,115**	1,074,714
Carrying amount of associated liabilities	**965,392**	1,058,452

20. SHORT-TERM INVESTMENTS

As at 31 December 2017, the Group's short-term investments mainly represent financial products issued by banks in the PRC, with an expected but not guaranteed return at 3.25% per annum. 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 2017. No fair value change is recognised during the year ended 31 December 2017. The short-term investments amounting to RMB1,990,000 were redeemed in January 2018 at the principal amount together with return which approximated the expected return.

21. 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 the 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 2017, the weighted average effective interest rate 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 was 0.35% (2016: 0.35%) per annum.

At 31 December 2017, pledged bank deposits represent deposits pledged to banks to secure issuance of bills payables amounting to RMB2,541,686,000 (2016: RMB2,150,229,000) which carry interest at market rates ranged from 1.1.% to 1.5% (2016: 1.3.% to 2.3%) per annum.

Certain restricted deposits, pledged bank deposits and bank balances and cash of RMB1,264,655,000 (2016: RMB1,399,531,000) 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:

	2017 **RMB'000**	2016 RMB'000
USD	**346,475**	269,918
HKD	**1,026**	1,653
EURO	**1,900**	1,279

22. TRADE AND OTHER PAYABLES

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

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

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

23. WARRANTY PROVISION

	2017 RMB'000	2016 RMB'000
CARRYING VALUE		
At 1 January	**42,010**	17,078
Additional provision for the year	**50,532**	81,273
Utilisation of provision	**(36,922)**	(56,341)
At 31 December	**55,620**	42,010

The warranty provision represents the 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.

24. 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 1.41% to 5.50% (2016: 2.65% to 4.58%) per annum at the end of reporting period.

During the year ended 31 December 2017, the Group discounted bills receivables with recourse in the aggregated amounts of RMB1,493,398,000 (2016: RMB1,637,732,000) to banks for short-term financing. As at 31 December 2017, the associated outstanding borrowings are RMB965,392,000 (31 December 2016: RMB1,058,452,000).

25. LONG-TERM DEBENTURES

On 12 May 2014, Guangdong Chigo Air-Conditioning Co., Ltd. ("**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. The 2014 debentures were fully repaid during the year ended 31 December 2017.

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 were fully repaid during the year ended 31 December 2016.

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

	2017 **RMB'000**	2016 RMB'000
Carrying value at 1 January	**52,271**	207,621
Interest expense	**1,667**	8,063
Repayment of debentures and interests thereon	**(54,000)**	(163,750)
Transaction costs	**62**	337
Carrying value at 31 December	**–**	52,271
Carrying amount repayable:		
– Within one year	**–**	52,271
– More than one year, but not more than two years	**–**	–

26. BORROWINGS

	2017 **RMB'000**	2016 RMB'000
Bank loans		
– unsecured	**1,669,949**	1,634,789
– secured by bank acceptance bills	**139,139**	87,776
	1,809,088	1,722,565
Other loan – unsecured	**73,562**	–
Total	**1,882,650**	1,722,565

26. BORROWINGS (Continued)

	2017 RMB'000	2016 RMB'000
Carrying amount repayable:		
Within one year	**1,807,061**	1,623,985
More than one year, but not exceeding two years	**59,429**	98,580
More than two years, but not exceeding five years	**16,160**	–
	1,882,650	1,722,565
Less: Amounts due within one year shown under current liabilities	**(1,807,061)**	(1,623,985)
Amount shown under non-current liabilities	**75,589**	98,580

During the year, a subsidiary of the Company factored a trade receivable balance due from another subsidiary of the Company to a factoring company with recourse for financing. The associated loan amounted to RMB73,562,000 as at 31 December 2017.

At the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB2,518,439,000 (2016: RMB1,733,600,000).

Included in bank loans are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2017 RMB'000	2016 RMB'000
USD (mainly charged at LIBOR plus premium)	**230,295**	125,491

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

The effective interest rate of the Group's bank borrowings is 4.73% (2016: 5.26%) per annum and the effective interest rate of the Group's other loan is 7.68% (2016: nil) per annum.

