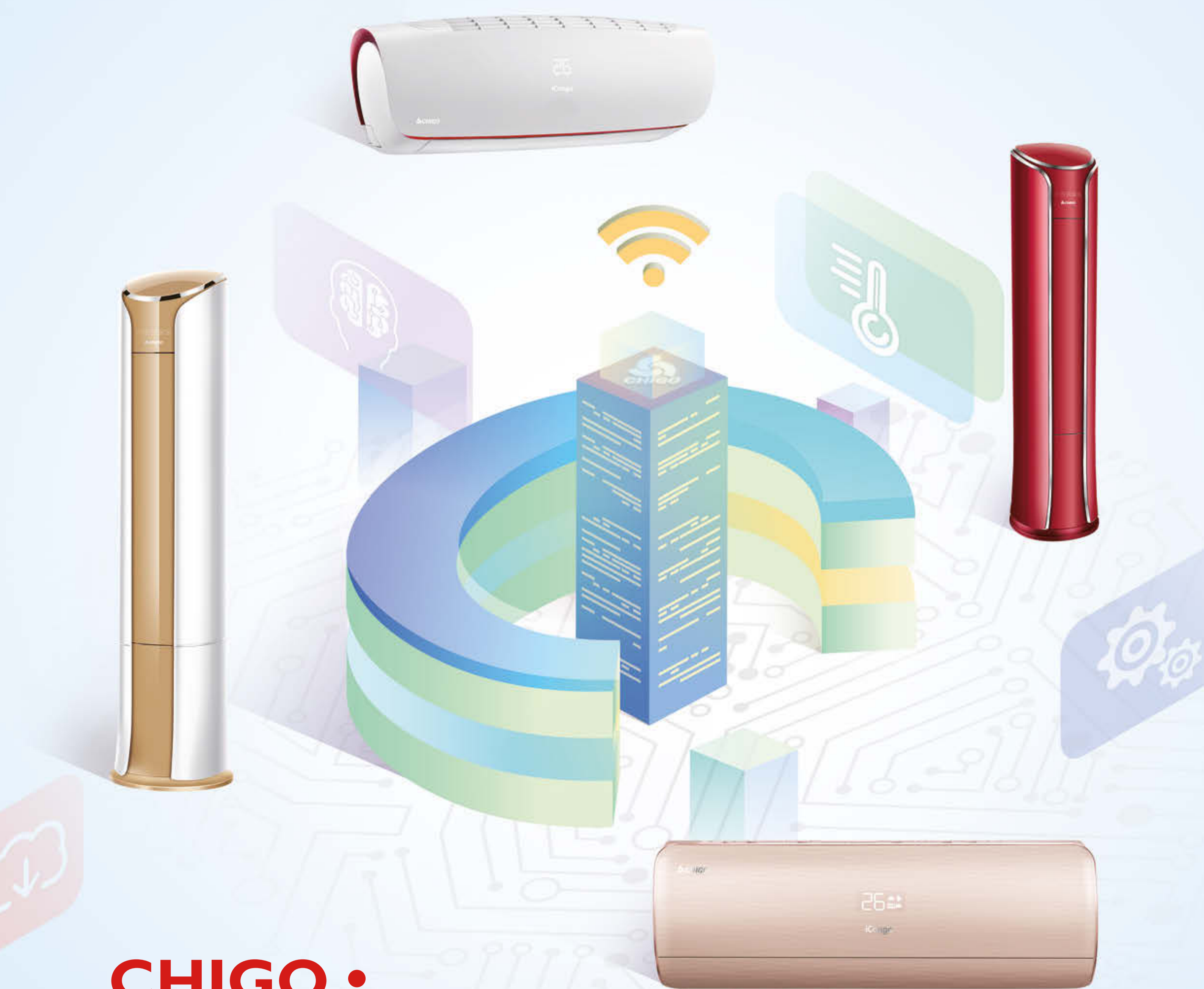
CHIGO HOLDING LIMITED
志高控股有限公司

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



# CHIGO •

## LEADER OF HIGH-END AIR CONDITIONING

INTERIM REPORT 2019

# Contents

# Financial Highlights

## Continuing operations

| | |
|---|---|
| Revenue decreased by 58.5% to | RMB 1,976.7 million |
| Gross profit decreased by 97.3% to | RMB 16.3 million |
| Loss for the period from continuing operations increased by 1,119.7% to | RMB 930.6 million |

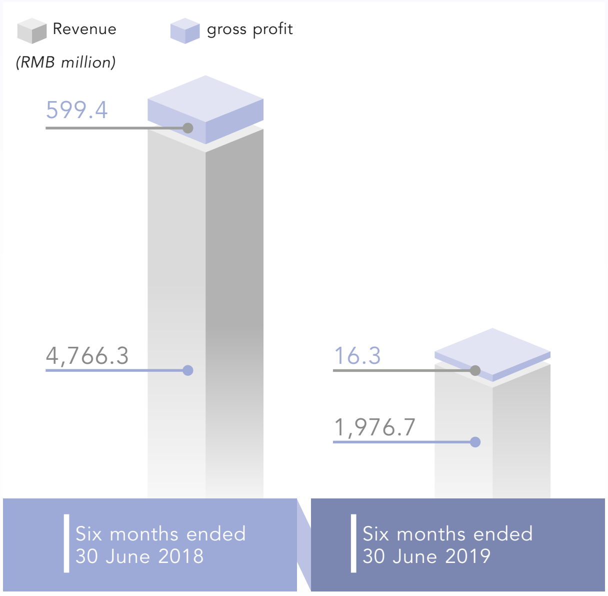
## Discontinued operation

| | |
|---|---|
| Profit for the period from discontinued operation increased by 1,641.4% to | RMB 222.9 million |

