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CHIGO

CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 449)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

First Half of 2019 Financial Highlights

	1H 2019 *RMB million*	1H 2018 *RMB million* (restated)	Change %
Continuing operations			
Revenue	**1,976.7**	4,766.3	-58.5
Gross profit	**16.3**	599.4	-97.3
Loss for the period from continuing operations	**(930.6)**	(76.3)	+1,119.7
Discontinued operation			
Profit for the period from discontinued operation	**222.9**	12.8	+1,641.4
Loss for the period	**(707.7)**	(63.5)	+1,014.5
Total assets (as compared to 31 December 2018)	**8,600.2**	9,965.2	-13.7
Net assets (as compared to 31 December 2018)	**1,038.6**	1,798.0	-42.2
Basic loss per share from continuing and discontinued operations (RMB cents)	**(8.37)**	(0.77)	+987.0
Proposed interim dividends (HK cents)	**–**	–	–
Gross margin	**0.8%**	12.6%	-11.8 percentage points
Net loss margin	**(35.8)%**	(1.3)%	-34.5 percentage points
PRC sales	**1,224.0**	2,891.5	-57.7
Overseas sales	**752.7**	1,874.8	-59.9
Residential air-conditioning products sold *('000 sets/units)*	**1,243**	2,671	-53.5
Commercial air-conditioning products sold *('000 sets)*	**2**	152	-98.7

The board (the "**Board**") of directors (the "**Directors**") of Chigo Holding Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 together with the comparative figures for the corresponding period of 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
		2019	2018
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited) (restated)
Continuing operations			
Revenue	*3*	**1,976,714**	4,766,282
Cost of sales		**(1,960,441)**	(4,166,889)
Gross profit		**16,273**	599,393
Other income		**32,769**	17,948
Selling and distribution costs		**(339,411)**	(351,184)
Administrative expenses		**(170,128)**	(203,250)
Research and development costs		**(40,640)**	(56,210)
Other expenses		**(6,121)**	(1,358)
Other gains and losses		**13,276**	23,474
Impairment losses		**(321,276)**	(3,670)
Net loss in fair value changes on foreign currency forward contracts		**(4,053)**	(9,735)
Share of result of an associate		**3,206**	–
Finance costs		**(110,383)**	(88,214)
Loss before taxation	*4*	**(926,488)**	(72,806)
Taxation	*5*	**(4,097)**	(3,521)
Loss for the period from continuing operations		**(930,585)**	(76,327)
Discontinued operation			
Profit for the period from discontinued operation		**222,929**	12,821
Loss for the period		**(707,656)**	(63,506)

	NOTE	Six months ended 30 June 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited) (restated)
Other comprehensive income (expense):			
Item that will not be reclassified subsequently to profit or loss:			
Fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income		**1,179**	(660)
Other comprehensive income (expense) for the period		**1,179**	(660)
Total comprehensive expense for the period		**(706,477)**	(64,166)
(Loss) profit for the period attributable to owners of the Company			
– from continuing operations		**(928,774)**	(73,771)
– from discontinued operation		**222,781**	8,975
Loss for the period attributable to owners of the Company		**(705,993)**	(64,796)
(Loss) profit for the period attributable to non-controlling interests			
– from continuing operations		**(1,811)**	(2,556)
– from discontinued operation		**148**	3,846
(Loss) profit for the period attributable to non-controlling interests		**(1,663)**	1,290
		(707,656)	(63,501)
Total comprehensive (expense) income for the period attributable to:			
– owners of the Company		**(704,814)**	(65,456)
– non-controlling interests		**(1,663)**	1,290
		(706,477)	(64,166)
Loss per share	*6*		
From continuing and discontinued operations			
– Basic and diluted		**(8.37) cents**	(0.77) cent
From continuing operations			
– Basic and diluted		**(11.01) cents**	(0.87) cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	NOTE	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**900,484**	1,218,774
Right-of-use assets		**367,368**	–
Investment properties		**261,774**	–
Land use rights		**–**	193,962
Intangible assets		**459**	499
Prepaid lease payments		**–**	185,813
Interest in an associate		**162,488**	–
Deposits paid for acquisition of property, plant and equipment		**8,199**	36,099
Equity instruments at fair value through other comprehensive income		**16,557**	15,378
Deferred tax assets		**14,557**	18,713
Taxation recoverable		**–**	8,202
		1,731,886	1,677,440
Current assets			
Inventories		**1,807,563**	1,941,744
Trade and other receivables	*8*	**4,357,050**	4,912,925
Land use rights		**–**	5,378
Prepaid lease payments		**–**	16,394
Taxation recoverable		**1,454**	860
Derivative financial instruments		**412**	4,160
Financial assets at fair value through profit or loss		**–**	14,530
Pledged bank deposits		**409,560**	1,054,811
Bank balances and cash		**91,712**	336,918
Amount due from a related party		**19,065**	–
		6,686,816	8,287,720
Assets classified as held for sale		**181,489**	–
		6,868,305	8,287,720