27. OBLIGATIONS UNDER FINANCE LEASES

	2017 RMB'000	2016 RMB'000
Analysed for reporting purposes as:		
– Current liabilities	**145,029**	145,916
– Non-current liabilities	**110,732**	119,213
	255,761	265,129

During the year ended 31 December 2017, the Group entered into eight (2016: five) 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 12-36 months with monthly rent 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 2017, the finance leases have outstanding obligations of RMB255,761,000. The average effective interest rate of the finance lease is 6.96% per annum. The Group's obligations under finance leases are secured by a corporate guarantee provided by the Company and a wholly-owned subsidiary.

	Minimum lease payments		**Present value of minimum lease payments**	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Amounts payable under finance lease				
Within one year	**158,849**	166,542	**145,029**	145,383
In more than one year but not more than two years	**99,479**	85,651	**95,292**	68,001
In more than two years but not more than three years	**15,712**	67,278	**15,440**	51,745
	274,040	319,471	**255,761**	265,129
Less: future finance charges	**(18,279)**	(54,342)	**–**	–
Present value of lease obligations	**255,761**	265,129		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**145,029**	145,916
Amount due for settlement after 12 months			**110,732**	119,213

28. GOVERNMENT GRANTS

	2017 RMB'000	2016 RMB'000
At 1 January	**36,354**	36,192
Received during the year	**–**	1,450
Recognised in profit or loss	**(2,738)**	(1,288)
At 31 December	**33,616**	36,354

The balance represents government grants received in relation to the acquisition of plant and equipment. The balance is transferred to profit or loss over the useful lives of the related assets.

29. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	Amount HKD'000	Number of shares '000	Amount HKD'000
At 1 January 2016, 31 December 2016 and 2017	50,000,000	500,000	8,434,178	84,341

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

30. 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 or to customers for maintaining business relationship. The Scheme will be valid and effective for a period of 10 years from the date of adoption.

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 547,750,000 (2016: 600,250,000), representing 6.5% (2016: 7.1%) 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.

30. 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 HKD	Outstanding at 1.1.2016	Lapsed during the year	Transferred during the year	Outstanding at 31.12.2016	Lapsed during the year	Outstanding at 31.12.2017
					Number of share options					
Directors	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	28,800,000	(7,800,000)	(11,492,000)	9,508,000	**-**	**9,508,000**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	67,200,000	(18,200,000)	(26,808,000)	22,192,000	**-**	**22,192,000**
Employees	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	163,578,000	(7,484,000)	11,492,000	167,586,000	**(14,910,000)**	**152,676,000**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	381,772,000	(17,466,000)	26,808,000	391,114,000	**(34,790,000)**	**356,324,000**
Customers#	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	2,932,000	–	–	2,932,000	**(834,000)**	**2,098,000**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	6,918,000	–	–	6,918,000	**(1,966,000)**	**4,952,000**
					651,200,000	(50,950,000)	–	600,250,000	**(52,500,000)**	**547,750,000**
Exercisable at end of the year								600,250,000		**547,750,000**

\# 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 ended 31 December 2017, 31 employees had resigned and 10 customers had ceased business relationship with the Group. As a result, their share options held were lapsed accordingly.

During the year end 31 December 2016, three directors of the Company had resigned and two of them remained as employee of the Company. Their share options were transferred from "Directors" category to "Employees" category.

31. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2017, the Group disposed a subsidiary, Guangdong Y. C. Insurance Agency Limited ("**Y. C. Insurance**") to independent third party buyers, at a consideration of RMB20,020,000. The net assets of Y. C. Insurance at the date of disposal were as follows:

	RMB'000
Net assets disposed:	
Bank balances and cash	2,439
Trade and other receivables	546
Trade and other payables	(2,646)
	339
Gain on disposal:	
Consideration receivable	20,020
Net assets disposed	(339)
	19,681
Net cash outflow arising on disposal:	
Cash received	–
Less: bank balances and cash disposed of	(2,439)
	(2,439)

The consideration receivable was fully settled in cash in January 2018.

The profit and cash flows from Y.C. Insurance attributable to the Group for the year ended 31 December 2017 were immaterial.

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 borrowings, 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

	2017 **RMB'000**	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**6,052,065**	5,973,329
Available-for-sale investments	**23,000**	23,000
Designated as at FVTPL	**1,990**	–
	6,077,055	5,996,329
Financial liabilities		
Amortised cost	**7,182,240**	6,584,576
Obligations under finance leases	**255,761**	265,129
	7,438,001	6,849,705

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, borrowings related to bills discounted with recourse, debentures, borrowings 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 2017, 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.

