CHIGO

CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 449

ANNUAL
REPORT
2018

CHIGO •
LEADER OF HIGH-END AIR-CONDITIONING

CHIGO •
LEADER OF HIGH-END AIR-CONDITIONING

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GROUP STRUCTURE

* The English names are provided for identification purpose only

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Xiaoming
Mr. Fu Xiaosi *(resigned on 17 April 2019)*
Mr. Wang Manping

COMPANY SECRETARY

Mr. Leung Hon Man

REGISTERED OFFICE OF THE COMPANY

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTERS OF THE GROUP

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

PRINCIPAL SHARE REGISTRAR

SMP Partners (Cayman) Limited
Royal Bank House - 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER AS TO HONG KONG LAW

Reed Smith Richards Butler

LISTING INFORMATION

Listing:	Main Board of The Stock Exchange of Hong Kong Limited
Stock code:	449
Listing date:	13 July 2009
Board lot size:	2,000 shares
As at 31 December 2018:	
No. of shares issued:	8,434,178,000 shares
Market capitalisation:	HKD633 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

KEY EVENTS IN 2018

2018 was the 25th anniversary of the founding of Chigo. This year, Chigo announced 19 April was its Super Brand Day. This was its highlight on the brand end. Meanwhile, Chigo also launched negative ion oxygen air conditioning on the product end, creating a new era of healthy and fresh air conditioning. Throughout this year, Chigo had always been consumer-oriented to create a comprehensive and three-dimensional ultimate experience for users from products, marketing and after-sales services!

FEB

Smart King 200 Won the Championship in the Arena Contest

According to the word-of-mouth network monitoring report on the new products of the top ten smart home air-conditioning brands in 2017, Chigo Smart King 200 showed outstanding performance in all indicators in the big competition among the top ten air-conditioning brands. With a comprehensive score of 2,153, Chigo Smart King 200 won the championship of new flagship smart air-conditioning products.

MAR

Chigo's First Smart Cloud + Experience Hall Opened

On 5 March, the grand opening ceremony of Chigo Smart Cloud + Experience Hall was held in Pearl River Delta Craftsman Spirit Exhibition Hall of Foshan Financial Park. Chigo was the first enterprise to open for business in this exhibition hall. Chigo Smart Cloud + Experience Hall not only demonstrates the brand charm of Foshan backbone enterprises, but also will become a brand new landmark for the spirit of craftsmen in Pearl River Delta.

APR

Chigo Announced 19 April was Its Super Brand Day

On 19 April, Making "Made-in-China" Manufacturing Great Again – the 2nd Session of the "Made-in-China" Innovation and Development Forum cum Chigo's 4.19 Super Brand Day Launching Conference was held at the Great Hall of the People in Beijing, kicking off Chigo's 4.19 Super Brand Day.

JUL

Chigo Brand was valued at RMB20.076 Billion

On 2 July, the World Brand Lab released China's 500 Most Valuable Brands in 2018. Chigo ranked 238 on the list with a brand value of RMB20.076 billion, representing an increase of 21% over the same period last year.

SEP

Chigo Launched Negative Ion Oxygen Air Conditioning

On 5 September, the 5th Generation of Smart King New Product Launch Conference themed "Make the Air Fresher" for Chigo 2019 Refrigeration Financial Year was solemnly held in Heshan, China. Through three major upgrades centered on "wisdom + freshness + health", Chigo first introduced negative ion oxygen air conditioning to solve the consumers' pain points with breakthrough innovative technology to create ultimate user experience.

OCT

Li Xi, Secretary of Guangdong Provincial Party Committee, Visited Our Booth at Canton Fair

On 15 October, Li Xi (Member of the Political Bureau of the CPC Central Committee and Secretary of Guangdong Provincial Party Committee), Ma Xingrui (Member of the Central Committee, Vice Secretary of Guangdong Provincial Party Committee and Governor of Guangdong Province), Qian Keming (Vice Minister of the Ministry of Commerce) and other leaders visited Chigo's exhibition booth at Canton Fair to understand the market development of enterprises. Chigo's participation in the Canton Fair was reported by the mainstream authoritative media such as CCTV News and Central People's Broadcasting Station.

Chigo Won the Honor of the Highest Quality in Nanhai District

In October, Chigo won the Organizational Award of Nanhai District Government Quality Award in 2018, and the Production Equipment Maintenance and Improvement Team of the Assembly Plant won the First-line Team Award of Foshan Nanhai District Government Quality Award in 2018.

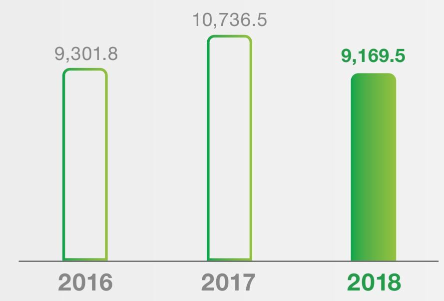
DEC

Chigo Won Chinese Patent Award Again

In December, the patents of "A Kind of Air Outlet Structure for Air Conditioning Cabinets" (Patent No. ZL201010205195.5) developed by Chigo were highly affirmed. For this, Chigo won the 20th China Patent Excellence Award. This was the second time for that Chigo had won this award since it won the 19th China Patent Excellence Award for "A Cloud-based Air Conditioning System" (Patent No. ZL201210321826.9).

FINANCIAL HIGHLIGHTS

REVENUE

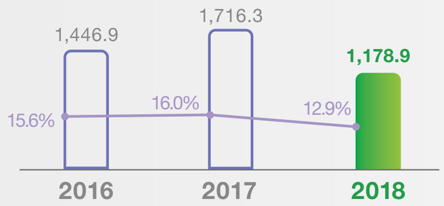


- Revenue decreased by 14.6% in 2018

Revenue *(RMB million)*

14.6%

GROSS PROFIT AND GROSS MARGIN

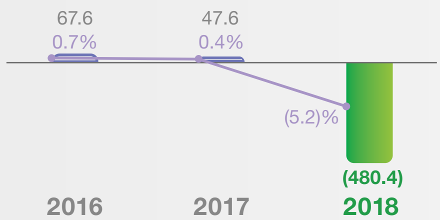


- Gross profit decreased by 31.3%
- Gross margin deteriorated from 16.0% to 12.9%

Gross profit *(RMB million)*

31.3%

LOSS FOR THE YEAR AND NET LOSS MARGIN

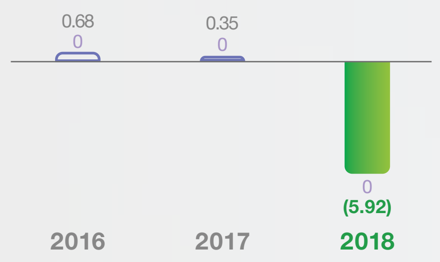


- Due to the decrease in its revenue and relative increase in costs of major raw materials and the increase in finance costs during the year, the Group recorded a net loss.
- Net profit decreased by 1,109.2%
- Net loss margin was 5.2% for the year

Net profit (loss) *(RMB million)*

1,109.2%

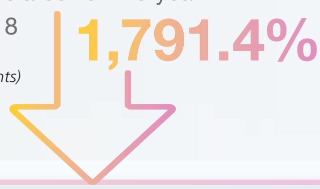
LOSS PER SHARE (LPS) AND DIVIDEND PER SHARE (DPS)



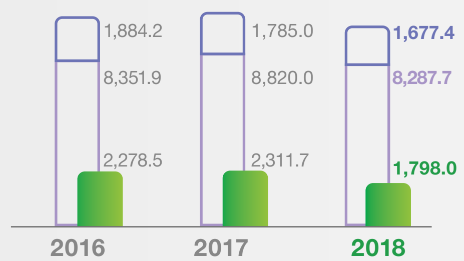
- Net profit of the Group decreased during the reporting period
- Basic earnings per share decreased by 1,791.4% to loss per share of RMB5.92
- No final dividend was declared for the year ended 31 December 2018

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

DPS *(HK cents)*



TOTAL ASSETS AND NET ASSETS

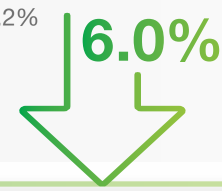


- Non-current assets and current assets both decreased by 6.0%
- Total consolidated assets decreased by 6.0%
- As the Group recorded a net loss for the year Net assets decreased by 22.2%

Non-current assets *(RMB million)*

Current assets *(RMB million)*

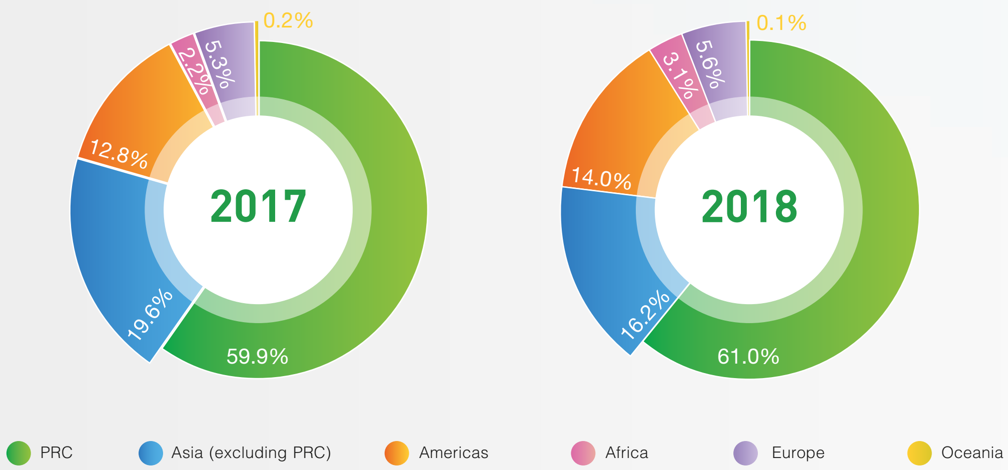
Net assets *(RMB million)*



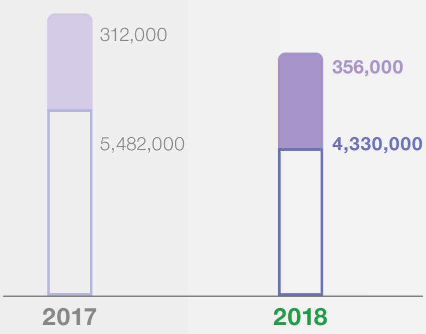
OPERATION HIGHLIGHTS

PRC AND OVERSEAS SALES

- PRC sales decreased by 12.9% and amounted to 61.0% of the total revenue
- Overseas sales decreased by 17.1% and amounted to 39.0% of the total revenue



UNIT SALES VOLUME

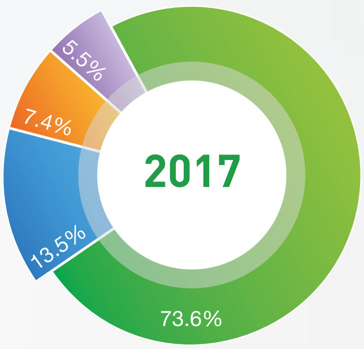


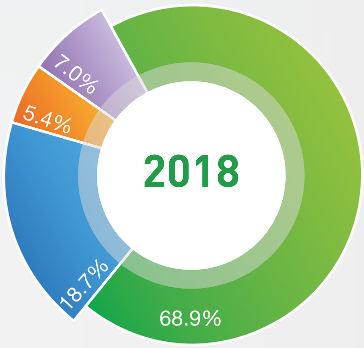
- Approximately 4.3 million sets/units of residential air-conditioners sold and decreased by 21.0%
- 356,000 sets of commercial air-conditioners sold and increased by 14.1%

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

MAJOR PRODUCTS TYPE

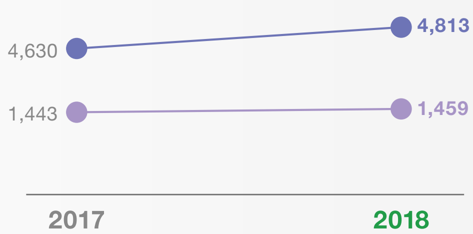
- Sales of residential air-conditioners decreased by 20.1% and accounted for 68.9% of the total revenue
- As both the average sales prices and sales volume of commercial air-conditioning products of the Group increased year on year.
  Revenue of commercial air-conditioners rose by 18.6% and contributed 18.7% of the total revenue to the Group
- Revenue of air-conditioners parts and components decreased by 37.4%
- Revenue of other products increased by 9.1%





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

AVERAGE SELLING PRICE (ASP)



- As the domestic market conditions reversed and competition in the air-conditioning industry become fiercer during the year, the ASP of the residential air-conditioning products increased slightly by 1.1%
- The ASP of the commercial air-conditioning products rose by 4.0%

Residential air-conditioning products *(RMB)*
Commercial air-conditioning products *(RMB)*

CHAIRMAN'S STATEMENT

CHIGO • LEADER
OF HIGH-END
AIR-CONDITIONING

Li Xinghao
Chairman and Chief Executive Officer

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Chigo Holding Limited, I am pleased to present the audited annual results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018.

