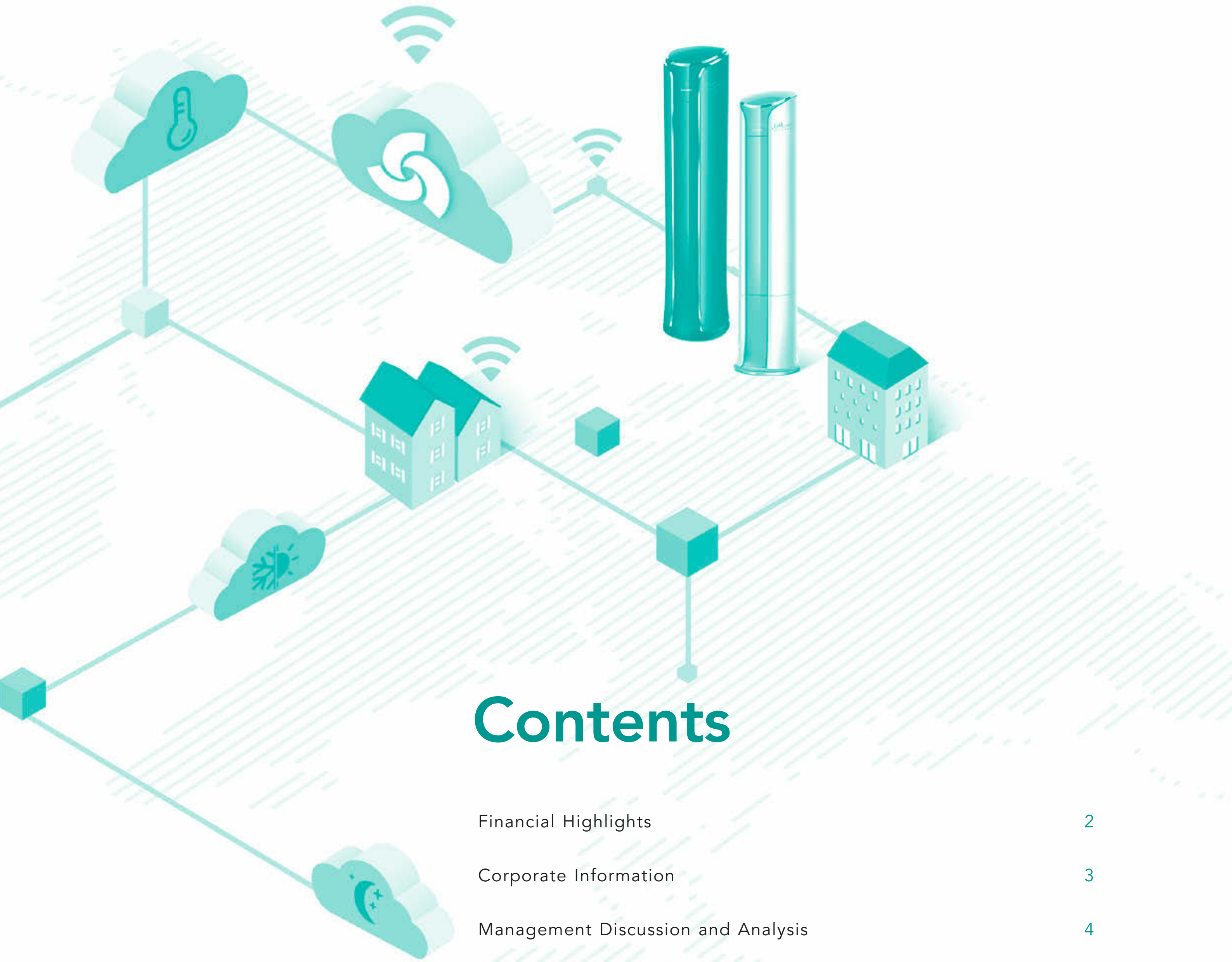
CHIGO HOLDING LIMITED
志高控股有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 449

CHIGO •

LEADER OF HIGH-END
AIR CONDITIONING

INTERIM REPORT
2018



Contents

Financial Highlights

Revenue decreased by **6.0%** to **RMB 5,553.7 million**

Net margin declined by **1.7 percentage points** to a net loss margin of **1.1%**

Gross profit decreased by **16.0%** to **RMB 767.0 million**

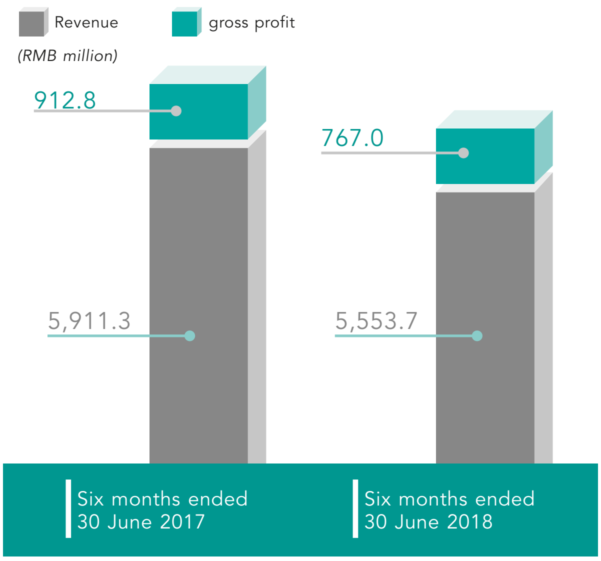
Total assets increased by **5.4%** (as compared to 31 December 2017) to **RMB 11,182.2 million**

Gross margin dropped from **15.4%** to **13.8%**

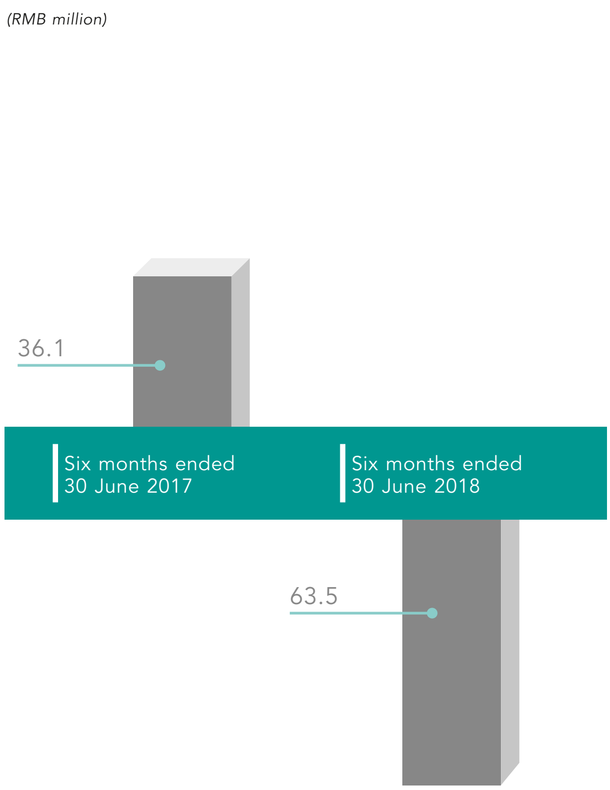
Net assets decreased by **3.9%** (as compared to 31 December 2017) to **RMB 2,220.6 million**

Net profit decreased by **276.0%** to a net loss for the period of **RMB 63.5 million**

Revenue and gross profit



Profit/loss for the period



Corporate Information

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.

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 30 June 2018:	
No. of shares issued:	8,434,178,000 shares
Market capitalisation:	HKD759.1 million

CORPORATE WEBSITES

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

CORPORATE CONTACT INFORMATION FOR SHAREHOLDERS AND INVESTORS

HONG KONG

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

PRC

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

Management Discussion and Analysis

Business Review

In the first half of 2018, the PRC air-conditioning market took advantage of the popularity and demand of the third and fourth markets, continuing the momentum of market growth in 2017. However, the absence of hot weather in the PRC during the reporting period, and the underperformance of the Chinese real estate market due to restrictions on purchase both played a crucial role in the slowing of growth of the air-conditioning industry during the period. As a whole, the growth of the PRC air-conditioning market in the first half of 2018 was relatively stable and reasonable. The consumption mindset of domestic consumers has become more rational, and the demand and choice of air-conditioning products have been more refined than in the past.