	NOTE	**30.6.2019**	31.12.2018
		RMB'000	*RMB'000*
		(unaudited)	(audited)
Current liabilities			
Trade and other payables	*9*	**3,384,394**	4,350,008
Warranty provision		**25,453**	54,241
Taxation payable		**157,447**	164,818
Contract liabilities		**452,255**	324,543
Amounts due to related parties		**25,055**	–
Loan from controlling shareholder		**199,040**	–
Borrowings related to bills discounted with recourse		**354,526**	1,264,567
Borrowings		**2,494,941**	1,733,291
Derivative financial instruments		**331**	26
Lease liabilities/obligations under finance leases		**96,979**	139,319
		7,190,421	8,030,813
Liabilities associated with assets classified as held for sale		**21,744**	–
		7,212,165	8,030,813
Net current (liabilities) assets		**(343,860)**	256,907
Total assets less current liabilities		**1,388,026**	1,934,347
Non-current liabilities			
Government grants		**31,684**	32,328
Borrowings		**25,871**	16,160
Lease liabilities/obligations under finance leases		**266,052**	61,981
Deferred tax liabilities		**25,837**	25,837
		349,444	136,306
Net assets		**1,038,582**	1,798,041
Capital and reserves			
Share capital	*10*	**71,906**	71,906
Reserves		**972,678**	1,677,492
Equity attributable to owners of the Company		**1,044,584**	1,749,398
Non-controlling interests		**(6,002)**	48,643
Total equity		**1,038,582**	1,798,041

1. BASIS OF PREPARATION

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

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

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that, as of 30 June 2019, the Group's current liabilities exceeded its current assets by approximately RMB343,860,000. Taken into account of:

(i) the availability of the Group's banking facilities; and
(ii) the remaining consideration receivable from disposal of certain properties,

the directors of the Company consider that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future. On this basis, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from the recognition of changes in the Group's interests in existing subsidiaries, investments in associate, non-current assets held for sale, investment properties and the application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures set out in the condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue for contracts with customers

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
Type of goods:		
Sales of air-conditioning products		
Residential air-conditioners	**1,743,030**	3,963,545
Air-conditioners' parts and components	**188,133**	476,865
Others	**45,551**	325,872
Total	**1,976,714**	4,766,282
Geographical markets:		
Mainland China (the "**PRC**")	**1,244,007**	2,891,457
Asia (excluding the PRC)	**351,102**	944,724
Americas	**219,027**	506,161
Africa	**103,133**	127,750
Europe	**77,101**	293,276
Oceania	**2,344**	2,914
Total	**1,976,714**	4,766,282

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).

Segment information

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

An operating segment regarding the manufacture and sale of commercial air-conditioners was discontinued in the current period. The segment information reported below does not include any amounts for this discontinued operation. Prior period segment disclosures have been represented to conform with the current period's presentation.

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

	Revenue		**Results**	
	Six months ended		**Six months ended**	
	30.6.2019	30.6.2018	**30.6.2019**	30.6.2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
		(restated)		(restated)
The PRC	**1,224,007**	2,891,457	**(56,246)**	420,396
Asia (excluding the PRC)	**351,102**	944,724	**37,965**	92,545
Americas	**219,027**	506,161	**18,012**	50,202
Africa	**103,133**	127,750	**9,139**	10,335
Europe	**77,101**	293,276	**6,674**	25,262
Oceania	**2,344**	2,914	**729**	653
	1,976,714	4,766,282	**16,273**	599,393
Unallocated other income			**32,769**	17,948
Unallocated expenses			**(396,650)**	(398,882)
Staff costs included in selling and distribution costs and administrative expenses			**(146,184)**	(189,534)
Impairment losses			**(321,276)**	(3,670)
Net loss in fair value changes on foreign currency forward contracts			**(4,053)**	(9,735)
Charitable donations			**(190)**	(112)
Share of results of an associate			**3,206**	–
Finance costs			**(110,383)**	(88,214)
Loss before taxation			**(926,488)**	(72,806)

Segment results represent the profit earned/loss from each segment. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. LOSS BEFORE TAXATION

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
Loss before taxation from continuing operations has been arrived at after charging:		
Impairment losses recognised in respect of trade receivables	**321,276**	3,670
Amortisation of intangible assets included in administrative expenses	**40**	40
Charitable donations in the PRC	**190**	112
Depreciation of property, plant and equipment	**93,672**	92,528
Depreciation of investment properties	**3,433**	–
Depreciation of right-of-use assets	**20,839**	–
Provision for warranty	**5,189**	23,989
Cost of inventories recognised as an expense including write down on inventories of RMB26,807,000 (2018: RMB4,337,000)	**1,962,290**	4,171,226
and after crediting:		
Amortisation of government grants	**644**	644
Government subsidies included in other income (note)	**8,210**	4,456
Interest income	**12,942**	3,591
Net exchange gain included in other gains and losses	**18,392**	23,623

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

5. TAXATION

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
Continuing operations		
The charge comprises:		
PRC income tax	**59**	(940)
Deferred taxation	**(4,156)**	(2,581)
	(4,097)	(3,521)

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

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

6. LOSS PER SHARE

From continuing and discontinued operations

Basic and diluted loss per share from continued and discontinued operations are RMB8.37 cents per share (2018: RMB0.77 cent per share). The calculation of the basic loss per share for the period from continuing and discontinued operations is based on the loss for the period from continuing and discontinued operations attributable to owners of the Company of RMB705,993,000 (2018: RMB64,796,000) and on the weighted average number of 8,434,178,000 (2018: 8,434,178,000) shares in issue during the period.