SUMMARY OF BUSINESS RESULTS FOR THE YEAR 2018

Previous years witnessed a rapidly increased demand in air conditioning industry, but 2018 saw a declined growth in such demand. According to the report of household appliances industry, since the second half of 2018, air conditioning market has seen a decline in the retail sales volume and retail sales amount. At present, the domestic manufacturing industry as a whole is facing downward pressure, including withdrawal of capital, labor and other factors from the manufacturing sector, resource and environment constraints, export market downturn, serious lack of scientific and technological innovation ability, etc., which makes many manufacturing enterprises encounter development bottlenecks, causing their profit margin to continuously decline. The trade friction between China and the United States in 2018 has made the global economic situation fluctuated and the market and business environment more uncertain. In addition, under the adverse impact such as the continuous rise in the cost of production and major raw materials, the Group did encounter many difficulties in its operation in 2018. For the year ended 31 December 2018, the Group registered a declined performance and an annual revenue of approximately RMB9.17 billion, representing a decrease of 14.6% over the same period last year.

In 2018, the Group recorded a revenue from domestic sales of approximately RMB5.6 billion and a revenue from overseas sales of approximately RMB3.57 billion, representing a decline of 12.9% and 17.1%, respectively.

In 2018, the Group's gross profit declined due to a decrease in revenue and a relative increase in the cost of major raw materials. In addition, the Group recorded impairment loss on trade receivables and an increase in finance costs during the period under review. As a result, the Group registered a net loss of approximately RMB480 million during the year ended 31 December 2018.

THE GROUP'S OUTLOOK IN 2019

Over the past year, the Group recorded an unsatisfactory performance. But this was our past. Our management will learn from it, look to the future, and lead the Group back on the right track to increase operating income and performance as soon as possible. The current uncertainty of the global economic environment will inevitably bring about fluctuations in the industry. But, I think, in the long run, such impact on the air-conditioning industry is limited, because Chinese enterprises have global leading advantages in terms of upstream parts, whole machine manufacturing, technology and products. China is the manufacturing center and market center of global air conditioning industry. Its such leading position will not be affected by the current trade friction between China and the United States.

The Group should adhere to being market oriented. We should do all things based on data. We also should set up targets, remove obstacles, pay attention to efficiency and make achievements. In 2019, Chigo will continue to strengthen the reform and improvement as to the Company's management, business development, operating performance, etc. so as to achieve high growth in the Company's overall performance, high profits and high revenues.

Chigo is actively doing things to occupy market shares wisdomly and with brand strength and striving to achieve its global brand positioning of "Chigo • leader of high-end air-conditioning" to shape the image of a new era of Made in China. In addition, in the future, Chigo will also set up Wisdom Cloud + Experience Hall around the world, so that global consumers can feel the comfort brought by Chigo air conditioning, and can feel the voice of the rise of Made in China in the world.

ACKNOWLEDGEMENT

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

Li Xinghao
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

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

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

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

OPERATION REVIEW

SALES FROM MAJOR PRODUCT GROUPS AND GROSS MARGINS

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

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

The revenue of air-conditioner parts and components declined by 37.4% during the year mainly due to a decrease in sales of self-manufactured parts and components. Since the Group's other operating income such as resale of raw materials and sales of electrical appliances, such as dehumidifiers, had improved in 2018, revenue of other products increased by 9.1% during the year ended 31 December 2018.

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

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

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

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

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

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

SALES AND DISTRIBUTION

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

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

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

SETS/UNITS SOLD VOLUME AND AVERAGE SALES PRICES

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

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

As the domestic market conditions reversed and competition in the air-conditioning industry became fiercer during the year, average selling prices of the Group's residential air-conditioning products increased slightly by 1.1%. Due to the relative increase in prices of the major raw materials, average cost of sales of air-conditioning products rose, which brought a growth of 4.0% in average selling prices of the Group's commercial air-conditioning products during the year ended 31 December 2018.

BREAKDOWN OF COST OF SALES

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

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

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

During the year ended 31 December 2018, as the sales scale and volume decreased, the Group's cost of major materials decreased by RMB1,016.4 million or 12.7%.

FINANCIAL REVIEW

REVENUE

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

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

PRC SALES

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

OVERSEAS SALES

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

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

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

COST OF SALES

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

GROSS PROFIT

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

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

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

OTHER INCOME

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

SELLING AND DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

RESEARCH AND DEVELOPMENT COSTS

Research and development ("**R&D**") costs increased to RMB193.0 million (2017: RMB182.7 million) by 5.6% or RMB10.3 million during the year. The increase was attributed to the increases in R&D investment in high-end advanced air-conditioning products and parts by the Group to implement its "the leader of high-end air-conditioning" strategy.

OTHER EXPENSES

Other expenses rose by RMB1.4 million or 36.5% during the year ended 31 December 2018 and amounted to RMB5.4 million (2017: RMB3.9 million). Other expenses were mainly non-operating expenses and donations.

OTHER GAINS AND LOSSES

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

NET IMPAIRMENT LOSSES

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

NET LOSS IN FAIR VALUE CHANGES OF FOREIGN CURRENCY FORWARD CONTRACTS

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

FINANCE COSTS

The Group financed its working capital requirement through different arrangements including bank loans, discounted bills receivable from customers to financial institutes and finance leases. During the year ended 31 December 2018, the finance costs of the Group increased by RMB30.7 million or 19.9% to RMB184.7 million (2017: RMB154.0 million) due to a higher average balance of borrowings.

TAXATION

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

LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR

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

FINANCIAL POSITION

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

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

As the Group recorded a net loss for the year, the Group's net assets decreased by 22.2% or RMB513.7 million to RMB1,798.0 million at the end of 2018 (2017: RMB2,311.7 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

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

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

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

In 2018, the Group had obtained funding for its business operation from different financial arrangements including bank loans and funding from finance lease. As at 31 December 2018, the balances of short-term and long-term borrowings utilised by the Group were RMB1,733.3 million and RMB16.2 million respectively (2017: RMB1,807.1 million and RMB75.6 million respectively). Short-term and long term borrowings decreased by RMB73.8 million and RMB59.4 million respectively during the year. The borrowings were used for working capital purposes, majority of the loans are charged at fixed interest rates, repayable within one year, and are made and repaid in Renminbi.

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

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased slightly to 19.5% as at 31 December 2018 (2017: 20.2%) during the year.

In order to reduce finance costs, the Group arranged some of its borrowings by obtaining bank loans which are denominated in foreign currency and offered at lower lending rates during the year. Both short-term and long-term borrowings had been used and provided the Group with a better mix of debt financing to fund its business operation. During the year, due to the higher average balance of borrowing, the Group increased its finance cost by 19.9% or RMB30.7 million for the year ended 31 December 2018 as compared to the same period in 2017.

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

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

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

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

CASH FLOWS

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

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

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

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

As a result of the foregoing, the Group's cash balances decreased by RMB321.1 million during the year ended 31 December 2018 and bank balances and cash amounted to RMB336.9 million at the end of 2018 (2017: RMB658.0 million). The majority of the bank balances and cash were denominated in Renminbi and certain amounts were denominated in US dollars, Euros and Hong Kong dollars.

FINANCE LEASE ARRANGEMENTS

On 9 February 2018, Chigo Precision Machinery Co., Ltd ("**Chigo Precision**"), an indirect wholly-owned subsidiary of the Company, entered into a finance lease arrangement with International Far Eastern Leasing Co., Ltd. ("**FE Leasing**"), pursuant to which FE Leasing has conditionally agreed to purchase certain machinery and equipment from Chigo Precision at an aggregate consideration of approximately RMB31,572,000 and lease the equipment back to Chigo Precision for a period of 36 months.

On 27 August 2018, Chigo Precision had entered into a finance lease arrangement with Guangdong Yaoda Finance Lease Co., Ltd. ("**Yaoda Leasing**"), pursuant to which Yaoda Leasing had conditionally agreed to purchase certain equipment from Chigo Precision at an aggregate consideration of RMB20,000,000 and lease the equipment back to Chigo Precision for a period of 36 months.

On 10 September 2018, Guangdong Chigo Kechuang Copper Co., Limited ("**Kechuang**"), an indirect wholly-owned subsidiary of the Company, had entered into a finance lease arrangement with Sinopharm Holding (China) Finance Leasing Co., Ltd. ("**Sinopharm Leasing**"), pursuant to which Sinopharm Leasing had conditionally agreed to purchase certain machinery and equipment from Kechuang at an aggregate consideration of RMB50,000,000 and lease the equipment back to Kechuang for a period of 36 months.

MATERIAL ACQUISITIONS AND DISPOSALS, SIGNIFICANT INVESTMENTS

The Group had not made any material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2018. During and as at the end of the reporting period, the Group had not held any significant investments.

CHARGE ON ASSETS

As at 31 December 2018, certain bank deposits, bank acceptance bills and inventories of the Group in an aggregate carrying amount of approximately RMB1,114.7 million (2017: RMB1,255.4 million) were pledged to certain banks for securing the banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

During the year ended 31 December 2018, approximately 39% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risks. During the reporting period, the Group had entered into certain foreign currency forward contracts to hedge against foreign exchange risk. Since Renminbi had depreciated against the US dollar during the year, the Group recorded net exchange gains for the year ended 31 December 2018.

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

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

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisitions of property, plant and equipment and capital contribution to subsidiaries amounted to approximately RMB87.5 million (2017: approximately RMB76.4 million). The Group expects that the capital commitments will be funded by internal resources and/or external finance from financial institutions.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2018.

EMPLOYEES AND REMUNERATION

As at 31 December 2018, the Group employed 11,454 employees (2017: 12,869 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages are reviewed on a yearly basis. The Group also provides its employees with welfare benefits including medical care, meal subsidies, education subsidies and housing etc.

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

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

On 30 March 2019, Guangdong Chigo entered into a sale and purchase agreement with, inter alia, three connected persons of the Company at the subsidiary levels in relation to the sale of 40% of the issued share capital of 廣東志高暖通設備股份有限公司 (Guangdong Chigo Heating & Ventilation Equipment Co., Ltd.*), an indirect 70% owned subsidiary of the Company, at an aggregate consideration of RMB204 million. For details, please refer to the Company's announcement dated 31 March 2019.

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

OUTLOOK AND FUTURE PLANS

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

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

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

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

As at 31 December 2018, the Group had no plans for material investments or acquisitions of capital assets, but will closely monitor market trends and explore potential business collaboration opportunities with various domestic and international well-known enterprises.

EXECUTIVE DIRECTORS

MR. LI XINGHAO

Mr. Li, aged 64, is the founder of the Group. He was appointed as an executive Director on 24 April 2006. Mr. Li is also the Chairman and Chief Executive Officer of the Company and is primarily responsible for the formulation of the Group's development strategies, as well as supervising the Group's overall business and operation management. He is one of the founders of Nanhai Chigo Factory, the predecessor of Guangdong Chigo, which was established in 1994, and has over 25 years of experience in the air-conditioning industry. Mr. Li graduated from the Party School of the Central Committee of C.P.C. (中共中央黨校) in 2000. He obtained a master's degree in Western Economics Studies from Nankai University (南開大學) in July 2004. Mr. Li is currently the Chairman of Guangdong Credit Association (廣東省信用協會), and is the father of Ms. Li Xiuhui, who is an executive Director of the Company. Mr. Li is also a director of Chigo Group Holding Limited, a controlling shareholder of the Company.

MS. LI XIUHUI

Ms. Li, aged 32, graduated from Neusoft Institute of Information, Nanhai (now known as Neusoft Institute, Guangdong) in 2008, majoring in financial information management. After graduation, she joined the Group in June 2009 and is currently the Controller of Guangdong Chigo's procurement centre. Ms. Li has extensive experience in materials procurement and supply chain management. Ms. Li is the daughter of Mr. Li Xinghao, who is the Chairman, an executive Director and the controlling shareholder of the Company.

MS. HUANG GUIJIAN

Ms. Huang, aged 44, graduated from the Correspondence Institute of the Central Party School of C.P.C. (中共中央黨校函授學院) in December 2002, majoring in economic management. She also holds the occupational qualifications as a senior logistician in China. Ms. Huang joined the Group in March 1999 and is currently the secretary to the Chief Executive Officer of the Group. Before joining the Group, Ms. Huang worked in Chongqing Three Gorges Investment Co., Ltd. (重慶三峽投資有限公司). Ms. Huang has extensive experience in business administration, investment management and project coordination.