During the first six months of 2018, as a result of the continuous increase in the cost of bulk materials, labour costs, logistics costs etc., the production costs of the whole air-conditioning industry climbed as well, resulting in an increase in the average selling price of air-conditioning products. The increase in production costs also brought resistance to the growth of sales of air-conditioning products to a certain extent during the period under review.

During the six-month period ended 30 June 2018, the Group's PRC sales team adopted a flat terminal management (終端扁平化管理) and an upward multi-module balanced collective (多模組平衡集體向上) management strategy. As a result, increases in the Group's domestic air-conditioning product sales and amount have been recorded.

As for the export of air-conditioning products, according to customs information, the volume and amount of air-conditioners exported from China in the first six months of 2018 increased year-on-year.

However, air-conditioning export enterprises faced problems of rising costs, exchange rate fluctuations, trade tax policies and trade barriers implemented in various overseas regions in the first half of 2018, which have adversely affected overseas air-conditioning sales and brought uncertain prospects. Since the beginning of 2018, the US dollar has gradually strengthened and the RMB has continued to depreciate, which would undoubtedly benefit China's air-conditioner exports in the short term. On the other hand, the appreciation of the US dollar has caused a depreciation of their domestic currencies for overseas customers, which has had a significant impact on the overseas sales of air-conditioning products.

In addition, customs data also shows that the United States is the largest importer of Chinese household electrical appliances. For the category of exported household appliances, China's air-conditioning exports to the US market accounted for a large proportion in recent years. Recently, the United States raised tariffs, which has a considerable impact on Chinese air-conditioning companies and the entire home appliance industry.

Management Discussion and Analysis

In order to cope with fluctuations and uncertainties in overseas markets, the overseas marketing team of the Group undertook a number of business strategies during the six months ended 30 June of 2018, which mainly include:

(1) Optimizing regional layout: Since the second half of 2017, the developing market has shown economic weakness and weak growth. The Group reviewed the situation, adjusted its marketing strategy and adjusted its market layout in a timely manner, and concentrated its efforts on the fast-growing European and American markets.

(2) Strengthening product strategy: The Group continued to increase its investment in product development and launched a new series of products to promote sales. At the same time, the Group also applied a product focused strategy to enhance the comprehensive competitiveness of its air-conditioning products.

(3) Rapid adjustment of pricing strategy: During the period under review, the cost of raw major materials such as copper, aluminum and steel rose sharply, and labour costs continued to rise as well. Since the exchange rate of RMB against the US dollar fluctuated in both directions, the overseas sales team adjusted the price strategy in a timely manner, with the aim to strengthening the control of low-priced regional orders.

(4) Enhancing the brand strategy: The Company's own brand is important for business development. The Group's overseas marketing team increased its own brand promotion efforts and maintained good relations with global distributors to achieve sustainable development. In addition to the air-conditioning products, the Group also enhanced the diversification of its own brand products. The Chigo brand is currently growing rapidly in Europe, the Middle East, Southeast Asia, Africa and Central Asia.

(5) Differentiation of the marketing strategy: Different market policies are formulated for each market area.

Despite the positive effect of the business strategies, in view of the uncertainties and fluctuations in the overseas market, the Group strategically gave up some of the low-price and low-profit market orders in order to use resources more effectively to ensure the safe operation of the company. As a result, the performance of the Group's overseas sales operations was affected and experienced a slight decline in scale year-on-year. In the first half of 2018, the revenue and results of each overseas segment recorded a negative growth.

As for commercial air-conditioning products, they continue to grow after entering 2018. During the six months ended 30 June 2018, the revenue and sales volume of commercial air-conditioning products rose. The Group's commercial air-conditioning segment also made profit contribution to the Group during the period under review.

Operation Review

Results of operations

	Six months ended 30 June					
	2018		2017		Change	
	RMB million	*% of Revenue*	*RMB million*	*% of Revenue*	*RMB million*	*%*
Geographic region						
PRC sales	**3,334.7**	**60.0**	3,032.4	51.3	+302.3	+10.0
Asia (excluding PRC)	**1,066.0**	**19.2**	1,510.0	25.5	-444.0	-29.4
Americas	**651.5**	**11.7**	806.8	13.7	-155.3	-19.2
Africa	**141.0**	**2.5**	161.5	2.7	-20.5	-12.7
Europe	**357.6**	**6.5**	396.2	6.7	-38.6	-9.7
Oceania	**2.9**	**0.1**	4.4	0.1	-1.5	-34.1
Overseas sales	**2,219.0**	**40.0**	2,878.9	48.7	-659.9	-22.9
Total revenue	**5,553.7**	**100.0**	5,911.3	100.0	-357.6	-6.0

PRC Sales

After the macroeconomic downturn and keen competition in 2017, the market conditions and demand for air-conditioning products have improved. During the reporting period, PRC sales of the Group rose year-on-year and contributed 60.0% (30 June 2017: 51.3%) to its revenue during the six months ended 30 June 2018. As the sales of major air-conditioning products and parts and components increased, the Group recorded PRC sales of RMB3,334.7 million (30 June 2017: RMB3,032.4 million), representing an increase of RMB302.3 million or 10.0% from that recorded for the corresponding period in 2017.

Overseas Sales

For the six months ended 30 June 2018, the Group's overseas sales decreased by RMB659.9 million or 22.9% to RMB2,219.0 million (30 June 2017: RMB2,878.9 million) and accounted for 40.0% of the Group's total revenue. All of the overseas markets of the Group recorded a decrease in sales in the first half of 2018. Sales to Oceania and Asia (excluding PRC) dropped by 34.1% and 29.4% respectively during the period.

Asia (excluding PRC) and Americas remained the major sources of overseas revenue of the Group. These two markets accounted for 19.2% and 11.7% respectively (30 June 2017: 25.5% and 13.7%) of the Group's revenue during the period under review.

Management Discussion and Analysis

Financial Review

Revenue

During the six months ended 30 June 2018, the Group recorded a total revenue of approximately RMB5,553.7 million (30 June 2017: approximately RMB5,911.3 million), representing a decrease of RMB357.6 million, or 6.0% as compared to the corresponding period in 2017. The decrease was primarily due to the decrease in sales volume of major air-conditioning products as a result of drop in overseas sales of the Group.

Cost of sales

Despite the prices of major raw materials during the first half of 2018, the Group's cost of sales during the period under review dropped to RMB4,786.7 million (30 June 2017: RMB4,998.5 million) as a result of the decrease in sales volume of major air-conditioning products, representing a decrease of RMB211.8 million or 4.2% as compared to that of the first half of 2017.

Gross profit

During the six months ended 30 June 2018, the gross profit of the Group decreased by RMB145.8 million or 16.0% to RMB767.0 million (30 June 2017: RMB912.8 million) due to the increase in cost of sales of its major air-conditioning products. As a result of a faster increase in the prices of major raw materials, the Group's gross margin dropped to 13.8% in the first half of 2018 as compared to 15.4% for the same period in 2017.

The market conditions and demand for air-conditioning products in the first half of 2018 continued to improve. However, due to rising prices of major raw materials, during the reporting period, the gross margin of the Group's PRC sales dropped to 15.9% (30 June 2017: 19.3%) for the first half of 2018. As a result of the economic downturn of various overseas markets, the sales volume of the products sold in the major overseas markets decreased significantly. The gross margin of overseas sales decreased slightly to 10.6% (30 June 2017: 11.3%) during the period under review due to the rising prices of major raw materials in China and fluctuations in the exchange rate of RMB.

Other income

Other income, including mainly the interest income and other operating income, was RMB20.9 million (30 June 2017: RMB18.7 million), representing an increase of RMB2.2 million or 11.8%.

Selling and distribution costs

The Group's selling and distribution costs (excluding equity-settled share based payments) decreased by RMB14.4 million or 3.1% to RMB448.0 million (30 June 2017: RMB462.4 million) for the six months ended 30 June 2018. During the period under review, the drop was mainly due to decreases in (i) salaries and benefits of the selling and distribution staff; (ii) advertising and promotional expenses; and (iii) transportation cost.

Administrative expenses

Administrative expenses (excluding equity-settled share based payments) of the Group decreased by RMB15.0 million or 5.9% to RMB239.4 million (30 June 2017: RMB254.4 million) for the six months ended 30 June 2018. The decrease in administrative expenses was primarily due to the decrease in inventories loss during the period under review.