From continuing operations

The calculation of the basic loss per share for the period from continuing operations is based on the loss for the period from continuing operations attributable to owners of the Company of RMB928,774,000 (2018: RMB73,771,000) and on the weighted average number of 8,434,178,000 (2018: 8,434,178,000) shares in issue during the period.

There were no potential ordinary shares in issue for the six months ended 30 June 2019. The computation of diluted loss per share from continuing operations for the six months ended 30 June 2018 did not assume the exercise of the Company's outstanding share options because their assumed exercise would result in a decrease in loss per share.

From discontinued operation

Basic and diluted earnings per share from discontinued operation are RMB2.64 cents per share (2018: RMB0.11 cent per share), based on the profit for the period from discontinued operation of RMB222,781,000 (2018: RMB8,975,000) and the denominators detailed above for both basic and diluted loss per share from continuing operations.

7. DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 June 2019 and 2018. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

8. TRADE AND OTHER RECEIVABLES

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**4,639,645**	4,936,183
Less: Allowance for credit losses	**(474,677)**	(154,975)
	4,164,968	4,781,208
Deposits paid to suppliers	**60,020**	32,347
Prepayments	**60,696**	17,608
Advances to staff	**1,513**	3,844
Value-added tax recoverable	**13,934**	16,754
Value-added tax refundable	**–**	9,322
Other receivables	**55,919**	51,842
	4,357,050	4,912,925

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.

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Age		
0 – 30 days	**415,720**	689,858
31 – 60 days	**624,014**	840,579
61 – 90 days	**293,852**	777,684
91 – 180 days	**1,481,693**	1,817,086
181 – 365 days	**1,026,597**	436,240
Over 1 year	**323,092**	219,761
	4,164,968	4,781,208

As at 30 June 2019, total bills received amounting to RMB959,359,000 (31 December 2018: RMB1,514,226,000) are held by the Group for 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. All bills received by the Group are with a maturity period of less than one year.

9. TRADE AND OTHER PAYABLES

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**919,610**	1,511,701
Bills payables	**1,056,128**	2,184,126
	1,975,738	3,695,827
Deposit received in advance from the Disposal	**601,829**	–
Payroll and welfare payables	**69,072**	72,678
Other tax payables	**60,306**	68,247
Accruals	**73,954**	30,843
Other interest bearing payables	**70,987**	71,987
Advertising and promotion costs payable	**7,362**	26,893
Transportation costs payable	**18,535**	7,938
Provision for energy-saving subsidies refundable	**199,190**	199,190
Other payables	**307,421**	176,405
	3,384,394	4,350,008

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.

	30.6.2019	31.12.2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Age		
0 – 90 days	**878,218**	1,156,928
91 – 180 days	**830,522**	1,141,695
181 – 365 days	**201,624**	1,350,095
1 – 2 years	**65,374**	47,109
	1,975,738	3,695,827

10. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	*HKD'000*	*'000*	*HKD'000*
Ordinary shares of Hong Kong dollar ("HKD") 0.01 each				
At 31 December 2018 (audited), 1 January 2019 and 30 June 2019 (unaudited)	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the condensed consolidated statement of financial position at 30 June 2019 and 31 December 2018	71,906

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As the trend of deterioration in operating environment in the second half of 2018 continued, growth in residential air-conditioning market in China still lacked momentum in the first half of 2019, and the market demand was weak, showing an increase in volume and a decrease in price. During the period under review, the overall retail sales of residential household air-conditioning products decreased year-on-year, while retail sales only achieved slight increase. For the offline residential air-conditioning market, there was a decline in the average price of products. The reasons for the decline include, first of all, the growth rate of domestic real estate slowed down in 2018, while in some parts of China, the market saw very quiet real estate transactions in the first half of 2019, which inhibited new demand for residential air-conditioning products in 2019. Second, the inventory of the residential air-conditioner industry is at a high level, and the inventory pressure is huge that air-conditioning enterprises are faced with a new round of price war. If the enterprises were only to rely on the hot weather to promote sales by means of marketing techniques, it would be more and more difficult. Third, under the influence of factors such as mortgage loans borne by nationals, uncertain economic situation and fluctuation and decline of stock market, indebtedness is common, and disposable income of consumers has also begun to tighten, resulting in a lack of buying incentives and motivations. Fourth, diversifying distribution channels have significantly raised our marketing costs. Last but not least, the continuous increase in the supply chain cost continued to lower corporate profit, leading to reduced investment in marketing expenses and affecting the release of consuming capacity. In the first half of 2019, competition in the air-conditioning industry was fierce and purchasing power of consumers was insufficient, and air-conditioning enterprises were hit hard. In a rapidly changing environment, enterprises must respond with innovative and evolving strategies.