MR. YANG XIANGWEN

Mr. Yang, aged 44, was appointed as an executive Director on 20 April 2018. He joined the Group in October 2014. Mr. Yang graduated from Changsha Railway Institute (長沙鐵道學院) (now known as Central South University 中南大學) in 1999 with a bachelor's degree in investment economics. Mr. Yang also holds an intermediate qualification in business administration and economics. After graduating from university, he served as the Assistant to General Manager and Controller of Corporate Planning at Zhuhai King Glass Engineering Co., Ltd. (珠海晶藝玻璃工程有限公司) from June 2001 to March 2005. Mr. Yang later joined Zhuhai Gree Electrical Appliance Co., Ltd. in August 2005 and served as Head of Marketing during the period from October 2009 to January 2012. From August 2012 to September 2014, he worked at Haier Electrical Appliances Co., Ltd., where he successively served as Sales Directors of Haier Air Conditioning China and Casarte of Haier Group. After joining the Group in 2014, Mr. Yang has served as the Controllers of the Brand Centre and the Operations Management Centre, the Supervisors of the Product Competitiveness Committee and the Corporate Standardisation Committee and the Executive Supervisor of the Corporate Strategy Committee respectively of Guangdong Chigo.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. ZHANG XIAOMING

Mr. Zhang, aged 65, was appointed as an independent non-executive Director on 26 August 2008. He graduated from South China Normal University (華南師範大學) majoring in economics, and management in August 1992. He has over 39 years of working experience in the household electrical appliance industry in the PRC and held various positions including senior chief economist and general manager. Mr. Zhang has also participated in the research, planning and formulation of the development strategy in the household electrical appliance industry in Guangdong. He also organized and participated in management guidance work in the household electrical appliances and hardware industries in Guangdong. Since 2003, Mr. Zhang has been appointed as the panel member of the Guangdong Top Brand accreditation group (廣東省名牌產品組織評審專家組成員). Since 2005, he has been appointed as a member of the expert group of special funds for SME development projects in Guangdong Province (廣東省中小企業發展專項資金項目專家組成員), and a panel member of the expert group of Famous Trademarks in Guangdong Province and participated in the assessment and promotion of famous trademarks and famous brand products in Guangdong Province. He is the managing vice chairman of Guangdong Household Electrical Appliances Trade Association (廣東省家用電器行業協會) and the president of Guangdong Hardware Association (廣東省五金製品協會).

MR. WANG MANPING

Mr. Wang, aged 53, was appointed as an independent non-executive Director on 13 July 2016. He graduated from Tianjin University and obtained a bachelor's degree in engineering from the faculty of electrical engineering and automation in July 1987. Between July 1987 and September 1995, Mr. Wang taught at the department of computer science at North China Institute of Technology (now known as North University of China). During the period from September 1995 to December 2012, Mr. Wang worked as the deputy director of the press centre, the person-in-charge of the website and person-in-charge in Guangdong of 新華月報 (Xinhua Monthly). Since January 2013, Mr. Wang has served as the managing vice chairman and secretary of 廣東省企業品牌建設促進會 (Guangdong Enterprise Brand Construction Promotion Association) and the chief editor of 廣東品牌新媒體 (Guangdong Brand New Media).

SENIOR MANAGEMENT

MR. JIN SHANDONG

Mr. Jin, aged 54, is the director, vice president of Guangdong Chigo. He joined the Group in September 2005 and is responsible for the financial management of Guangdong Chigo. Mr. Jin graduated from Zhongnan University of Economics and Law (中南財經政法大學 formerly known as 中南財經大學) in industrial economics and received a master degree in Business Administration at Southwest Jiaotong University in 2013. He also has the qualifications as a senior accountant and registered accountant in the PRC. From December 1999 to May 2004, Mr. Jin worked at Zhong Qin Wan Xin Accounting Firm (中勤萬信會計師事務所) as project manager and was responsible for auditing listed companies. During the period May 2004 to September 2005, he worked in Nanhai motor factory of Beiqi Foton Motor Co., Ltd as the head of finance department and was in charge of the overall financial management.

MR. LEUNG HON MAN

Mr. Leung, aged 52, joined the Company as the Chief Financial Officer since 18 December 2007 and was appointed as the company secretary of the Company on 26 August 2008. He has over 19 years of experience in company management, accounting and company secretarial matters. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, and a certified practising accountant of CPA Australia. Mr. Leung received a Professional Diploma in Business (Banking) at the Hong Kong Polytechnic University in 1990 and a master's degree in Business Administration at Andrews University in 1996 and a master's degree in Accounting at Central Queensland University in 1999. From 1990 to 1994, he had experience working as a senior officer in the Hong Kong Branch of the Kwangtung Provincial Bank, which is now known as Bank of China (Hong Kong) Limited after consolidation. From May 1994 to August 2000, he had experience working as a finance manager in Soundwill Holdings Limited (878), a company listed on The Stock Exchange of Hong Kong Limited. Since 2000, he has worked in Sanyuan Group Limited, a company formerly listed on The Stock Exchange of Hong Kong Limited, where he held various positions including company secretary, financial controller and executive director. Mr. Leung is an independent non-executive director of Guangdong Join-Share Financing Guarantee Investment Co., Ltd., (1543) (廣東中盈盛達融資擔保投資股份有限公司), a company listed on The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

During the year ended 31 December 2018, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provision A.2.1 of the CG Code.

CODE PROVISION A.2.1

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

During the year ended 31 December 2018, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer (the "**CEO**") of the Company.

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

Mr. Li is the founder of the Group and has over 25 years of experience in the air-conditioning industry.

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

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

THE BOARD OF DIRECTORS

BOARD COMPOSITION

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

Executive Directors

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

Independent Non-executive Directors

Mr. Zhang Xiaoming
Mr. Wang Manping
Mr. Fu Xiaosi *(resigned on 17 April 2019)*

The biographical details of the current Directors are set out on pages 29 to 30 of this report.

FUNCTION OF THE BOARD

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

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

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

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

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

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

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

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

RELATIONSHIP OF THE BOARD MEMBERS

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

RELATIONSHIP WITH SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018 and the date of this report, Chigo Group Holding Limited owned 4,322,234,210 shares, representing approximately 51.25% of shareholding in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance. The following Director of the Company is a director or employee of such substantial shareholder:

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

NUMBER OF BOARD, COMMITTEE AND GENERAL MEETINGS AND DIRECTORS' ATTENDANCE

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

During the year ended 31 December 2018, Board meetings and committee meetings were held. Certain Directors also attended the general meeting of the Company held on 7 June 2018. The attendance record of each of the Directors is set out below:

	Number of Board meetings attended/held	Number of Audit Committee meetings attended/held	Number of Remuneration Committee meetings attended/held	Number of Nomination Committee meetings attended/held	Number of general meetings attended/held
Executive Directors					
Mr. Li Xinghao	12/12	N/A	N/A	N/A	1/1
Ms. Li Xiuhui	12/12	N/A	N/A	N/A	1/1
Ms. Huang Guijian	12/12	N/A	N/A	N/A	0/1
Mr. Yang Xiangwen *(appointed on 20 April 2018)*	5/5	N/A	N/A	N/A	0/1
Mr. Cheng Jian *(resigned on 20 April 2018)*	7/7	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Zhang Xiaoming	6/12	2/2	1/1	1/1	1/1
Mr. Fu Xiaosi	6/12	2/2	1/1	1/1	1/1
Mr. Wang Manping	6/12	2/2	1/1	1/1	1/1

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT ("CPD")

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

Directors	Types of CPD
Li Xinghao	1,2
Li Xiuhui	2
Huang Guijian	2
Yang Xiangwen *(appointed on 20 April 2018)*	2
Cheng Jian *(resigned on 20 April 2018)*	2
Zhang Xiaoming	2,4
Fu Xiaosi	2,3
Wang Manping	2

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

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2018, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer of the Company which deviated from Code Provision A.2.1 of the CG Code and is explained in the paragraph headed "Compliance with the Corporate Governance Code" above.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors are appointed for a specific term of one year and are subject to retirement by rotation. Mr. Zhang Xiaoming and Mr. Fu Xiaosi have served the Company for more than nine years.

Mr. Zhang Xiaoming and Mr. Fu Xiaosi had been re-elected at the annual general meeting of the Company held on 7 June 2018. Mr. Wang Manping had been re-elected at the annual general meeting of the Company held on 7 June 2017. In accordance with the articles of association of the Company, Mr. Wang Manping will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer himself for re-election at the annual general meeting.

The independent non-executive Directors' remuneration was determined by the Company with regard to their experience, performance, duties and the prevailing market conditions. During the year ended 31 December 2018, the total remuneration paid to the independent non-executive Directors was approximately RMB360,000 including directors' fees.

ADOPTION OF MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

During the year ended 31 December 2018, the Audit Committee had:

- held two committee meetings and reviewed the Company's annual results for the year ended 31 December 2017 and interim results for the six months ended 30 June 2018 respectively, financial and accounting policies and practices and relevant disclosure requirements under the Listing Rules with the management and the external auditor of the Company;

- reviewed with the management the Company's financial controls, internal control and risk management systems;

- attended a meeting with the external auditor without executive Board members present and discussed about the nature and scope of the audit before the audit commences;

- approved the remuneration and terms of engagement of the external auditor; and

- reviewed the effectiveness of the Company's internal audit function.

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

REMUNERATION COMMITTEE

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

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

A Remuneration Committee meeting in relation to the general review of the remuneration policies of the Group was held during the year ended 31 December 2018. The Remuneration Committee had also assessed the performance of executive directors, reviewed and approved the terms of executive directors' service contracts.

For the year ended 31 December 2018, the remuneration of the members of the senior management (two persons) falls into the band range of HKD0 to HKD1,500,000.

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

NOMINATION COMMITTEE

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

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

During the year ended 31 December 2018, a Nomination Committee meeting was held. The Nomination Committee has adopted a board diversity policy with effect from 28 August 2013 in compliance with Rule 13.92 of the Listing Rules. The policy sets out the approach to achieve diversity in the Company's Board to ensure that the Board has the balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The Company has developed and adopted the Board Diversity Policy to enhance the performance of the Company. When recommending candidates to join the Board, the Nomination Committee will consider the candidates according to objective conditions, and will take due consideration of the benefits of diversity among the Board members. The committee will also conduct discussions each year and agree on all the measurable objectives for board diversity, and will recommend to the Board relevant objectives for adoption.

Moreover, the Company has formulated and adopted the "Nomination Policy of Directors". The Nomination Policy of Directors covers selection criteria, nomination procedures, terms of confidentiality, supervision and reporting, and policy review. Several factors are considered when nominating Board candidates, including but not limited to the following:

- reputation;
- achievements, talents, skills, knowledge and experience in the industry, business and economics area, accounting;
- views and perspectives that can be brought to the Board;
- commitment in respect of available time and relevant interest;
- independence of independent non-executive Directors; and
- the objective of the Board Diversity Policy, considering factors including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc.

These factors are for reference only and not intended to cover all factors nor decisive. The Committee can decide to nominate any candidate that is considered suitable. The Nomination Committee will review annually and make reference to the Board Diversity Policy in filling director vacancies to procure the diversity of the Board.

The Nomination Committee will conduct meetings when it is necessary.

COMPANY SECRETARY

The Company Secretary of the Company is Mr. Leung Hon Man. The Company Secretary is responsible for assisting the Board by ensuring good information flow and communications within the Board as well as Board policy and procedures are followed. During the year ended 31 December 2018, Mr. Leung had taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

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

The Directors acknowledge their responsibilities for preparing the financial statements of the Group in accordance with statutory requirements and accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements for the Group are published in a timely manner. The Directors' and auditors' responsibilities in respect of the financial statements are set out on page 60 in this report.

INTERNAL CONTROL

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

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

During the year ended 31 December 2018, the Audit Committee had reviewed the effectiveness of the risk management and the internal control system of the Group with the management covering financial, operational, compliance and all other material controls of the Group. The Board will continue to review the system and procedures from time to time to maintain a high standard of internal control and will make appropriate changes to the internal control system, if necessary. Both the Board and the Audit Committee considered that the risk management and internal control system of the Group is effective and adequate.

INVESTORS RELATIONS AND COMMUNICATION CHANNELS

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

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

SHAREHOLDERS' RIGHTS

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

PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

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

PROCEDURES FOR PROPOSING A PERSON FOR ELECTION AS A DIRECTOR

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

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

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

PROCEDURES FOR MAKING ENQUIRIES

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

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

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

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

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

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

PRINCIPAL SHARE REGISTRAR
SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

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

AUDITOR'S REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit and non-audit services for the year ended 31 December 2018 amounted to HKD2,770,000 and HKD1,217,000 respectively. The non-audit services provided during the period were interim financial statements review (HKD1,150,000) and taxation services (HKD67,000).

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 42 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income statement on page 63 of this annual report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2018 (31 December 2017: nil).

The Board shall take into account the following factors of the Group when considering the declaration and payment of dividends, including its financial results and performance, future funding needs, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant. The Board intends to follow a progressive ordinary dividend policy and aims to pay two regular dividends each financial year with interim and final dividends respectively. The Board will also review the dividend policy of the Company as appropriate from time to time.

BUSINESS REVIEW AND FUTURE DEVELOPMENT

A review of the business of the Group, a discussion and analysis, including the analysis using financial key performance indicators of the Group's performance during the year and the material factors underlying its results and financial position are provided in the "Chairman's Statement" and "Management Discussion and Analysis" respectively from pages 12 to 13 and pages 14 to 28 of this annual report. The future development in the Group's business is discussed in the "Outlook and Future Plans" from page 28 of this annual report and throughout this annual report. The sections of this annual report referred to above form part of this directors' report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

1. ECONOMIC CONDITIONS AND MARKET RISK

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

2. **CREDIT RISK**

The Group's major financial instruments include trade and other receivables, financial assets at fair value through profit or loss, equity instruments at fair value through other comprehensive income, restricted deposits, pledged bank deposits, bank balances and cash, trade and other payables, derivative financial instruments, borrowings related to bills discounted with recourse, bank and other loans and obligations under finance lease.