Management Discussion and Analysis

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 (30 June 2017: expense of RMB3.1 million) for the six months ended 30 June 2018.

Research and development costs

The Group had increased investment in research to develop new products. As such, research and development costs rose to RMB73.8 million (30 June 2017: RMB47.5 million) by 55.4% or RMB26.3 million for the six months ended 30 June 2018.

Other expenses

Other expenses decreased by RMB0.4 million or 16.0% during the first half of 2018 and amounted to RMB2.2 million (30 June 2017: RMB2.6 million). The expenses were mainly non-operating expenses during the period under review.

Other gains and losses

The Group recorded other gains of RMB14.4 million (30 June 2017: other losses of RMB41.1 million) in the first half of 2018. The other gains were mainly the gain in exchange difference.

Net loss in fair value changes of foreign currency forward contracts

The Group had entered into certain foreign currency forward contracts to sell US dollar with financial institutes to hedge against part of its overseas sales income. The Group recorded a net loss in fair value changes of approximately RMB9.7 million (30 June 2017: nil) under its foreign currency forward contracts during the six months ended 30 June 2018.

Finance costs

The Group financed its working capital requirement through obtaining bank loans and funding through finance lease arrangements and discounting part of its bills receivable from customers to financial institutes. As the average interest rate on borrowings increased during the first half of 2018, the finance costs of the Group increased by RMB8.2 million or 10.2% to RMB88.2 million (30 June 2017: RMB80.0 million) for the six months ended 30 June 2018.

Taxation

Due to the decrease in the PRC income tax charge, the Group's tax charge for the six months ended 30 June 2018 decreased by RMB6.0 million or 57.7% to RMB4.4 million (30 June 2017: RMB10.4 million).

Loss for the period and total comprehensive expenses for the period

As a result of the foregoing, the Group recorded a net loss of RMB63.5 million for the six months ended 30 June 2018 (30 June 2017: profit of RMB36.1 million), representing a decrease of RMB99.6 million or 276.0% in net profit as compared to the corresponding period in 2017. Since the Group had recorded a loss in the reporting period, a net loss of 1.1% (30 June 2017: net margin of 0.6%) was recorded for the six months ended 30 June 2018 accordingly.

Financial position

	As at 30 June 2018 *RMB million*	As at 31 December 2017 *RMB million*	Change *RMB million*	Change *%*
Non-current assets	**1,715.7**	1,785.0	-69.3	-3.8
Current assets	**9,466.5**	8,820.0	+646.5	+7.3
Current liabilities	**8,783.0**	8,047.5	+735.5	+9.1
Non-current liabilities	**178.6**	245.8	-67.2	-27.3
Net assets	**2,220.6**	2,311.7	-91.1	-3.9

As at 30 June 2018, the Group's total assets increased by RMB577.2 million or 5.4% to RMB11,182.2 million (31 December 2017: RMB10,605.0 million). The increase was mainly due to the increases in trade and other receivables (increased by RMB664.3 million) and pledged bank deposits (increased by RMB129.3 million), which was partly offset by the decreases in inventories (decreased by RMB143.2 million) and in property, plant and equipment (decreased by RMB40.9 million). Total liabilities of the Group as at 30 June 2018 amounted to RMB8,961.6 million (31 December 2017: RMB8,293.3 million) and increased by RMB668.3 million or 8.1% compared to that of 31 December 2017. The major liabilities that increased in the period were trade and other payables (increased by RMB370.4 million), which was offset by the decreases in borrowings related to bills discounted with recourse (decreased by RMB93.3 million), obligation under finance leases (decreased by RMB23.5 million) and borrowings (decreased by RMB41.6 million).

As the Group recorded a net loss for the period, the Group's net assets decreased by 3.9% or RMB91.1 million to RMB2,220.6 million as at 30 June 2018 (31 December 2017: RMB2,311.7 million).

Liquidity, financial resources and capital structure

The funding policy of the Group is to secure sufficient funding for meeting its working capital requirement and for smooth operations. The Group will also apply different equity and debt instruments of different tenors to obtain funding from the capital and financial markets in Hong Kong or 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 to implement the funding and treasury policies.

As at 30 June 2018, the Group's current assets amounted to RMB9,466.5 million (31 December 2017: RMB8,820.0 million) and current liabilities amounted to RMB8,783.0 million (31 December 2017: RMB8,047.5 million). The Group's working capital decreased by RMB89.0 million or 11.5% from RMB772.5 million as at the end of 2017 to RMB683.5 million as at 30 June 2018. As the Group's working capital remained relatively stable during the first half of 2018, the current ratio remained at 1.1 times (31 December 2017: 1.1 times) as at 30 June 2018.

Management Discussion and Analysis

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 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 a longer tenure matching with the relevant project period were sought from the banks to serve this purpose.

During the first half of 2018, the Group had obtained funding for its business operation by obtaining bank loans and funding from finance leases. As at 30 June 2018, the balances of short-term and long-term loans utilised by the Group were RMB1,794.0 million and RMB47.1 million respectively (31 December 2017: RMB1,807.1 million and RMB75.6 million respectively). Short-term loans decreased by RMB13.1 million or 0.7% and the long-term borrowings dropped by RMB28.5 million or 37.7%. The loans were used for working capital purposes, majority of the loans are charged at fixed interest rates, repayable within one year, and are made and repaid in Renminbi. The Group did not have any debentures (31 December 2017: nil) outstanding as at the end of the reporting period.

For the six months ended 30 June 2018, the Group also enhanced its working capital position and obtained financing by entering into finance leases arrangements. As at the end of June 2018, the Group had obligations under finance leases of approximately RMB232.3 million (31 December 2017: RMB255.8 million).

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased to 18.5% as at 30 June 2018 (31 December 2017: 20.2%) because the Group's total borrowings decreased and its total assets increased during the reporting period.

During the first half of 2018, the Group's total borrowings decreased and the Group had also discounted less bills receivables for working capital. The Group increased its finance cost by 10.3% or RMB8.2 million for the first six months comparing to the same period in 2017 because the average interest rate on borrowings increased. However, ability of the Group to service finance costs, as indicated by the interest cover ratio, dropped during the reporting period. Since the Group had recorded a decrease in profit before taxation and interest during the period under review, the interest cover ratio of the Group decreased to 0.4 times for the six months ended 30 June 2018 as compared to 1.6 times for the same period in 2017.

During the first half of 2018, the Group had entered into certain foreign currency forward contracts to hedge against part of its exposure to the potential variability of foreign currency risk.

As at 30 June 2018, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue and all of the issued shares were ordinary shares. Since the Group had recorded a net loss for the period, the shareholders' equity decreased to RMB2,220.6 million as at 30 June 2018 (31 December 2017: RMB2,311.7 million).

Other than the above, there were no other equity or debt instruments issued by the Company during the reporting period and at the end of June 2018.

Cash flows

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
Net cash from operating activities	**428.8**	403.0
Net cash used in investing activities	**(168.7)**	(6.2)
Net cash used in financing activities	**(269.4)**	(544.8)
Net decrease in cash and cash equivalents	**(9.3)**	(148.0)
Cash and cash equivalents at 30 June	**648.7**	643.9

For the six months ended 30 June 2018, the Group generated cash from its operating activities amounting to RMB428.8 million. During the period, the Group financed its working capital by internally generated cash flow, borrowings and finance leases.

During the period under review, the Group placed net cash of approximately RMB129.3 million as pledged bank deposits. The Group continued to invest in fixed assets and applied RMB26.3 million and RMB31.9 million (30 June 2017: RMB21.1 million and RMB41.9 million, respectively) for purchase and deposits paid on acquisition of property, plant and equipment respectively for its future business expansion and development. The Group also placed additional cash of RMB10.8 million as restricted deposits. As such, the Group used net cash of approximately RMB168.7 million in its investing activities.

During the first half of 2018, the Group decreased its borrowings by a net amount of RMB41.6 million. Part of the funding was used to reduce borrowings from bills discounted with recourse amounting to RMB93.3 million and RMB92.8 million was used to repay interest on borrowings. As such, the Group used net cash of approximately RMB269.4 million in its financing activities.

As a result of the foregoing, cash balances of the Group decreased by RMB9.3 million during the six months ended 30 June 2018 (30 June 2017: RMB148.0 million) and the bank balances and cash increased to RMB648.7 million as at 30 June 2018 (30 June 2017: RMB643.9 million).