During the six months ended 30 June 2019, the Group's domestic marketing and sales team shrank the outlet sales business strategically, explored the full potential of traditional channels, developed the emerging pipelines in an orderly manner and upgraded the development of e-commerce. Meanwhile, the Group has also controlled the investment of advertising expenses and hence reducing costs while improving efficiency. In addition, to maximise the efficiency of resources, the Group reasonably and effectively shut down the external transit warehouses or reduced the storage area of such warehouses in order to operate at an appropriate scale and on a profit-oriented basis.

Despite the prompt adoption of a series of strategies by the Group, domestic sales of residential air-conditioners experienced a significant year-on-year decline in the first half of 2019 as a result of the sluggish economic environment, reduced consumer demand and sourcing factors. The gross margin of the air-conditioning products decreased significantly attributable to the relative increase in cost of sales, apportionment of the corresponding expenses was unavailable, resulting in a decrease in profit as compared to the previous year.

As for export, according to customs information, the volume of air-conditioners exported from China between January and June 2019 increased year-on-year. Nevertheless, the amount of air-conditioners exported from China, as well as the unit price of air-conditioning product exported, decreased year-on-year. Among the sales volume of air-conditioners exported all over the world, except for the decrease recorded in Latin America, growth was observed in other markets including North America, Oceania, Africa, Europe and Asia as compared with the same period in 2018.

During the period under review, air-conditioner export enterprises had been facing a lot of challenges due to global political and economic instability. The trade friction between China and the United States, for instance, has been going on for over a year. The rhythm of air-conditioner exports has been affected, though the trade friction had limited short-term impact on China's air-conditioner export business. After a surge in China's air-conditioner exports to the United States in the fourth quarter last year, it showed a year-on-year decline in the first quarter this year, with an overall pace ahead of schedule. Political changes in the Middle-East also hindered the development of the market. In addition, India has raised import tariffs on residential air-conditioners, coupled with the depreciation of the Rupee, the Indian currency, and the lower temperature, have contributed to a relatively large inventory in the local market and the decline in exports.

In the short run, the depreciation of RMB (the rise in exchange rate) will be beneficial to the residential air-conditioner exports and will enhance the competitiveness of such products in the short-term. 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. In the first half of 2019, prices of raw materials tended to stabilise and showed a slight downward trend as compared to the corresponding period last year, which had little impact on the overseas air-conditioning sales.

For the six months ended 30 June 2019, the Group's residential air conditioner exports mainly concentrated in the Asia and North America markets. During the reporting period, the Group's business strategy prioritised profits and took into account the scale. It also promptly adjusted its pricing strategy, appropriately reduced low-priced orders, and particularly strengthened the control of low-priced regional orders. In addition, the Group facilitated its development by promoting its brand. The Group developed more own brand products to enhance brand influence, which had driven the rise of the gross profit and the increase in original equipment manufacturing ("**OEM**") brand sales. Due to the overall deterioration of the business environment and fierce business competition, the Group's residential air-conditioner export sales during the sales policy adjustment process recorded a relatively significant decline in the first half of 2019.

During the six months ended 30 June 2019, the Group disposed of 40% equity interest in Guangdong Chigo Heating & Ventilation Equipment Co., Ltd.* (廣東志高暖通設備股份有限公司) ("**Chigo Heating**") to certain connected parties at an aggregate consideration of RMB204 million, resulting in the loss of control in Chigo Heating upon the completion of the transaction. Before the disposal, the Group owned 70% interest in Chigo Heating and its assets and liabilities and profits and losses are consolidated into the consolidated financial statements of the Company. Chigo Heating is engaged in manufacture and sale of commercial air-conditioners. Upon completion of the disposal, the Group's commercial air-conditioner operation is treated as discontinued operation upon disposal. The Group has retained the remaining 30% interest in Chigo Heating and classified the retained investment as investment in an associate.

Additionally, the presentation of comparative information in respect of the period ended 30 June 2018 has been restated to show the discontinued operation separately from the continuing operations.

Operation Review

Results of operations

	Six months ended 30 June					
	2019		2018		Change	
	RMB million	***% of Revenue***	*RMB million* (restated)	*% of Revenue*	*RMB million*	*%*
Geographic region						
PRC sales	**1,224.0**	**61.9**	2,891.5	60.7	-1,667.5	-57.7
Asia (excluding the PRC)	**351.1**	**17.8**	944.7	19.8	-593.6	-62.8
Americas	**219.0**	**11.1**	506.2	10.6	-287.2	-56.7
Africa	**103.1**	**5.2**	127.7	2.7	-24.6	-19.3
Europe	**77.1**	**3.9**	293.3	6.1	-216.2	-73.7
Oceania	**2.4**	**0.1**	2.9	0.1	-0.5	-17.2
Overseas sales	**752.7**	**38.1**	1,874.8	39.3	-1,122.1	-59.9
Total revenue	**1,976.7**	**100.0**	4,766.3	100.0	-2,789.6	-58.5

PRC Sales

Due to the sluggish market economy environment, wilting consumer demand and the influence of supply factors during the reporting period, PRC sales of the Group declined year-on-year and contributed 61.9% (30 June 2018 (as restated): 60.7%) to its revenue during the six months ended 30 June 2019. As the sales of major air-conditioning products and parts and components decreased, the Group recorded PRC sales of RMB1,224.0 million (30 June 2018: RMB2,891.5 million), representing a decrease of RMB1,667.5 million or 57.7% from that recorded for the corresponding period in 2018.