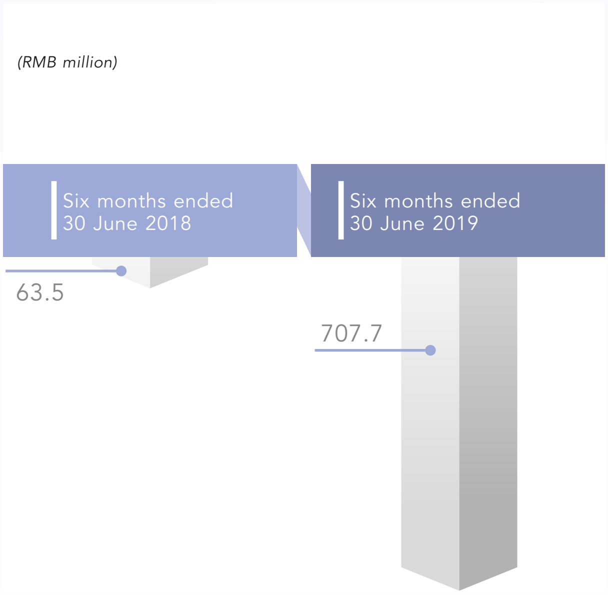
| | |
|---|---|
| Loss for the period increased by 1,014.5% to | RMB 707.7 million |
| Gross margin dropped from 12.6% to | 0.8% |
| Net loss margin declined by 34.5 percentage points to | 35.8% |
| Total assets decreased by 13.7% (as compared to 31 December 2018) to | RMB 8,600.2 million |
| Net assets decreased by 42.2% (as compared to 31 December 2018) to | RMB 1,038.6 million |

# Financial Highlights

## Revenue and gross profit




## Loss for the period



# Corporate Information

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

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Xiaoming
Mr. Wang Manping *(retired on 28 June 2019 and re-appointed on 10 July 2019)*
Mr. Pan Mingjun *(appointed on 10 July 2019)*
Mr. Fu Xiaosi *(resigned on 17 April 2019)*

## 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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKERS

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

## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

## LEGAL ADVISER AS TO HONG KONG LAW

Reed Smith Richards Butler

## LISTING INFORMATION

| | |
|---|---|
| Listing: | Main Board of The Stock Exchange of Hong Kong Limited |
| Stock code: | 449 |
| Listing date: | 13 July 2009 |
| Board lot size: | 2,000 shares |
| As at 30 June 2019: | |
| No. of shares issued: | 8,434,178,000 shares |
| Market capitalisation: | HKD683.2 million |

## CORPORATE WEBSITES

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

## CORPORATE CONTACT INFORMATION FOR SHAREHOLDERS AND INVESTORS

### HONG KONG

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

### PRC

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

# Management Discussion and Analysis

## Business Review

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.

# Management Discussion and Analysis

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 | % 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.

# Management Discussion and Analysis

## 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 233.8% 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 33.5% 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 (as restated): 0.2 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.

* *The English translation is provided for identification only*

# Other Information

## Interim dividend

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

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

As at 30 June 2019, the interests of the Directors and chief executive in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### Long position in the ordinary shares of HKD0.01 each of the Company

| Name of Director | Capacity | Number of issued ordinary shares held as at 30 June 2019 | Approximate percentage of shareholding[1] |
|---|---|---|---|
| Mr. Li Xinghao[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 |
| Ms. Huang Guijian | Beneficial owner | 2,700,000 | 0.03 |
| | | 4,351,684,210 | 51.60 |

*Notes:*

1 Based on 8,434,178,000 shares of the Company in issue as at 30 June 2019.

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

### Long position in the shares of associated corporation

| Name of Director | Associated corporation | Capacity | Number of issued ordinary shares held as at 30 June 2019 | 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 17 to the condensed consolidated financial statements.

None of the Directors nor chief executive of the Company held any share options as at 30 June 2019.

Other than as disclosed above, none of the Directors, the chief executive nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporation as at 30 June 2019.

## Share option scheme

The share option scheme adopted by the Company on 19 June 2009 (the "**2009 Scheme**") expired on 18 June 2019. Thereafter, no further options would be granted under the 2009 Scheme. There were no outstanding options, warrants or securities to be exercised or converted into shares of the Company under the 2009 Scheme. Particulars of the 2009 Scheme are set out in note 17 to the condensed consolidated financial statements. A new share option scheme of the Company was approved by the Shareholders on 5 July 2019.

During the reporting period, no share option was granted, exercised or cancelled.