Finance lease arrangements

On 9 February 2018, 廣東志高精密機械有限公司 (Guangdong Chigo Precision Machinery Co., Limited*) ("**Chigo Precision**") entered into a finance lease arrangement with International Far Eastern Leasing Co., Ltd. ("**FE Leasing**"), pursuant to which FE Leasing has conditionally agreed to purchase certain machinery and equipment from Chigo Precision at an aggregate consideration of approximately RMB31,572,000 and lease the equipment back to Chigo Precision for a period of 36 months.

Material acquisitions and disposals, significant investments

During the six months ended 30 June 2018, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies and the Group did not hold any significant investments during the six months ended 30 June 2018.

* *The English translation is provided for identification only*

Management Discussion and Analysis

Charge on assets

As at 30 June 2018, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB1,046.1 million (31 December 2017: approximately RMB916.8 million) were pledged to certain banks for securing the banking facilities granted to the Group.

Exposure to fluctuations in exchange rates

During the six months ended 30 June 2018, approximately 40.0% of the Group's sales was denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risk. During the reporting period, the Group had entered into certain foreign currency forward contracts to hedge against foreign exchange risk. The exchange rate of Renminbi against the US dollar was relatively stable in the first half of 2018. The Directors believe that the Group's exposure to foreign currency risk was not significant.

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

The management of the Group will monitor foreign currency exposure from time to time and will consider to take out appropriate hedging as required.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2018.

Employees and Remuneration

As at 30 June 2018, the Group employed 13,286 employees (30 June 2017: 13,196 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, there is also 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 27 August 2018, Chigo Precision entered into a finance lease arrangement with 廣東耀達融資租賃有限公司 (Yaoda Finance Lease Co., Ltd.*, "**Yaoda Leasing**"), pursuant to which Yaoda Leasing has conditionally agreed to purchase certain machinery and equipment from Chigo Precision at an aggregate consideration of RMB20,000,000 and lease the equipment back to Chigo Precision for lease payments of approximately RMB22,175,000 in aggregate for a period of 36 months.

Save as disclosed above, no important subsequent events have occured after the reporting period.

* *The English translation is provided for identification only*

Outlook and Future Plans

Starting from the second half of 2018, the Group will implement some new marketing strategies in respect of domestic sales of residential air-conditioning products. It is expected that the sales volume of the PRC residential air-conditioning products in the latter half of the year will be higher than that of the first six months of 2018. Due to rising raw materials and production costs, the average price of household air-conditioning products in the second half of 2018 is expected to rise, which will also elevate the profit margin of the relevant air-conditioning products.

In order to cope with the uncertainties, such as the possible decline in the market share in the domestic regional market in the second half of 2018, and in order to improve the Group's operating scale and quality, the Group will adopt some new marketing strategies, such as market optimization of cost.

Regarding the export of air-conditioning products, the market currently expects the following:

(1) increased uncertainty in domestic and foreign macroeconomics and exchange rate fluctuations

The world economy has recovered slowly, and the medium-term growth expectations and investment in most developed and emerging market economies are weakening. The domestic demand growth has also slowed down. Sales of air-conditioning products will be subject to social consumption and investment capacity. If the domestic and foreign macroeconomic environment deteriorates, the air-conditioning industry will experience short-term fluctuations. However, the continued depreciation of the renminbi will benefit the air-conditioning export enterprises.

(2) fluctuations in raw material prices

From the perspective of the macro environment of the air-conditioning industry, the upstream industry is the bulk metal industry. The prices of steel, copper and aluminum have certain volatility, which has impact on the production costs borne by enterprises in the industry. It is predicted that the increase in bulk metal prices will continue in the coming months in 2018, which will have impact on the profitability of enterprises in the industry.

(3) The United States has included China's air-conditioning products in the tariff list, and currently proposes to increase tariffs. This will affect the export of air-conditioning products to the United States.

(4) The appreciation of the US dollar has brought about the relative depreciation of other currencies in the world, which will affect the safety of China's air-conditioning exports and foreign exchange collection to a certain extent.

Based on the current market expectations, the Group expects its overseas market sales in the second half of 2018 to increase year-on-year, while the average selling price of export air-conditioning products will remain stable. Up to now, sales and export order scheduling have shown a steady and slight increase compared with the same period of 2017.

As at 30 June 2018, the Group had no plan for material investments or acquisitions of capital assets but will closely monitor market trends and explore potential business collaboration opportunities with various domestic and international well-known enterprises.

Other Information

Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

Directors and the Chief Executive's Interests in shares and share options

As at 30 June 2018, 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 30 June 2018	Approximate percentage of shareholding[1]
Mr. Li Xinghao[2]	Held by controlled corporation	4,322,234,210	51.25
Ms. Li Xiuhui	Beneficial owner	25,256,000	0.30
Ms. Huang Guijian	Beneficial owner	2,700,000	0.03
		4,350,190,210	51.58

Notes:

1 Based on 8,434,178,000 shares of the Company in issue as at 30 June 2018.

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 30 June 2018	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 18 to the condensed consolidated financial statements.

Name of Director	Capacity	Number of options held as at 30 June 2018	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
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
		21,700,000	21,700,000

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 30 June 2018.

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 18 to the condensed consolidated financial statements.

During the reporting period, no share option was granted, exercised or cancelled. The following table discloses the movements in the Company's share options and the underlying shares during the six months ended 30 June 2018:

					Underlying shares exercisable under the share options		
	Date of grant	Vesting period	Exercise period	Exercise Price[1] (HKD)	Outstanding at 1 January 2018	Lapsed during the period	Outstanding at 30 June 2018
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	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	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)	–
(resigned on 20 April 2018)	2011.9.23	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	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

	Date of grant	Vesting period	Exercise period	Exercise Price[1] (HKD)	Underlying shares exercisable under the share options: Outstanding at 1 January 2018	Lapsed during the period	Outstanding at 30 June 2018
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	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	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**	**(10,000,000)**	**21,700,000**
Category 2: Employees							
Employees	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	152,676,000	(1,800,000)	150,876,000
	2011.9.23	2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	356,324,000	(4,200,000)	352,124,000
Sub-total					**509,000,000**	**(6,000,000)**	**503,000,000**

	Date of grant	Vesting period	Exercise period	Exercise Price[1] (HKD)	Underlying shares exercisable under the share options: Outstanding at 1 January 2018	Lapsed during the period	Outstanding at 30 June 2018
Category 3: Customers							
Customers	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	2,098,000	–	2,098,000
	2011.9.23	2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	4,952,000	–	4,952,000
Sub-total					**7,050,000**	**–**	**7,050,000**
Total					**547,750,000**	**(16,000,000)**	**531,750,000**

Note:

1. The closing price of the shares of the Company immediately before the date of grant, i.e. 22 September 2011 was HKD0.36 per share.

Pursuant to the terms of the Share Option Scheme, the shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme ("**Scheme Mandate Limit**") shall not exceed 10% of the total number of shares in issue on the date of approval by shareholders. The existing Scheme Mandate Limit was refreshed on 27 May 2013, entitling the Company to grant further share options under the Share Option Scheme carrying the rights to subscribe for a maximum of 843,417,800 Shares. As at 30 June 2018 and the date of this report, no share options were granted and the remaining 843,417,800 share options of the existing Scheme Mandate Limit have not been utilized, which represents approximately 10.00% of the issued share capital of the Company.

As at 30 June 2018, 531,750,000 share options remained outstanding under the Share Option Scheme, which represents approximately 6.30% of the issued share capital of the Company.

If the Company grants further 843,417,800 share options under the Share Option Scheme carrying the rights to subscribe for a maximum of 843,417,800 Shares, the maximum number of Shares in respect of which share options may be granted together with all outstanding share options already granted and yet to be exercised as 30 June 2018 will amount to an aggregate of 1,375,167,800 shares, representing approximately 16.30% of the issued share capital of the Company at 30 June 2018 and is within the 30% overall limit as required under the Share Option Scheme.

Other Information

Substantial shareholders

As at 30 June 2018, 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 positions in the issued share capital of the Company.

Name of shareholder	Capacity	Number of issued ordinary shares held as at 30 June 2018	Approximate percentage of shareholding[1]
Long positions			
Chigo Group Holding Limited[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 30 June 2018.

