CHIGO

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

ANNUAL REPORT
2014

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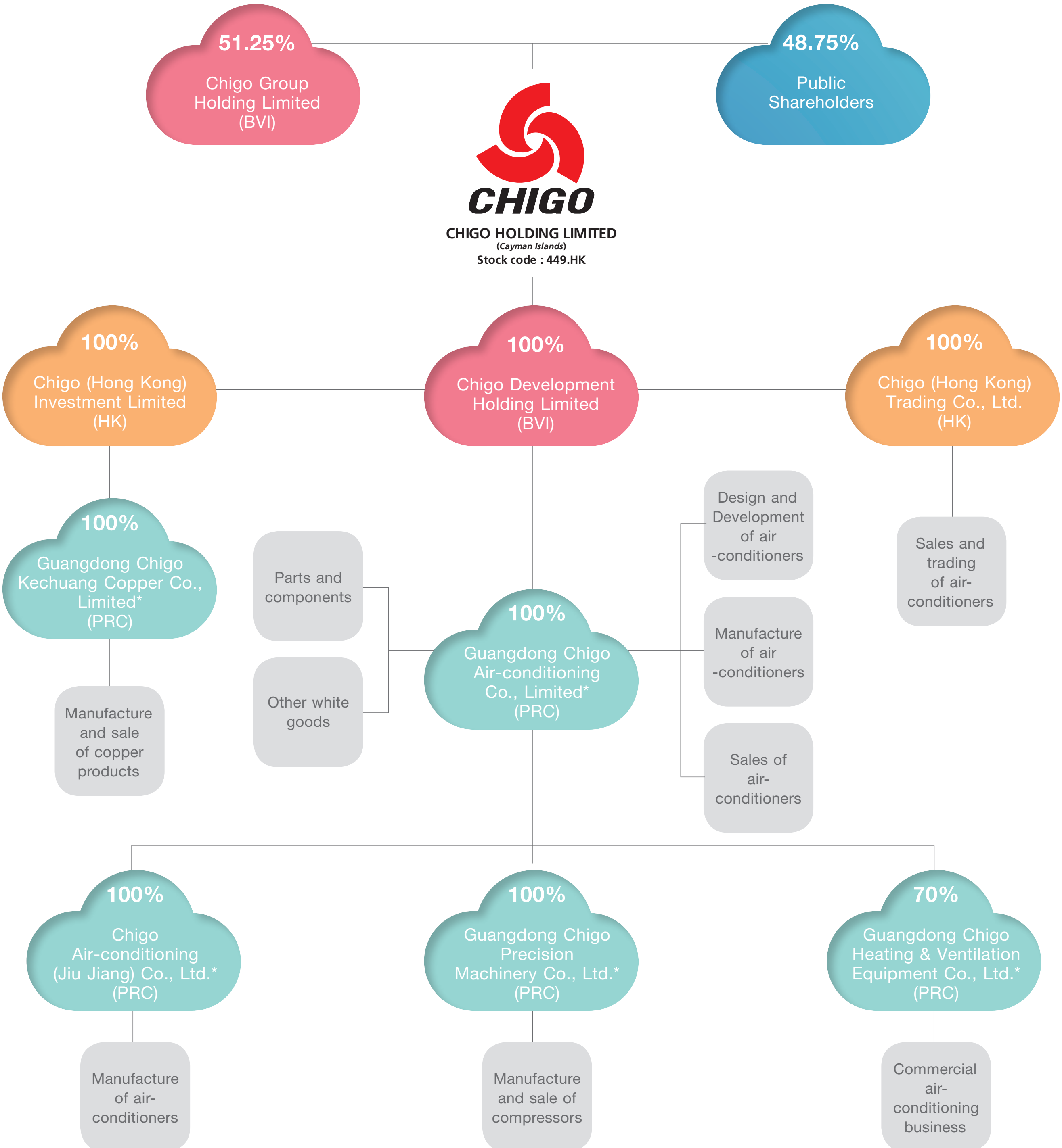
GROUP STRUCTURE



* The English names are provided for identification purpose only

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Dr. Zheng Zuyi *(Vice Chairman)*
Dr. Ding Xiaojiang
Mr. Huang Xingke

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Junchu
Mr. Zhang Xiaoming
Mr. Fu Xiaosi

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 08, 19th 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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER AS TO HONG KONG LAW

Reed Smith Richards Butler

LISTING INFORMATION

Listing:	Main Board of The Stock Exchange of Hong Kong Limited
Stock code:	449
Listing date:	13 July 2009
Board lot size:	2,000 shares
As at 31 December 2014:	
No. of shares issued:	8,434,178,000 shares
Market capitalisation:	HKD1.38 billion

CORPORATE WEBSITES

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

CORPORATE CONTACT INFORMATION FOR SHAREHOLDERS AND INVESTORS

HONG KONG

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

PRC

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

KEY EVENTS AND RECOGNITION IN 2014

JANUARY

From 21 to 23 January, Chigo presented its latest residential air-conditioners at the 84th session of International Air-Conditioning, Heating, Refrigerating Exposition (AHR EXPO) in the United States of America, the largest and most extensive exhibition for specialized products in the world.

MARCH

On 3 March, the six-month "iCongo Innovation Contest" (iCongo 雲空調創意大賽) concluded successfully, through which 39 teams were shortlisted. With both public and commercial attributes, the contest was designed to provide college students a brainstorming platform. Through this event, the Company expected to listen to the product conception of college students, the largest potential customer group of cloud air-conditioners.

On 6 March, Chigo air-conditioners was included into the second session of the "National Famous Brands from Guangdong", as concluded at a review meeting held in Guangzhou Baiyun International Convention Center.

From 27 March to 1 April, Chigo participated in the annual ACREX exhibition (the International Exhibition on Air Conditioning, Refrigeration, Ventilation and Building Services) in New Delhi, India.

APRIL

Chigo participated in the 115th China Import and Export Fair opened on 15 April for the 25th time over 13 consecutive years, where its series products highlighting ultimate cares for user experience drew wide attention.

MAY

On 20 – 22 May, Chigo Group presented its residential, portable and central air-conditioners as well as wine cabinet series at the 2014 ARBS (the International Air Conditioning, Refrigeration and Building Services Trade Exhibition) in Australia, an event pooling the cutting-edge technologies and products.

JUNE

On 4 June, the Company's Information Management Department passed the CMMI (Capacity Maturity Model Integration) Level 3 certification through rigorous on-site review and evaluation.

On 11 June, a review panel comprising standardization and refrigeration experts of Guangdong province and leaders and experts of the Quality Supervision Bureau of Nanhai District conducted an on-site inspection on the Company's system of "Class AAAA enterprise of good standardization practices". Chigo passed the review with a high score of 480, representing that its standardization system has reached the domestic first-class level.

KEY EVENTS AND RECOGNITION IN 2014

JULY

On 14 July, Chigo held the ceremony for launching its V-series new products for 2015, including "V-Jazz (V爵)" 188# and 189# floor-standing air-conditioners as well as "v-Platinum (V鉑)" 88# and 89# wall-mounted air-conditioners. Showcasing the tender, graceful and elegant styles, the new products employ sophisticated technologies to shrewdly cater to the pursuits in texture, color and shape, in order to convey natural aestheticism through the integrated spatial, product and human elements. As a technological tribute of Chigo through innovations over 20 years, the four models are also recognized as the best combination in refrigeration, quietness, energy efficiency and health performance in the industry.

In July, Chigo rolled out leasing services tailored for campus, to create mutual benefit for students, schools, enterprise and distributors. The penetration into campus market ushered in a number of air-conditioner leasing orders for Chigo, making it one of the most favored and trustable professional air-conditioner brands among colleges.

AUGUST

On 18 August, "Chigo Fortune (志高財富寶)" started operation, opening a new era of full-participation marketing to circumvent the restrictions on inventories, store, capital and personnel. In July, our air-conditioner leasing services were well received by colleges, governments and other public institutions, as the funding and management difficulties were effectively addressed through leasing. The Company further launched the plan of "Experience of 10 million iCongo air-conditioners for private car owners in three years", aiming to attract mid- to high-end consumers to its cloud platform and hence paving the way to more value-added services in the next steps.

On 28 August, Chigo was honored the "2014 Air Conditioning Technological Contribution Award" at the "2014-2015 China Air Conditioning Summit" in Beijing, which was co-sponsored by CHEAA.com and the Information Resources Development Department of the State Information Center.