Pursuant to the terms of the Share Option Scheme, the shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme ("**Scheme Mandate Limit**") shall not exceed 10% of the total number of shares in issue on the date of approval by shareholders. As at 30 June 2019 and the date of this report, no share options were granted and the remaining 843,417,800 share options of the existing Scheme Mandate Limit have not been utilized, which represents approximately 10.00% of the issued share capital of the Company and is within the 30% overall limit as required under the Share Option Scheme.

### Substantial shareholders

As at 30 June 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

| Name of shareholder | Capacity | Number of issued ordinary shares held as at 30 June 2019 | Approximate percentage of shareholding[1] |
|---|---|---|---|
| **Long positions** | | | |
| Chigo Group Holding Limited[2] | Beneficial owner | 4,322,234,210 | 51.25 |

*Notes:*

1 Based on 8,434,178,000 shares of the Company in issue as at 30 June 2019.

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 30 June 2019, the following Director held office in a substantial shareholder set out above:

| Name of Director | Position held in the relevant substantial shareholder |
|---|---|
| Mr. 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 30 June 2019.

## 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 Rules Governing the Listing of Securities on the Stock Exchange (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 nonexecutive 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.

### Non-Compliance with Rules 3.10, 3.10A and 3.21 of the Listing Rules

Upon resignation of Mr. Fu Xiaosi ("**Mr. Fu**") as an independent non-executive Director with effect from 17 April 2019, the number of independent non-executive Directors of the Company fell below the minimum number required under Rules 3.10(1) and 3.10A of the Listing Rules. In addition, the number of members of the Audit Committee fell short of the requirements under Rule 3.21 of the Listing Rules. According to Rules 3.10(2) and 3.21 of the Listing Rules, at least one independent non-executive Director and one of the members of the Audit Committee must have appropriate professional qualifications or accounting or related financial management expertise. Following the resignation of Mr. Fu, the Company had two independent non-executive Directors and the Audit Committee comprised two members who are all independent non-executive Directors. However, none of them has appropriate professional qualifications or accounting or related financial management expertise as specified in Rule 3.10(2) of the Listing Rules. Therefore, the Company does not fully comply with the requirements of Rules 3.10(2) and 3.21 of the Listing Rules.

Further, the number of members of the Company's Audit Committee and Nomination Committee fell below the minimum number required under the terms of reference of the respective committees.

As stated in the Company's announcement dated 17 April 2019, with a view to comply with the above requirements under the Listing Rules and the terms of reference of the Audit Committee and the Nomination Committee, the Company would endeavour to identify a suitable candidate to fill the above vacancy as soon as practicable and in any event within three months from the effective date of Mr. Fu's resignation.

Following the retirement of Mr. Wang Manping ("**Mr. Wang**") as an independent non-executive Director of the Company upon the closing of the of the annual general meeting of the Company on 28 June 2019, the Company had only one independent non-executive Director, and therefore below the minimum number of independent non-executive directors required under Rules 3.10 and 3.10A of the Listing Rules. The number of members of the Company's audit committee and nomination committee also fell below the minimum number required under Rule 3.21 of the Listing Rules and the terms of reference of the respective committees.

As stated in the Company's announcement dated 28 June 2019, with the view to complying with the above requirements under the Listing Rules and the terms of reference of the audit committee and the nomination committee, the Company would endeavour to identify a suitable candidate to fill the above vacancies as soon as practicable and in any event within three months from the retirement of Mr. Wang.

# Other Information

The Board announced on 10 July 2019 that, Mr. Pan Mingjun ("**Mr. Pan**") had been appointed as an independent non-executive Director of the Company, the chairman of the audit committee, member of the remuneration committee and the nomination committee of the Company. Mr. Pan has the appropriate professional qualifications or accounting or related financial management expertise as specified in Rule 3.10(2) of the Listing Rules. The Board further announced that Mr. Wang Manping had been re-appointed as an independent nonexecutive Director of the Company, the chairman of the remuneration committee, member of the audit committee and the nomination committee of the Company with effect from 10 July 2019.

Following the appointments of Mr. Pan and Mr. Wang with effect from 10 July 2019, the Company meets and is in compliance with the requirements under Rules 3.10, 3.10A and 3.21 of the Listing Rules respectively.

## 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, Mr. Pan Mingjun, Mr. Zhang Xiaoming and Mr. 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.

By Order of the Board
**Chigo Holding Limited**
**Li Xinghao**
*Chairman*

Hong Kong, 29 August 2019

# Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

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

## Introduction

We have reviewed the condensed consolidated financial statements of Chigo Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 58, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

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

## Conclusion

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

29 August 2019

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the six months ended 30 June 2019*

| | NOTES | Six months ended 30 June 2019 RMB'000 (unaudited) | 2018 RMB'000 (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 | 11 | **(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 | 19 | **222,929** | 12,821 |
| Loss for the period | | **(707,656)** | (63,506) |
| 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) |

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the six months ended 30 June 2019*

| | NOTES | Six months ended 30 June 2019 RMB'000 (unaudited) | 2018 RMB'000 (unaudited) (Restated) |
|---|---|---|---|
| (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)** | (63,506) |
| 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*

| | NOTES | 30.6.2019 RMB'000 (unaudited) | 31.12.2018 RMB'000 (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 8 | **900,484** | 1,218,774 |
| Right-of-use assets | 8 | **367,368** | – |
| Investment properties | 8 | **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 | 9 | **1,807,563** | 1,941,744 |
| Trade and other receivables | 10 | **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 | 21 | **19,065** | – |
| | | **6,686,816** | 8,287,720 |
| Assets classified as held for sale | 12 | **181,489** | – |
| | | **6,868,305** | 8,287,720 |