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

3. **FOREIGN CURRENCY RISK**

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

Details of the Group's foreign currency risk are set out in note 36 to the consolidated financial statements.

4. **INTEREST RATE RISK**

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

Details of the Group's interest rate risk are set out in note 36 to the consolidated financial statements.

5. **COMMODITIES RISK**

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

ENVIRONMENTAL PROTECTION

1. Emission Level

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

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

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

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

2. Resource Usage

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

OPERATING PRACTICES

1. Supply Chain Management

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

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

2. Product Quality Control and Warranty

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

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

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

3. Customer Services and Opinions

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

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

4. **Corruption Prevention**

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

WORK ENVIRONMENT

1. **Appointment Based on Merit**

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

2. **Health and Safety**

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

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

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

3. **Relationship with staff**

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

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

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

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

Information relating to the Group's corporate governance practices are set out in the Corporate Governance Report on pages 32 to 41.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 152.

SHARE CAPITAL AND DEBENTURE OF THE COMPANY

During the year ended 31 December 2018, no new shares had been issued in relation to the exercise of share options.

As at 31 December 2018 and the date of this report, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue. All of the issued shares were ordinary shares.

Details of movements during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

During the year under review, no debentures had been issued. At the end of 2018, the Group did not have any debentures outstanding.

Save as disclosed in this report, the Group did not issue any convertible securities, options, warrants or similar rights or exercised such rights during the year ended 31 December 2018.

RESERVES

Details of movement in the reserves of the Group during the year ended 31 December 2018 are set out in the Consolidated Statement of Changes in Equity on pages 67 to 68.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the reserves of the Company available for distribution to the shareholders was approximately RMB938,187,000.

Under the Companies Law of the Cayman Islands, the share premium of the Company amounting to approximately RMB938,187,000 (2017: RMB938,187,000) is available for distribution or paying dividends to the Company's shareholders subject to the provisions of its memorandum of association and the articles of association (the "**Articles**") and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Xiaoming
Mr. Fu Xiaosi *(resigned on 17 April 2019)*
Mr. Wang Manping

The biographical details of the current Directors are set out on pages 29 to 30 of this report.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' EMOLUMENTS

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

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

As at 31 December 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 31 December 2018	Approximate percentage of shareholding *(note 1)*
Mr. Li Xinghao *(note 2)*	Held by controlled corporation	4,322,234,210	51.25
	Beneficial owner	1,494,000	0.02
		4,323,728,210	51.26
Ms. Li Xiuhui	Beneficial owner	25,256,000	0.30
Mr. Cheng Jian	Beneficial owner	1,000	0.00001
Ms. Huang Guijian	Beneficial owner	2,700,000	0.03
		4,351,685,210	51.60

Notes:

1. Based on 8,434,178,000 shares of the Company in issue as at 31 December 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 31 December 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 33 to the consolidated financial statements.

None of the Directors nor chief executive of the Company held any share options as at 31 December 2018.

Other than as disclosed above, none of the Directors, the chief executive nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporation as at 31 December 2018.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

No contract of significance or any transaction, arrangement or contract, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, or to which a controlling shareholder of the Company or any controlling shareholder's subsidiary is a party, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

PERMITTED INDEMNITY PROVISION

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

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

CONTINUING CONNECTED TRANSACTION

Particulars of the related party transaction are disclosed in note 41 to the consolidated financial statements.

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

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

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

MANAGEMENT CONTRACT

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

SHARE OPTION SCHEME

The share option scheme of the Company was adopted by the written resolution of the shareholders on 19 June 2009. Particulars of the Company's share option scheme are set out in note 33 to the consolidated financial statements.

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

	Date of grant	Vesting period	Exercise period	Exercise Price (HKD)	Underlying shares exercisable under the share options Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
Category 1: Directors							
Li Xinghao	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	2,400,000	(2,400,000)	–
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	5,600,000	(5,600,000)	–
					8,000,000	(8,000,000)	–
Li Xiuhui	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	3,014,000	(3,014,000)	–
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	7,036,000	(7,036,000)	–
					10,050,000	(10,050,000)	–
Cheng Jian	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	3,000,000	(3,000,000)	–
(resigned on 20 April 2018)		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	7,000,000	(7,000,000)	–
					10,000,000	(10,000,000)	–
Huang Guijian	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	494,000	(494,000)	–
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	1,156,000	(1,156,000)	–
					1,650,000	(1,650,000)	–
Zhang Xiaoming	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	300,000	(300,000)	–
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	700,000	(700,000)	–
					1,000,000	(1,000,000)	–
Fu Xiaosi	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	300,000	(300,000)	–
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	700,000	(700,000)	–
					1,000,000	(1,000,000)	–
Sub-total					**31,700,000**	**(31,700,000)**	**-**
Category 2: Employees							
Employees	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	152,676,000	(152,676,000)	–
		2011.9.23 – 2016.9.22	2016.9.23 – 2018.9.22	0.45	356,324,000	(356,324,000)	–
Sub-total					**509,000,000**	**(509,000,000)**	**-**
Category 3: Customers							
Customers	2011.9.23	2011.9.23 – 2013.9.22	2013.9.23 – 2018.9.22	0.45	2,098,000	(2,098,000)	–
		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**	**(547,750,000)**	**-**

During the year ended 31 December 2018, no share options were granted or cancelled.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 the relevant long positions in the issued share capital of the Company.

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

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

Notes:

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

As at 31 December 2018, the following Director held office in a substantial shareholder set out above:

Name of Director	Position held in the relevant substantial shareholder
Li Xinghao	Director of Chigo Group Holding Limited

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2018.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme are set out in note 33 to the consolidated financial statements.

PENSION SCHEMES

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

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

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

During the year, the retirement benefits scheme contributions charged to the consolidated statement of profit or loss and other comprehensive income amounted to RMB64,955,000 (2017: RMB70,361,000)

Details of the Group's pension scheme are set out in note 40 to the consolidated financial statements.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2018, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF FOR SHAREHOLDERS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float during the year ended 31 December 2018 and the date of this report.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company or its subsidiaries during the year ended 31 December 2018.

FIXED ASSETS

Details of the movement in fixed assets during the year are set out in note 13 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in notes 28 and 29 to the financial statements.

BORROWING COSTS CAPITALISATION

There were no borrowing costs capitalised by the Group during the year (2017: nil).

EQUITY-LINKED AGREEMENT

During the year ended 31 December 2018, the Company had not entered into any equity-linked agreement (as defined in section 6 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)).

No equity-linked agreement subsisted at the end of the year.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately RMB369,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

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

On 30 March 2019, Guangdong Chigo entered into a sale and purchase agreement with, inter alia, three connected persons of the Company at the subsidiary levels in relation to the sale of 40% of the issued share capital of 廣東志高暖通設備股份有限公司 (Guangdong Chigo Heating & Ventilation Equipment Co., Ltd.*), an indirect 70% owned subsidiary of the Company, at an aggregate consideration of RMB204 million. For details please refer to the Company's announcement dated 31 March 2019.

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

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Monday, 17 June 2019 to Thursday, 20 June 2019 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the Annual General Meeting, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 14 June 2019.

AUDITOR

The consolidated financial statements for the two years ended 31 December 2017 and 2018 have been audited by the external auditor of the Company, Deloitte Touche Tohmatsu.

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

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at Empire Room I, 1/F, Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong on Thursday, 20 June 2019 at 2:30 p.m.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners, bankers and auditors for their support to the Group throughout the period.

On behalf of the Board
Li Xinghao
Chairman

Foshan, 28 March 2019

Deloitte. 德勤

To the Shareholders of Chigo Holding Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Chigo Holding Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 63 to 151, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We identified the revenue recognition as a key audit matter due to the significance of the revenue to the consolidated financial statements and material sale transactions may occur close to the end of the reporting period. Revenue from the sales of goods is recognised at a point in time when the customer obtains control of the distinct good or service. The accounting policy for revenue recognition is disclosed in note 3 to the consolidated financial statements. The Group has recognised revenue of approximately RMB9,170 million for the year ended 31 December 2018, which is disclosed in consolidated statement of profit or loss and other comprehensive income and note 5 to the consolidated financial statements.	Our procedures in relation to revenue recognition included: • Obtaining an understanding of the revenue business process; • Understanding and evaluating the key controls over revenue recognition performed by the management; • Performing analytical review on the monthly sales amounts with reference to the sales volume, gross profit margin and other relevant factors; • Checking whether a selection of sales transactions recorded during the year have been properly recognised by checking to the goods delivery notes and sales contracts; and • Checking whether a selection of sales transactions recorded close to the end of the reporting period have been properly recognised in the appropriate accounting period by checking to the goods delivery notes and sales contracts.

Key audit matter	How our audit addressed the key audit matter
Valuation of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the significance of the trade receivables to the consolidated financial statements and significant judgment involved by the management in the valuation process. As disclosed in note 4 to the consolidated financial statements, the Group estimates the loss allowance for trade receivables using expected credit loss ("**ECL**") model in accordance with HKFRS 9 "Financial Instruments". Under the model, the Group recognises lifetime ECL individually for debtors with significant balances or credit impaired and/or collectively for the remaining debtors based on their age groupings. The management takes into consideration, inter alia, the historical default rates, general economic conditions and an assessment of both the current conditions at the report date as well as the forward looking information specific to the debtors. The Group had trade receivables with carrying amount of approximately RMB4,781 million (net the allowance for doubtful debts of approximately RMB155 million) as at 31 December 2018.	Our procedures in relation to valuation of trade receivables included: • Understanding how the loss allowance for trade receivables is estimated by the management; • Understanding how the aging analysis of trade receivables is prepared by the management; • Testing the accuracy of the aging analysis of the trade receivables to the sale invoices, on a sample basis; and • Evaluating the reasonableness and appropriateness of historical default rates, current conditions at the report date as well as the forward looking information specific to the debtors used in assessing the loss allowance.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018** **RMB'000**	2017 RMB'000
Revenue	*5*	**9,169,525**	10,736,454
Cost of sales		**(7,990,617)**	(9,020,154)
Gross profit		**1,178,908**	1,716,300
Other income		**65,327**	52,385
Selling and distribution costs		**(860,169)**	(879,656)
Administrative expenses		**(440,442)**	(430,292)
Research and development costs		**(193,007)**	(182,689)
Other expenses		**(5,384)**	(3,944)
Other gains and losses		**41,119**	(44,663)
Impairment losses, net of reversal	*6*	**(54,880)**	(6,760)
Net loss in fair value changes on foreign currency forward contracts		**(12,976)**	–
Finance costs	*7*	**(184,720)**	(153,985)
(Loss) profit before taxation	*8*	**(466,224)**	66,696
Taxation	*10*	**(14,213)**	(19,065)
(Loss) profit for the year		**(480,437)**	47,631
Other comprehensive expense:			
Item that will not be reclassified subsequently to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(6,309)**	–
Other comprehensive expense for the year		**(6,309)**	–
Total comprehensive (expense) income for the year		**(486,746)**	47,631
(Loss) profit for the year attributable to:			
– owners of the Company		**(499,325)**	29,792
– non-controlling interests		**18,888**	17,839
		(480,437)	47,631

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
Total comprehensive (expense) income for the year attributable to:			
– owners of the Company		**(505,634)**	29,792
– non-controlling interests		**18,888**	17,839
		(486,746)	47,631
(Loss) earnings per share	*12*		
– Basic and diluted		**(5.92) cents**	0.35 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	13	**1,218,774**	1,300,478
Land use rights	14	**193,962**	199,260
Intangible assets	15	**499**	579
Prepaid lease payments	16	**185,813**	193,599
Deposits paid for acquisition of property, plant and equipment		**36,099**	46,987
Available-for-sale investments	17	**–**	23,000
Equity instruments at fair value through other comprehensive income	18	**15,378**	–
Deferred tax assets	19	**18,713**	21,054
Taxation recoverable		**8,202**	–
		1,677,440	1,784,957
Current assets			
Inventories	20	**1,941,744**	2,601,656
Trade and other receivables	21	**4,912,925**	4,569,165
Land use rights	14	**5,378**	5,378
Prepaid lease payments	16	**16,394**	18,310
Taxation recoverable		**860**	9,491
Derivative financial instruments	22	**4,160**	–
Short-term investments	23	**–**	1,990
Financial assets at fair value through profit or loss	23	**14,530**	–
Restricted deposits	24	**–**	39,205
Pledged bank deposits	24	**1,054,811**	916,804
Bank balances and cash	24	**336,918**	658,047
		8,287,720	8,820,046
Current liabilities			
Trade and other payables	25	**4,350,008**	4,912,504
Warranty provision	26	**54,241**	55,620
Taxation payable		**164,818**	161,878
Contract liabilities	27	**324,543**	–
Borrowings related to bills discounted with recourse	28	**1,264,567**	965,392
Borrowings	29	**1,733,291**	1,807,061
Derivative financial instruments	22	**26**	–
Obligations under finance leases	30	**139,319**	145,029
		8,030,813	8,047,484