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 30 June 2018.

Purchase, Sale or Redemption of Listed shares of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company during the six months ended 30 June 2018.

Corporate Governance

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 Listing Rules. During the first half of 2018, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provision A.2.1 of the CG Code.

Code Provision A.2.1

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

During the first half of 2018, Mr. Li Xinghao acted as both Chairman and Chief Executive Officer (the "**CEO**") of the Company.

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

Mr. Li is the founder of the Group and has over 24 years of experience in the air-conditioning industry. The Directors believe that Mr. Li is a good leader to lead the Board and vesting the roles of Chairman and CEO in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. As such, it is beneficial to the business prospects of the Company.

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

Model Code for Securities 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 Directors regarding any non-compliance with the Model Code and the Own Code. All Directors have confirmed their compliance during the first half of 2018 with required standards set out in the Model Code and the Own Code.

Review of the Interim Results

The audit committee (the "**Audit Committee**") of the Company comprises of three independent non-executive Directors, namely, Mr. Fu Xiaosi, Mr. Zhang Xiaoming and Mr. Wang Manping. Mr. Fu Xiaosi is the chairman of the Audit Committee.

The Company's interim results for the six months ended 30 June 2018 have been reviewed by the Audit Committee with the management of the Company.

By Order of the Board
Chigo Holding Limited
Li Xinghao
Chairman

Hong Kong, 29 August 2018

Report on Review of Condensed Consolidated Financial Statements

Deloitte.

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TO THE BOARD OF DIRECTORS OF CHIGO HOLDING LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Chigo Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 56, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	NOTES	Six months ended 30 June **2018** ***RMB'000*** **(unaudited)**	 2017 *RMB'000* (unaudited)
Revenue	3	**5,553,664**	5,911,313
Cost of sales		**(4,786,662)**	(4,998,486)
Gross profit		**767,002**	912,827
Other income		**20,878**	18,654
Selling and distribution costs			
– equity-settled share based payments		**–**	716
– other selling and distribution costs		**(447,989)**	(462,396)
Administrative expenses			
– equity-settled share based payments		**–**	2,429
– other administrative expenses		**(239,391)**	(254,437)
Research and development costs		**(73,761)**	(47,482)
Other expenses		**(2,223)**	(2,648)
Other gains and losses		**14,360**	(41,098)
Net loss in fair value changes on foreign currency forward contracts		**(9,735)**	–
Finance costs		**(88,214)**	(80,040)
(Loss) profit before taxation	4	**(59,073)**	46,525
Taxation	5	**(4,433)**	(10,432)
(Loss) profit for the period		**(63,506)**	36,093
Other comprehensive expense:			
Item that will not be reclassified subsequently to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(660)**	–
Other comprehensive expense for the period		**(660)**	–
Total comprehensive (expense) income for the period		**(64,166)**	36,093
(Loss) profit for the period attributable to:			
– owners of the Company		**(64,796)**	28,481
– non-controlling interests		**1,290**	7,612
		(63,506)	36,093
Total comprehensive (expense) income for the period attributable to:			
– owners of the Company		**(65,456)**	28,481
– non-controlling interests		**1,290**	7,612
		(64,166)	36,093
(Loss) earnings per share	7		
– Basic and diluted		**(0.77) cents**	0.34 cents

Condensed Consolidated Statement of Financial Position

AT 30 June 2018

	NOTES	**30.6.2018** ***RMB'000*** **(unaudited)**	31.12.2017 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment	*8*	**1,259,574**	1,300,478
Land use rights		**196,576**	199,260
Intangible assets		**539**	579
Prepaid lease payments		**187,652**	193,599
Deposits paid for acquisition of property, plant and equipment		**31,916**	46,987
Available-for-sale investments		**–**	23,000
Equity instruments at fair value through other comprehensive income		**21,027**	–
Deferred tax assets		**18,473**	21,054
		1,715,757	1,784,957
Current assets			
Inventories	*9*	**2,458,504**	2,601,656
Trade and other receivables	*10*	**5,233,511**	4,569,165
Land use rights		**5,378**	5,378
Prepaid lease payments		**16,021**	18,310
Taxation recoverable		**8,202**	9,491
Short-term investments		**–**	1,990
Restricted deposits	*12*	**50,000**	39,205
Pledged bank deposits		**1,046,139**	916,804
Bank balances and cash		**648,700**	658,047
		9,466,455	8,820,046
Current liabilities			
Trade and other payables	*13*	**5,282,903**	4,912,504
Warranty provision		**54,470**	55,620
Taxation payable		**159,964**	161,878
Contract liabilities		**454,253**	–
Borrowings related to bills discounted with recourse	*14*	**872,098**	965,392
Borrowings	*15*	**1,793,951**	1,807,061
Derivative financial instruments		**5,748**	–
Obligations under finance leases	*16*	**159,574**	145,029
		8,782,961	8,047,484
Net current assets		**683,494**	772,562
Total assets less current liabilities		**2,399,251**	2,557,519

Condensed Consolidated Statement of Financial Position

AT 30 June 2018

	NOTES	**30.6.2018** *RMB'000* **(unaudited)**	31.12.2017 *RMB'000* (audited)
Non-current liabilities			
Government grants		**32,972**	33,616
Borrowings	*15*	**47,087**	75,589
Obligations under finance leases	*16*	**72,734**	110,732
Deferred tax liabilities		**25,837**	25,837
		178,630	245,774
Net assets		**2,220,621**	2,311,745
Capital and reserves			
Share capital	*17*	**71,906**	71,906
Reserves		**2,117,670**	2,191,784
Equity attributable to owners of the Company		**2,189,576**	2,263,690
Non-controlling interests		**31,045**	48,055
Total equity		**2,220,621**	2,311,745

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	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)*	FVTOCI reserve *RMB'000*	Retained profits *RMB'000*	Attributable to owners of the Company *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 31 December 2017 (audited)	**71,906**	**938,187**	**(26,408)**	**63,535**	**65,787**	**251,275**	**–**	**899,408**	**2,263,690**	**48,055**	**2,311,745**
Adjustments *(Note 2)*	**–**	**–**	**–**	**–**	**–**	**–**	**(1,313)**	**(7,345)**	**(8,658)**	**–**	**(8,658)**
At 1 January 2018 (restated)	**71,906**	**938,187**	**(26,408)**	**63,535**	**65,787**	**251,275**	**(1,313)**	**892,063**	**2,255,032**	**48,055**	**2,303,087**
(Loss) profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(64,796)**	**(64,796)**	**1,290**	**(63,506)**
Other comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(660)**	**–**	**(660)**	**–**	**(660)**
Total comprehensive (expense) income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(660)**	**(64,796)**	**(65,456)**	**1,290**	**(64,166)**
Distribution to non-controlling interests *(Note d)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(19,800)**	**(19,800)**
Capital contributions from non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,500**	**1,500**
Lapse of share options	**–**	**–**	**–**	**–**	**(904)**	**–**	**–**	**904**	**–**	**–**	**–**
Transfers	**–**	**–**	**–**	**–**	**–**	**6,595**	**–**	**(6,595)**	**–**	**–**	**–**
At 30 June 2018 (unaudited)	**71,906**	**938,187**	**(26,408)**	**63,535**	**64,883**	**257,870**	**(1,973)**	**821,576**	**2,189,576**	**31,045**	**2,220,621**
At 1 January 2017 (audited)	71,906	938,187	(26,408)	63,535	73,041	246,600	–	867,037	2,233,898	44,616	2,278,514
Profit for the period and total comprehensive income for the period	–	–	–	–	–	–	–	28,481	28,481	7,612	36,093
Recognition of equity-settled share-based payments	–	–	–	–	(3,145)	–	–	–	(3,145)	–	(3,145)
Distribution to non-controlling interests *(Note d)*	–	–	–	–	–	–	–	–	–	(14,400)	(14,400)
Transfers	–	–	–	–	–	4,675	–	(4,675)	–	–	–
At 30 June 2017 (unaudited)	71,906	938,187	(26,408)	63,535	69,896	251,275	–	890,843	2,259,234	37,828	2,297,062