# Condensed Consolidated Statement of Financial Position

*AT 30 June 2019*

| | NOTES | 30.6.2019 RMB'000 (unaudited) | 31.12.2018 RMB'000 (audited) |
|---|---|---|---|
| Current liabilities | | | |
| Trade and other payables | 13 | 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 | 21 | 25,055 | – |
| Loan from controlling shareholder | 21 | 199,040 | – |
| Borrowings related to bills discounted with recourse | 14 | 354,526 | 1,264,567 |
| Borrowings | 15 | 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 | 12 | 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 | 15 | 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 | 16 | 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 |

# Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30 June 2019*

| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (Note a) | Share compensation reserve RMB'000 (Note b) | Share options reserve RMB'000 | Statutory surplus reserve fund RMB'000 (Note c) | FVTOCI reserve RMB'000 | (Accumulated loss)/ retained profits RMB'000 | Attributable to owners of the Company RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 (audited) | **71,906** | **938,187** | **(26,408)** | **63,535** | **-** | **257,871** | **(7,622)** | **451,929** | **1,749,398** | **48,643** | **1,798,041** |
| Loss for the period | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(705,993)** | **(705,993)** | **(1,663)** | **(707,656)** |
| Other comprehensive income for the period | **-** | **-** | **-** | **-** | **-** | **-** | **1,179** | **-** | **1,179** | **-** | **1,179** |
| Total comprehensive income (expense) for the period | **-** | **-** | **-** | **-** | **-** | **-** | **1,179** | **(705,993)** | **(704,814)** | **(1,663)** | **(706,477)** |
| Partial disposal of a subsidiary *(note 19)* | **-** | **-** | **-** | **-** | **-** | **(33,494)** | **-** | **33,494** | **-** | **(52,982)** | **(52,982)** |
| Transfers | **-** | **-** | **-** | **-** | **-** | **5,985** | **-** | **(5,985)** | **-** | **-** | **-** |
| At 30 June 2019 (unaudited) | **71,906** | **938,187** | **(26,408)** | **63,535** | **-** | **230,362** | **(6,443)** | **(226,555)** | **1,044,584** | **(6,002)** | **1,038,582** |
| At 1 January 2018 (audited) | 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 for the period | - | - | - | - | - | - | - | (64,796) | (64,796) | 1,290 | (63,506) |
| Other comprehensive expense for the period | - | - | - | - | - | - | (660) | - | (660) | - | (660) |
| Total comprehensive (expense) income for the period | - | - | - | - | - | - | (660) | (64,796) | (65,456) | 1,290 | (64,166) |
| Distribution to non-controlling interests *(Note d)* | - | - | - | - | - | - | - | - | - | (19,800) | (19,800) |
| Capital contributions from non-controlling interests of a subsidiary | - | - | - | - | - | - | - | - | - | 1,500 | 1,500 |
| Lapse of share options | - | - | - | - | (904) | - | - | 904 | - | - | - |
| Transfers | - | - | - | - | - | 6,595 | - | (6,595) | - | - | - |
| At 30 June 2018 (unaudited) | 71,906 | 938,187 | (26,408) | 63,535 | 64,883 | 257,870 | (1,973) | 821,576 | 2,189,576 | 31,045 | 2,220,621 |

*Notes:*

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

(b) Share compensation reserve represents:

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

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

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

(d) Amount represents dividend paid by a non-wholly owned subsidiary of the Company during the six months ended 30 June 2018.

# Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2019*

| | NOTES | Six months ended 30 June<br>**2019**<br>***RMB'000***<br>**(unaudited)** | <br>2018<br>*RMB'000*<br>(unaudited) |
|---|---|---|---|
| Net cash (used in) from operating activities | | **(2,146,495)** | 335,542 |
| Investing activities | | | |
| Placement of pledged bank deposits | | **(486,574)** | (1,341,762) |
| Purchase of property, plant and equipment | | **(1,929)** | (26,338) |
| Deposits paid for acquisition of property, plant and equipment | | **(7,633)** | (31,916) |
| Deposit received in advance from disposal of right-of-use assets and property, plant and equipment | *12* | **601,829** | – |
| Other taxes prepaid in relation to disposal of right-of-use assets and property, plant and equipment | *12* | **(51,829)** | – |
| Withdrawal of pledged bank deposits | | **1,131,825** | 1,212,427 |
| Proceeds from disposal of property, plant and equipment | | **4,534** | 3,343 |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **14,530** | 1,990 |
| Placement of restricted deposits | | **–** | (50,000) |
| Withdrawal of restricted deposits | | **–** | 39,205 |
| Interest received | | **12,942** | 4,538 |
| Proceeds from disposal of a subsidiary | | **–** | 20,020 |
| Partial disposal of a subsidiary | *19* | **(105,151)** | – |
| Prepaid lease payments paid | | **–** | (231) |
| Net cash from (used in) investing activities | | **1,112,544** | (168,724) |
| Financing activities | | | |
| Borrowings raised | | **2,467,493** | 1,861,752 |
| Proceeds from sale and lease back arrangements | | **–** | 55,000 |
| Repayment of borrowings | | **(1,696,132)** | (1,903,364) |
| Interest paid | | **(100,421)** | (92,800) |
| Distribution to non-controlling shareholders | | **–** | (19,800) |
| Repayments of leases liabilities/obligations under finance leases | | **(81,235)** | (78,453) |
| Contribution from non-controlling interests of a subsidiary | | **–** | 1,500 |
| Loan from controlling shareholder | | **199,040** | – |
| Net cash from (used in) financing activities | | **788,745** | (176,165) |
| Net decrease in cash and cash equivalents | | **(245,206)** | (9,347) |
| Cash and cash equivalents at 1 January | | **336,918** | 658,047 |
| Cash and cash equivalents at 30 June | | **91,712** | 648,700 |
| Analysis of the balances of cash and cash equivalents | | | |
| Bank balances and cash | | **91,712** | 648,700 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2019*