Overseas Sales

During the period under review, the Group adjusted its overseas marketing and business strategies, appropriately reduced low-priced orders, and particularly strengthened the control of low-priced regional orders. As a result, the scale of overseas sales declined. For the six months ended 30 June 2019, the Group's overseas sales decreased by RMB1,122.1 million or 59.9% to RMB752.7 million (30 June 2018 (as restated): RMB1,874.8 million) and accounted for 38.1% of the Group's total revenue. All of the overseas markets of the Group recorded a decrease in sales in the first half of 2019. Sales to Europe and Asia (excluding the PRC) dropped sharply by 73.7% and 62.8% respectively during the period.

Asia (excluding the PRC) and Americas remained the major sources of overseas revenue of the Group. These two markets accounted for 17.8% and 11.1% respectively (30 June 2018 (as restated): 19.8% and 10.6%) of the Group's revenue during the period under review.

Financial Review

Revenue

During the six months ended 30 June 2019, the Group recorded a total revenue of approximately RMB1,976.7 million (30 June 2018 (as restated): approximately RMB4,766.3 million), representing a decrease of RMB2,789.6 million, or 58.5% as compared to the corresponding period in 2018. The decrease was primarily due to the decrease in sales volume of major air-conditioning products as a result of the continued uncertainty of the global economy, which led to a deterioration in the business environment, the deconsolidation of the results of the commercial air-conditioning business and the Group's progressive business adjustment during the review period.

Cost of sales

Despite the prices of major raw materials remained stable during the first half of 2019, the Group's cost of sales during the period under review dropped to RMB1,960.4 million (30 June 2018 (as restated): RMB4,166.9 million) as a result of the decrease in sales volume of major air-conditioning products and the deconsolidation of the results of the commercial air-conditioning business, representing a decrease of RMB2,206.5 million or 53.0% as compared to that of the first half of 2018.

Gross profit

During the six months ended 30 June 2019, the gross profit of the Group decreased by RMB583.1 million or 97.3% to RMB16.3 million (30 June 2018 (as restated): RMB599.4 million) due to the decrease in sales and relative increase in cost of sales of its major air-conditioning products. As a result of a faster increase in the cost of sales, the Group's gross margin dropped to 0.8% in the first half of 2019 as compared to 12.6% for the same period in 2018.

The market conditions and demand for air-conditioning products in the first half of 2019 continued to worsen. Due to rising cost of sales during the reporting period, the gross loss margin of the Group's PRC sales was 4.59% (30 June 2018 (as restated): gross margin of 14.5%) for the first half of 2019. As a result of the economic downturn of various overseas markets, the sales volume of the products sold in the major overseas markets decreased significantly. The gross margin of overseas sales increased slightly to 9.6% (30 June 2018 (as restated): 9.5%) during the period under review due to the rising prices of major raw materials in China and fluctuations in the exchange rate of RMB.

Other income

Other income, including mainly the interest income and other operating income, was RMB32.8 million (30 June 2018 (as restated): RMB17.9 million), representing an increase of RMB14.9 million or 83.2%.

Selling and distribution costs

The Group's selling and distribution costs decreased by RMB11.8 million or 3.4% to RMB339.4 million (30 June 2018 (as restated): RMB351.2 million) for the six months ended 30 June 2019. During the period under review, the drop was mainly due to decreases in (i) salaries of the selling and distribution staff; (ii) transportation cost; and (iii) travelling expenses.

Administrative expenses

Administrative expenses of the Group decreased by RMB33.2 million or 16.3% to RMB170.1 million (30 June 2018 (as restated): RMB203.3 million) for the six months ended 30 June 2019. The decrease in administrative expenses was primarily due to the decreases in (i) salaries, benefits and social security charges of the administrative staff; and (ii) rental and long-term amortisation charges during the period under review.

Research and development costs

As the Group restructured its business and scale of operations in the first half of 2019, research and development costs decreased to RMB40.6 million (30 June 2018 (as restated): RMB56.2 million) by 27.8% or RMB15.6 million for the six months ended 30 June 2019.

Other expenses

Other expenses increased by RMB4.7 million or 335.7% during the first half of 2019 and amounted to RMB6.1 million (30 June 2018 (as restated): RMB1.4 million). The expenses were mainly non-operating expenses during the period under review.

Other gains and losses

The Group recorded other gains of RMB13.3 million (30 June 2018 (as restated): RMB23.5 million) in the first half of 2019. The other gains were mainly the gain in exchange difference.