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 a 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 during the period.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**428,836**	402,999
Investing activities		
Placement of pledged bank deposits	**(1,341,762)**	(1,051,720)
Purchase of property, plant and equipment	**(26,338)**	(21,061)
Prepaid lease payments paid	**(231)**	(2,666)
Deposits paid for acquisition of property, plant and equipment	**(31,916)**	(41,934)
Withdrawal of pledged bank deposits	**1,212,427**	1,142,383
Proceeds from disposal of property, plant and equipment	**3,343**	2,598
Purchase of short-term investments	**–**	(17,700)
Proceeds from disposal of short-term investments	**1,990**	–
Placement of restricted deposits	**(50,000)**	(41,843)
Withdrawal of restricted deposits	**39,205**	20,000
Interest received	**4,538**	5,761
Proceeds from disposal of a subsidiary	**20,020**	–
Net cash used in investing activities	**(168,724)**	(6,182)
Financing activities		
Borrowings raised	**1,861,752**	1,822,324
Proceeds from sale and lease back arrangements	**55,000**	49,251
Repayment of borrowings	**(1,903,364)**	(1,446,791)
Borrowings from bills discounted with recourse	**696,534**	311,226
Repayment of borrowings from bills discounted with recourse	**(789,828)**	(1,058,452)
Repayment of debentures	**–**	(50,000)
Interest paid	**(92,800)**	(79,675)
Distribution to non-controlling shareholders	**(19,800)**	(14,400)
Repayment of obligations under finance leases	**(78,453)**	(78,269)
Contribution from non-controlling interests of a subsidiary	**1,500**	–
Net cash used in financing activities	**(269,459)**	(544,786)
Net decrease in cash and cash equivalents	**(9,347)**	(147,969)
Cash and cash equivalents at 1 January	**658,047**	791,864
Cash and cash equivalents at 30 June	**648,700**	643,895
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**648,700**	643,895

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The Group's condensed consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

Other than changes in accounting policies resulting from the recognition of derivative financial instruments and the application of new Hong Kong Financial Reporting Standards (the "HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Derivative financial instruments

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

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

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

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

The new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards which result in changes in accounting policies, amounts reported and/or disclosures as described below:

2.1 Impacts and changes in accounting policies of application of HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group mainly recognises revenue from sales of air-conditioning products.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

2.1.1 Key changes in accounting polices resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation.

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application of HKFRS 15 Revenue from Contracts with Customers *(continued)*

2.1.1 Key changes in accounting polices resulting from application of HKFRS 15 (continued)

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The revenue of the Group arising from sale of air-conditioning products is recognised at a point in time. Under HKFRS 15, the Group's revenue is recognised when there is persuasive evidence that the control of the goods has been transferred to the customer, the customer has adequate control over the product and the Group has no unfulfilled obligations that affect customer's acceptance of the products.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Warranties

If a customer has the option to purchase a warranty separately, the Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

For service-type warranties, the promised service is a performance obligation. In that case, the Group allocates a portion of the transaction price to the warranty.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application of HKFRS 15 Revenue from Contracts with Customers *(continued)*

2.1.2 Effect arising from initial application of HKFRS 15

The Group has performed an assessment on the impact of the application of HKFRS 15 and concluded that it does not have a material impact on the timing and amounts of revenue recognised in the respective reporting periods, and therefore no adjustment to the opening retained profits at 1 January 2018 was recognised.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts 31 December 2017	Reclassification	Carrying amounts previously reported at under HKFRS 15 at 1 January 2018
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Trade and other payables	4,912,504	(376,659)	4,535,845
Contract liabilities	–	376,659	376,659

Note: As at 1 January 2018, advance receipts of RMB376,659,000 from customers previously included in trade and other payables were reclassified to contract liabilities.

The following table summarises the impact of applying HKFRS 15 on the Group's condensed consolidated statement of financial position at 30 June 2018 for each of the line item affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Reclassification	Amounts without application of HKFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Trade and other payables	5,282,903	454,253	5,737,156
Contract liabilities	454,253	(454,253)	–

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application of HKFRS 9 Financial instruments

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application of HKFRS 9 Financial instruments *(continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application of HKFRS 9 Financial instruments *(continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including restricted deposits, pledged bank deposits, bank balances, trade and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed i) individually for major customers with significant balances or customers which have significant credit deterioration; and ii) collectively using a provision matrix with appropriate groupings for the remaining customers.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application of HKFRS 9 Financial instruments *(continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' in accordance with globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application of HKFRS 9 Financial instruments *(continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on the amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application of HKFRS 9 Financial instruments *(continued)*

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available for sale investments RMB'000	Amortised cost (previously classified as loans and receivables) RMB'000	Equity instruments at FVTOCI RMB'000	FVTOCI reserve RMB'000	Short-term investments (Financial assets designated at FVTPL) RMB'000	Financial assets at FVTPL required by HKFRS 9 RMB'000	Retained profits RMB'000
Closing balance at 31 December 2017-HKAS 39		23,000	4,569,165	–	–	1,990	–	899,408
Effects arising from initial application of HKFRS 9:								
Reclassification								
From available-for-sale	(a)	(23,000)	–	23,000	–	–	–	–
From designated at FVTPL	(b)	–	–	–	–	(1,990)	1,990	–
Remeasurement								
Impairment under ECL model	(c)	–	(7,345)	–	–	–	–	(7,345)
From cost less impairment to fair value	(a)	–	–	(1,313)	(1,313)	–	–	–
Opening balance at 1 January 2018		–	4,561,820	21,687	(1,313)	–	1,990	892,063

(a) Available-for-sale investments

The Group elected to present in OCI for the fair value changes of all its unquoted equity investments previously classified as available-for-sale and measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, available-for-sale investments were reclassified to equity instruments at FVTOCI. The fair value losses of RMB1,313,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018.

(b) Financial assets designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the short-term investments which is measured on a fair value basis as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of these investments of RMB1,990,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application of HKFRS 9 Financial instruments *(continued)*

2.2.2 Summary of effects arising from initial application of HKFRS 9 (continued)

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables with significant balances or have significant credit deterioration are assessed individually while the remaining trade receivables are grouped based on aging and assessed collectively.

Loss allowances for other financial assets at amortised cost mainly comprise of restricted deposits, pledge bank deposits, bank balances and other receivables, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB7,345,000 has been recognised against retained profits. The additional loss allowance is charged against trade receivables.

The loss allowance for trade receivables at amortised cost as at 31 December 2017 reconciles to the opening loss allowance as at 1 January 2018 is as follows:

Trade receivables

	RMB'000
At 31 December 2017 – HKAS 39	93,196
Amount remeasured through opening retained profits	7,345
Balance at 30 June 2018	100,541

Except as described above, the application of other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 (Audited) *RMB'000*	HKFRS 15 *RMB'000*	HKFRS 9 *RMB'000*	**1 January 2018 (Restated)** ***RMB'000***
Non-current Assets				
Available-for-sale investments	23,000	–	(23,000)	**–**
Equity instruments at FVTOCI	–	–	21,687	**21,687**
Others with no adjustments	1,761,957	–	–	**1,761,957**
	1,784,957	–	(1,313)	**1,783,644**
Current Assets				
Short-term investments	1,990	–	(1,990)	**–**
Financial assets at FVTPL	–	–	1,990	**1,990**
Trade and other receivables	4,569,165	–	(7,345)	**4,561,820**
Others with no adjustments	4,248,891	–	–	**4,248,891**
	8,820,046	–	(7,345)	**8,812,701**
Current liabilities				
Trade and other payables	4,912,504	(376,659)	–	**4,535,845**
Contract liabilities	–	376,659	–	**376,659**
Others with no adjustments	3,134,980	–	–	**3,134,980**
	8,047,484	–	–	**8,047,484**
Net current assets	772,562	–	(7,345)	**765,217**
Total assets less current liabilities	2,557,519	–	(8,658)	**2,548,861**
Non-current liabilities				
Items with no adjustments	245,774	–	–	**245,774**
Net assets	2,311,745	–	(8,658)	**2,303,087**
Capital and reserves				
Share capital	71,906	–	–	**71,906**
Reserves	2,191,784	–	(8,658)	**2,183,126**
Equity attributable to owners of the Company	2,263,690	–	(8,658)	**2,255,032**
Non-controlling interests	48,055	–	–	**48,055**
Total equity	2,311,745	–	(8,658)	**2,303,087**

3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue

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

	Six months ended 30.6.2018 *RMB'000* **(unaudited)**
Type of goods:	
Sales of air-conditioning products	
Residential air-conditioners	**3,963,545**
Commercial air-conditioners	**739,652**
Air-conditioners' parts and components	**524,595**
Others	**325,872**
Total	**5,553,664**
Geographical markets:	
Mainland China (the "PRC")	**3,334,718**
Asia (excluding PRC)	**1,066,007**
Americas	**651,465**
Africa	**140,972**
Europe	**357,588**
Oceania	**2,914**
Total	**5,553,664**

All of the Group's revenue is recognised at a point of time during the six months ended 30 June 2018

3. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment information

Segment information has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), the chief executive officer ("CEO"), for the purpose of allocating resources to segments and assessing their performance. The CODM reviews the revenue and results 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.