## 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 as detailed in note 12,

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 changes in the Group's interests in existing subsidiaries, investments in associates, 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.

### Changes in the Group's interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these condensed consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's condensed consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

### 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 |

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

#### *2.1.1 Key changes in accounting polices resulting from application of HKFRS 16*

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

**Allocation of consideration to components of a contract**
For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the condensed financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

**Short-term leases**
The Group applies the short-term lease recognition exemption to leases of machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases *(continued)*

*2.1.1 Key changes in accounting polices resulting from application of HKFRS 16 (continued)*

As a lessee *(continued)*

**Right-of-use assets**

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment properties".

**Leasehold land and building**

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

**Refundable rental deposits**

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases *(continued)*

*2.1.1 Key changes in accounting polices resulting from application of HKFRS 16 (continued)*

As a lessee *(continued)*

**Lease liabilities**
At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

**Taxation**
For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes requirements* to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases *(continued)*

#### *2.1.1 Key changes in accounting polices resulting from application of HKFRS 16 (continued)*

As a lessor

**Allocation of consideration to components of a contract**

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

**Refundable rental deposits**

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

**Sublease**

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Upon transition, there is no impact of applying HKFRS 16 as a lessor on the Group's condensed consolidated financial statements.

Sale and leaseback transactions

**The Group acts as a seller-lessee**

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group as a seller-lessee. For a transfer that does not satisfy the requirements as a sale, the Group accounts for the transfer proceeds as borrowing within the scope of HKFRS 9.

#### *2.1.2 Transition and summary of effects arising from initial application of HKFRS 16*

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases *(continued)*

#### *2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery and equipment in the PRC was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrual lease payments by applying HKFRS 16 C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The lessee's incremental borrowing rates applied range from 4.95% to 9.67%.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases *(continued)*

*2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)*

As a lessee *(continued)*

| | Note | At 1 January 2019 RMB'000 |
|---|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | | 1,226,657 |
| Lease liabilities discounted at relevant incremental borrowing rates | | 204,829 |
| Less: Recognition exemption – short-term leases | | (1,584) |
| Lease liabilities relating to operating leases recognised upon application of HKFRS 16 | | 203,245 |
| Add: Obligations under finance leases recognised at 31 December 2018 | *(b)* | 201,300 |
| Lease liabilities as at 1 January 2019 | | 404,545 |
| Analysed as | | |
| Current | | 153,020 |
| Non-current | | 251,525 |
| | | 404,545 |

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases *(continued)*

*2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)*

As a lessee *(continued)*

The carrying amount of right-of-use assets at 1 January 2019 comprises the following:

| | *Notes* | **Right-of-use assets** *RMB'000* |
|---|---|---|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | | 203,245 |
| Reclassified from land use rights | *(a)* | 199,340 |
| Amount included in property, plant and equipment under HKAS 17 | | |
| – Assets previously under finance leases | *(b)* | 206,616 |
| Adjustments on rental deposits at 1 January 2019 | *(c)* | 2,948 |
| Less: Accrued lease liabilities relating to lease payments increasing progressively over lease terms at 1 January 2019 | *(d)* | (14,860) |
| Less: Reclassified to investment properties | *(e)* | (187,227) |
| | | 410,062 |
| By class: | | |
| Leasehold lands | | 199,340 |
| Buildings | | 4,106 |
| Machineries | | 206,616 |
| | | 410,062 |

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases *(continued)*

#### *2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)*

As a lessee *(continued)*

(a) Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of land use rights amounting to RMB5,378,000 and RMB193,962,000 respectively were reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases which were classified as property, plant and equipment as at 31 December 2018, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB206,616,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB139,319,000 and RMB61,981,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

(c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB2,948,000 was adjusted to refundable rental deposits paid and right-of-use assets.

(d) These relate to accrued lease liabilities of an operating lease for lease of leasehold land in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

(e) The Group sub-leased a leasehold land to a third party prior to 31 December 2018. The sub-lease is classified as an operating lease by reference to the right-of-use asset arising from the head lease. Accordingly, the right-of-use asset arising from the head lease amounting to RMB187,227,000 was reclassified to investment property at 1 January 2019.

