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CHIGO

CHIGO HOLDING LIMITED

志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 449)

**VERY SUBSTANTIAL DISPOSAL
DISPOSAL OF 30% OF THE ISSUED SHARE CAPITAL
IN GUANGDONG CHIGO HEATING & VENTILATION
EQUIPMENT CO., LTD.
AND
CONTINUED SUSPENSION OF TRADING**

THE DISPOSAL

The Board is pleased to announce that on 19 April 2021, the Vendor, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has agreed to purchase, 30% of the issued share capital of the Target Co at the consideration of RMB300 million (equivalent to approximately HK\$357 million).

As at the date of this announcement, the Target Co and the Sale Shares are accounted for as an associate of the Company and interest in an associate, respectively, in the consolidated financial statements of the Company. Following completion of the Disposal, the Group will cease to hold any interest in the Target Co.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements.

An EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder. A circular containing, among others, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) other information as required under the Listing Rules; and (iii) notice of the EGM will be despatched to the Shareholders as soon as practicable, which is expected to be on or before 21 June 2021 to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

Completion of the Disposal is conditional upon the satisfaction (or, if applicable, waiver) of the conditions precedent set out in the section headed “The Sale and Purchase Agreement – Conditions precedent”, including the approval of the Disposal by the Shareholders at the EGM. Accordingly, the Disposal may or may not proceed.

Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that on 19 April 2021, the Vendor, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has agreed to purchase, 30% of the issued share capital of the Target Co at an aggregate consideration of RMB300 million (equivalent to approximately HK\$357 million).

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set forth below.

Date: 19 April 2021

Parties: (1) the Vendor

(2) the Purchaser

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

Assets to be disposed of

The Vendor has conditionally agreed to sell, and the Purchaser has agreed to purchase, the Sale Shares free from all encumbrances and together with all rights attaching and accruing thereto. The Sale Shares represent 30% of the issued share capital of the Target Co.

Further details of the Target Co are set out in the section headed “Information on the Target Co” below.

Consideration

The consideration for the Disposal is RMB300 million (equivalent to approximately HK\$357 million) (the “**Consideration**”), which shall be payable by the Purchaser to the Vendor upon Completion in cash, provided that if the Target Co makes any dividend payment or distribution to the Vendor prior to Completion, the Consideration shall be adjusted downward by the aggregate amount of such payment(s).

The above payment terms of the Consideration is the result of arm’s length negotiations among the Parties. Taking into account (i) the time and uncertainties involved in procuring the satisfaction of the conditions precedent to Completion of the Disposal below, and (ii) the costs and administrative procedures that may be required for the repayment of any such part payment or deposit received if the Disposal does not proceed eventually, the Board is of the view that the payment of the entire amount of the Consideration upon Completion is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Consideration was determined after arm’s length negotiations among the Parties with reference to the audited net asset value attributable to the Vendor's 30% interest in the Target Co as at 31 December 2020 of approximately RMB98.5 million.

In determining the Consideration, the Parties did not make reference to the price-to-earnings ratio or price-to-book ratio as the basis of such consideration. However, taking into account (i) that the Consideration represents a premium of approximately 205% over the net asset value of the Target Co attributable to the Sale Shares of approximately RMB98.5 million as at 31 December 2020, which is higher than that in connection in the 2019 Disposal (where the consideration for the disposal by the Group of its 40% equity interest in the Target Co in 2019 (in the amount of RMB204 million) represents a premium of approximately 152% over the net asset value of the Target Co attributable to such equity interest as at 31 December 2018 (in the amount of approximately RMB81 million)), and (ii) that the Consideration represents a premium to the unaudited carrying amount of the investment in the Target Co of approximately RMB162,488,000 as at 30 June 2019, the Board considers that the Consideration is fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole.

Whilst the Company did not carry out any valuation of the Target Co for the purpose of the Disposal and/or the determination of the Consideration, the last valuation of the Group’s interest in the Target Co was carried out in the preparation of the Company’s unaudited financial statements for the six months ended 30 June 2019, in which the carrying amount of the investment in the Target Co was determined to be approximately RMB162,488,000 as at 30 June 2019 as disclosed above.