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Net current assets		**256,907**	772,562
Total assets less current liabilities		**1,934,347**	2,557,519
Non-current liabilities			
Government grants	*31*	**32,328**	33,616
Borrowings	*29*	**16,160**	75,589
Obligations under finance leases	*30*	**61,981**	110,732
Deferred tax liabilities	*19*	**25,837**	25,837
		136,306	245,774
Net assets		**1,798,041**	2,311,745
Capital and reserves			
Share capital	*32*	**71,906**	71,906
Reserves		**1,677,492**	2,191,784
Equity attributable to owners of the Company		**1,749,398**	2,263,690
Non-controlling interests		**48,643**	48,055
Total equity		**1,798,041**	2,311,745

The consolidated financial statements on pages 63 to 151 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Mr. Li Xinghao,
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Ms. Li Xiuhui,
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Share premium	Special reserve	Share compensation reserve	Share options reserve	Statutory surplus reserve fund	FVTOCI reserve	Retained profits	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note a)	*(Note b)*		*(Note c)*					
At 1 January 2017	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 year and total comprehensive income for the year	–	–	–	–	–	–	–	29,792	29,792	17,839	47,631
Distribution to non-controlling shareholders *(Note d)*	–	–	–	–	–	–	–	–	–	(14,400)	(14,400)
Lapse of share options	–	–	–	–	(7,254)	–	–	7,254	–	–	–
Transfers	–	–	–	–	–	4,675	–	(4,675)	–	–	–
At 31 December 2017	71,906	938,187	(26,408)	63,535	65,787	251,275	–	899,408	2,263,690	48,055	2,311,745
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 year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(499,325)**	**(499,325)**	**18,888**	**(480,437)**
Other comprehensive expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(6,309)**	**-**	**(6,309)**	**-**	**(6,309)**
Total comprehensive (expense) income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(6,309)**	**(499,325)**	**(505,634)**	**18,888**	**(486,746)**
Distribution to non-controlling shareholders *(Note d)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19,800)**	**(19,800)**
Capital contributions from non-controlling interests of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,500**	**1,500**
Lapse of share options	**-**	**-**	**-**	**-**	**(65,787)**	**-**	**-**	**65,787**	**-**	**-**	**-**
Transfers	**-**	**-**	**-**	**-**	**-**	**6,596**	**-**	**(6,596)**	**-**	**-**	**-**
At 31 December 2018	**71,906**	**938,187**	**(26,408)**	**63,535**	**-**	**257,871**	**(7,622)**	**451,929**	**1,749,398**	**48,643**	**1,798,041**

Notes:

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

(b) Share compensation reserve represents

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

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

(c) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiaries of the Company are required to maintain a statutory surplus reserve fund which is non-distributable. Appropriation to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries and the allocation basis are decided by the board of directors of the PRC subsidiaries 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 year.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
(Loss) profit before taxation	**(466,224)**	66,696
Adjustments for:		
Interest income	**(13,499)**	(14,163)
Finance costs	**184,720**	153,985
Depreciation of property, plant and equipment	**186,426**	239,848
Amortisation of intangible assets	**80**	182
Amortisation of government grants	**(1,288)**	(2,738)
Amortisation of land use rights	**5,378**	5,378
Release of prepaid lease payments	**16,844**	20,134
(Gain) loss on disposal of property, plant and equipment	**(1,130)**	2,548
Gain on disposal of a subsidiary	**–**	(19,681)
Net loss in fair value changes on foreign currency forward contracts	**12,976**	–
Provision for warranty	**56,943**	50,532
Write down on inventories	**7,559**	32,952
Impairment losses, net of reversal	**54,880**	6,760
Operating cash flows before movements in working capital	**43,665**	542,433
Decrease (increase) in inventories	**652,353**	(482,665)
Increase in trade and other receivables	**(426,005)**	(60,139)
Increase in derivative financial instruments	**(17,110)**	–
(Decrease) increase in trade and other payables	**(195,045)**	320,357
Decrease in contract liabilities	**(52,116)**	–
Decrease in warranty provision	**(58,322)**	(36,922)
Increase (decrease) in borrowings related to bills discounted with recourse	**299,175**	(93,060)
Cash generated from operations	**246,595**	190,004
Taxation paid	**(8,932)**	(22,508)
Taxation refunded	**429**	–
Net cash generated from operating activities	**238,092**	167,496

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
Investing activities			
Placement of pledged bank deposits		**(3,408,322)**	(3,278,482)
Purchase of property, plant and equipment		**(73,031)**	(113,636)
Prepaid lease payments paid		**(7,142)**	(12,331)
Deposits paid for acquisition of property, plant and equipment		**(36,099)**	(46,987)
Purchase of short-term investments		**–**	(1,990)
Purchase of financial assets at fair value through profit or loss		**(14,530)**	–
Proceeds from disposal of short-term investments		**1,990**	–
Purchase of intangible assets		**–**	(268)
Purchase of land use rights		**(80)**	–
Placement of restricted deposits		**–**	(39,205)
Withdrawal of restricted deposits		**39,205**	20,000
Withdrawal of pledged bank deposits		**3,270,315**	3,222,195
Interest received		**13,499**	14,163
Disposal of a subsidiary	*34*	**–**	(2,439)
Proceeds from disposal of a subsidiary	*34*	**20,020**	–
Proceeds from disposal of property, plant and equipment		**16,426**	3,405
Net cash used in investing activities		**(177,749)**	(235,575)
Financing activities			
Borrowings raised		**2,793,835**	3,110,908
Contribution from non-controlling interests of a subsidiary		**1,500**	–
Proceeds from sale and leaseback arrangements		**113,000**	167,608
Interest paid		**(175,512)**	(152,055)
Distribution to non-controlling shareholders		**(19,800)**	(14,400)
Repayment of borrowings		**(2,927,034)**	(2,950,823)
Repayment of obligations under finance leases		**(167,461)**	(176,976)
Repayment of debentures		**–**	(50,000)
Net cash used in financing activities		**(381,472)**	(65,738)
Net decrease in cash and cash equivalents		**(321,129)**	(133,817)
Cash and cash equivalents at 1 January		**658,047**	791,864
Cash and cash equivalents at 31 December, represented by bank balances and cash		**336,918**	658,047

1. GENERAL

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

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

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

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

NEW AND AMENDMENTS TO HKFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

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

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

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

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

2.1 HKFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

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

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.

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

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

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 consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under HKFRS 15 at 1 January 2018 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.

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

2.1 HKFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line item affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported RMB'000	Reclassification RMB'000	Amounts without application of HKFRS 15 RMB'000
Current liabilities			
Trade and other payables	4,350,008	324,543	4,674,551
Contract liabilities	324,543	(324,543)	–

Impact on the consolidated statement of cash flows

	As reported RMB'000	Reclassification RMB'000	Amounts without application of HKFRS 15 RMB'000
Operating activities			
Decrease in trade and other payables	(195,045)	(52,116)	(247,161)
Decrease in contract liabilities	(52,116)	52,116	–

2.2 HKFRS 9 *FINANCIAL INSTRUMENTS*

In the current year, 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 financial 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 under ECL model) 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.

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

2.2 HKFRS 9 *FINANCIAL INSTRUMENTS* (Continued)

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

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

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

2.2 HKFRS 9 *FINANCIAL INSTRUMENTS* (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

(a) Available-for-sale investments

The Group elected to present in other comprehensive income ("**OCI**") for the fair value changes of all its unquoted equity investments previously classified as available-for-sale. 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 fair value through other comprehensive income ("**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 fair value through profit or loss ("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.

(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.

ECL for other financial assets at amortised cost, including restricted deposits, pledge bank deposits, bank balances and other receivables, are assessed on 12m ECL basis as 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.

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

2.2 HKFRS 9 *FINANCIAL INSTRUMENTS* (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

(c) Impairment under ECL model (Continued)

The loss allowance for trade receivables 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
At 1 January 2018	100,541

2.3 IMPACTS ON OPENING 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 consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	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

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

2.3 IMPACTS ON OPENING CONSOLIDATED STATEMENT OF FINANCIAL POSITION ARISING FROM THE APPLICATION OF ALL NEW STANDARDS (Continued)

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
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

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

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

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

HKFRS 16 *LEASES*

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

HKFRS 16 *LEASES* (Continued)

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

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1,226,657,000 as disclosed in note 38. A preliminary assessment indicates that certain of these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB4,406,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits paid may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

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

HKFRS 16 *LEASES* (Continued)

Upon application of HKFRS 16, the Group will apply the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial liabilities within the scope of HKFRS 9. In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

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

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF CONSOLIDATION

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS (UPON APPLICATION OF HKFRS 15 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2)

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 or 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:

- 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (PRIOR TO 1 JANUARY 2018)

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

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

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including buildings (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Depreciation is recognised to write off the cost of other property, plant and equipment (other than construction in progress), using the straight-line method, over their estimated useful lives. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

BORROWING COSTS

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

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

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

INTANGIBLE ASSETS

Research and development expenditure

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

Patents and trademarks

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

INVENTORIES

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

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets 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; and
- the contractual terms 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 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

A financial asset is classified as held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently 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 from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(iii) Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of the 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.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, pledged bank deposits and bank balances and cash). 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-months' 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 made 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 any significant financing component. The ECL on trade receivables is assessed individually for debtors with significant balances or have significant credit deterioration and/or collectively for the remaining debtors based on their age groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) 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 at the reporting date with the risk of a default occurring on the financial instrument 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

Despite the foregoing, the Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the end of the reporting period. A financial asset 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 financial asset 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 regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above assessment, the Group considers that default has occurred when a financial asset 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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 the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the below basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, pledged bank deposits and bank balances);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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 amounts, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) designated as at FVTPL.

A financial asset is classified as held for trading if:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(i) Financial assets at FVTPL (Continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 36.

(ii) Loans and receivables

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

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

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables, or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

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

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities other than derivative are subsequently measured at amortised cost using the effective interest method.

Derivatives financial instruments

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

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS

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

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

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

PROVISIONS

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

WARRANTIES

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

TAXATION

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

TAXATION (Continued)

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

FOREIGN CURRENCIES

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

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

SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES

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

The Group as lessor

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

The Group as lessee

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

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

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

Sale and leaseback resulting in a finance lease

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

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT GRANTS AND SUBSIDIES

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

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

RETIREMENT BENEFITS COSTS

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

SHORT-TERM EMPLOYEE BENEFITS

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

VALUATION OF TRADE RECEIVABLES

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on age groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. As at 31 December 2018, the carrying amount of trade receivables was RMB4,781,208,000 net of allowance for doubtful debts of RMB154,975,000 (2017: RMB4,346,072,000, net of allowance for doubtful debts of RMB93,196,000) as disclosed in note 21.

WARRANTY OBLIGATION

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

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation. The costs are estimated by the management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results. When a material defect is subsequently tested and identified, further warranty provision may arise. As at 31 December 2018, the carrying amount of warranty provision was RMB54,241,000 (2017: RMB55,620,000). Details of the movements are disclosed in note 26.

VALUATION OF INVENTORIES

The directors estimate the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an additional write-off or write-down may arise. As at 31 December 2018, the carrying amount of inventories was RMB1,941,744,000 (2017: RMB2,601,656,000) as disclosed in note 20.

INCOME TAXES

No deferred tax assets have been recognised on unused tax losses and certain deductible temporary differences arising from the Group's subsidiaries in PRC due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax assets would be recognised in profit or loss for the period. Details of the tax losses for the year ended 31 December 2018 are disclosed in note 19.

5. REVENUE AND SEGMENT INFORMATION

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

SEGMENT REVENUES AND RESULTS

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of other income, gains or losses, selling and distribution costs, administrative and other expenses, research and development costs, net loss in fair value changes on foreign currency forward contracts and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

5. REVENUE AND SEGMENT INFORMATION (Continued)

OTHER SEGMENT INFORMATION

Geographical information

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

Information about the Group's revenue from external customers is detailed in the segment revenue analyses above. All of the Group's non-current assets excluding financial instruments and deferred tax assets are geographically located in the PRC.

Information about major customers

For the years ended 31 December 2018 and 2017, none of the Group's customers had individually accounted for more than 10% of the Group's total revenue.

An analysis of capital additions, depreciation, amortisation of intangible assets and operating lease rentals on land use rights by location of customers were not presented as in the opinion of the directors, there is no appropriate basis in allocating the property, plant and equipment, intangible assets and land use rights by location of customers.

The goods sold to various geographical market were principally produced from the same production facilities situated in the PRC.

6. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 **RMB'000**	2017 RMB'000
Impairment losses recognised on trade receivables	**54,880**	41,422
Impairment losses reversed on trade receivables	**–**	(34,662)
	54,880	6,760

7. FINANCE COSTS

	2018 **RMB'000**	2017 RMB'000
Interests on:		
Bank loans	**98,299**	94,588
Debentures	**–**	1,667
Finance leases	**20,819**	15,817
Other payables	**7,832**	7,757
Other borrowings	**57,770**	34,156
Total borrowing costs	**184,720**	153,985

8. (LOSS) PROFIT BEFORE TAXATION

	2018 RMB'000	2017 RMB'000
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 9)*	**2,337**	1,717
Other staff's retirement benefits scheme contributions	**64,941**	70,349
Other staff costs	**779,950**	841,642
	847,228	913,708
Less: Staff costs included in research and development costs	**(50,404)**	(61,354)
Less: Staff costs capitalised as inventories	**(101,089)**	(103,175)
	695,735	749,179
Amortisation of intangible assets included in administrative expenses	**80**	182
Auditor's remuneration	**3,507**	3,359
Cost of inventories recognised as an expense including write down on inventories of RMB7,559,000 (2017: RMB32,952,000)	**7,933,674**	8,969,622
Total depreciation of property, plant and equipment	**186,426**	239,848
Less: Capitalised in inventories	**(25,948)**	(34,321)
	160,478	205,527
Provision for warranty	**56,943**	50,532
Net exchange losses included in other gains and losses	**–**	61,796
Release of prepaid lease payments	**16,844**	20,134
Loss on disposal of property, plant and equipment included in other gains and losses	**–**	2,548
and after crediting:		
Amortisation of government grants	**1,288**	2,738
Government subsidies*	**17,067**	6,512
Interest income	**13,499**	14,163
Net exchange gains included in other gains and losses	**39,989**	–
Sales of scrap materials	**2,930**	6,876
Gain on disposal of property, plant and equipment included in other gains and losses	**1,130**	–
Gain on disposal of a subsidiary included in other gains and losses	**–**	19,681

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

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2018					2017				
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors										
– Mr. Li Xinghao	-	362	-	-	362	–	361	–	–	361
– Ms. Li Xiuhui	-	313	6	-	319	–	311	6	–	317
– Mr. Cheng Jian *(Note 1)*	-	166	2	-	168	–	469	6	–	475
– Ms. Huang Guijian	-	308	-	-	308	–	204	–	–	204
– Mr. Yang Xiangwen *(Note 1)*	-	814	6	-	820	–	–	–	–	–
Independent non-executive directors										
– Mr. Zhang Xiaoming	120	-	-	-	120	120	–	–	–	120
– Mr. Fu Xiaosi	120	-	-	-	120	120	–	–	–	120
– Mr. Wang Manping	120	-	-	-	120	120	–	–	–	120
	360	1,963	14	-	2,337	360	1,345	12	–	1,717

Note 1: Mr. Cheng Jian resigned on 20 April 2018 and Mr. Yang Xiangwen was appointed on the same date.

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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

The five highest paid individuals are all employees of the Group during the years ended 31 December 2018 and 2017. The emoluments of the five (2017: five) highest paid employees are as follows:

	2018 RMB'000	2017 RMB'000
Employee		
– basic salaries and allowances	**6,519**	6,523
– retirement benefits scheme contributions	**140**	15
	6,659	6,538

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

	Number of employees	
	2018	2017
Up to HKD1,000,000	**–**	–
HKD1,000,001 to HKD1,500,000	**2**	2
HKD1,500,001 to HKD2,000,000	**2**	2
HKD2,000,001 to HKD2,500,000	**1**	1

10. TAXATION

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

10. TAXATION (Continued)

The PRC income tax is calculated at 25% in accordance with the relevant laws and regulations in the PRC except that certain PRC subsidiaries were officially endorsed as High-New Technology Enterprises and eligible to preferential Enterprise Income Tax ("**EIT**") rate of 15% from year 2018 to 2020 (2017: 2015 to 2017).

According to a joint circular of Ministry of Finance and the State Administration of Taxation of the PRC, Cai Shui [2008] No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to EIT at 10% and withheld by the PRC subsidiary pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Rules. Deferred tax liability on the undistributed profits earned during the year has been accrued at the tax rate of 10% on the expected dividend stream of 30% of the relevant subsidiary which is determined by the directors of the Company.

The charge for the year is reconciled to (loss) profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 **RMB'000**	2017 RMB'000
(Loss) profit before taxation	**(466,224)**	66,696
Tax at PRC EIT rate of 25% (2017: 25%)	**(116,556)**	16,674
Tax effect of expenses not deductible for tax purposes *(i)*	**20,212**	16,982
Tax effect of income not taxable for tax purpose	**(150)**	–
Tax effect of deductible temporary differences not recognised	**15,681**	1,614
Tax effect of tax losses not recognised	**111,037**	1,984
Tax effect of a subsidiary with preferential tax rate	**(8,974)**	(6,699)
Over provision for prior year	**(2,926)**	(6,723)
Utilisation of tax losses previously not recognised	**(4,111)**	(4,767)
Tax charge for the year	**14,213**	19,065

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

11. DIVIDEND

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

12. (LOSS) EARNINGS PER SHARE

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

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2017	753,737	343,648	50,821	995,594	58,233	2,202,033
Additions	9,518	57,772	3,547	82,060	11,997	164,894
Write-off/disposals	–	(4,766)	(5,855)	(5,990)	(2,648)	(19,259)
Transfers	18,482	14,979	–	7,605	(41,066)	–
At 31 December 2017	781,737	411,633	48,513	1,079,269	26,516	2,347,668
Additions	14,729	50,121	679	43,325	11,164	120,018
Write-off/disposals	(179)	(6,437)	(3,881)	(40,828)	(587)	(51,912)
Transfers	129	4,917	–	1,010	(6,056)	–
At 31 December 2018	796,416	460,234	45,311	1,082,776	31,037	2,415,774
DEPRECIATION						
At 1 January 2017	107,825	176,303	31,812	504,708	–	820,648
Provided for the year	30,288	47,520	4,121	157,919	–	239,848
Eliminated on write-off/disposals	–	(4,346)	(4,861)	(4,099)	–	(13,306)
At 31 December 2017	138,113	219,477	31,072	658,528	–	1,047,190
Provided for the year	34,695	56,873	3,796	91,062	–	186,426
Eliminated on write-off/disposals	(25)	(5,459)	(3,324)	(27,808)	–	(36,616)
At 31 December 2018	172,783	270,891	31,544	721,782	–	1,197,000
CARRYING VALUES						
At 31 December 2018	623,633	189,343	13,767	360,994	31,037	1,218,774
At 31 December 2017	643,624	192,156	17,441	420,741	26,516	1,300,478

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the period of the relevant lease, or over 8 to 30 years, whichever is shorter.
Furniture, fixtures and equipment	3 – 6 years
Motor vehicles	5 years
Plant and machinery	5 – 10 years

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

The net book value of property, plant and machinery of RMB206,616,000 (2017: RMB307,958,000) is held under finance leases.

14. LAND USE RIGHTS

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as		
– non-current assets	**193,962**	199,260
– current assets	**5,378**	5,378
	199,340	204,638

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

15. INTANGIBLE ASSETS

	Trademarks RMB'000	Patents RMB'000	Total RMB'000
COST			
At 1 January 2017	611	3,137	3,748
Additions	–	268	268
At 31 December 2017	611	3,405	4,016
At 31 December 2018	611	3,405	4,016
DEPRECIATION			
At 1 January 2017	243	3,012	3,255
Provided for the year	53	129	182
At 31 December 2017	296	3,141	3,437
Provided for the year	53	27	80
At 31 December 2018	349	3,168	3,517
CARRYING VALUES			
At 31 December 2018	262	237	499
At 31 December 2017	315	264	579

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

16. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as		
– non-current assets	**185,813**	193,599
– current assets	**16,394**	18,310
	202,207	211,909

The balance represents prepayment of rentals for land and buildings situated in the PRC for a period of 2 to 20 years (2017: 2 to 20 years) under operating leases.

17. AVAILABLE-FOR-SALE INVESTMENTS

As of 31 December 2017, the available-for-sale investments represent the Group's investments in 10% equity interests in a private limited liability company, 佛山市納新小額貸款有限公司, and 10% equity interests in 廣東壹品會科技有限公司 which were established in the PRC. 佛山市納新小額貸款有限公司 is engaged in financing services and 廣東壹品會科技有限公司 is engaged in promoting brands. These investments are measured at cost less impairment as the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

18. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RMB'000	2017 RMB'000
Unlisted equity instruments	**15,378**	–

The above unlisted equity investments represent the Group's equity interests in two private entities established in the PRC as detailed in note 17. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they considered that these investments are held not for trading purpose upon initial application of HKFRS 9 on 1 January 2018.

19. DEFERRED TAXATION

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

	Accelerated accounting depreciation RMB'000	Warranty provision RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2017	7,801	13,563	(25,195)	(3,831)
Credit (charge) to profit or loss	1,850	(2,160)	(642)	(952)
At 31 December 2017	9,651	11,403	(25,837)	(4,783)
Credit (charge) to profit or loss	926	(3,267)	–	(2,341)
At 31 December 2018	10,577	8,136	(25,837)	(7,124)

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

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**18,713**	21,054
Deferred tax liabilities	**(25,837)**	(25,837)
	(7,124)	(4,783)

At 31 December 2018, the Group has unrecognised deferred tax liability of RMB14,593,000 (2017: RMB46,372,000) in relation to PRC withholding tax on undistributed earnings of RMB145,926,000 (2017: RMB463,717,000) due to the retention of undistributed earnings by the PRC subsidiaries determined by the directors of the Company.

At 31 December 2018, the Group has unused tax losses of RMB515,119,000 (2017: RMB87,415,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of the future profit streams. The tax losses will be expired within five years from the end of the reporting period. Besides, the Group has other deductible temporary differences of RMB213,752,000 (2017: RMB151,028,000). No deferred tax asset has been recognised in relation to these deductible temporary differences as it is uncertain that future taxable profit stream will be available against which the deductible temporary differences can be utilised.

20. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**394,180**	538,989
Work in progress	**55,787**	96,419
Finished goods	**1,491,777**	1,966,248
	1,941,744	2,601,656

Included in the above figures are finished goods of RMB11,524,000 (2017: Nil) which have been pledged as security for bank loans.

21. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**4,936,183**	4,439,268
Less: Allowance for credit losses	**(154,975)**	(93,196)
	4,781,208	4,346,072
Deposits paid to suppliers	**32,347**	59,207
Prepayments	**17,608**	30,722
Advances to staff	**3,844**	6,218
Value-added tax recoverable *(note a)*	**16,754**	11,636
Value-added tax refundable *(note b)*	**9,322**	27,751
Consideration receivables from disposal of a subsidiary *(note 34)*	**–**	20,020
Other deposits and receivables	**51,842**	67,539
	4,912,925	4,569,165

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

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

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

21. TRADE AND OTHER RECEIVABLES (Continued)

Payment terms with customers are mainly on credit. The customers are allowed a credit period of 30 days to 180 days from date of issuance of the invoices, while the long-established customers are allowed a credit period of 210 days. The following is an aging analysis of trade receivables net of credit losses presented based on the invoice dates.

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

As at 31 December 2018, total bills received amounting to RMB1,514,226,000 (2017: RMB1,494,477,000) are held by the Group for future settlement of trade receivables, of which certain bills were further discounted/endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are set out below in this note. All bills received by the Group are with a maturity period of less than one year.

At 31 December 2017, the Group closely maintains the credit quality of trade receivables and considers the debtors that are neither past due nor impaired to be of good quality.

At 31 December 2017, included in the Group's trade receivable balances were trade debtors with an aggregate carrying amount of RMB494,061,000 which were past due for which the Group had not provided for impairment loss as there was no adverse change in the recoverability of the debtors.

21. TRADE AND OTHER RECEIVABLES (Continued)

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

	2017 RMB'000
Age	
31 – 60 days	1,171
61 – 90 days	14,904
91 – 180 days	173,052
181 – 365 days	178,213
Over 1 year	126,721
	494,061

The Group did not hold any collateral over these balances. The average age of these receivables was 241 days.

Movement in the allowance for doubtful debts is as follows:

	2017 RMB'000
At 1 January	86,436
Allowances recognised on receivables	41,422
Amounts recovered during the year	(34,662)
At 31 December	93,196

At 31 December 2017, included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of RMB93,196,000 which had been in financial difficulties. The Group did not hold any collateral over these balances.

At 31 December 2018, bills amounting to RMB48,322,000 (2017: RMB338,576,000) were pledged to banks for securing the bank loans and the issuance of bank's acceptance bills.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 36.

