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CHIGO HOLDING LIMITED

志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 449)

VOLUNTARY ANNOUNCEMENT

COOPERATION IN RELATION TO A GOVERNMENT LAND REDEVELOPMENT PROPOSAL (「三舊改造」) IN LISHUI TOWN, NANHAI DISTRICT, FOSHAN CITY

This is a voluntary announcement made by Chigo Holding Limited (the “**Company**”, which, together with its subsidiaries, shall be referred to as the “**Group**”).

The Group’s production facilities located in Lishui Town

The Group is principally engaged in the design, development, manufacturing and sale of air-conditioning products, which comprise mainly residential air-conditioners as well as parts and components of air-conditioners, and other small electrical appliances.

The Group’s headquarters and certain of its production facilities are located in Lishui Town, Nanhai District, Foshan City, Guangdong Province, which is in close proximity to Guangzhou, the capital city of Guangdong Province. The Group (i) holds the land use rights to the relevant collective construction land (集體建設用地), being industrial land (工業用地) with an aggregate land area (土地面積) of approximately 503.29 mu (equivalent to approximately 335,500 sq.m.), and (ii) leases approximately 98.09 mu (equivalent to approximately 65,400 sq.m.), of the relevant collective construction land (collectively, the “**Relevant Land**”).

Redevelopment Proposal

With the PRC Central Government’s emphasis on the strategic importance of the Guangdong-Hong Kong-Macao Greater Bay Area initiative, the People’s Government of Lishui Town, Nanhai District, Foshan City is of the view that in order to further enhance the land use value and comprehensive utilisation rate of the area (within which the Relevant Land is located), a “Three Old Redevelopment”

proposal (「三舊改造」項目) regarding certain land located in Lishui Town (which includes the Relevant Land) with an aggregate land area of approximately 1,840 mu (equivalent to approximately 1,226,700 sq.m.) (the “**Redevelopment Proposal**”) should be implemented and pursuant to which the entity for implementing such Redevelopment Proposal was required to be determined through public auction. Foshan City Nanhai District Liansheng Property Investment Co., Ltd.* (佛山市南海區聯勝置業投資有限公司) (the “**Foshan Developer**”), a state-owned enterprise (公有企業) which is principally engaged in property development, has won such auction and obtained the right to implement the relevant land resumption (of which the Group’s Relevant Land forms part) and to enter into relevant transfer agreement(s). To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Foshan Developer and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Pursuant to the applicable laws of the People’s Republic of China (“**PRC**”), including the Urban and Rural Planning Law of the PRC《中華人民共和國城鄉規劃法》, the Land Administration Law of the PRC《中華人民共和國土地管理法》, the Contract Law of the PRC《中華人民共和國合同法》, the Property Law of the PRC《中華人民共和國物權法》 and the Measures on the “Three Old” Urban Renewal concerning Foshan City, Nanhai District《佛山市南海區城市更新(「三舊」改造)實施辦法》, the Company is obliged to surrender the Relevant Land under the Redevelopment Proposal, whilst being entitled to obtain certain compensations (as further detailed below) pursuant to the applicable laws. As such, the Company has on 24 June 2020 entered into a cooperation agreement (the “**Cooperation Agreement**”) with the Foshan Developer to detail certain arrangements under the Redevelopment Proposal. Under the Cooperation Agreement, it is expected that:

- (a) the Relevant Land will be resumed by the relevant collective owners and subsequently transferred to the Foshan Developer (the “**Land Resumption**”), and hence the Group will surrender the land use rights of, and terminate the leases in connection with, the Relevant Land;
- (b) the Group will be paid a cash compensation for the early termination of the land use rights as well as the early termination of the leases, which will be determined in accordance with the applicable laws and regulations and calculated by reference to the fair value of the recent transactions in the vicinity of the Relevant Land (the “**Early Termination Compensation**”). Pursuant to the abovementioned public auction process, such compensation in the amount of RMB1,214,787,600 shall be paid by the Foshan Developer to the Group in the following manner:
 - (i) 60% of the Early Termination Compensation will be paid to the Group by 30 September 2020;
 - (ii) 20% of the Early Termination Compensation will be paid to the Group by 30 June 2021; and
 - (iii) the balance, being 20% of the Early Termination Compensation, will be paid to the Group within 30 days after the surrender of the entire Relevant Land by the Group to the Foshan Developer.

- (c) further, pursuant to the applicable laws, the Group will be entitled to other compensation including demolition compensation (拆遷補償), compensation for cessation of operation (停工停產損失補償), relocation compensation (搬遷補償) and compensation for workers' wages (工人工資補償), the amount of which will be further determined based on the applicable laws and mutual negotiations between the Group and the Foshan Developer; and
- (d) as some of the Group's production facilities are currently located on the Relevant Land, the Foshan Developer will construct new production facilities for the Group over certain land in the vicinity of the Relevant Land with an aggregate land area of approximately 240 mu (equivalent to approximately 160,000 sq.m.) based on the construction plans to be determined between the Group and Foshan Developer (the "New Facilities"), and such New Facilities will be delivered to the Group for nil consideration whilst the Group will enter into lease agreement(s) with the Foshan Developer and bear the rental as from the delivery of the relevant New Facilities to the Group. The amount of rental will be determined by reference to the terms of the existing lease agreement(s) in respect of the Relevant Land.

Intended use of the compensation

The Company currently estimates that, in respect of the Early Termination Compensation, (i) approximately RMB600 million will be use for the reduction of total liabilities, including the repayment of bank borrowings and payment of trade and other payables, to reduce the Group's finance costs, (ii) approximately RMB400 million will be applied towards the purchase and installation of new production equipment at the New Facilities in order to enhance automation process of the Group's production which will in turn improve production efficiency, and (iii) the remaining balance of approximately RMB200 million will be applied as the Group's general working capital.

Termination

The cooperation between the Group and the Foshan Developer shall terminate if, within two years from the date of the Cooperation Agreement, Foshan Developer's land planning proposal have not been approved by the relevant government authorities, or the aggregate floor area of residential areas in the relevant planning is less than 1,350,000 sq.m.

Expected benefit to the Group

The Group's production facilities located on the Relevant Land was constructed in around 2003 to 2005 and have fallen behind and worn out and the Land Resumption provides an opportunity for the Group to obtain funds to support the purchase and installation of new production equipment at the New Facilities for the upgrading of the Group's production facilities. The New Facilities will be constructed pursuant to a smart factory layout with full-fledged automation installment and intranet connections in order to maximize efficiency whilst reducing costs, and thus is considered to be beneficial to the sustainable development of the Group's business in the long run.

The Directors are of the view that the Land Resumption is not expected to have a material adverse effect on the business and operation of the Group, since the relocation of the Group's production base from the existing facilities in the Relevant Land to the New Facilities will be made in phases before the Group is required to vacate the Relevant Land in accordance with the Redevelopment Proposal, during which the Group's production base located in Jiujiang, Jiangxi Province will continue to operate during the relocation exercise. Further, to mitigate the possible impact on the Group's overall production activities due to the relocation, the Group intends to schedule the relocation during the low season and will also schedule its production plan such that the manufacturing process of relevant products can be completed at the existing facilities at the Relevant Land in advance of the expected relocation period.

In light of the above, the Directors consider the terms of the Redevelopment Proposal and the Land Resumption to be fair and reasonable and in the interest of the Company and its shareholders as a whole.

By Order of the Board
Chigo Holding Limited
Li Xinghao
Chairman

Hong Kong, 8 July 2020

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

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