Conditions precedent

Completion of the Disposal will only occur upon the satisfaction of the following conditions precedent:

- (a) the warranties given by the Vendor under the Sale and Purchase Agreement remaining true, accurate and complete;
- (b) the Vendor having complied with all its obligations under the Sale and Purchase Agreement as at the Completion;
- (c) the Purchaser having acquired 70% of the issued shares of the Target Co held by GW Group;
- (d) the Disposal having been approved by the relevant decision making authority of the Vendor and the Company having obtained all necessary approvals (including but not limited to the Shareholders' approval at a duly convened shareholders' general meeting) in accordance with the Listing Rules;
- (e) the Disposal having been duly filed and registered with (i) the PRC State Administration for Market Regulation or its competent local counterpart(s), and (ii) the State Administration of Foreign Exchange of the PRC;
- (f) all disputes concerning the Target Co in respect of the "Chigo" trademarks having been resolved by way of the Group and/or other relevant party(ies) (as applicable) withdrawing the relevant legal action(s) (as more particularly detailed in the section headed "Information on the Target Co - Trademark-related disputes" below in this announcement), and the Vendor entering into with the Target Co a supplemental agreement authorising the exclusive use of the "Chigo" trademarks in respect of certain permitted products (including, *inter alia*, parts and systems related to central air conditioning) for a term of five (5) years commencing on the date of Completion and such supplemental agreement having been submitted for registration with the Trademarks Office of the China National Intellectual Property Administration within three (3) business days after signing;
- (g) the Vendor having procured the Target Co or its affiliate to enter into a lease agreement with the land use right owner(s) or the Vendor in respect of lease of the existing production site of the Target Co for a term of no less than ten (10) years commencing on the date of Completion. The production site is located at Lishui Town, Nanhai District, Foshan City, Guangdong Province, the PRC with a gross area of approximately 100,000 square metres;
- (h) the Vendor having entered into a new lease agreement with the Target Co in respect of the Zhonggewei Properties;

- (i) the Target Co having obtained the documents issued by the relevant government entity confirming that those leased properties being used by the Target Co whose building ownership certificates are yet to be obtained may be used by the Target Co on an “as-in” basis; and
- (j) the Vendor having executed and delivered to the Purchaser upon Completion a certificate stating that the relevant conditions precedent specified in the Sale and Purchase Agreement having been fulfilled as of Completion.

The Vendor and the Purchaser shall use their reasonable endeavours to fulfill the above conditions precedent as soon as possible, but in any event, on or before the Long Stop Date. The above conditions (other than conditions (d) to (g)) may be waived in whole or in part by the Purchaser at its absolute discretion. In the event that the above conditions precedent are not satisfied (or waived) on or before the Long Stop Date, either Party shall be entitled to terminate the Sale and Purchase Agreement with immediate effect, provided that such right to terminate the Sale and Purchase Agreement shall not be available to any Party whose failure to fulfil any of its obligations under the Sale and Purchase Agreement have resulted in a failure of Completion by the Long Stop Date.

As at the date of this announcement, insofar as the Company is aware, none of the conditions precedent above has been satisfied.

Completion

Completion of the Sale and Purchase Agreement shall take place on the fifth (5th) Business Days following the satisfaction (or waiver) of all conditions precedent under the paragraph headed “Conditions precedent” in this announcement (except those which by their nature can only be fulfilled upon Completion) or such other date as the Parties may agree.

INFORMATION ON THE PURCHASER

Insofar as the Company is aware, the Purchaser, which is principally engaged in the manufacturing and sales of air-conditioning and refrigeration equipment through a number of subsidiaries in PRC, is an indirect wholly-owned subsidiary of Carrier Global Corporation, whose shares have been listed on the New York Stock Exchange since April 2020 with the ticker symbol “CARR”.

Carrier Global Corporation is a leading global provider of healthy, safe and sustainable building and cold chain solutions, with worldwide operations in three business segments, namely (i) heating, ventilation and air conditioning, (ii) refrigeration, and (iii) fire and security.

INFORMATION ON THE TARGET CO

As at the date of the Sale and Purchase Agreement, the Target Co is held as to (i) 70% by GW Group, an Independent Third Party, and (ii) 30% by the Vendor. Following completion of the Disposal, the Group will cease to hold any interest in the Target Co, and Target Co will cease to be an associate of the Company.