21. TRADE AND OTHER RECEIVABLES (Continued)

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

	2018 RMB'000	2017 RMB'000
United States dollars ("**USD**")	**660,066**	693,376
Euro ("**EURO**")	**–**	59

TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2018 and 2017 that were transferred to banks or suppliers by discounting/endorsing those receivables on a full recourse basis. If the bills receivables are not paid out at maturity, the Group is required to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable endorsed to suppliers with full recourse 2018 RMB'000	Bills receivable discounted to banks with full recourse 2018 RMB'000	Total 2018 RMB'000
Carrying amount of transferred assets included in trade receivables	**383,697**	**973,348**	**1,357,045**
Carrying amount of associated liabilities	**358,263**	**1,264,567**	**1,622,830**

	Bills receivable endorsed to suppliers with full recourse 2017 RMB'000	Bills receivable discounted to banks with full recourse 2017 RMB'000	Total 2017 RMB'000
Carrying amount of transferred assets included in trade receivables	–	992,115	992,115
Carrying amount of associated liabilities	–	965,392	965,392

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Derivatives not under hedge accounting – foreign currency forward contracts – current	**4,160**	–	**26**	–

At 31 December 2017, the Group has no outstanding foreign currency forward contracts.

At 31 December 2018, the Group had the following foreign currency forward contracts with major terms as follows:

National amount	Maturity	Forward contract rates
73 contracts to sell USD122,900,000 (net settlement)	From 8 January 2019 to 31 July 2019	USD1/RMB6.8603 to USD1/RMB6.9605

Details of determination of fair values of the foreign currency forward contracts are set out in note 36.

23. SHORT-TERM INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2018, the Group's short-term investments represent financial products issued by banks in the PRC, with an expected but not guaranteed return at 3.48% (2017: 3.25%) per annum. The financial products are measured at fair value at the end of the reporting period. The directors of the Company consider the fair value of the financial products approximate to their principal amount as at the reporting date. No fair value change is recognised during the year ended 31 December 2017. The short-term investments amounting to RMB14,530,000 (2017: 1,990,000) were redeemed in January 2019 (2017: January 2018) at the principal amount together with return which approximated the expected return.

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

As at 31 December 2017, the Group's short term restricted deposits represented balances deposited in banks in the PRC, which the management believes were of high credit quality and did not expect high credit risks in this respect. The Group's restricted deposits were with initial term from 15 – 90 days and were restricted for obtaining a guarantee interest rate return and are denominated in RMB. The weighted average effective interest rate on restricted deposits was 1% (2017: 1%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry interest at the prevailing market interest rate was 0.35% (2017: 0.35%) per annum.

At 31 December 2018, pledged bank deposits represent deposits pledged to banks to secure issuance of bills payables amounting to RMB2,184,126,000 (2017: RMB2,541,686,000) which carry interest at market rates ranged from 1.3% to 1.5% (2017: 1.1.% to 1.5%) per annum.

Certain restricted deposits, pledged bank deposits and bank balances and cash of RMB1,224,395,000 (2017: RMB1,264,655,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

For the year ended 31 December 2018, the Group performed impairment assessment on bank balances and pledged bank deposits and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

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

	2018 **RMB'000**	2017 RMB'000
USD	**163,936**	346,475
HKD	**543**	1,026
EURO	**2,855**	1,900

25. TRADE AND OTHER PAYABLES

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

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

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

26. WARRANTY PROVISION

	2018 RMB'000	2017 RMB'000
CARRYING VALUE		
At 1 January	**55,620**	42,010
Additional provision for the year	**56,943**	50,532
Utilisation of provision	**(58,322)**	(36,922)
At 31 December	**54,241**	55,620

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

27. CONTRACT LIABILITIES

	31/12/2018 RMB'000	1/1/2018* RMB'000
Sales of air-conditioning products	**324,543**	376,659

* The amount in this column is after the adjustment from the application of HKFRS 15. The whole amount has been recognised as revenue in the current year.

28. BORROWINGS RELATED TO BILLS DISCOUNTED WITH RECOURSE

During the year ended 31 December 2018, the Group discounted bills receivables with recourse totalling RMB2,065,933,000 (2017: RMB1,493,398,000) to banks for short-term financing. As at 31 December 2018, the associated outstanding borrowings are RMB1,264,567,000 (2017: RMB965,392,000) and the relevant cash flows are presented as operating cash flows in the consolidated statement of cash flows for the year ended as the management considered the cash flows are in substance the receipts from trade customers.

29. BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank loans		
– unsecured	**1,642,566**	1,669,949
– secured by bank acceptance bills	**50,000**	139,139
– secured by inventories	**10,926**	–
	1,703,492	1,809,088
Other loan – unsecured	**45,959**	73,562
Total	**1,749,451**	1,882,650

	2018 RMB'000	2017 RMB'000
Carrying amount repayable:		
Within one year	**1,733,291**	1,807,061
More than one year, but not exceeding two years	**16,160**	59,429
More than two years, but not exceeding five years	**–**	16,160
	1,749,451	1,882,650
Less: Amounts due within one year shown under current liabilities	**(1,733,291)**	(1,807,061)
Amount shown under non-current liabilities	**16,160**	75,589

During the year ended 31 December 2017, a subsidiary of the Company factored a trade receivable balance due from another subsidiary of the Company to a factoring company with recourse for financing. The associated loan amounted to RMB45,959,000 as at 31 December 2018 (2017: RMB73,562,000).

At the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB2,238,060,000 (2017: RMB2,518,439,000).

29. BORROWINGS (Continued)

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

	2018 RMB'000	2017 RMB'000
USD (mainly charged at London Interbank Offer Rate plus premium)	**210,953**	230,295

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

The effective interest rate of the Group's bank borrowings is 4.94% (2017: 4.73%) per annum and the effective interest rate of the Group's other loan is 7.68% (2017: 7.68%) per annum.

30. OBLIGATIONS UNDER FINANCE LEASES

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as:		
– Current liabilities	**139,319**	145,029
– Non-current liabilities	**61,981**	110,732
	201,300	255,761

During the year ended 31 December 2018, the Group entered into three (2017: eight) sale and leaseback agreements with leasing companies in the PRC. Under the arrangement, the Group sold certain machineries to the leasing company and concurrently leased the assets back for a term of 36 months with monthly rent repayments. At the end of the lease term, the Group has the option to purchase these assets at nominal value. As such, these sale and leaseback arrangements resulted in finance leases.

As at 31 December 2018, the finance leases have outstanding obligations of RMB201,300,000 (2017: RMB255,761,000). The average effective interest rate of the finance lease is 7.51% (2017: 6.96%) per annum. The Group's obligations under finance leases are secured by a corporate guarantee provided by the Company and a wholly-owned subsidiary.

30. OBLIGATIONS UNDER FINANCE LEASES (Continued)

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Within one year	**149,047**	158,849	**139,319**	145,029
In more than one year but not more than two years	**57,408**	99,479	**55,054**	95,292
In more than two years but not more than three years	**7,066**	15,712	**6,927**	15,440
	213,521	274,040	**201,300**	255,761
Less: future finance charges	**(12,221)**	(18,279)	**–**	–
Present value of lease obligations	**201,300**	255,761		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**139,319**	145,029
Amount due for settlement after 12 months			**61,981**	110,732

31. GOVERNMENT GRANTS

	2018 RMB'000	2017 RMB'000
At 1 January	**33,616**	36,354
Recognised in profit or loss	**(1,288)**	(2,738)
At 31 December	**32,328**	33,616

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

32. SHARE CAPITAL

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

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

33. EQUITY-SETTLED SHARE-BASED PAYMENTS

EQUITY-SETTLED SHARE OPTION SCHEME

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

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

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

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 547,750,000, representing 6.5% of the shares of the Company in issue at that date. During the year, those share options had all been lapsed and there is no share option remained outstanding at 31 December 2018.

33. EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

EQUITY-SETTLED SHARE OPTION SCHEME (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	Exercise price per share HKD	Outstanding at 1.1.2017	Lapsed during the year	Transferred during the year	Outstanding at 31.12.2017	Lapsed during the year	Outstanding at 31.12.2018
Directors	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	9,508,000	–	–	9,508,000	**(9,508,000)**	**-**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	22,192,000	–	–	22,192,000	**(22,192,000)**	**-**
Employees	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	167,586,000	(14,910,000)	–	152,676,000	**(152,676,000)**	**-**
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	391,114,000	(34,790,000)	–	356,324,000	**(356,324,000)**	**-**
Customers#	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	2,932,000	(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	**(547,750,000)**	**-**
Exercisable at end of the year								547,750,000		**-**

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

During the year ended 31 December 2018, 1 director and 10 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.

34. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2017, the Group disposed of 100% equity interest in a subsidiary, Guangdong Y. C. Insurance Agency Limited ("Y. C. Insurance") to independent third party buyers, at a consideration of RMB20,020,000. The net assets of Y. C. Insurance at the date of disposal were as follows:

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

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

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

35. CAPITAL RISK MANAGEMENT

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

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

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

36. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2018 **RMB'000**	2017 RMB'000
Financial assets		
Financial assets at amortised cost	**6,227,562**	–
Loans and receivables (including cash and cash equivalents)	**–**	6,052,065
Available-for-sale investments	**–**	23,000
Equity instruments at FVTOCI	**15,378**	–
Designated as at FVTPL	**–**	1,990
Mandatorily measured at FVTPL	**14,530**	–
Derivative financial instruments	**4,160**	–
	6,261,630	6,077,055
Financial liabilities		
Amortised cost	**7,157,427**	7,182,240
Derivative financial instruments	**26**	–
	7,157,453	7,182,240

36. FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, equity instruments at FVTOCI, financial assets at FVTPL, restricted deposits, pledged bank deposits, bank balances and cash, trade and other payables, derivative financial instruments, borrowings related to bills discounted with recourse and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

CREDIT RISK AND IMPAIRMENT ASSESSMENT

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and except that settlement of certain trade receivables are backed by bills issued by reputable banks.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for assessing the potential customer's credit quality and determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

36. FINANCIAL INSTRUMENTS (Continued)

CREDIT RISK AND IMPAIRMENT ASSESSMENT (Continued)

The table below details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2018	*Notes*	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000
Financial assets at amortised cost				
Trade receivables	*21*	*Note (i)*	Lifetime ECL	1,213,480
			Lifetime ECL (provision matrix)	2,208,477
				3,421,957
Other receivables	*21*	*Note (ii)*	12-month ECL	54,625
Pledged bank deposits	*24*	N/A	12-month ECL	1,054,811
Bank balances	*24*	N/A	12-month ECL	336,918

Notes:

(i) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the ECL on these items by using a provision matrix, grouped by aging.

(ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

36. FINANCIAL INSTRUMENTS (Continued)

CREDIT RISK AND IMPAIRMENT ASSESSMENT (Continued)

Trade receivables

As part of the Group's credit risk management, the Group assesses the impairment of major customers with significant balances or credit impaired 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 following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 31 December 2018.

	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Not past due	–	1,731,010	–
1 – 30 days past due	7.82%	163,003	12,753
31 – 60 days past due	13.23%	66,635	8,817
61 – 90 days past due	19.52%	36,367	7,099
91 – 180 days past due	30.11%	59,720	17,982
More than 181 days past due	51.72%	151,742	78,484
		2,208,477	125,135

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 year, the Group provided RMB54,880,000 impairment allowance based on the provision matrix. In addition, debtors with significant balances or with credit impaired amounting to RMB1,213,480,000 at 31 December 2018 were assessed individually and the aggregate impairment allowance at 31 December 2018 amounting to RMB29,840,000.

36. FINANCIAL INSTRUMENTS (Continued)

CREDIT RISK AND IMPAIRMENT ASSESSMENT (Continued)

Trade receivables (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	RMB'000
Balance at 1 January 2018 (restated)*	**100,541**
Amounts written off	**(446)**
Net remeasurement of loss allowance	**54,880**
Balance at 31 December 2018	**154,975**

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

Other receivables, pledged bank deposits and bank balances

The Group has assessed the financial position of the debtors of other receivables at the end of the reporting period using the past due information and concluded that there has been no significant increase in credit risk since initial recognition. The Group also considered the credit risk on pledged bank deposits and bank balances is limited since they are placed with banks with high credit ratings. Accordingly, no loss allowance is made for other receivables, pledged bank deposits and bank balances.

36. FINANCIAL INSTRUMENTS (Continued)

MARKET RISK

Foreign currency risk

The Group has certain transactions that denominated in foreign currencies, hence exposures to foreign currency risk. Approximately 39% (2017: 40%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, mainly in USD whilst all of the costs are denominated in the group entity's functional currency. The Group also has certain monetary items that denominated in foreign currencies which have exposed the Group to foreign currency risk. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are disclosed in respective notes. The management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

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

	2018		2017	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
USD	**824,001**	**210,953**	1,039,851	230,295
HKD	**543**	**–**	1,026	–
EURO	**2,855**	**–**	1,959	–

The Group mainly exposes to currencies of USD, HKD and EURO. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, including the trade and other receivables, restricted deposits, pledged bank deposits, bank balances, borrowings and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number indicates an increase in loss for the year ended 31 December 2018 (decrease in profit for the year ended 31 December 2017) where the RMB strengthens against the relevant currencies. There would be an equal and opposite impact on the loss for the year ended 31 December 2018 (profit for the year ended 31 December 2017) where the RMB weakens against the relevant currencies.