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 40% (2016: 42%) 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:

	2017		2016	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
USD	**1,039,851**	**230,295**	1,412,812	125,491
HKD	**1,026**	**–**	1,653	–
EURO	**1,959**	**–**	1,314	–

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 2017 (decrease in profit for the year ended 31 December 2016) 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 2017 (profit for the year ended 31 December 2016) where the RMB weakens against the relevant currencies.

	2017 RMB'000	2016 RMB'000
USD	**(41,800)**	(64,366)
HKD	**(56)**	(80)
EURO	**(97)**	(54)

33. FINANCIAL INSTRUMENTS (Continued)

MARKET RISK (Continued)

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 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 (2016: profit) for the year would increase by approximately RMB6,929,000 (2016: increase by RMB7,504,000).

There will be an equal and opposite impact on the profit for the year ended 31 December 2017 (profit for the year ended 31 December 2016) where there had been 50 basis points lower.

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.

The following tables detail the remaining contractual maturity for the non-derivative financial liabilities. 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.

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 2017							
Trade and other payables	–	3,134,580	1,199,618	–	–	4,334,198	4,334,198
Borrowings related to bills discounted with recourse	–	494,746	295,081	175,565	–	965,392	965,392
Long-term borrowings	6.76%	–	–	–	79,920	79,920	75,589
Short-term borrowings	5.20%	962,200	794,362	77,670	–	1,834,232	1,807,061
Obligations under finance leases	6.96%	39,712	39,712	79,425	115,191	274,040	255,761
		4,631,238	2,328,773	332,660	195,111	7,487,782	7,438,001

	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 borrowings	4.75%	–	–	–	103,431	103,431	98,580
Short-term borrowings	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)

FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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 short-term investments are measured at fair value at the end of the reporting period. The directors of the Company consider the fair value of these short-term investments approximate to their principal amount as at 31 December 2017.

The disclosure set out in the table below include financial assets and financial liabilities that are offset in the Group's 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 consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position
At 31 December 2017			
Deposit under finance lease	**81,790**	**(81,790)**	**–**
At 31 December 2016			
Deposit under finance lease	79,305	(79,305)	–

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position
At 31 December 2017			
Obligations under finance leases	**(337,551)**	**81,790**	**(255,761)**
At 31 December 2016			
Obligations under finance leases	(344,434)	79,305	(265,129)

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Obligations under finance leases RMB'000	Borrowings related to bills discounted with recourse RMB'000	Debentures RMB'000	Interest payable RMB'000	Total RMB'000
At 1 January 2017	1,722,565	265,129	1,058,452	52,271	28,715	3,127,132
Financing cash flow	160,085	(9,368)	(93,060)	(54,000)	(148,055)	(144,398)
Transaction cost	–	–	–	62	–	62
Interest expense	–	–	–	1,667	152,318	153,985
At 31 December 2017	1,882,650	255,761	965,392	–	32,978	3,136,781

35. OPERATING LEASE COMMITMENTS

THE GROUP AS LESSEE

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

	2017 **RMB'000**	2016 RMB'000
Within one year	**6,259**	21,172
In the second to fifth year inclusive	**4,647**	7,443
	10,906	28,615

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

35. OPERATING LEASE COMMITMENTS (Continued)

THE GROUP AS LESSOR

Property rental income earned during the year was RMB4,686,000 (2016: Nil). At the end of the reporting period, the Group has contracted with tenants in respect of rented premises held as factory plant for the following future minimum lease receipts:

	2017 **RMB'000**	2016 RMB'000
Within one year	**14,797**	–
In the second to fifth year inclusive	**29,827**	–
After five years	**9,781**	–
	54,405	–

Leases are negotiated and rentals are fixed for lease terms of 1 to 25 years.

36. CAPITAL COMMITMENTS

	2017 **RMB'000**	2016 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the		
– capital contribution to subsidiaries	**16,194**	20,243
– acquisition of property, plant and equipment	**60,233**	70,093
	76,427	90,336

37. 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.

The total expense recognised in profit or loss of RMB70,361,000 (2016: RMB72,432,000) represents contributions paid to these plans by the Group at rates specified in the rules of the respective plans.