(f) Payments for property interests which included both leasehold land and building elements and cannot be allocated reliably between the leasehold land and building elements were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB16,394,000 and RMB185,813,000 respectively were reclassified to property, plant and equipment.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases *(continued)*

*2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)*

Sales and leaseback transactions

**The Group acts as a seller-lessee**

In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group applies the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. During the period, the Group entered into a sale and leaseback transaction in relation to certain machineries and the transaction does not satisfy the requirements as a sale. Accordingly, the Group accounts for the transfer proceeds of RMB27,000,000 as borrowing within the scope of HKFRS 9.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | *Notes* | Carrying amounts previously reported at 31 December 2018 *RMB'000* | Adjustments *RMB'000* | **Carrying amounts under HKFRS 16 at 1 January 2019** ***RMB'000*** |
|---|---|---|---|---|
| **Non-current Assets** | | | | |
| Property, plant and equipment | *(b),(f)* | 1,218,774 | (4,409) | **1,214,365** |
| Prepaid lease payments | *(f)* | 185,813 | (185,813) | – |
| Land use rights | *(a)* | 193,962 | (193,962) | – |
| Right-of-use assets | *(a),(b),(c),(d),(e)* | – | 410,062 | **410,062** |
| Investment properties | *(e)* | – | 187,227 | **187,227** |
| **Current Assets** | | | | |
| Prepaid lease payments | *(f)* | 16,394 | (16,394) | – |
| Land use rights | *(a)* | 5,378 | (5,378) | – |
| Trade and other receivables | *(c)* | 4,912,925 | (2,948) | **4,909,977** |
| **Current liabilities** | | | | |
| Trade and other payables | *(d)* | 4,350,008 | (14,860) | **4,335,148** |
| Lease liabilities | *(b)* | – | 153,020 | **153,020** |
| Obligations under finance leases | *(b)* | 139,319 | (139,319) | – |
| **Non-current liabilities** | | | | |
| Lease liabilities | *(b)* | – | 251,525 | **251,525** |
| Obligations under finance leases | *(b)* | 61,981 | (61,981) | – |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2019*

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 2.1 Impacts and changes in accounting policies of application of HKFRS 16 Leases *(continued)*

*2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)*

Sales and leaseback transactions *(continued)*

**The Group acts as a seller-lessee** *(continued)*

*Note:* For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

## 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: | | |
| The PRC | **1,224,007** | 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).

## 3. REVENUE AND SEGMENT INFORMATION *(continued)*

### Segment information

Segment information has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), the chief executive officer, 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, which are described in more detail in note 19. 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<br>Six months ended | | Results<br>Six months ended | |
|---|---|---|---|---|
| | **30.6.2019**<br>***RMB'000***<br>**(unaudited)** | 30.6.2018<br>*RMB'000*<br>(unaudited)<br>(Restated) | **30.6.2019**<br>***RMB'000***<br>**(unaudited)** | 30.6.2018<br>*RMB'000*<br>(unaudited)<br>(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 result 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 operations

Basic and diluted earnings per share from discontinued operations are RMB2.64 cents per share (2018: RMB0.10 cent per share), based on the profit for the period from discontinued operations 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. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the six months ended 30 June 2019, the Group incurred an aggregate amount of RMB22,713,000 (2018: RMB63,922,000) for the acquisition of property, plant and equipment. Part of consideration of RMB4,074,000 (2018: RMB46,987,000) were settled through deposits paid in prior year.

In addition, during the six months ended 30 June 2019, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB3,317,000 (2018: RMB3,493,000) for cash proceeds of RMB4,534,000 (2018:RMB3,343,000), resulting in a gain on disposal of RMB1,217,000 (2018: loss of RMB150,000).

During the six months ended 30 June 2019, the Group entered into three new lease agreements for land use rights for a maximum period of 35 years. The Group is required to make fixed monthly payments with rentals increase progressively by fixed amount during the contract periods. On lease commencement, the Group recognised RMB61,465,000 of right-of-use assets and RMB61,465,000 of lease liabilities.

During the six months ended 30 June 2019, the Group sub-leased certain leasehold land and buildings to an associate. The sub-leases are classified as operating leases by reference to the right-of-use assets arising from the head leases. Accordingly, investment properties of RMB77,980,000 were reclassified from right-of-use assets at the commencement of the sub-leases. Such investment properties are measured at cost less subsequent accumulated depreciation and impairment in accordance with the Group's accounting policy.

## 9. INVENTORIES

| | **30.6.2019**<br>***RMB'000***<br>**(unaudited)** | 31.12.2018<br>*RMB'000*<br>(audited) |
|---|---|---|
| Raw materials | **286,973** | 394,180 |
| Work in progress | **55,074** | 55,787 |
| Finished goods | **1,465,516** | 1,491,777 |
| | **1,807,563** | 1,941,744 |

## 10. TRADE AND OTHER RECEIVABLES

| | 30.6.2019<br>RMB'000<br>(unaudited) | 31.12.2018<br>RMB'000<br>(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<br>RMB'000<br>(unaudited) | 31.12.2018<br>RMB'000<br>(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.

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

| | Six months ended 30 June | |
|---|---|---|
| | **30.6.2019** | 30.6.2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Impairment loss recognised in respect of trade receivables | **321,276** | 3,670 |

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.