36. FINANCIAL INSTRUMENTS (Continued)

MARKET RISK (Continued)

Foreign currency risk (Continued)

	2018 RMB'000	2017 RMB'000
USD	**(30,284)**	(41,800)
HKD	**(29)**	(56)
EURO	**(143)**	(97)

For the foreign currency exchange contracts (note22), the sensitivity analysis was estimated based on the contracts outstanding at 31 December 2018. If the forward exchange rate of the USD against RMB changed by 5%, the potential effect on the Group's loss for the year ended 31 December 2018 would have been:

	2018 RMB'000
USD strengthens against RMB by 5%	
Decrease in the loss for the year	**41,932**
USD weakens against RMB by 5%	
Increase in the loss for the year	**(41,932)**

No foreign currency forward contracts were entered into during the year ended 31 December 2017 nor were outstanding at 31 December 2017.

Interest rate risk management

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

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

36. FINANCIAL INSTRUMENTS (Continued)

MARKET RISK (Continued)

Interest rate risk management (Continued)

If interest benchmark rates on pledged bank deposits, bank balances and variable rate bank loans had been 50 basis points higher and all other variables were held constant, the Group's loss (2017: profit) for the year would decrease by approximately RMB7,347,000 (2017: increase by RMB6,929,000).

There will be an equal and opposite impact on the loss for the year ended 31 December 2018 (profit for the year ended 31 December 2017) where there had been 50 basis points lower.

LIQUIDITY RISK MANAGEMENT

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

The following tables detail the remaining contractual maturity for its financial liabilities and derivative financial instruments. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the agreed repayment terms. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash (inflows) and outflows of derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments is prepared based on the contractual settlement dates as the management considers that the settlement dates are essential for an understanding of the timing of the cash flows of derivatives.

36. FINANCIAL INSTRUMENTS (Continued)

LIQUIDITY RISK MANAGEMENT (Continued)

	Weighted average interest rate %	On demand and less than 3 months RMB'000	Over 3 months but not more than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities							
As at 31 December 2018							
Trade and other payables	–	3,213,755	929,654	–	–	4,143,409	4,143,409
Borrowings related to bills discounted with recourse	–	574,873	560,136	129,558	–	1,264,567	1,264,567
Long-term borrowings	7.68%	–	–	–	16,532	16,532	16,160
Short-term borrowings	5.21%	1,015,985	586,151	156,847	–	1,758,983	1,733,291
Obligations under finance leases	7.51%	49,011	43,812	56,224	64,474	213,521	201,300
		4,853,624	2,119,753	342,629	81,006	7,397,012	7,358,727
Derivatives – net settlement							
As at 31 December 2018							
Foreign currency forward contracts	–	26	–	–	–	26	26

	Weighted average interest rate %	On demand and less than 3 months RMB'000	Over 3 months but not more than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities							
As at 31 December 2017							
Trade and other payables	–	3,134,580	1,199,618	–	–	4,334,198	4,334,198
Borrowings related to bills discounted with recourse	–	494,746	295,081	175,565	–	965,392	965,392
Long-term borrowings	6.76%	–	–	–	79,920	79,920	75,589
Short-term borrowings	5.20%	962,200	794,362	77,670	–	1,834,232	1,807,061
Obligations under finance leases	6.96%	39,712	39,712	79,425	115,191	274,040	255,761
		4,631,238	2,328,773	332,660	195,111	7,487,782	7,438,001

36. FINANCIAL INSTRUMENTS (Continued)

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).

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuer to perform the valuation. The Group works closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model. The management reports the valuation findings to the board of directors of the Company every half year to explain the cause of fluctuations in the fair value.

36. FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE ON A RECURRING BASIS (Continued)

Financial assets/ financial liabilities	Fair value as at 31 December 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 assets – RMB4,160,000 Current liabilities – RMB26,000 (31.12.2017: N/A)	Level 2	*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. Unlisted equity instruments classified as equity instruments at FVTOCI	Non-current assets – RMB15,378,000 (31.12.2017: N/A)	Level 3	*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 consolidated financial statements approximate their fair values.

The short-term investments are measured at fair value at the end of the reporting period. The directors of the Company consider the fair value of these short-term investments approximate to their principal amount as at 31 December 2018.

36. FINANCIAL INSTRUMENTS (Continued)

RECONCILIATION OF LEVEL 3 MEASUREMENT OF FINANCIAL ASSETS

	Unlisted equity instruments at FVTOCI RMB'000
At 31 December 2017	–
Reclassified from available-for-sale investments at 1 January 2018 upon initial application of HKFRS 9	21,687
Fair value loss	(6,309)
At 31 December 2018	15,378

36. FINANCIAL INSTRUMENTS (Continued)

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

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

The Group currently has a legally enforceable right to set off the deposit under the finance leases and the obligations under finance 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.

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position
At 31 December 2018			
Deposit under finance leases	**95,076**	**(95,076)**	**–**
At 31 December 2017			
Deposit under finance leases	81,790	(81,790)	–

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position
At 31 December 2018			
Obligations under finance leases	**(296,376)**	**95,076**	**(201,300)**
At 31 December 2017			
Obligations under finance leases	(337,551)	81,790	(255,761)

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITES

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

	Borrowings RMB'000	**Obligations under finance leases RMB'000**	**Interest payable RMB'000**	**Total RMB'000**
At 1 January 2018	**1,882,650**	**255,761**	**32,978**	**2,171,389**
Financing cash flows	**(133,199)**	**(54,461)**	**(175,512)**	**(363,172)**
Interest expense	**–**	**–**	**184,720**	**184,720**
At 31 December 2018	**1,749,451**	**201,300**	**42,186**	**1,992,937**

	Borrowings RMB'000	Obligations under finance leases RMB'000	Debentures RMB'000	Interest payable RMB'000	Total RMB'000
At 1 January 2017	1,722,565	265,129	52,271	28,715	2,068,680
Financing cash flows	160,085	(9,368)	(54,000)	(148,055)	(51,338)
Transaction costs	–	–	62	–	62
Interest expense	–	–	1,667	152,318	153,985
At 31 December 2017	1,882,650	255,761	–	32,978	2,171,389

38. OPERATING LEASE COMMITMENTS

THE GROUP AS LESSEE

	2018 RMB'000	2017 RMB'000
Minimum lease payments paid under operating leases during the year	**68,615**	35,331

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

	2018 RMB'000	2017 RMB'000
Within one year	**3,936**	6,259
In the second to fifth year inclusive	**3,200**	4,647
After five years	**–**	–
	7,136	10,906

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

The Group had entered into an operating lease agreement in respect of land use rights for a term of 45 years. The future minimum lease payments at 31 December 2018 amounted to RMB1,219,521,000, of which RMB12,626,000 due within one year, RMB56,834,000 due in the second to fifth year and RMB1,150,061,000 due after five years.

THE GROUP AS LESSOR

Property rental income earned during the year was RMB17,192,000 (2017: RMB4,686,000). At the end of the reporting period, the Group has contracted with tenants in respect of rented premises for the following future minimum lease receipts:

	2018 RMB'000	2017 RMB'000
Within one year	**15,055**	14,797
In the second to fifth year inclusive	**16,672**	29,827
After five years	**9,386**	9,781
	41,113	54,405

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

39. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the		
– capital contribution to subsidiaries	**11,044**	16,194
– acquisition of property, plant and equipment	**76,423**	60,233
	87,467	76,427

40. RETIREMENT BENEFITS SCHEME

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

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

The total expense recognised in profit or loss of RMB64,955,000 (2017: RMB70,361,000) represents contributions paid to these plans by the Group at rates specified in the rules of the respective plans.

41. RELATED PARTY TRANSACTIONS

During the year, the Group paid miscellaneous expenses totalling RMB928,000 (2017: RMB895,000) to a related company which is controlled by Mr. Li Xinghao, a director and ultimate controlling party of the Company.

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

42. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment/operations	Issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued share capital/registered capital held by the Group indirectly 2018	2017	Principal activity
Guangdong Chigo	PRC as a wholly foreign owned enterprise for a term of 50 years commencing 1 September 2006	Registered capital – RMB996,140,000	**100%**	100%	Manufacture and sales of air-conditioners
志高空調(九江)有限公司 Chigo Air-Conditioning (Jiu Jiang) Co., Ltd.	PRC as a limited liability enterprise	Registered capital – RMB45,000,000	**100%**	100%	Manufacture and sales of air-conditioners
廣東志高暖通設備股份有限公司 Guangdong Chigo Heating and Ventilation Equipment Co., Ltd. ("Chigo Heating")	PRC as a joint stock limited company	Shares – RMB100,000,000	**70%**	70%	Manufacture and sales of commercial air-conditioners
廣東志高精密機械有限公司 Guangdong Chigo Precision Machinery Co., Ltd.	PRC as a limited liability enterprise	Registered capital – RMB200,000,000	**100%**	100%	Manufacture and sales of compressor
廣東志高科創銅業有限公司 Guangdong Chigo Kechuang Copper Co., Ltd.	PRC – as a wholly foreign owned enterprise for a term of 50 years commencing 11 May 2011	Registered capital – RMB100,000,000	**100%**	100%	Manufacture and sales of copper products

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

All principal subsidiaries are indirectly held by the Company.

42. PRINCIPAL SUBSIDIARIES (Continued)

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

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

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

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

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

Chigo Heating	**31.12.2018 RMB'000**	31.12.2017 RMB'000
Current assets	**754,287**	705,155
Non-current assets	**126,127**	102,746
Current liabilities	**681,776**	618,790
Equity attributable to owners of the Company	**144,132**	134,163
Non-controlling interests	**54,506**	54,948

42. PRINCIPAL SUBSIDIARIES (Continued)

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

	2018 RMB'000	2017 RMB'000
Revenue	**1,804,977**	1,502,346
Expenses	**1,740,451**	1,439,343
Profit and total comprehensive income for the year	**64,526**	63,003
Profit and total comprehensive income attributable to owners of the Company	**45,168**	44,102
Profit and total comprehensive income attributable to the non-controlling interests	**19,358**	18,901
Profit and total comprehensive income for the year	**64,526**	63,003
Net cash inflows from operating activities	**59,799**	87,312
Net cash outflows from investing activities	**(77,084)**	(59,351)
Net cash (outflows) inflows from financing activities	**(53,228)**	7,538
Net cash (outflows) inflows	**(70,513)**	35,499

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

43. EVENTS AFTER THE REPORTING PERIOD

On January 2019, Guangdong Chigo entered into a finance lease arrangement with a leasing company, pursuant to which the leasing company has conditionally agreed to purchase certain machinery and equipment from Guangdong Chigo at an aggregate consideration of RMB30,000,000 and lease the equipment back to Guangdong Chigo for lease payments of approximately RMB33,262,000 in aggregate for a period of 36 months.

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

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

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investment in a subsidiary	**543,149**	600,804
Amounts due from subsidiaries	**531,989**	501,895
	1,075,138	1,102,699
Current assets		
Other receivables	**88**	83
Bank balances and cash	**493**	724
	581	807
Current liabilities		
Amounts due to subsidiaries	**45,710**	40,650
Accruals and other payables	**182**	104
	45,892	40,754
Net current liabilities	**(45,311)**	(39,947)
Net assets	**1,029,827**	1,062,752
Capital and reserves		
Share capital	**71,906**	71,906
Reserves	**957,921**	990,846
	1,029,827	1,062,752

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

MOVEMENT IN THE COMPANY'S RESERVES

	Share premium RMB'000	Share compensation reserve RMB'000	Share options reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	938,187	61,568	73,041	(15,877)	1,056,919
Lapse of share options	–	–	(7,254)	7,254	–
Loss for the year	–	–	–	(66,073)	(66,073)
At 31 December 2017	938,187	61,568	65,787	(74,696)	990,846
Lapse of share options	–	–	(65,787)	65,787	–
Loss for the year	–	–	–	(32,925)	(32,925)
At 31 December 2018	938,187	61,568	–	(41,834)	957,921

FINANCIAL SUMMARY

For the year ended 31 December 2018

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
RESULTS					
Revenue	9,233,191	7,774,156	9,301,753	10,736,454	**9,169,525**
(Loss) profit before taxation	(8,572)	(653,049)	86,118	66,696	**(466,224)**
Taxation	(51,807)	(12,483)	(18,526)	(19,065)	**(14,213)**
(Loss) profit for the year	(60,379)	(665,532)	67,592	47,631	**(480,437)**
(Loss) profit for the year attributable to					
– owners of the Company	(81,039)	(690,473)	57,036	29,792	**(499,325)**
– non-controlling interests	20,660	24,941	10,556	17,839	**18,888**
	(60,379)	(665,532)	67,592	47,631	**(480,437)**

	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	11,162,022	10,221,731	10,236,066	10,605,003	**9,965,160**
Total liabilities	(8,255,732)	(7,991,109)	(7,957,552)	(8,293,258)	**(8,167,119)**
Net assets	2,906,290	2,230,622	2,278,514	2,311,745	**1,798,041**
Equity attributable to owners of the Company	2,854,292	2,171,233	2,233,898	2,263,690	**1,749,398**
Non-controlling interests	51,998	59,389	44,616	48,055	**48,643**
	2,906,290	2,230,622	2,278,514	2,311,745	**1,798,041**