The following is an analysis of the Group's revenue and results by operating and reportable segments for the period under review:

	Revenue Six months ended		Results Six months ended	
	30.6.2018 ***RMB'000*** **(unaudited)**	30.6.2017 *RMB'000* (unaudited)	**30.6.2018** ***RMB'000*** **(unaudited)**	30.6.2017 *RMB'000* (unaudited)
PRC	**3,334,718**	3,032,404	**531,274**	586,647
Asia (excluding PRC)	**1,066,007**	1,509,992	**107,389**	159,879
Americas	**651,465**	806,838	**77,269**	114,630
Africa	**140,972**	161,476	**12,903**	14,738
Europe	**357,588**	396,170	**37,514**	35,982
Oceania	**2,914**	4,433	**653**	951
	5,553,664	5,911,313	**767,002**	912,827
Unallocated other income			**20,878**	18,654
Unallocated expenses			**(530,132)**	(556,813)
Staff costs included in selling and distribution costs and administrative expenses			**(215,090)**	(246,977)
Impairment loss recognised in respect of trade receivables			**(3,670)**	(35,760)
Impairment loss reversed in respect of trade receivables			**–**	34,816
Net loss in fair value changes on foreign currency forward contracts			**(9,735)**	–
Charitable donations			**(112)**	(182)
Finance costs			**(88,214)**	(80,040)
(Loss) profit before taxation			**(59,073)**	46,525

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

4. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
(Loss) profit before taxation has been arrived at after charging:		
Impairment loss recognised in respect of trade receivables included in other gains and losses	**3,670**	35,760
Amortisation of intangible assets included in administrative expenses	**40**	151
Charitable donations in the PRC	**112**	182
Depreciation of property, plant and equipment	**101,333**	91,877
Provision for warranty included in cost of sales	**23,989**	27,940
Release of prepaid lease payments	**8,467**	9,831
Write-off on inventories	**4,337**	23,500
Net exchange loss included in other gains and losses	**–**	22,427
and after crediting:		
Amortisation of government grants	**644**	644
Government subsidies included in other income (note a)	**5,635**	2,436
Interest income	**4,538**	5,764
Net exchange gain included in other gains and losses	**18,180**	–
Impairment loss reversed in respect of trade receivables included in other gains and losses	**–**	34,816

Note:

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

5. TAXATION

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The charge comprises:		
PRC income tax		
– current period	**(1,852)**	(12,260)
Deferred taxation	**(2,581)**	1,828
	(4,433)	(10,432)

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 2018 to 2020.

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 profit 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 profit earned during the six months period ended 30 June 2018 and 30 June 2017 have been accrued at the tax rate of 10% on the expected dividend stream of 30% which is determined by the directors of the Company.

6. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the interim period (2017: Nil), nor has any dividend been proposed since the end of the reporting period (2017: Nil).

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the period is based on the loss for the period attributable to owners of the Company of RMB64,796,000 (earnings for 2017: RMB28,481,000) and on the weighted average number of 8,434,178,000 (2017: 8,434,178,000) shares in issue during the period.

The computation of diluted loss per share for the six months ended 30 June 2018 and diluted earnings per share for the six months end 30 June 2017 did not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for shares during the period presented.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group incurred an aggregate amount of RMB63,922,000 (2017: RMB64,632,000) for the acquisition of property, plant and equipment in the PRC in order to upgrade its manufacturing capabilities. Part of the consideration of RMB46,987,000 (2017: RMB51,258,000) were settled through deposits paid in prior year.

In addition, during the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB3,493,000 (2017: RMB2,561,000) for cash proceeds of RMB3,343,000 (2017: RMB2,598,000), resulting in a loss on disposal of RMB150,000 (2017: gain of RMB37,000).

The carrying value of property, plant and equipment as at 30 June 2018 includes machinery held under sale and lease back arrangements of approximately RMB224,286,000 (31 December 2017: RMB307,958,000).

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9. INVENTORIES

	30.6.2018 *RMB'000* (unaudited)	31.12.2017 *RMB'000* (audited)
Raw materials	**554,470**	538,989
Work in progress	**101,407**	96,419
Finished goods	**1,802,627**	1,966,248
	2,458,504	2,601,656

10. TRADE AND OTHER RECEIVABLES

	30.6.2018 *RMB'000* (unaudited)	31.12.2017 *RMB'000* (audited)
Trade receivables	**5,103,321**	4,439,268
Less: impairment loss recognised	**(103,765)**	(93,196)
	4,999,556	4,346,072
Deposits paid to suppliers	**93,847**	59,207
Prepayments	**44,811**	30,722
Advances to staff	**5,218**	6,218
Value-added tax recoverable	**20,622**	11,636
Value-added tax refundable	**–**	27,751
Consideration receivable from disposal of a subsidiary	**–**	20,020
Other receivables	**69,457**	67,539
	5,233,511	4,569,165

10. 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.

Included in the trade receivables are bills collected from the customers with an aggregate carrying amount of RMB1,916,123,000 (31 December 2017: RMB1,494,477,000).

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

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Age		
0 – 30 days	**1,871,103**	1,219,173
31 – 60 days	**1,004,244**	484,084
61 – 90 days	**482,818**	603,543
91 – 180 days	**1,368,579**	1,674,788
181 – 365 days	**149,241**	229,902
Over 1 year	**123,571**	134,582
	4,999,556	4,346,072

Details of the impairment assessment are set out in note 11.

11. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

Trade receivables

As part of the Group's credit risk management, the Group assesses the impairment of major customers with significant balances or customers with significant credit deterioration individually and uses debtors' aging to assess the impairment of the remaining customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contract terms. The follow table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 30 June 2018.

	Average loss rate	Gross carrying amount *RMB'000*	Impairment loss allowance *RMB'000*
1 – 30 days past due	8.68%	85,030	7,380
31 – 60 days past due	17.20%	41,688	7,169
61 – 90 days past due	30.25%	21,948	6,639
More than 90 days past due	57.39%	90,762	52,086
		239,428	73,274

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the current interim period, the Group provided RMB3,670,000 impairment allowance based on the provision matrix. In addition, debtors with significant balances or with significant credit deterioration amounting to RMB1,322,099,000 at 30 June 2018 were assessed individually and the aggregate impairment allowance at 30 June 2018 amounting to RMB30,491,000.

Allowance for impairment
The movement in the allowance for impairment in respect of trade receivables during the current interim period was as follows:

	RMB'000
Balance at 1 January 2018 (restated)*	100,541
Amounts written off	(446)
Net remeasurement of loss allowance	3,670
Balance at 30 June 2018	103,765

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

12. RESTRICTED DEPOSITS

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

As at 30 June 2018, the weighted average effective interest rate on restricted deposits was 0.69% (31 December 2017: 1%) per annum.

The maximum exposure to credit risk at the reporting dates is the carrying amount of the Group's restricted deposits.

13. TRADE AND OTHER PAYABLES

	30.6.2018 ***RMB'000*** **(unaudited)**	31.12.2017 *RMB'000* (audited)
Trade payables	**1,792,564**	1,377,004
Bills payables	**2,796,478**	2,541,686
	4,589,042	3,918,690
Advance receipts from customers	**–**	376,659
Payroll and welfare payables	**90,980**	92,928
Other tax payables	**64,535**	67,275
Accruals	**59,552**	16,989
Other interest bearing payables	**71,987**	77,272
Advertising and promotion costs payable	**29,136**	18,677
Transportation costs payable	**4,903**	5,778
Provision for energy-saving subsidies refundable	**199,190**	199,190
Other payables	**173,578**	139,046
	5,282,903	4,912,504

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13. TRADE AND OTHER PAYABLES *(continued)*

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.