Impairment losses

During the period ended 30 June 2019, the Group had recognised impairment losses in respect of trade receivables of RMB321.3 million (30 June 2018: RMB3.7 million) and increased by RMB317.6 million or 8,583.8%. The Group had restructured its selling and distribution strategies during the reporting period, shrank the outlet sales business strategically, explored the full potential of traditional channels, developed the emerging pipelines in an orderly manner and upgraded the development of e-commerce. As business cooperation with certain customers would shrink gradually, the management expects that it might take longer to recover certain trade receivables. Taking a cautious approach, the Group had provided and recognised the impairment losses in relation to such trade receivables. The Group had also conducted internal assessment and evaluation to support the impairments made. The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Net loss in fair value changes of foreign currency forward contracts

The Group had entered into certain foreign currency forward contracts to sell US dollar with financial institutes to hedge against part of its overseas sales income. The Group recorded a net loss in fair value changes of approximately RMB4.1 million (30 June 2018: RMB9.7 million) under its foreign currency forward contracts during the six months ended 30 June 2019.

Finance costs

The Group financed its working capital requirement through obtaining bank loans and funding through sales and leaseback arrangements and discounting part of its bills receivable from customers to financial institutes. As the Group had increased the total amount of borrowings during the first half of 2019, its finance costs of the Group increased by RMB22.2 million or 25.2% to RMB110.4 million (30 June 2018: RMB88.2 million) for the six months ended 30 June 2019.

Profit for the period from discontinued operation

The Group's commercial air-conditioner operation is treated as discontinued operation upon disposal of 40% equity interest in Chigo Heating by the Group. During the six months ended 30 June 2019, the profit for the period from discontinued operation increased to RMB222.9 million (30 June 2018: RMB12.8 million) by RMB210.1 million or 1,641.4%, was mainly due to the gain on disposal.

Taxation

As the deferred tax charge increased in the period under review, the Group's tax charge for the six months ended 30 June 2019 increased slightly by RMB0.6 million or 17.1% to RMB4.1 million (30 June 2018 (as restated): RMB3.5 million).

Loss for the period

As a result of the foregoing, the Group recorded a net loss of RMB707.7 million for the six months ended 30 June 2019 (30 June 2018: RMB63.5 million), representing an increase of RMB644.2 million or 1,014.5% as compared to the corresponding period in 2018. Since the Group had recorded a loss in the reporting period, a net loss of 35.8% (30 June 2018 (as restated): 1.3%) was recorded for the six months ended 30 June 2019 accordingly.

Financial position

	As at 30 June 2019 *RMB million*	As at 31 December 2018 *RMB million*	Change *RMB million*	Change %
Non-current assets	**1,731.9**	1,677.4	+54.5	+3.2
Current assets	**6,868.3**	8,287.7	-1,419.4	-17.1
Current liabilities	**7,212.2**	8,030.8	-818.6	-10.2
Non-current liabilities	**349.4**	136.3	+213.1	+156.3
Net assets	**1,038.6**	1,798.0	-759.4	-42.2

As at 30 June 2019, the Group's total assets decreased by RMB1,364.9 million or 13.7% to RMB8,600.2 million (31 December 2018: RMB9,965.1 million). The decrease was mainly due to the decreases in pledged bank deposits (decreased by RMB645.3 million), trade and other receivables (decreased by RMB555.9 million) and property, plant and equipment (decreased by RMB318.3 million). Total liabilities of the Group as at 30 June 2019 amounted to RMB7,561.6 million (31 December 2018: RMB8,167.1 million) and decreased by RMB605.5 million or 7.4% compared to that of 31 December 2018. The major liabilities that decreased in the period were trade and other payables (decreased by RMB965.6 million), borrowings related to bills discounted with recourse (decreased by RMB910.0 million), which was offset by the increases in obligation under finance leases (increased by RMB161.7 million) and borrowings (increased by RMB771.4 million).

As the Group recorded a net loss for the period, the Group's net assets decreased by 42.2% or RMB759.4 million to RMB1,038.6 million as at 30 June 2019 (31 December 2018: RMB1,798.0 million).

Liquidity, financial resources and capital structure

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

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

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

As at 30 June 2019, the Group's current assets amounted to RMB6,868.3 million (31 December 2018: RMB8,287.7 million) and current liabilities amounted to RMB7,212.2 million (31 December 2018: RMB8,030.8 million). The Group's working capital decreased by RMB600.8 million or 189.4% from RMB256.9 million as at the end of 2018 to a net current liabilities of RMB343.9 million as at 30 June 2019. The Directors of the Company closely monitor the liquidity of the Group. Taken into account of (i) the availability of the Group's banking facilities; and (ii) the remaining consideration receivable from disposal of certain properties; and the Directors of the Company consider that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future.

As the Group had a net current liabilities at 30 June 2019, the current ratio fell to 1.0 times (31 December 2018: 1.1 times) as at 30 June 2019.

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

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

During the first half of 2019, the Group had obtained funding for its business operation by obtaining bank loans and funding from finance leases. As at 30 June 2019, the balances of short-term and long-term borrowings utilised by the Group were RMB2,494.9 million and RMB25.9 million respectively (31 December 2018: RMB1,733.3 million and RMB16.2 million respectively). Short-term borrowings increased by RMB761.6 million or 43.9% and the long-term borrowings rose by RMB9.7 million or 59.9%. The borrowings were used for working capital purposes, majority of the loans are charged at fixed interest rates, repayable within one year, and are made and repaid in Renminbi. The Group did not have any debentures (31 December 2018: nil) outstanding as at the end of the reporting period.