OCTOBER

On 9 October, Chigo Group held the "2015 Business Conference for Global Customers" with a theme of "Change to Win (創變贏未來)" in Guangzhou. Responding to market changes, Chigo put forward its aim of capturing more than 80% market share of mid- to high-end products with high value addition and high premium through optimizing its product mix. The management also discussed the importance and roadmap of innovations in product R&D, production, marketing and channel development in the new economic normal. The Company's new products for 2015 also debuted at the conference, mainly including iCongo-series and V-series of air-conditioners.

Again at the China Import and Export Fair opened on 15 October, a generally recognized top exhibition in China, Chigo as a leader in white household appliances industry presented its five product categories including residential air-conditioners, central air-conditioners, refrigerators and washing machines, wine cabinets and small appliances.

At the 30th anniversary celebration for establishment of Guangdong Light Industry Association on 22 October, the Company was named the "Innovator in the Light Industry of Guangdong".

On 31 October, Chigo was honored the "2014 Health Leader Award in China's Air Conditioning Industry" at the "2014 (7th session) Annual Conference and Annual Innovation Award Ceremony in China's Air Conditioning Industry" held in Beijing.

KEY EVENTS AND RECOGNITION IN 2014

NOVEMBER

On 17 – 20 November, Chigo presented its intelligent and customized air-conditioners at the Big 5 Show, a four-day international exhibition held at the World Trade Centre in Dubai, the United Arab Emirates.

On 25 November, the Application Research on New Refrigerant R1234yf in Residential Air-conditioners passed the certification by experts of the review panel unanimously. It is a programme included in the list of Foshan science and technology development subsidies for 2012, which is jointly undertaken by Chigo, Zhengzhou University of Light Industry and Huazhong University of Science and Technology.

DECEMBER

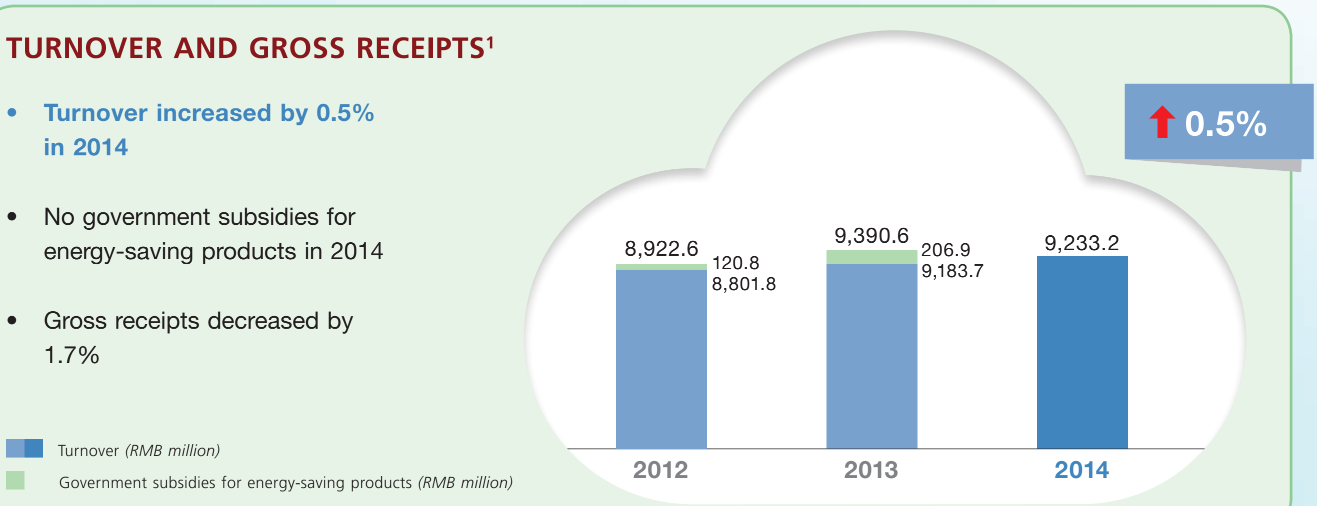
On 3 December, two standards on cloud air-conditioners namely "Cloud Technology for Room Air-conditioners – Part 1: General" and "Cloud Technology for Air-conditioners – Part 2: Cloud-based Room Air-conditioners", which were led and drafted by Chigo as the world's first practitioner of core technologies of intelligent cloud, were published by Guangdong Provincial Bureau of Quality and Technical Supervision according to its Notice No. 7 [2014] on Guangdong Provincial Standards. Marking a breakthrough in the standards for cloud air-conditioners in the global intelligent household appliance industry, the two standards will come into effect from 10 February 2015.

On 23 December, Chigo held a press conference in Beijing for launching its global brand strategy and the sponsorship of Jackie Chan. International superstar Jackie Chan was engaged as the image spokesman of Chigo, to substantiate its brand positioning as "Leader of high-end air-conditioning". In 2015, Chigo will aim high to extend its presence under its high-end targeted global brand strategy, seeking to offer consumers the ultimate product experience.

FINANCIAL HIGHLIGHTS

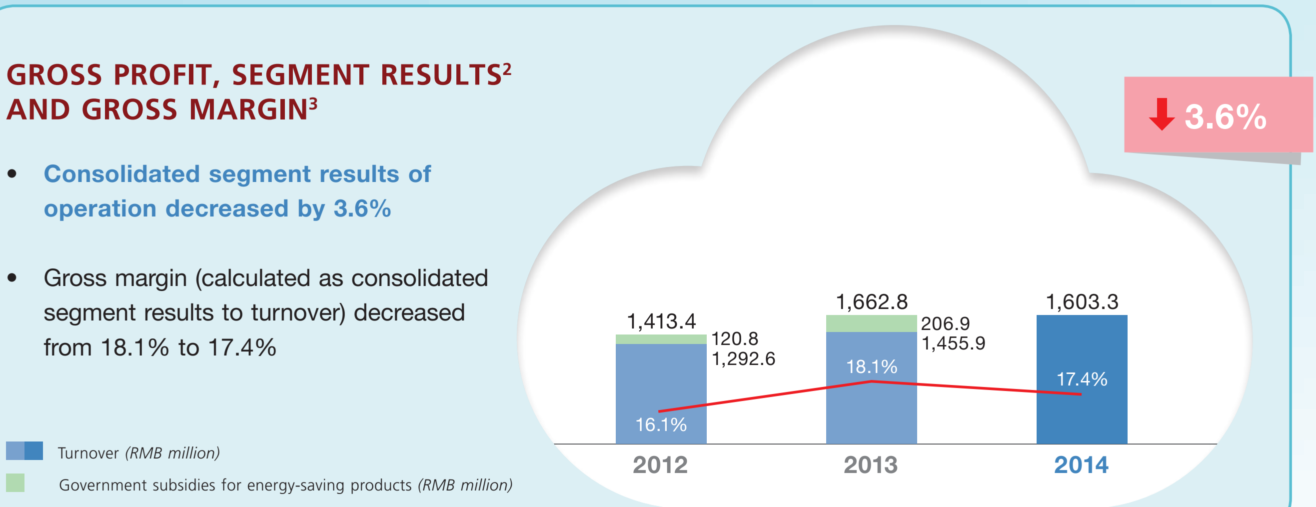
TURNOVER AND GROSS RECEIPTS[1]

- **Turnover increased by 0.5% in 2014**
- No government subsidies for energy-saving products in 2014
- Gross receipts decreased by 1.7%



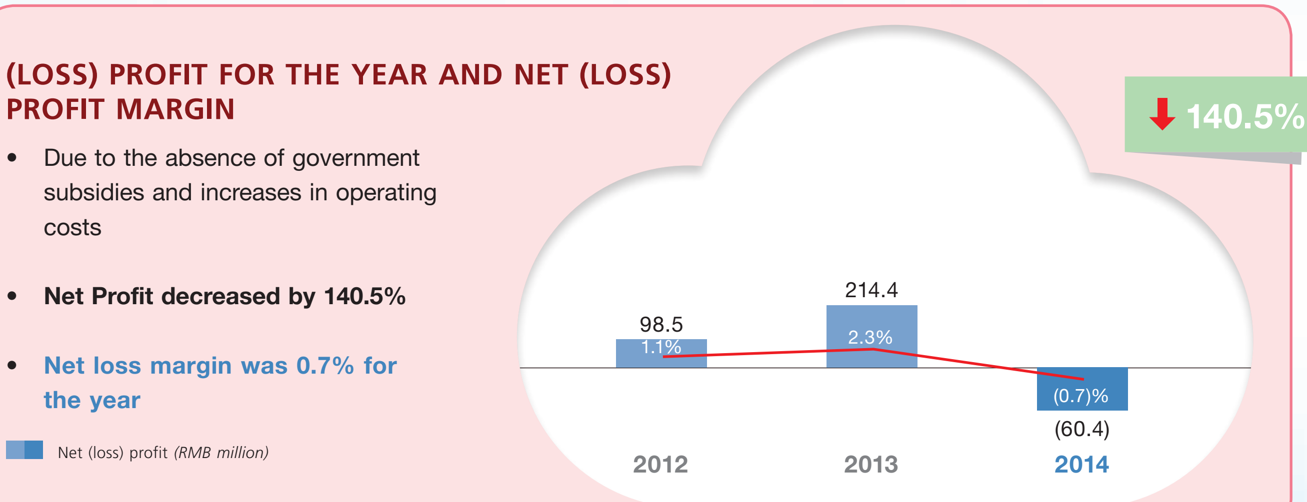
GROSS PROFIT, SEGMENT RESULTS[2] AND GROSS MARGIN[3]