The Target Co is a company incorporated in the PRC with limited liability. It is principally engaged in the commercial air-conditioning business. The Target Co used to be an indirect 70%-owned subsidiary of the Company until the Group disposed of its 40% equity interest in the Target Co in 2019 (the “**2019 Disposal**”). Upon completion of the 2019 Disposal on 31 March 2019, the Target Co ceased to be a subsidiary of the Company and its results were no longer consolidated into the consolidated financial statements of the Company.

Set out below is a summary of certain financial information of the Target Co for the year ended 31 December 2019 (audited) and the year ended 31 December 2020 (audited) (prepared in accordance with the generally accepted accounting principles in the PRC):

	For the year ended 31 December 2019 <i>(RMB'000)</i> <i>(audited)</i>	For the year ended 31 December 2020 <i>(RMB'000)</i> <i>(audited)</i>
Net profit (before taxation)	100,781	37,410
Net profit (after taxation)	85,664	31,799

The audited net asset value of the Target Co attributable to the Sale Shares (prepared based on the generally accepted accounting principles in the PRC) as at 31 December 2020 is approximately RMB98.5 million.

Trademark-related disputes

For the Shareholders’ information, details of the trademark-related disputes in respect of the Target Co are set out below:

(A) In respect of the licence of certain trademarks of the Group

On 5 March 2020, the Vendor initiated a legal action against the Target Co for the purpose of rescinding a brand and trademark licence agreement (the “**Trademark Agreement**”) dated 30 March 2019 concerning the licence of three “Chigo” trademarks of the Group (the “**Relevant Trademarks**”) to the Target Co (the “**Licence Dispute**”). The People’s Court of Chancheng District, Foshan City, Guangdong Province of the PRC handed down a first instance judgment rejecting the Vendor’s claim on 23 October 2020. The Vendor appealed against such decision and the second instance procedure is ongoing as at the date of this announcement.

In connection with the Licence Dispute, on the basis of the Trademark Agreement, the Target Co initiated two court proceedings against the Vendor on 15 October 2020 and 22 January 2021, respectively, in order, among other things: (i) to complete the filing of the Relevant Trademarks at the China National Intellectual Property Administration (the “**CNIPA**”) (after such filing process had been allegedly terminated by the Vendor) and to claim for damages in

the amount of RMB2 million, and (ii) to obtain from the Vendor the requisite supporting documents and certifications for the operation of online stores and to claim for damages in the amount of RMB256,082.54. The People's Court of Chancheng District, Foshan City, Guangdong Province of the PRC decided on 9 December 2020 and on 26 February 2021, respectively, to suspend the two proceedings on the ground that the relevant subject matters of such proceedings were related to the Licence Dispute, and the outcome of the Licence Dispute should form the basis of such proceedings. The two proceedings remain suspended as at the date of this announcement.

Moreover, in connection with the Licence Dispute, on 20 November 2020, the Target Co initiated three administrative proceedings at the Beijing Intellectual Property Court against the CNIPA to invalidate the CNIPA's decisions to cancel the filing of the Relevant Trademarks that had been made on the basis of the Trademark Agreement. The Vendor was joined as an impleader in the three proceedings. The first instance hearing of three proceedings is ongoing as at the date of this announcement.

(B) In respect of infringements of certain trademarks of the Group

On 27 March 2020, the Vendor sued the Target Co and GW Group for infringements of four "Chigo" trademarks of the Group (which include two of the Relevant Trademarks), and sought to (amongst other things) stop the relevant infringements and claim for damages in the amount of RMB4.97 million. The People's Court of Chancheng District, Foshan City, Guangdong Province of the PRC handed down a first instance judgment on 22 March 2021 in support of the Vendor's main claims against infringements and awarded damages in the amount of RMB3 million. The Vendor appealed against the decision on 8 April 2021 mainly on the ground of the quantum of damages awarded. The appeal procedure is being handled as at the date of this announcement.