For the six months ended 30 June 2019, the Group also enhanced its working capital position and obtained financing by entering into sales and leaseback arrangements. As at the end of June 2019, the Group had lease liabilities of approximately RMB363.0 million (31 December 2018: obligations under finance leases of RMB201.3 million).

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group increased to 33.1% as at 30 June 2019 (31 December 2018: 19.5%) because the Group's total borrowings increased and its total assets decreased during the reporting period.

During the first half of 2019, despite increase in the Group's total borrowings, the Group had reduced the borrowings related to bills discounted with recourse substantially. The Group increased its finance cost by 25.2% or RMB22.2 million for the first six months of 2019 comparing to the same period in 2018. Ability of the Group to service finance costs, as indicated by the interest cover ratio, dropped during the reporting period. Since the Group had recorded an increase in loss before taxation and interest during the period under review, the interest cover ratio of the Group dropped and deteriorated for the six months ended 30 June 2019 (30 June 2019: N/A, 30 June 2018: 0.4 times).

During the first half of 2019, the Group had entered into certain foreign currency forward contracts to hedge against part of its exposure to the potential variability of foreign currency risk.

As at 30 June 2019, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue and all of the issued shares were ordinary shares. Since the Group had recorded a net loss for the period, the shareholders' equity decreased to RMB1,038.6 million as at 30 June 2019 (31 December 2018: RMB1,798.0 million).

Other than the above, there were no other equity or debt instruments issued by the Company during the reporting period and at the end of June 2019.

Cash flows

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
Net cash (used in) from operating activities	**(2,146.5)**	335.5
Net cash from (used in) investing activities	**1,112.5**	(168.7)
Net cash from (used in) financing activities	**788.7**	(176.1)
Net decrease in cash and cash equivalents	**(245.3)**	(9.3)
Cash and cash equivalents at 30 June	**91.7**	648.7

For the six months ended 30 June 2019, the Group used cash in its operating activities amounting to RMB2,146.5 million which was mainly applied to reduce the amount of borrowings related to bills discounted with recourse and trade and other payables. During the period, the Group financed its working capital by withdrawing pledged bank deposits, deposit received in advance from the disposal of right-of-use assets and property, plant and equipment and borrowings.

During the period under review, the Group obtained net cash of approximately RMB645.3 million from withdrawal of pledged bank deposits. The Group also obtained cash from the disposal of right-of-use assets and property, plant and equipment amounting to approximately RMB601.8 million. As such, the Group generated net cash of approximately RMB1,112.5 million from its investing activities.

During the first half of 2019, the Group raised borrowings by a net amount of RMB771.4 million. As such, the Group generated net cash of approximately RMB788.7 million from its financing activities.

As a result of the foregoing, cash balances of the Group decreased by RMB245.3 million during the six months ended 30 June 2019 (30 June 2018: RMB9.3 million) and the bank balances and cash decreased to RMB91.7 million as at 30 June 2019 (30 June 2018: RMB648.7 million).

Sales and leaseback arrangements

On 4 January 2019, 廣東志高空調有限公司 (Guangdong Chigo Air-conditioning Co., Limited*) ("**Guangdong Chigo**"), an indirect wholly-owned subsidiary of the Company entered into a sales and leaseback contract with 廣東耀達融資租賃有限公司 (Yaoda Finance Lease Co., Ltd.*) ("**Yaoda Leasing**"), pursuant to which Yaoda Leasing has conditionally agreed to purchase certain 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.

Material acquisitions and disposals, significant investments

On 30 March 2019, the Vendor, Guangdong Chigo entered into a sale and purchase agreement with Foshan City Jin He Yi Investment Development Co., Ltd.* (佛山市金和益投資發展有限公司), Mr. Wang Feng* (王峰), Ms. Ma Junxia* (馬俊霞) and Tong Zhijun* (童志軍) (collectively, the "**Purchasers**") pursuant to which the Guangdong Chigo conditionally agreed to sell, and the Purchasers agreed to purchase, 40% of the issued share capital of Chigo Heating, the then indirect 70% owned subsidiary of the Company), at an aggregate consideration of RMB204 million. Upon completion of the disposal, Chigo Heating is held as to 30% by the Group and is no longer be accounted for as a subsidiary in the consolidated financial statements of the Company. The proceeds from the disposal were applied as general working capital of the Group and used for the purchase of raw materials for production and settlement of operating expenses.

On 21 May 2019 Guangdong Chigo entered into a transfer agreement with 粵港澳大灣區產融資產管理有限公司 (Greater Bay Area Chanrong Asset Management Company Limited*)(the "**Purchaser**") pursuant to which Guangdong Chigo agreed to sell, and the Purchaser agreed to purchase, the certain properties located in Foshan City, Guangdong Province, the PRC, at a consideration of RMB450 million. On 21 May 2019 Guangdong Chigo also entered into a relocation compensation agreement (being supplemental to the transfer agreement) with the Purchaser, pursuant to which the Purchaser agreed to pay a relocation compensation in the amount of RMB358 million to Guangdong Chigo for the relocation of certain machineries, inventories and facilities, etc. on the properties (collectively, the "**Disposal**").