- **Consolidated segment results of operation decreased by 3.6%**
- Gross margin (calculated as consolidated segment results to turnover) decreased from 18.1% to 17.4%



(LOSS) PROFIT FOR THE YEAR AND NET (LOSS) PROFIT MARGIN

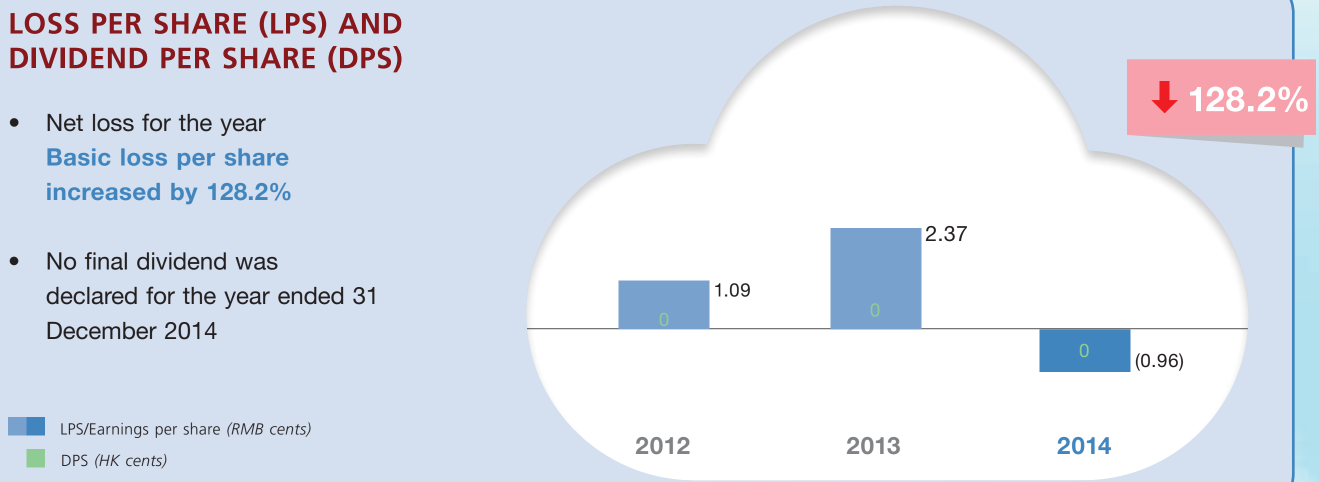
- Due to the absence of government subsidies and increases in operating costs
- **Net Profit decreased by 140.5%**
- **Net loss margin was 0.7% for the year**



FINANCIAL HIGHLIGHTS

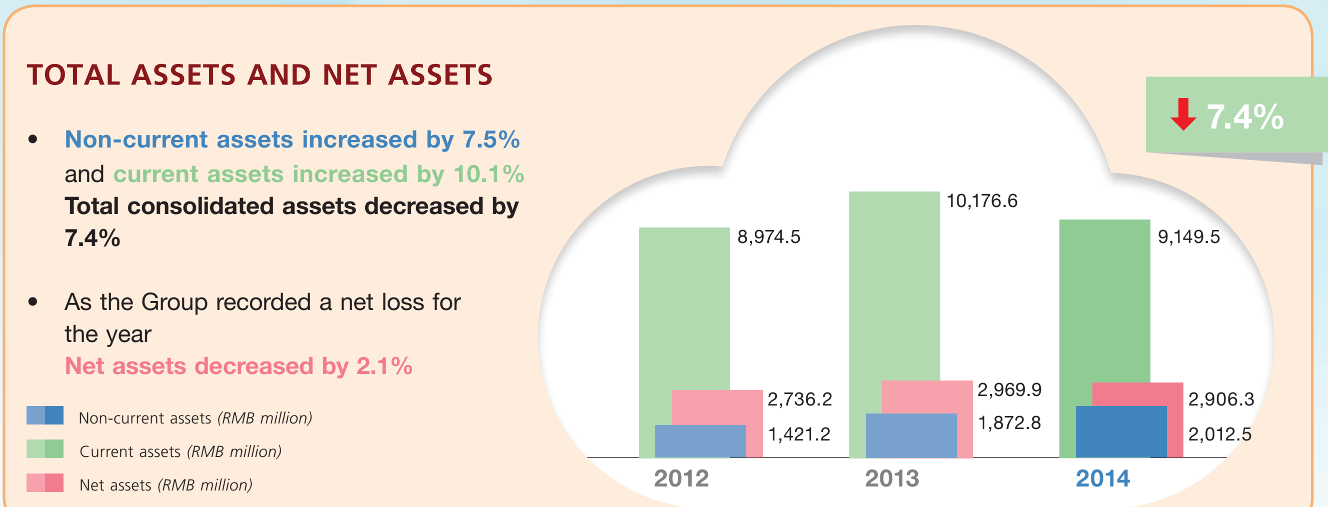
LOSS PER SHARE (LPS) AND DIVIDEND PER SHARE (DPS)

- Net loss for the year
  Basic loss per share increased by 128.2%
- No final dividend was declared for the year ended 31 December 2014



TOTAL ASSETS AND NET ASSETS

- **Non-current assets increased by 7.5%** and **current assets increased by 10.1%**
  Total consolidated assets decreased by 7.4%
- As the Group recorded a net loss for the year
  Net assets decreased by 2.1%



Note 1: Gross receipts represent the total turnover of the Group plus the government subsidies for energy-saving products.

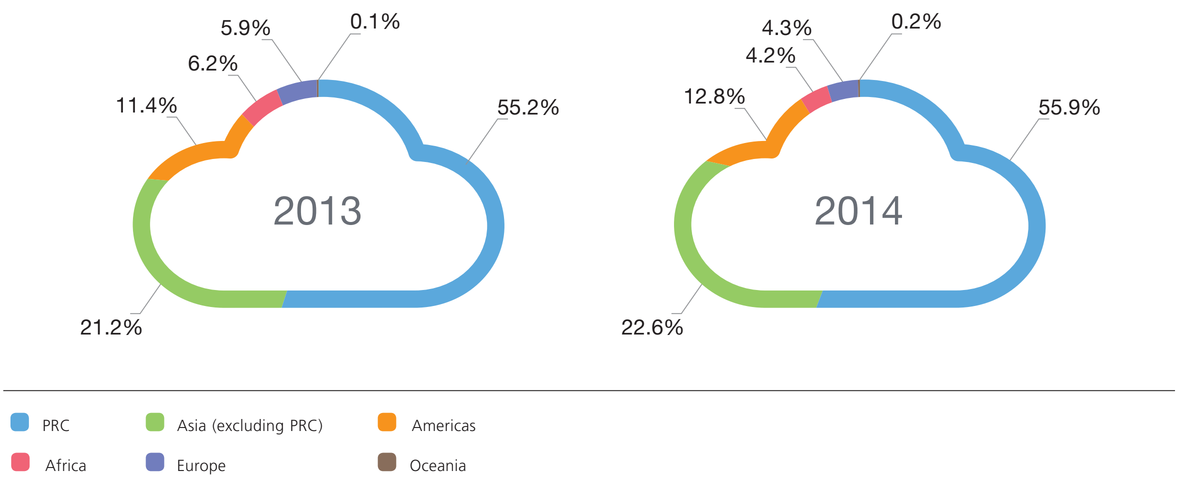
Note 2: Segment results represent the gross profits and government subsidies for energy-saving products by each segment. Consolidated segment results represent the total of all the segments results (including the government subsidies for energy-saving products).