During the six months ended 30 June 2019, the Group provided RMB321,276,000 impairment allowance.

## 12. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 21 May 2019, Guangdong Chigo, an indirect wholly-owned subsidiary of the Company, entered into the transfer agreement and relocation compensation agreement (collectively, the "Agreements") with a third party, Greater Bay Area Chanrong Asset Management Company Limited (粵港澳大灣區產融資產管理有限公司) ("Chanrong Asset"). Pursuant to the Agreements, Chanrong Asset had agreed to purchase certain land use rights and buildings located thereon owned by Guangdong Chigo (collectively, the "Properties") at the disposal consideration of RMB450 million and agreed to pay the relocation compensation of RMB358 million to Guangdong Chigo for the relocation expenses (the "Disposal").

As the completion of the Disposal shall be conditional upon the approval by the shareholders of the Company at the extraordinary general meeting to be held subsequent to the end of the reporting period, the assets and liabilities attributable to the Properties that are expected to be sold within twelve months from the end of the current interim reporting period have been classified as assets held for sale and liabilities associated with assets held for sale and are separately presented in the condensed consolidated statement of financial position. The sale proceeds are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised.

As at 30 June 2019, the Group has received a deposit of RMB601,829,000 and paid other taxes of RMB51,829,000 in respect of the Disposal.

## 12. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE *(continued)*

Major classes of assets and associated liabilities of the Properties as at the end of the current interim period are as follows:

| | **30.6.2019** |
|---|---|
| | ***RMB'000*** |
| Property, plant and equipment | 99,957 |
| Right-of-use assets | 81,532 |
| Total assets classified as held for sale | 181,489 |
| Lease liabilities associated with assets classified as held for sale | 21,744 |

## 13. 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 (note 12) | **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 |

## 13. TRADE AND OTHER PAYABLES *(continued)*

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

| | **30.6.2019**<br>***RMB'000***<br>**(unaudited)** | 31.12.2018<br>*RMB'000*<br>(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 |

## 14. BORROWINGS RELATED TO BILLS DISCOUNTED WITH RECOURSE

During the six months ended 30 June 2019, the Group discounted bills receivables with recourse totalling RMB164,136,000 (2018: RMB696,534,000) to banks for short-term financing at rates ranging from 4.47% to 6.20% (2018: 3.64% to 5.77%) per annum.

As at 30 June 2019, the associated outstanding borrowings are RMB354,526,000 (31 December 2018: RMB1,264,567,000).

## 15. BORROWINGS

| | **30.6.2019** | 31.12.2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Bank loans | | |
| – unsecured | **2,435,870** | 1,642,566 |
| – secured by bank acceptance bills | **–** | 50,000 |
| – secured by inventories | **–** | 10,926 |
| | **2,435,870** | 1,703,492 |
| Other loans | | |
| – unsecured | **62,104** | 45,959 |
| – secured by a corporate guarantee | **22,838** | – |
| Total | **2,520,812** | 1,749,451 |
| Carrying amount repayable: | | |
| Within one year | **2,494,941** | 1,733,291 |
| More than one year, but not exceeding two years | **25,871** | 16,160 |
| | **2,520,812** | 1,749,451 |
| Less: Amount due within one year shown under current liabilities | **(2,494,941)** | (1,733,291) |
| Amount shown under non-current liabilities | **25,871** | 16,160 |

At the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB929,126,000 (31 December 2018: RMB2,238,060,000).

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

| | **30.6.2019** | 31.12.2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **equivalent** | equivalent |
| | **(unaudited)** | (audited) |
| United States Dollars ("USD") | **266,405** | 210,953 |

The effective interest rate of the Group's bank borrowings is 4.99% (2018: 4.94%) per annum and the effective interest rate of the Group's other loans is 5.60% (2018: 7.68%) per annum.

## 16. 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 |

## 17. EQUITY-SETTLED SHARE BASED PAYMENTS

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

As at 31 December 2018, all share options had been lapsed and there is no share option outstanding during the six months ended 30 June 2019.

## 18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

| Financial assets/financial liabilities | Fair value as at 30 June 2019 | 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 – RMB412,000 Current liabilities – RMB331,000 (31.12.2018: Current assets – RMB4,160,000 Current liabilities – RMB26,000) | 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 fair value through other comprehensive income ("FVTOCI") | Non-current assets – RMB16,557,000 (31.12.2018: RMB15,378,000) | 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 condensed consolidated financial statements approximate their fair values.

## 18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(continued)*

### Reconciliation of Level 3 measurement of financial assets

| | Unlisted equity instruments at FVTOCI | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January (audited) | **15,378** | 21,687 |
| Fair value gain (loss) | **1,179** | (660) |
| At 30 June (unaudited) | **16,557** | 21,027 |

## 19. PARTIAL DISPOSAL OF A SUBSIDIARY (DISCONTINUED OPERATION)

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. The disposal was completed on 31 March 2019 and the Group's commercial air-conditioner operation is treated as discontinued operation upon disposal. In accordance with the amended Articles and Association of Chigo Heating, the Group has the right to appoint one director in the board of directors of Chigo Heating, the governing body which directs the relevant activities that significantly affect the returns of Chigo Heating. Therefore, the Group has retained the remaining 30% interest in Chigo Heating and classified the retained investment as investment in an associate.