Save as disclosed above, during the six months ended 30 June 2019, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies and the Group did not hold any significant investments during the six months ended 30 June 2019.

Charge on assets

As at 30 June 2019, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB409.6 million (31 December 2018: approximately RMB1,054.8 million) were pledged to certain banks for securing the banking facilities granted to the Group.

Exposure to fluctuations in exchange rates

During the six months ended 30 June 2019, approximately 38.1% of the Group's sales was denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risk. During the reporting period, the Group had entered into certain foreign currency forward contracts to hedge against foreign exchange risk. The exchange rate of Renminbi against the US dollar was relatively stable during most of the review period and depreciated against the US dollar since May 2019. The Directors believe that the Group's exposure to foreign currency risk was not significant.

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

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

Contingent liabilities

As at 30 June 2019, the Group provided a financial guarantee in respect of a convertible bond issued by a related party of approximately RMB20,000,000, representing the amount that could be required to be paid if the guarantee was called upon in entirety by the convertible bond holders.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 30 June 2019.

Employees and Remuneration

As at 30 June 2019, the Group employed 7,478 employees (30 June 2018: 13,286 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages are reviewed on a yearly basis. The Group also provides its employees with welfare benefits including medical care, meal subsidies, education subsidies and housing, etc.

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

Events after the end of the reporting period

The Disposal was approved by the shareholders at the extraordinary general meeting held on 8 August 2019. The transactions under the Disposal are yet to be completed. Proceeds received from the transactions, being part of the total disposal consideration, were applied as general working capital of the Group and used for the purchase of raw materials for production and settlement of operating expenses.

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

Outlook and Future Plans

Since the trade relationship between China and the United States remains tense, it is expected that the tariff issues cannot be settled completely within a short period of time, and there will be a certain negative impact on China's air-conditioning manufacturers. Moreover, the inventory level of the air-conditioning industry remains high. As a result, it is highly probable for the air-conditioning industry to face a price war in the second half of 2019. Further, the recent significant fluctuation in the remittance of RMB will also affect the sales to overseas customers. It is expected that the Group still have to face a number of challenges in our business.

In view of the fact that the global market economy remains uncertain in the second half of 2019, risks relating to business operations have increased. The Group has implemented corresponding internal reforms, streamlined the structure, improved the operating efficiency per capita, and adjusted the business strategies. In terms of procurement cost and technological process optimization, we aim to reduce costs and increase efficiency.

The management expects to conduct a comprehensive review of the production facilities and the client base of the residential air-conditioners of the Group after the 2019 refrigeration year (tentatively, in the fourth quarter in 2019) so as to formulate specific plans for future development of its principal business.

Furthermore, according to the policy promulgated by the local government, the industrial zone in which the Group is located will be included in the local project "Three Olds Renovation Plan". The Group is awaiting further information on the government policy, and will conduct research and internal discussion as appropriate, and where necessary, make announcement as and when appropriate.

OTHER INFORMATION

Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (30 June 2018: nil).

Purchase, Sale or Redemption of Listed shares of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company during the six months ended 30 June 2019.

Corporate Governance

The Company has adopted and applied its corporate governance practices which are in line with the code provisions contained in the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Listing Rules. During the first half of 2019, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provisions A.2.1 and A.5.1 of the CG Code.

Code Provision A.2.1

Code Provision A.2.1 of the CG Code stipulates that the roles of the Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

During the first half of 2019, Mr. Li Xinghao acted as both Chairman and Chief Executive Officer (the "**CEO**") of the Company.

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

Mr. Li is the founder of the Group and has over 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.

Code Provision A.5.1

Code provision A.5.1 of the CG Code stipulates that issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. Following the resignation of Mr. Fu Xiaosi as an independent non-executive Director on 17 April 2019 and the retirement of Mr. Wang Manping as an independent non-executive Director at the conclusion of the annual general meeting of the Company held on 28 June 2019, the nomination committee of the Company (the "**Nomination Committee**") then only consisted of one independent non-executive Director, namely Mr. Zhang Xiaoming as the member of the Nomination Committee.

As Mr. Pan Mingjun was appointed and Mr. Wang Manping was re-appointed as independent non-executive Directors, as well as, among others, a member and the chairman of the Nomination Committee respectively on 10 July 2019, such deviation from Code Provision A.5.1 was rectified.

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code regarding securities transactions by the Directors (the "**Own Code**"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Own Code. All Directors have confirmed their compliance during the first half of 2019 with required standards set out in the Model Code and the Own Code.

Review of the Interim Results

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

The Company's interim results for the six months ended 30 June 2019 have been reviewed by the Audit Committee with the management of the Company.

Publication of the Interim Results and Interim Report

The electronic version of this announcement will be published on the Stock Exchange website (www.hkexnews.hk), the Company's official website (www.china-chigo.com) and at irasia.com (www.irasia.com/listco/hk/chigo/index.htm). The interim report of the Company for the six months ended 30 June 2019 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and published on the aforementioned websites and webpage in due course.

By Order of the Board
Chigo Holding Limited
Li Xinghao
Chairman

Hong Kong, 29 August 2019

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

* *The English translation is provided for identification purpose only*