Note 3: For a meaningful comparison of profitability, gross margins are calculated as the percentage of consolidated segment results of operation to turnover.

OPERATION HIGHLIGHTS

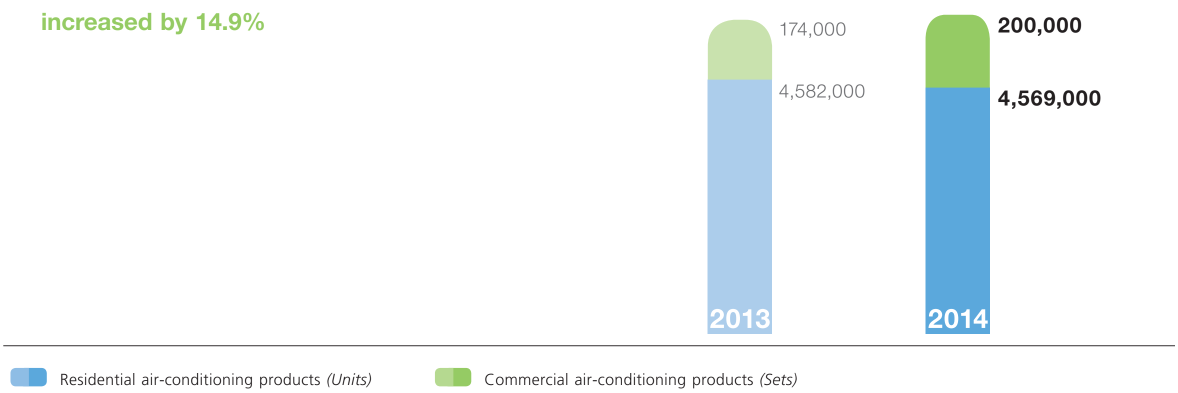
PRC AND OVERSEAS SALES

- **PRC sales increased slightly by 1.9% and amounted to 55.9% of the total turnover**
- **Overseas sales decreased slightly by 1.1% and amounted to 44.1% of the total turnover**



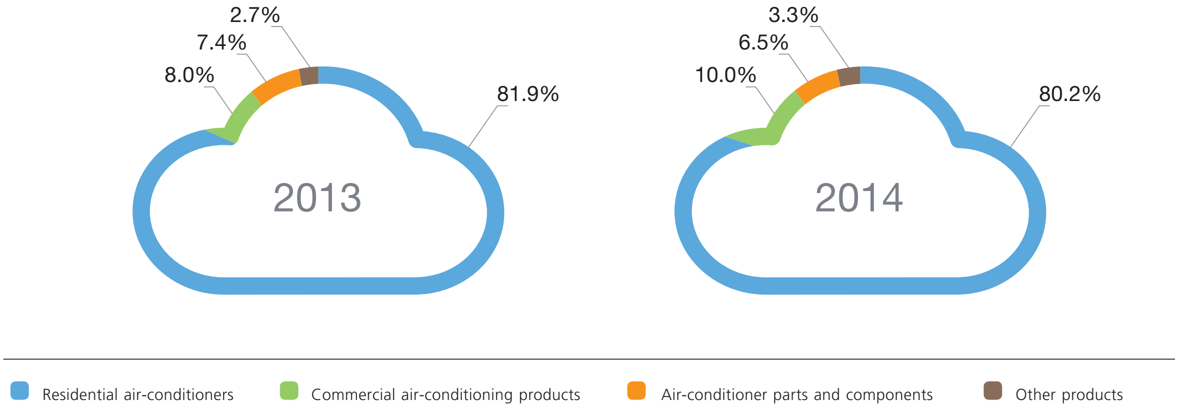
UNIT SALES VOLUME

- **4.6 million units** of residential air-conditioners **sold and decreased slightly by 0.3%**
- **200,000 sets** of commercial air-conditioners **sold and increased by 14.9%**



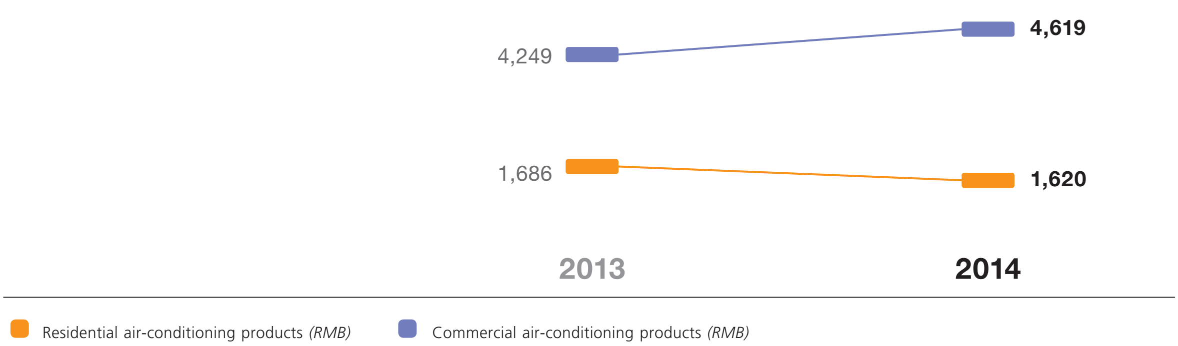
MAJOR PRODUCTS TYPE

- Because of the decrease in the average sales prices
  Sales of residential air-conditioners decreased slightly by 1.6% and accounted for 80.2% of the total turnover
  Sales of commercial air-conditioners went up by 24.9% to 10.0% of the total turnover
- Due to the changes in overseas customer mix and renegotiation of business cooperation strategy, sales of **air-conditioners parts and components decreased by 11.6%**. The Group expanded its domestic distribution channel and increased other operating income, sales of **other products increased by 25.4%**



AVERAGE SELLING PRICE (ASP)

- Since the average cost of productions had decreased, the ASP of the **residential air-conditioning products decreased** at a slower rate by **3.9%**. The ASP of the **commercial air-conditioning products increased by 8.7%** as the Group was able to adjust the ASP upwards.



CHAIRMAN'S STATEMENT

"CHIGO • LEADER OF HIGH-END AIR-CONDITIONING"

Li Xinghao
Chairman and
Chief Executive Officer

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Chigo Holding Limited, I am pleased to present the audited annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014.

SUMMARY OF BUSINESS RESULTS

In 2014 when the economy was slowing down and when export was weak, the Group was still able to adhere to its business philosophy of adjustment and upgrade based on its corporate strategies, maintaining its turnover. For the year ended 31 December 2014, the Group recorded a turnover of approximately RMB9.2 billion, representing a modest year-on-year increase. Notwithstanding the adverse impacts of the dampened market and keen market competition in the second half of 2014, the potent revival of the domestic sales in the first half of the year resulted in an overall improvement in annual sales. In regard to overseas sales, owing to such unfavourable factors as a flagging economy, fluctuating exchange rates and unstable weather in overseas markets, the Group's overseas sales slid significantly in the first half of 2014. However, following the efforts of the Overseas Sales Team, sales in the second half of the year improved so substantially that annual export sales saw a minimal drop only.

The Commercial Team of the Group had very outstanding performance. In 2014, there was a marked improvement in business results and the turnover saw a two-digit improvement for two years in a row. This made an enormous contribution to the Group.

As the country's policy on high energy-saving subsidies ended in 2013, the Group gradually increased the average product prices back to the level before the implementation of the policy on subsidies through adjusting product mix. Despite this, adjusting prices is a step-by-step process. Whilst the Group had improvements in annual gross profits, the impacts of the expiry of the policy on subsidies had not been completely offset by the end of 2014. The management believes that the Group's business results will no longer be affected by fluctuations in the subsidy amounts after product prices rise to the market level again in the coming year. The continuing depreciation in Renminbi exchange rates in 2014 also brought about the loss incurred by the changes in the fair value of forward foreign currency contracts used for hedging purpose. In addition, the production facilities which the Group constructed for core components, including compressors and copper tube factories, are still in the early phase of operation. As a result, economic efficiency has not been seen yet. With the amortised expenses being higher, the Group's business results in 2014 were affected as well. In summary, the Group recorded a net loss in 2014. The management holds the belief that next year when the Group gives it all in terms of marketing, when the production facilities factories for the core components gradually make contributions to the Group and when the Group adheres to the corporate strategy of "the leader of high-end air-conditioners", the Group will further improve its image, mix and average prices of its products, bringing the Group a turnaround.