The profit from the discontinued operation for the current and prior period is analysed as follows:

| | **Three months ended 31.3.2019** | Six months ended 30.6.2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit from discontinued operation for the period | **495** | 12,821 |
| Gain on disposal | **222,434** | – |
| | **222,929** | 12,821 |

## 19. PARTIAL DISPOSAL OF A SUBSIDIARY (DISCONTINUED OPERATION) *(continued)*

The results of the commercial air-conditioner operation for the current and prior period were as follows:

| | **Three months ended 31.3.2019** ***RMB'000*** | Six months ended 30.6.2018 *RMB'000* |
|---|---|---|
| Revenue | **379,621** | 787,382 |
| Cost of sales | **(307,516)** | (619,773) |
| Gross profit | **72,105** | 167,609 |
| Other income | **782** | 2,930 |
| Selling and distribution costs | **(36,805)** | (96,805) |
| Administrative expenses | **(16,951)** | (36,141) |
| Research and development costs | **(12,315)** | (17,551) |
| Other expenses | **(321)** | (865) |
| Other gains and losses | **219,560** | (5,444) |
| Finance costs | **(2,539)** | – |
| Profit before taxation | **223,516** | 13,733 |
| Taxation | **(587)** | (912) |
| Profit for the period | **222,929** | 12,821 |

## 19. PARTIAL DISPOSAL OF A SUBSIDIARY (DISCONTINUED OPERATION) *(continued)*

| | RMB'000 |
|---|---|
| Consideration received Cash received | 204,000 |
| Analysis of assets and liabilities over which control was lost: | |
| Property, plant and equipment | 96,479 |
| Right-of-use assets | 106,135 |
| Deposits for acquisition of property, plant and equipment | 31,459 |
| Inventories | 146,662 |
| Trade and other receivables | 151,434 |
| Taxation recoverable | 5,795 |
| Bank balances and cash | 309,151 |
| Trade and other payables | (536,322) |
| Contract liabilities | (9,787) |
| Lease liabilities | (107,176) |
| Net assets disposed of | 193,830 |
| Gain on partial disposal: | |
| Consideration received | 204,000 |
| Non-controlling interests | 52,982 |
| Fair value of retained interest in Chigo Heating (note) | 159,282 |
| Less: Net assets disposed | (193,830) |
| | 222,434 |
| Net cash outflow arising on disposal: | |
| Cash received | 204,000 |
| Less: bank balances and cash disposed of | (309,151) |
| | (105,151) |

*Note:* The fair value of the retained interest in Chigo Heating was estimated by an extenal valuer using market approach which was based on market multiple of similar benchmarked entities on the market and discounted for lack of marketability.

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2019*

## 20. CAPITAL COMMITMENTS

| | 30.6.2019 *RMB'000* (unaudited) | 31.12.2018 *RMB'000* (audited) |
|---|---|---|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the | | |
| – capital contribution to subsidiaries | **11,044** | 11,044 |
| – acquisition of property, plant and equipment | **25,817** | 76,423 |
| | **36,861** | 87,467 |

## 21. RELATED PARTY TRANSACTIONS

### (a) Name and relationship

| Name | Relationship |
|---|---|
| Chigo Heating | An associate of the Company (formerly a subsidiary of the Group) |
| Zhongya Restaurant (佛山市南海區裡水中亞食府) | Controlled by Mr. Li Xinghao, the controlling shareholder of the Company |
| Guangdong Cenzell New Energy Technology Co., Ltd ("Guangdong Cenzell") | Controlled by Mr. Li Xinghao, the controlling shareholder of the Company |
| Li Xinghao | Controlling shareholder of the Company |

## 21. RELATED PARTY TRANSACTIONS *(continued)*

### (b) Related party transactions

The Group entered into the following transactions with related parties during the period:

| | Six months ended 30 June | |
|---|---|---|
| | **30.6.2019** | 30.6.2018 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Chigo Heating | | |
| Sales of goods | **34,372** | N/A |
| Rental income | **4,359** | N/A |
| Purchase of goods | **3,775** | N/A |
| | **42,506** | N/A |
| Zhongya Restaurant | | |
| Miscellaneous expenses | **1,389** | 461 |
| Li Xinghao | | |
| Loan from controlling shareholder | **200,000** | – |

At 30 June 2019, the Group provided a financial guarantee in respect of a convertible bond issued by Guangdong Cenzell 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 bondholders.

## 21. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Related party balance

| | **30.6.2019** | 31.12.2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Amount due from a related party | | |
| Chigo Heating | **19,065** | N/A |
| Amounts due to related parties | | |
| Chigo Heating | **5,055** | N/A |
| Guangdong Cenzell | **20,000** | – |
| | **25,055** | N/A |
| Loan from controlling shareholder | **199,040** | – |

### (d) Compensation of key management personnel

During the six months ended 30 June 2019, the remuneration paid to the Group's key management personnel, represented by the Company's directors, was RMB1,252,000 (2018: RMB787,000).

## 22. EVENT AFTER THE REPORTING PERIOD

The Disposal was approved by the shareholders of the Company at the extraordinary general meeting held on 8 August 2019.