	30.6.2018	31.12.2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Age		
0 – 90 days	**2,667,789**	2,298,190
91 – 180 days	**1,701,636**	1,506,032
181 – 365 days	**200,523**	99,776
1 – 2 years	**19,094**	14,692
	4,589,042	3,918,690

14. BORROWINGS RELATED TO BILLS DISCOUNTED WITH RECOURSE

During the period, bank bills issued by customers and discounted by the Group carry interest at rates ranging from 4.47% to 6.20% (2017: 3.64% to 5.77%) per annum.

15. BORROWINGS

	30.6.2018 *RMB'000* (unaudited)	31.12.2017 *RMB'000* (audited)
Bank loans		
– unsecured	**1,569,485**	1,669,949
– secured by bank acceptance bills	**187,343**	139,139
	1,756,828	1,809,088
Other loan-unsecured	**84,210**	73,562
Total	**1,841,038**	1,882,650
Carrying amount repayable:		
Within one year	**1,793,951**	1,807,061
More than one year, but not exceeding two years	**46,705**	59,429
More than two years, but not exceeding five years	**382**	16,160
	1,841,038	1,882,650
Less: Amount due within one year shown under current liabilities	**(1,793,951)**	(1,807,061)
Amount shown under non-current liabilities	**47,087**	75,589

At the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB1,395,963,000 (31 December 2017: RMB2,518,439,000).

15. BORROWINGS *(continued)*

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

	30.6.2018 *RMB'000* equivalent (unaudited)	31.12.2017 *RMB'000* equivalent (audited)
United States Dollars ("USD")	**308,640**	230,295

Average interest rate charged to the Group was as follows:

	30.6.2018	31.12.2017
Bank loans	**4.83%**	4.73%

All the bank loans are fixed rate borrowings, subject to negotiation at renewal date and were denominated in RMB and USD for both periods.

16. OBLIGATIONS UNDER FINANCE LEASES

	30.6.2018 *RMB'000* (unaudited)	31.12.2017 *RMB'000* (audited)
Current liabilities	**159,574**	145,029
Non-current liabilities	**72,734**	110,732
	232,308	255,761

During the six months ended 30 June 2018, the Group entered into a sale and lease back agreement with a leasing company in the PRC. Under the arrangement, the Group sold certain machineries to the leasing company and concurrently leased the assets back for a term of 36 months with monthly rent repayments. At the end of the lease term, the Group has the option to purchase these assets at nominal value. As such, the sale and lease back arrangement resulted in a finance lease.

As at 30 June 2018, the finance leases have an outstanding obligations of RMB232,308,000 (31 December 2017: 255,761,000). The average effective interest rate of the finance leases is 7.35% (31 December 2017: 6.96%) per annum. The Group's obligations under finance lease are secured by a corporate guarantee provided by the Company and a wholly-owned subsidiary.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

16. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

	Minimum lease payments		Present value of minimum lease payments	
	30.6.2018	31.12.2017	**30.6.2018**	31.12.2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(audited)	**(unaudited)**	(audited)
Amounts payable under finance leases				
Within one year	**171,192**	158,849	**159,574**	145,029
In more than one year but not more than two years	**70,379**	99,479	**67,673**	95,292
In more than two years but not more than three years	**5,123**	15,712	**5,061**	15,440
	246,694	274,040	**232,308**	255,761
Less: future finance charges	**(14,386)**	(18,279)	**–**	–
Present value of lease obligations	**232,308**	255,761		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**159,574**	145,029
Amount due for settlement after 12 months			**72,734**	110,732

17. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	*HKD'000*	*'000*	*HKD'000*
Ordinary shares of HKD0.01 each				
At 31 December 2017 (audited), 1 January 2018 and 30 June 2018 (unaudited)	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the condensed consolidated statement of financial position at 30 June 2018 and 31 December 2017	71,906

18. EQUITY-SETTLED SHARE BASED PAYMENTS

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

At 30 June 2018, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 531,750,000 (31 December 2017: 547,750,000), representing 6.3% (2017: 6.5%) of the shares of the Company in issue at that date. On 13 May 2011, under the resolution of Annual General Meeting of the Company which were approved by the shareholders, the total number of shares in respect of which options may be granted under the Scheme is permitted not to exceed 10% of the shares of the Company in issue on the date of the approval of the resolution. 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 0.10% 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.

18. EQUITY-SETTLED SHARE BASED PAYMENTS *(continued)*

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

					Number of share options				
Type of participants	Date of grant	Vesting period	Exercisable period	Adjusted exercise price per share *HKD*	Outstanding at 1.1.2017	Lapsed during the year	Outstanding at 31.12.2017	Lapsed during the period	Outstanding at 30.6.2018
Directors	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	9,508,000	–	9,508,000	**(3,000,000)**	**6,508,000**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	22,192,000	–	22,192,000	**(7,000,000)**	**15,192,000**
Employees	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	167,586,000	(14,910,000)	152,676,000	**(1,800,000)**	**150,876,000**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	391,114,000	(34,790,000)	356,324,000	**(4,200,000)**	**352,124,000**
Customers#	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	2,932,000	(834,000)	2,098,000	**–**	**2,098,000**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	6,918,000	(1,966,000)	4,952,000	**–**	**4,952,000**
					600,250,000	(52,500,000)	547,750,000	**(16,000,000)**	**531,750,000**
Exercisable at end of the period							547,750,000		**531,750,000**

\# 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 six months ended 30 June 2018, 1 director and 9 employees had resigned. As a result, their share options held were lapsed accordingly.

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.

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liabilities	Fair value as at 30 June 2018	Fair value hierarchy	Valuation technique(s) and key input(s)
1. Foreign currency contracts classified as derivative financial instruments in the condensed consolidated statement of financial position	Current liabilities – RMB5,748,000 (31.12.2017: N/A)	Level 2	*Outright forward contracts* **Discounted cash flow** Future cash flows are estimated based on difference between predetermined forward exchange rates and spot exchange rates at the end of the reporting period, discounted at a rate that reflects the credit risk of various counterparties.
2. Unquoted equity instruments	10 percent equity investment in a company engaged in financing service – RMB18,998,000; and 10 percent equity investment in a company engaged in promoting brands – RMB2,029,000 (31.12.2017: N/A)	Level 2	*Market approach* Based on the market multiple of similar benchmarked entities on the market and discounted for lack of marketability.

There were no transfers between the different levels of the fair value hierarchy in the current and prior periods.

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

20. CAPITAL COMMITMENTS

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the		
– capital contribution to subsidiaries	**16,194**	16,194
– acquisition of property, plant and equipment	**58,276**	60,233
	74,470	76,427

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

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

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

As at 30 June 2018

	Gross amounts of recognised financial assets *RMB'000*	Gross amounts of recognised financial liabilities set off in the condensed consolidated statement of financial position *RMB'000*	Net amounts of financial assets presented in the condensed consolidated statement of financial position *RMB'000*
Deposits under finance leases	85,164	(85,164)	–
Obligations under finance leases	(317,472)	85,164	(232,308)

22. RELATED PARTY TRANSACTIONS

(a) Related party transactions

Other than the transactions and balances with related parties disclosed in respective notes in the condensed consolidated financial information, during the period, the Group paid miscellaneous expenses totaling RMB461,000 (2017: RMB402,000) to a related company which is controlled by Mr. Li Xinghao, a director as well as a beneficial controlling shareholder of the Company.

(b) Compensation of key management personnel

During the period, the remuneration paid to the Group's key management personnel, represented by the Company's directors, was RMB1,252,000 (2017: RMB787,000).

23. EVENTS AFTER THE REPORTING PERIOD

On 27 August 2018, Guangdong Chigo Precision Machinery Co., Ltd. ("Chigo Precision", 廣東志高精密機械有限公司), a subsidiary of the Company entered into a sale and lease back agreement with Yaoda Finance Lease Co., Ltd. ("Yaoda Leasing", 廣東耀達融資租賃有限公司), pursuant to which Yaoda Leasing has conditionally agreed to purchase certain equipment from Chigo Precision at an aggregate consideration of RMB20,000,000 and lease the equipment back to Chigo Precision for a period of 36 months. Details of this arrangement is included in the Company's announcement dated 27 August 2018.