GIVING IT ALL; ZEROING IN ON HIGH-END PRODUCTS

The management of the Group considers air-conditioning products to be common appliances in modern lives. Air-conditioning products have become necessities with a view to improving human lives. However, based on the penetration of air-conditioning products in modern families and consumers' pursuit of high-end, smart and energy-saving air-conditioning products, the market of these products is still gigantic. The management, therefore, deems that the air-conditioning industry is still a sunrise industry with a promising future.

In the past few years, Chigo has invested more capital in improving the technology of high-end air-conditioners. Accompanied by the launch of high-end products such as iCongo (cloud air-conditioners) in the Internet era, starting from 2015, Chigo will give it all and zero in on high-end products, aiming to increase the scale of mid-to-high-end products to over 80% and striving for the goal of a production value of a hundred billion.

The Group understands that society nowadays is one where people connect, communicate, understand and help one another. The key to achieving a real success is to become an exceptional resource integrator. In the future, Chigo will put iCongo (cloud air-conditioners) into mass production; most importantly, Chigo will not only produce the best air-conditioners but will also construct an all-round user platform. Through cloud technology, Chigo has pioneered the way to interact with consumers around the globe, providing comprehensive solutions to smart homes. The Group has been attempting to usher in a cross-industry sales platform and make use of the advantages of the Internet and mobile communication to achieve the sales model of selling air-conditioners to the public.

ACKNOWLEDGEMENT

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

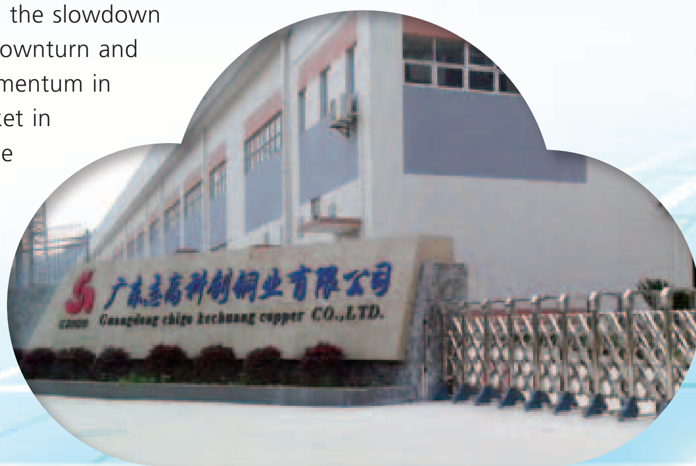
Li Xinghao
Chairman and Chief Executive Officer
Foshan, 27 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. During the year ended 31 December 2014, the turnover of the Group was mainly derived from the sales of air-conditioners and air-conditioner parts and components. The Group's products were sold both in the PRC and overseas markets.

Due to the continuing unfavorable factors, such as the slowdown in the domestic economy, the real estate market downturn and the cool summer weather, there was a lack of momentum in the growth of the residential air-conditioning market in 2014. According to market data, retail sales volume of the PRC residential air-conditioning market only recorded a slight increase in 2014. Overall air-conditioning market size was just the same as that in the previous year.



The performance of the domestic air-conditioning market was remarkable in the first half of 2014. In the second half of 2014, the growth of the air-conditioning market was weak showing "anticlimactic" phenomenon. Due to the sluggish performance of the domestic air-conditioning market since the third quarter of 2014, the market growth achieved in the beginning of the year was completely exhausted and the average growth rate of the air-conditioning market throughout the year was dragged down accordingly.

During the year, the competition in the domestic air-conditioning market became fiercer. Certain air-conditioner manufacturers implemented aggressive pricing strategy in order to maintain sales volume and accelerate inventory digestion. Nevertheless, the competition in the PRC air-conditioning industry still remains healthy. In addition to the increased competition, the focus of the 2014 air-conditioning market rested on the issues of intelligence and quality upgrades which were indicated by the increases in proportion of sales of inverter and smart air-conditioners in the industry. The Group has always been at the forefront in the fields of high energy-saving, intelligent and high-end air-conditioning products, so such development of the domestic air-conditioning market in 2014 would be very beneficial to the Group's business in the long run.

As for the export markets, air-conditioner manufacturers were under a lot of pressure for the year end 31 December 2014. The exchange rate of RMB against the US dollar changed from a one-way appreciation to two-way fluctuations gradually since the beginning of 2014. At the end of the year, RMB has depreciated against the US dollar to some extent. For home appliance export enterprises, a weak RMB would be appealing; but on the other hand, it brought uncertainty to the export enterprises in foreign currency risk control. According to customs statistics, the total export of residential air-conditioners from the PRC in 2014 decreased slightly year-on-year. However, the exports to Latin American and Asian markets saw growth in the last twelve months which were driven by good domestic economic conditions, strong market demand for consumption and increased efforts for business development in these markets by the air-conditioning export enterprises. As a result, orders increased significantly in 2014. On the other hand, there were more unfavourable factors in Europe including sluggish economic conditions, bad weather and weak overall demand for air-conditioners. As such, less export orders were placed by customers and annual export volume declined year-on-year. Besides, with a number of European countries were suffering from substantial currency depreciation and limited consumer demand, more export orders for home appliance were canceled or delayed. In addition, for some of European countries, 2014 represented a turning point where new energy product eco-design requirements and channel inventory clean-up were imposed, leading to confusion in the market and severe price competition, which indirectly caused exports to fall sharply. Exports to African air-conditioning market dropped significantly in 2014 due to the unusual weather in some areas where the temperature was lower than in previous years. Although there were signs of recovery in the second half of 2014, overall demand was not as good as before.

Although the Group was also affected by the decline in exports throughout the entire air-conditioning industry, sales performance of respective overseas markets, such as those in the Americas and Oceania regions were impressive in 2014.

Sharp growth in central air-conditioning market was one of the highlights of the industry in 2014. Commercial air-conditioning market grew at a rate faster than that of the residential counterpart. Domestic brands and foreign brands in the PRC market competed against each other to grasp market share. In 2014, the Group's commercial team was able to leverage on its excellent sales strategy to produce brilliant business results.

For the year ended 31 December 2014, prices of the major raw materials showed a decline. Copper prices continued to slump and reached a level lower than that of the same period in 2013. Although aluminum prices have rebounded, it was still low. Since the major raw material prices during the year generally went down, the Group was able to reduce the production costs and further improve its gross margins.

In order to implement the next year's marketing plan and global brand strategy, the Group engaged an international superstar, Mr. Jackie Chan as CHIGO brand spokesperson during the year. In addition, in order to promote the sales of air-conditioning products through cross-industry platform and to strengthen its overseas sales channels and enhance the Group's overseas brand recognition, the Group acquired a financial intermediary company and prepared for the establishment of its own overseas sales distribution companies. The management believes that different types of customers with strong spending power will be referred to the Group through the new sales platform. As the size of new target customers group is expected to increase, the Group would benefit from the increasing air-conditioners sales. On the other hand, the Group could use the existing distribution network to market financial products and insurance services to the end customers, thereby increasing the other operating income of the Group in the future. The management expects that the new sales platform would make contribution to the Group commencing the first half of 2015.

To sum up, the Group's turnover remained stable but recorded a loss in 2014, which was mainly attributable to (i) gradual price adjustments of products to offset the effect of the absence of government subsidies for high energy-saving products; (ii) substantial increases in selling and distribution costs and administrative expenses in the first half of 2014; (iii) a net loss in fair value changes under its foreign currency forward contracts; and (iv) higher amortization expenses in early operational phase relating to the Group's new production facilities for major parts.

OPERATION REVIEW

SALES FROM MAJOR PRODUCT GROUPS AND GROSS MARGINS

	Year ended 31 December					
	2014		2013		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	Change *RMB million*	Change %
Residential air-conditioners						
– split type	**7,031.4**	**76.2**	7,161.8	78.0	-130.4	-1.8
– window type	**339.3**	**3.7**	325.6	3.5	+13.7	+4.2
– portable type	**30.5**	**0.3**	33.1	0.4	-2.6	-7.9
	7,401.2	**80.2**	7,520.5	81.9	-119.3	-1.6
Commercial air-conditioners	**925.4**	**10.0**	740.7	8.0	+184.7	+24.9
Air-conditioners parts and components	**598.0**	**6.5**	676.5	7.4	-78.5	-11.6
Others	**308.6**	**3.3**	246.0	2.7	+62.6	+25.4
	9,233.2	**100.0**	9,183.7	100.0	+49.5	+0.5

Residential air-conditioning products are the major source of income of the Group and accounted for 80.2% of the total turnover. Sales of residential air-conditioners decreased slightly by 1.6% during the year ended 31 December 2014, principally because of the decrease in average sales prices of these air-conditioning products during the year. As both the sales volume and average sales prices increased, turnover derived from commercial air-conditioners rose remarkably by 24.9% and contributed 10.0% of the total turnover to the Group during the year. Due to the changes in overseas customer mix and renegotiation of business cooperation strategy leading to decline in volume of business, sales of air-conditioner parts and components decreased by 11.6% during the year. The Group expanded its domestic distribution channel of other products during the year and increased its other operating income, such as resale of raw materials, as a result, sales of other products recorded a satisfactory growth in China and increased by 25.4% in 2014.