38. 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 RMB895,000 (2016: RMB641,000) 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 8.

39. 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 2017	2016	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	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	Shares – 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%	Manufacture 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 had issued debentures that were fully repaid during the year ended 31 December 2017 (see note 25).

At the end of the reporting period, the Company has 15 subsidiaries that are not material to the Group, whose place of incorporation and operation are the PRC, United States of America, Kazakhstan, Hong Kong, Vietnam, British Virgin Islands and Mauitius. The principal activities of these subsidiaries include manufacture/trading of air-conditioners, logistics and investment holding.

39. 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	31.12.2017 RMB'000	31.12.2016 RMB'000
Current assets	**705,155**	616,799
Non-current assets	**102,746**	88,533
Current liabilities	**618,790**	539,224
Equity attributable to owners of the Company	**134,163**	115,661
Non-controlling interests	**54,948**	50,447

	2017 RMB'000	2016 RMB'000
Revenue	**1,502,346**	938,258
Expenses	**1,439,343**	876,556
Profit and total comprehensive income for the year	**63,003**	61,702
Profit and total comprehensive income attributable to owners of the Company	**44,102**	43,192
Profit and total comprehensive income attributable to the non-controlling interests	**18,901**	18,510
Profit and total comprehensive income for the year	**63,003**	61,702
Net cash inflows from operating activities	**87,312**	188,928
Net cash outflows from investing activities	**(59,351)**	(310)
Net cash inflows (outflows) from financing activities	**7,538**	(21,300)
Net cash inflows	**35,499**	167,318

39. PRINCIPAL SUBSIDIARIES (Continued)

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

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.

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

	2017 RMB'000	2016 RMB'000
Non-current assets		
Investment in a subsidiary	**600,804**	628,856
Amounts due from subsidiaries	**501,895**	578,866
	1,102,699	1,207,722
Current assets		
Other receivables	**83**	90
Amounts due from subsidiaries	**–**	–
Bank balances and cash	**724**	1,283
	807	1,373
Current liabilities		
Amounts due to subsidiaries	**40,650**	80,126
Accruals and other payables	**104**	144
	40,754	80,270
Net current liabilities	**(39,947)**	(78,897)
Net assets	**1,062,752**	1,128,825
Capital and reserves		
Share capital	**71,906**	71,906
Reserves	**990,846**	1,056,919
	1,062,752	1,128,825

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AND RESERVES OF THE COMPANY (Continued)

MOVEMENT IN THE COMPANY'S RESERVE

	Share premium RMB'000	Share compensation reserve RMB'000	Share options reserve RMB'000	Retained profits (accumulated losses) RMB'000	Total RMB'000
At 1 January 2016	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
Lapse of share options	**–**	**–**	**(7,254)**	**7,254**	**–**
Loss for the year	**–**	**–**	**–**	**(66,073)**	**(66,073)**
At 31 December 2017	**938,187**	**61,568**	**65,787**	**(74,696)**	**990,846**

FINANCIAL SUMMARY

For the year ended 31 December 2017

	Year ended 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Revenue	9,183,678	9,233,191	7,774,156	9,301,753	**10,736,454**
Profit (loss) before taxation	257,702	(8,572)	(653,049)	86,118	**66,696**
Taxation	(43,283)	(51,807)	(12,483)	(18,526)	**(19,065)**
Profit (loss) for the year	214,419	(60,379)	(665,532)	67,592	**47,631**
Profit (loss) for the year attributable to					
– owners of the Company	199,871	(81,039)	(690,473)	57,036	**29,792**
– non-controlling interests	14,548	20,660	24,941	10,556	**17,839**
	214,419	(60,379)	(665,532)	67,592	**47,631**

	As at 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	12,049,404	11,162,022	10,221,731	10,236,066	**10,605,003**
Total liabilities	(9,079,491)	(8,255,732)	(7,991,109)	(7,957,552)	**(8,293,258)**
Net assets	2,969,913	2,906,290	2,230,622	2,278,514	**2,311,745**
Equity attributable to owners of the Company	2,925,075	2,854,292	2,171,233	2,233,898	**2,263,690**
Non-controlling interests	44,838	51,998	59,389	44,616	**48,055**
	2,969,913	2,906,290	2,230,622	2,278,514	**2,311,745**