As stated in the section headed "The Sale and Purchase Agreement – Conditions precedent" above in this announcement, the Group and/or the Target Co would need to withdraw all of the legal actions concerning the Target Co in respect of the "Chigo" trademarks described above in order to satisfy item (f) of the conditions precedent to Completion. Taking into account (i) the considerable time and resources involved in the relevant legal actions, (ii) the uncertainties in the outcome of such legal actions, (iii) the fact that Consideration represents a premium of approximately 205% over the net asset value of the Target Co attributable to the Sale Shares and that the Group is expected to record an unaudited gain on the Disposal of approximately RMB137,512,000, and (iv) that the resolution of the relevant disputes is expected to enhance the brand image of the Group and of the Target Co, the Board is of the view that the withdrawal of the relevant legal actions in accordance with the terms of the Sale and Purchase Agreement (assuming that the other conditions precedent can be fulfilled and the Disposal is to proceed) is in the interests of the Company and its Shareholders as a whole.

INFORMATION ON GW GROUP

Insofar as the Company is aware, GW Group is principally engaged in the manufacturing of refrigeration and air-conditioning equipment and is ultimately controlled by Zhang Quan* (張權), an Independent Third Party, who holds approximately 74.86% of the shares in GW Group. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, apart from its shareholding in the Target Co, GW Group does not have any relationship (business, shareholding or otherwise) with the Company and its connected persons.

FINANCIAL EFFECT OF THE DISPOSAL

As a result of the Disposal, the Group is expected to record an unaudited gain on the Disposal of approximately RMB137,512,000, which is calculated on the basis of a comparison between the Consideration and the unaudited carrying amount of the investment in the Target Co of approximately RMB162,488,000 as at 30 June 2019. Please refer to the section headed "Reasons for and benefits of the Disposal" below for more information. Shareholders should note that the actual gain from the Disposal to be recorded by the Company will depend on the carrying value of the investment in the Target Co as at the date of Completion, and therefore may be different from the amount mentioned above.

Following completion of the Disposal, the Group will cease to hold any interest in the Target Co, and Target Co will cease to be an associate of the Company. The Directors do not expect the Disposal will have any material impact to the operations currently being carried out by the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company is an investment holding company and the Group is principally engaged in the design, development, manufacturing and sale of air-conditioning products, which comprise mainly of residential air-conditioners, as well as parts and components of air-conditioners.

Since the outbreak of the novel coronavirus (COVID-19) in early 2020, limited by tight capital and production resources, the sales scale and production capacity of the Group had not yet returned to their normal levels. Having considered the uncertainty and volatility of the recent business environment, and the fact that the Group only holds a 30% interest in the Target Co and does not have any involvement in the day-to-day business operations of the Target Co, the Board considers that it is currently a suitable window for the Group to realise its investments through the Disposal. Taking into account (i) the abovementioned unaudited gain of approximately RMB137,512,000 as a result of the Disposal, and (ii) the Consideration represents a premium of approximately 205% over the net asset value of the Target Co of approximately RMB98.5 million as at 31 December 2020, the Board considers that the Disposal could generate a satisfactory gain over the investment cost of the Target Co. In addition, the proceeds generated from the Disposal would allow the Group to allocate its resources to strengthen its existing business and financial position. The intended use of proceeds from the Disposal is set out in the section headed "Intended Use of Proceeds" below.

In light of the above, the Directors (including the independent non-executive directors) considers that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

None of the Directors has a material interest in the Disposal and hence no Director was required to abstain from voting on the board resolutions approving the Disposal.

INTENDED USE OF PROCEEDS

Upon Completion, the gross proceeds and net proceeds of the Disposal will be RMB300 million and approximately RMB295 million, respectively. The Board intends to apply the net proceeds from the Disposal in the following manner:

- (i) approximately 65% of the proceeds will be utilised in the purchase of raw materials for the Group's manufacturing business;
- (ii) approximately 5% of the proceeds will be utilised in sales promotion and marketing activities; and
- (iii) the remainder of approximately 30% of such proceeds will be used for other general working capital purposes.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements.

DESPATCH OF CIRCULAR

An EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

As at the date of this announcement, no Shareholder is materially interested in the transactions contemplated under the Sale and Purchase Agreement, no Shareholder is therefore required to abstain from voting in respect of the proposed ordinary resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM. To the best of the knowledge, information and belief of the Directors having made all enquiries, the Purchaser and its associates do not have any interests in the issued share capital of the Company.