As the Group took time to increase the average selling prices of its products gradually after the expiry of high energy-saving programmes in May 2013, the gross margin (including government subsidies for energy-saving products) of residential air-conditioning products dropped slightly to 16.8% for the reporting period from 17.6% in 2013.

The Group's commercial unit continued to elevate its profit margin. The average gross margin of the Group's commercial segment increased from 25.2% in 2013 to 26.1% during the year.

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

	Year ended 31 December					
	2014		2013		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
PRC sales						
CHIGO brand	**4,733.5**	**51.3**	4,656.5	50.7	+77.0	+1.7
HYUNDAI brand	**61.5**	**0.7**	92.3	1.0	-30.8	-33.4
Air-conditioner parts and components	**60.3**	**0.6**	75.9	0.8	-15.6	-20.6
Other products	**306.8**	**3.3**	243.0	2.7	+63.8	+26.3
	5,162.1	**55.9**	5,067.7	55.2	+94.4	+1.9
Overseas sales						
CHIGO brand	**523.7**	**5.7**	641.0	7.0	-117.3	-18.3
OEM	**3,007.9**	**32.6**	2,871.4	31.3	+136.5	+4.8
Air-conditioner parts and components	**537.7**	**5.8**	600.6	6.5	-62.9	-10.5
Other products	**1.8**	**0.0**	3.0	0.0	-1.2	-40.0
	4,071.1	**44.1**	4,116.0	44.8	-44.9	-1.1
	9,233.2	**100.0**	9,183.7	100.0	+49.5	+0.5

The Group continued to improve brand awareness in China. Most of its air-conditioning products sold in China were under CHIGO brand which increased by 1.7% and accounted for 98.8% of the Group's PRC sales during the year ended 31 December 2014. Sales of parts and components in China decreased by 20.6% due to renegotiation of business cooperation strategy with customers resulting in a drop in business volume. As the Group expanded its domestic distribution channel of other products, sales of other products increased by 26.3% during the reporting period.

Since the Group had adjusted its customer mix and business strategy in overseas markets to cope with the rapid global economic changes, export under CHIGO brand recorded a drop of 18.3% during the year due to changes in customers' demands. However, the drop in sales from CHIGO brand was offset by the increase of 4.8% from OEM sales. As a result, CHIGO brand and OEM customers contributed 26.1% and 73.9% of the total overseas sales in 2014 respectively (2013: 30.2% and 69.8% respectively).

SALES AND DISTRIBUTION

	Year ended 31 December					
	2014		2013		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	Change *RMB million*	Change %
PRC						
Household appliances retail chain operators	**1,265.1**	**13.7**	1,356.3	14.8	-91.2	-6.7
Regional distributors	**3,897.0**	**42.2**	3,711.4	40.4	+185.6	+5.0
PRC Total	**5,162.1**	**55.9**	5,067.7	55.2	+94.4	+1.9
Overseas						
Regional distributors	**1,063.2**	**11.5**	1,244.6	13.5	-181.4	-14.6
OEM manufacturers	**3,007.9**	**32.6**	2,871.4	31.3	+136.5	+4.8
Overseas Total	**4,071.1**	**44.1**	4,116.0	44.8	-44.9	-1.1
Total Turnover	**9,233.2**	**100.0**	9,183.7	100.0	+49.5	+0.5

During the year ended 31 December 2014, sales from household appliances retail chain operators decreased by 6.7% and contributed to 24.5% of the Group's PRC sales (2013: 26.8%). Sales generated from regional distributors increased by 5.0% and accounted for 75.5% of the PRC sales in 2014 (2013: 73.2%).

For the overseas markets, as own brand sales decreased during the reporting period, sales from regional distributors dropped by 14.6%. However, the Group was able to get more sales from OEM customers to compensate the drop in own brand sales and sales from overseas OEM customers increased by 4.8% in 2014. As such, approximately 73.9% and 26.1% (2013: 69.8% and 30.2%) of the overseas sales were distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2014.

UNITS SOLD VOLUME AND AVERAGE SALES PRICES

	Year ended 31 December		Change
	2014	2013	%
Residential air-conditioning products sold *('000 units)*	**4,569**	4,582	-0.3
Commercial air-conditioning products sold *('000 sets)*	**200**	174	+14.9
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,620**	RMB1,686	-3.9
Average sales price – commercial air-conditioning product (per set)	**RMB4,619**	RMB4,249	+8.7

During the year ended 31 December 2014, the Group maintained the sales volume of residential air-conditioning products which dropped slightly by 0.3% year-on-year. Sales of commercial air-conditioning products kept growth momentum and achieved an increase in sales volume by 14.9% in 2014. In total, the Group sold more than 4,700,000 units/sets of air-conditioners within the reporting period.

Following the expiry of the subsidy policy for high energy-saving air-conditioning products in China in May 2013, the Group, through adjusting the product mix, raised the selling prices of the relevant products gradually. On the other hand, due to the decreases in prices of the major raw materials, average cost of sales of air-conditioning products declined which in turn slowed down growth in selling prices during the year ended 31 December 2014. As a result, as price adjustments could only be gradual, the average selling prices of the relevant products during 2014 had not yet returned to the level before the subsidy programme and the average selling prices of residential air-conditioning products dropped by 3.9%. Despite the decreases in cost of sales in 2014, the Group was able to adjust the average sales prices of commercial air-conditioning products upwards by 8.7%.

BREAKDOWN OF COST OF GOODS SOLD

During the two years ended 31 December 2014, breakdown of the Group's total cost of goods sold was shown as follows:

	Year ended 31 December					
	2014		2013			
	RMB million	**% of Cost of goods sold**	*RMB million*	% of Cost of goods sold	Change *RMB million*	Change %
Raw materials, parts and components:						
Compressors	**1,674.1**	**21.9**	1,652.8	21.4	+21.3	+1.3
Copper	**1,777.8**	**23.3**	2,110.9	27.3	-333.1	-15.8
Plastic chips	**680.1**	**8.9**	578.0	7.5	+102.1	+17.7
Aluminum	**371.4**	**4.9**	469.7	6.1	-98.3	-20.9
Steel plates	**770.9**	**10.1**	520.6	6.7	+250.3	+48.1
Others *(note)*	**1,442.2**	**18.9**	1,639.5	21.2	-197.3	-12.0
Total	**6,716.5**	**88.0**	6,971.5	90.2	-255.0	-3.7
Direct labour cost	**347.8**	**4.6**	340.7	4.4	+7.1	+2.1
Utilities	**73.7**	**1.0**	65.3	0.8	+8.4	+12.9
Production cost	**254.5**	**3.3**	214.8	2.8	+39.7	+18.5
Others	**237.4**	**3.1**	135.5	1.8	+101.9	+75.2
Total cost of goods sold	**7,629.9**	**100.0**	7,727.8	100.0	-97.9	-1.3

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

During the year ended 31 December 2014, as the prices of major raw materials, such as copper and aluminum, dropped substantially, the Group's cost of major materials reduced by RMB255.0 million or 3.7%. Because of the rising trend of labour costs in China, direct labour cost increased by 2.1% during the year ended 31 December 2014.

Other cost of sales increased substantially by 75.2% mainly attributed to (i) the increase in other business cost, such as the cost of raw material resold by the Group; and (ii) the additional amortization expenses in relation to the Group's new production facilities which have just commenced production and are in their early operational phase.

FINANCIAL REVIEW

TURNOVER

	Year ended 31 December					
	2014		2013		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
Geographic region						
PRC sales	**5,162.1**	**55.9**	5,067.7	55.2	+94.4	+1.9
Asia (excluding PRC)	**2,088.6**	**22.6**	1,944.9	21.2	+143.7	+7.4
Americas	**1,182.8**	**12.8**	1,048.5	11.4	+134.3	+12.8
Africa	**387.6**	**4.2**	567.9	6.2	-180.3	-31.7
Europe	**391.7**	**4.3**	542.6	5.9	-150.9	-27.8
Oceania	**20.4**	**0.2**	12.1	0.1	+8.3	+68.6
Overseas sales	**4,071.1**	**44.1**	4,116.0	44.8	-44.9	-1.1
Total turnover	**9,233.2**	**100.0**	9,183.7	100.0	+49.5	+0.5

During the year ended 31 December 2014, the Group's total turnover was approximately RMB9,233.2 million (2013: RMB9,183.7 million), representing a slight increase of RMB49.5 million, or 0.5% as compared to the corresponding period in 2013. The increase was principally due to the increase in domestic sales which outweighed the decrease in overseas sales during the year.

As there were no subsidies for the high energy-saving products in 2014, gross receipts (sum of turnover and government subsidies for high energy-saving products) received by the Group in relation to its principal operation amounting to RMB9,233.2 million (2013: RMB9,390.6 million), representing a decrease of 1.7% or RMB157.4 million as compared to 2013.

PRC SALES

For the year ended 31 December 2014, the Group's PRC sales increased by RMB94.4 million or 1.9% to RMB5,162.1 million (2013: RMB5,067.7 million). During the year ended 31 December 2014, domestic sales remained the main source of revenue of the Group and amounted to 55.9% of the total turnover (2013: 55.2%).

OVERSEAS SALES

For the year ended 31 December 2014, the Group's overseas sales decreased to RMB4,071.1 million in 2014 (2013: RMB4,116.0 million). The drop in overseas sales amounted to RMB44.9 million representing a year-on-year decrease of 1.1%.

The Group saw decreases in sales in Africa and Europe by 31.7% and 27.8% respectively. However, the Group recorded satisfactory growths in sales in Asia (excluding PRC) of 7.4%, Americas of 12.8% and Oceania of 68.6% respectively which offset the sales drop in Africa and Europe. Among the overseas markets of the Group, the main sources of revenue were Asia (excluding PRC) and Americas which accounted for 22.6% and 12.8% (2013: 21.2% and 11.4% respectively) of the Group's turnover during the year ended 31 December 2014.

Since the Group's sales increased in the PRC but dropped in overseas, export sales dropped slightly to 44.1% (2013: 44.8%) of the Group's total turnover for the year ended 31 December 2014.

COST OF GOODS SOLD

Due to the decrease in prices of major raw materials, parts and components, such as copper and aluminum, in 2014, cost of goods sold decreased to RMB7,629.9 million (2013: RMB7,727.8 million), representing a decrease of RMB97.9 million or 1.3% as compared to that of 2013.

GROSS PROFIT

As its turnover increased while its cost of goods sold reduced, the Group recorded a gross profit of RMB1,603.3 million for the year ended 31 December 2014 (2013: RMB1,455.9 million) which represented an increase of RMB147.4 million or 10.1%. Since there was no government subsidy for high energy-saving products for the year ended 31 December 2014, consolidated segment results of operation (sum of gross profit and the government subsidies for energy-saving products) for the year ended 31 December 2014 totalled RMB1,603.3 million (2013: RMB1,662.8 million) representing a decrease of RMB59.5 million or 3.6% from that of 2013.

Because of the absence of government subsidies for high energy-saving products received by the Group offset the increase in the Group's gross profit recorded in the period, the Group's gross margin (calculated as consolidated segment results to turnover) dropped slightly from 18.1% in 2013 to 17.4% for the year ended 31 December 2014.

Gradual price adjustments also affected the Group's gross margin of PRC sales which decreased to 21.2% (2013: 22.4%) in 2014. Because of the keener competition and unstable economic conditions in the overseas markets during the year, the gross margin of overseas sales of the Group decreased slightly to 12.5% (2013: 12.8%) in 2014. Among the overseas sales regions, Americas, Africa and Europe all recorded profit margin growth in 2014 while Africa and Oceania contributed the most to the profitability of the Group and achieved gross margins of 17.4% and 20.8% respectively.

OTHER INCOME

Other income which included mainly the interest income and non-operating income was RMB54.2 million (2013: RMB86.2 million), representing a decrease of RMB32.0 million or 37.1%.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased to RMB829.9 million (2013: RMB722.0 million), representing an increase of RMB107.9 million or 14.9% for the year ended 31 December 2014. The increase was mainly due to increases in (i) advertising and promotion expenses; and (ii) salary of the sales personnel during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group remained stable and amounted to RMB412.0 million (2013: RMB412.1 million) for the year ended 31 December 2014. The administrative expenses included mainly (i) salaries, benefits and social insurance charges relating to administrative staff; (ii) stock scrap and loss; and (iii) amortization of lease payment incurred during the year.

EQUITY-SETTLED SHARE BASED PAYMENTS

The Group recorded an equity-settled share based payments of RMB10.3 million (2013: RMB19.3 million) for the year ended 31 December 2014 in relation to the share options granted by the Company to certain employees (including directors) and customers in 2011. This non-cash expense decreased by RMB9.0 million or 46.6% during the year.

RESEARCH AND DEVELOPMENT COSTS

Research and development ("**R&D**") costs increased to RMB93.2 million (2013: RMB85.0 million) by 9.6% or RMB8.2 million during the year. The increase was attributed to the increases in R&D investment in high-end advanced air-conditioning products by the Group to implement its "the leader of high-end air-conditioners" strategy in the coming year.

OTHER EXPENSES

Other expenses were mainly non-operating expenses and donation which increased by RMB19.6 million or 179.2% during the year ended 31 December 2014 and amounted to RMB30.6 million.

OTHER GAINS AND LOSSES

The Group recorded other gains of RMB4.0 million (2013: other losses of RMB18.8 million) in 2014. The other gains were mainly the net foreign exchange gains incurred during the year.

NET LOSS IN FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group had entered into certain foreign currency forward contracts to sell and buy US dollar with financial institutes to hedge against part of its overseas sales income and US dollar loans respectively. Some of the contracts were entered into in 2013 and recorded net gains in fair value changes of foreign currency forward contracts. As the value of Renminbi against US dollars continued to drop in 2014, the Group incurred a net loss in fair value changes of approximately RMB32.0 million (2013: net gain of RMB70.7 million) under its foreign currency forward contracts of the Group outstanding as at 31 December 2014.

FINANCE COSTS

The Group financed its working capital requirement through obtaining bank loans, discounting part of its bills receivable from customers to financial institutes and issuing corporate debentures. During the reporting period, a major subsidiary of the Company had issued additional medium-term notes of RMB50.0 million for general working purposes. As at the end of 2014, the Group had outstanding debentures (including accrued interests) of RMB207.0 million and bank loans of RMB2,094.8 million which reduced sharply as compared to the corresponding period in 2013 (debentures of RMB154.6 million and bank loans of RMB3,190.6 million). However, average interest rates of long-term debentures and bank loans increased substantially during the reporting period to 8.00% and 6.46% p.a. respectively (2013: 6.50% and 2.32% p.a.). Since the Group discounted more bills receivables for working capital and the interest and discount rates were higher, bills discount charges increased substantially during 2014. As such, the finance costs of the Group increased by RMB44.4 million or 20.4% to RMB262.0 million (2013: RMB217.6 million) for the year ended 31 December 2014.

TAXATION

The Group recorded a consolidated loss before taxation for the year ended 31 December 2014. Because of (i) the income tax charges incurred by the subsidiaries of the Company and (ii) the effect of non-deductible expenses incurred in respect of the manufacture of high energy-saving products, the Group's tax charge for the year ended 31 December 2014 increased by RMB8.5 million or 19.6% to RMB51.8 million (2013: RMB43.3 million).

LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR

As a result of the foregoing, the Group recorded a loss of RMB60.4 million for the year ended 31 December 2014 (2013: profit of RMB214.4 million), representing a decrease of RMB274.8 million or 128.2% as compared to the corresponding period in 2013. Since the Group had recorded a loss in the reporting period, the Group changed from a net margin of 2.3% in 2013 to a net loss of 0.7% for the year ended 31 December 2014.