A circular containing, among others, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) other information as required under the Listing Rules; and (iii) notice of the EGM will be despatched to the Shareholders as soon as practicable, which is

expected to be on or before 21 June 2021 to allow sufficient time for the preparation of the relevant information for inclusion in the circular, including but not limited to (i) obtaining the necessary financial and other information of the Target Co (which is an associate of the Company), and (ii) preparing the consolidated financial information in respect of the Company.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 15 May 2020. Pending the fulfillment of the Stock Exchange's resumption guidance, the trading in the shares of the Company will continue to be suspended until further notice.

Completion of the Disposal is conditional upon the satisfaction (or, if applicable, waiver) of the conditions precedent set out in the section headed "The Sale and Purchase Agreement – Conditions precedent", including the approval of the Disposal by the Shareholders at the EGM. Accordingly, the Disposal may or may not proceed.

Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings, unless the context requires otherwise:

"2019 Disposal"	has the meaning ascribed to such term in the section headed "Information on the Target Co" in this announcement
"Board"	the board of Directors
"CNIPA"	has the meaning ascribed to such term in the section headed "Information on the Target Co - Trademark-related disputes" in this announcement
"Company"	Chigo Holding Limited, a company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Disposal pursuant to the terms and conditions of the Sale and Purchase Agreement
"connected person"	has the meaning ascribed thereto under the Listing Rules

“Consideration”	has the meaning ascribed to it in the section headed "The Sale and Purchase Agreement - Consideration" in this announcement
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of the Sale Shares by the Vendor to the Purchaser pursuant to the terms of the Sale and Purchase Agreement
“Group”	the Company and its subsidiaries
“GW Group”	Guangdong Giwee Group Co., Ltd.* (廣東積微集團有限公司), formerly known as “Foshan City Jin He Yi Investment Development Co., Ltd.* (佛山市金和益投資發展有限公司)”, a company incorporated in the PRC with limited liability and an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	parties who are not connected persons of the Company and are independent of the Company and its connected person
“Licence Dispute”	has the meaning ascribed to such term in the section headed “Information on the Target Co – Trademark-related disputes” in this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 August 2021 or such later date as the Vendor and the Purchaser may agree in writing
“Parties”	the Vendor and the Purchaser, and “Party” shall be construed accordingly
“PRC”	the People’s Republic of China
“Purchaser”	Carrier Asia Limited, a company established under the laws of Hong Kong
“Relevant Trademarks”	has the meaning ascribed to such term in the section headed “Information on the Target Co – Trademark-related disputes” in this announcement

“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 19 April 2021 and entered into between the Parties in relation to the sale of the Sale Shares from the Vendor to the Purchaser
“Sale Shares”	60,000,000 shares in the capital of the Target Co, representing the 30% of issued share capital of the Target Co as at the date of the Sale and Purchase Agreement
“Shareholder(s)”	the holder(s) of the ordinary shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Co”	廣東志高暖通設備股份有限公司 (Guangdong Chigo Heating & Ventilation Equipment Co., Ltd.*), a limited company incorporated in the PRC which is held as to 30% by the Vendor prior to completion of the Disposal
“Trademark Agreement”	has the meaning ascribed to such term in the section headed “Information on the Target Co – Trademark-related disputes” in this announcement
“Vendor”	廣東志高空調有限公司 (Guangdong Chigo Air-conditioning Co., Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Zhonggewei Properties”	the #5 warehouse and the #6 workshop located at Lishui Town, Nanhai District, Foshan City, Guangdong Province, the PRC which are currently leased by Foshan City Zhonggewei Electronic Co., Ltd. (佛山市中格威電子有限公司) from the Vendor and further sub-leased to the Target Co
“%”	per cent.

By order of the Board
Chigo Holding Limited
Li Xinghao
Chairman

Hong Kong, 27 April 2021

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

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

For the purposes of this announcement, conversion of RMB into HK\$ is based on the approximate exchange rate of HK\$1.00 to RMB0.839 for the purpose of illustration only.