FINANCIAL POSITION

	As at 31 December			
	2014	2013	Change	Change
	RMB million	*RMB million*	*RMB million*	%
Non-current assets	**2,012.5**	1,872.8	+139.7	+7.5
Current assets	**9,149.5**	10,176.6	-1,027.1	-10.1
Current liabilities	**7,979.2**	8,693.7	-714.5	-8.2
Non-current liabilities	**276.6**	385.8	-109.2	-28.3
Net assets	**2,906.3**	2,969.9	-63.6	-2.1

As at 31 December 2014, the Group's total consolidated assets decreased by RMB887.4 million or 7.4% to RMB11,162.0 million (2013: RMB12,049.4 million). The decrease was mainly due to the decrease in value of certain current assets such as inventories (decreased by RMB513.9 million), trade and other receivables (decreased by RMB133.3 million) and bank balances and cash (decreased by RMB292.0 million), which was partly offset by the increases in non-current assets such as property, plant and equipment (increased by RMB81.9 million) and prepaid lease payments (increased by RMB45.6 million). Total consolidated liabilities of the Group as at 31 December 2014 amounted to RMB8,255.8 million (31 December 2013: RMB9,079.5 million) and decreased by RMB823.7 million or 9.1%. The major liabilities that decreased in the period were short-term bank loans and long-term bank loans (decreased by RMB1,077.5 million and RMB18.2 million respectively), which decrease was offset by the increases in trade and other payables and borrowings related to bills discounted with recourse (increased by RMB31.4 million and RMB157.2 million respectively).

As the Group recorded a net loss for the year, the Group's net assets decreased by 2.1% or RMB63.6 million to RMB2,906.3 million at the end of 2014 (2013: RMB2,969.9 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

As at 31 December 2014, the Group had current assets amounted to RMB9,149.5 million (2013: RMB10,176.6 million) and current liabilities amounted to RMB7,979.2 million (2013: RMB8,693.7 million). The Group's working capital decreased by RMB312.6 million or 21.1% from RMB1,482.9 million as at the end of 2013 to RMB1,170.3 million at the end of 2014. As the Group's net current assets decreased, current ratio decreased to 1.1 times (2013: 1.2 times) as at 31 December 2014.

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 cash flow, are closely related to seasonal factors. Demands for air-conditioners are usually higher during summer each year. In order to facilitate production prior to the domestic peak season and to meet the overseas orders, the Group normally experiences temporarily higher funding requirements in the middle and at the end of each year.

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

In 2014, the Group had obtained funding for its business operation from using bank loans and issuing debentures. As at 31 December 2014, the balances of short-term and long-term bank loans utilised by the Group were RMB1,940.9 million and RMB154.0 million respectively (2013: RMB3,018.4 million and RMB172.2 million respectively). Short-term and long term bank loans decreased by RMB1,077.5 million and RMB18.2 million during the year. The bank loans 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. In May 2014, the Group also issued additional medium-term notes in an aggregate principal amount of RMB50.0 million in the PRC. As at the end of the reporting period, the Group had outstanding long-term debentures of approximately RMB207.0 million (2013: RMB154.6 million).

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group decreased and improved to 20.6% as at 31 December 2014 (2013: 27.8%) because the Group's total borrowings decreased substantially by RMB1,043.4 million during the year.

In order to reduce finance costs, the Group arranged some of its borrowings by obtaining bank loans which are denominated in foreign currency and offered at lower lending rates during the year. Both short-term and long-term borrowings had been used and provided the Group with a better mix of debt financing to fund its business operation. During the year, the Group discounted more bills receivables for working capital. As discount charges increased, the Group increased its finance cost by 20.4% or RMB44.4 million for the year ended 31 December 2014 comparing to the same period in 2013.

The Group's ability to meet finance costs, as indicated by interest cover, dropped during the reporting period. Since the Group recorded a net loss for the year and its finance costs increased during the year, interest cover of the Group decreased to 1.0 times for the year ended 31 December 2014 as compared to 2.2 times for the same period in 2013.

During the year, the Group entered into certain foreign currency forward contracts and derivative financial instruments to hedge against part of its exposure on potential variability of foreign currency risk. The net financial exposure of the Group to these foreign currency financial instruments was net liabilities of approximately RMB7.2 million (2013: net assets of RMB59.5 million) as at the year end.

As at 31 December 2014, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue and all of the issued shares were ordinary shares. Since the Group recorded a net loss for the year, the shareholders' equity decreased to RMB2,906.3 million as at 31 December 2014 (2013: RMB2,969.9 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 2014.

CASH FLOWS

	Year ended 31 December	
	2014	2013
	RMB million	*RMB million*
Operating cash flows	**499.2**	554.2
Movements in working capital and taxation	**788.5**	(872.4)
Net cash from (used in) operating activities	**1,287.7**	(318.2)
Net cash used in investing activities	**(260.8)**	(599.8)
Net cash (used in) from financing activities	**(1,318.9)**	750.7
Net decrease in cash and cash equivalents	**(292.0)**	(167.3)
Cash and cash equivalents at 31 December	**464.5**	756.5

For the year ended 31 December 2014, the Group generated operating cash flows of RMB499.2 million (2013: RMB554.2 million). During the year, the Group, by discounting some of the bills receivables to banks, obtained an additional RMB157.2 million for its operation. The Group was also able to reduce the amount of its inventories and trade and other receivable by RMB493.1 million and RMB130.7 million, respectively, during the reporting period. As such, the Group generated net cash of RMB1,287.7 million for its operating activities (2013: net cash outflow of RMB318.2 million) for the year ended 31 December 2014.

The Group applied part of the cash generated amounting to RMB260.8 million (2013: RMB599.8 million) for its investing activities in respect of the future business expansion and development of the Group including mainly the amount of RMB198.4 million for the acquisitions of property, plant and equipment, RMB37.7 million for the payment of deposits in respect of such acquisitions and RMB64.7 million for the prepayment of lease payments.

The Group worked hard to reduce borrowings and applied RMB1,318.9 million (2013: net cash inflow of RMB750.7 million) for its financing activities. During the year ended 31 December 2014, the Group used part of the cash generated to reduce net amount of short-term bank loans by RMB929.8 million and long-term bank loans by RMB166.0 million.

As a result of the foregoing, the Group's cash balances decreased by RMB292.0 million during the year ended 31 December 2014 (2013: net cash outflow of RMB167.3 million) and bank balances and cash amounted to RMB464.5 million at the end of 2014 (2013: RMB756.5 million). Majority of the bank balances and cash were denominated in Renminbi and certain amounts were denominated in US dollars and Hong Kong dollars.

MATERIAL ACQUISITIONS AND DISPOSALS, SIGNIFICANT INVESTMENTS

In November 2014, the Group acquired 100% of the equity interest of 廣東業誠保險代理有限公司 (Guangdong Y.C. Insurance Agency Co., Ltd.) ("**Guangdong Y.C.**"), for a consideration of RMB10.0 million. Guangdong Y.C. is engaged in insurance agency activities in the PRC. The acquisition was made to enhance the penetration of the Group's customer base in the PRC and to support the future business development of the Group.

Other than the above, 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 reporting period.

CHARGE ON ASSETS

As at 31 December 2014, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB1,077.7 million (2013: RMB1,111.9 million) were pledged to certain banks for securing the banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

During the year ended 31 December 2014, approximately 44.1% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may expose to foreign currency risk. During the reporting period, the Group had already entered into certain foreign currency forward contracts and derivative financial instruments to hedge against foreign exchange risk. As the exchange rate of Renminbi against the US dollars fluctuated during the reporting period, the Group incurred losses on the foreign currency forward contracts upon settlement. However, the Directors believe that the Group's exposure to foreign currency risk was not significant.

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

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

CAPITAL COMMITMENTS

As at 31 December 2014, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB75.5 million (2013: approximately RMB78.9 million). The Group expects that the capital commitments will be funded by internal resources and/or external finance from financial institutions.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2014.

EMPLOYEES AND REMUNERATION

As at 31 December 2014, the Group employed 13,511 employees (2013: 13,802 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages are reviewed on a yearly basis. The Group also provides its employees with welfare benefits including medical care, meal subsidies, education subsidies and housing etc.

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

OUTLOOK AND FUTURE PLANS

It is expected that China's economic growth will enter into a new phase, which will show a moderately rapid economic growth, rather than a high-speed growth as shown in the past. Air-conditioning business would be no exception as the industry expects sales growth in the coming year to be relatively stable. Since the capacity of the domestic and global air-conditioning markets is very large, a stable growth in the future will far exceed the rapid growth in the past.

China has entered a period of replacement of old and obsolete air-conditioners, coupled with the low retention rate of residential air-conditioners in the country, it is expected that new home installation and replacement of air-conditioners will create a stable demand for air-conditioning products.

In order to grab hold of market opportunities in the coming year, prepare to face different challenges in the market and achieve long-term healthy development, the management has set "Chigo • the leader of high-end air-conditioners" as the corporate goal of the Group. To achieve this goal, the Group has formulated the following plans and strategies:

1. LOCK TARGET CUSTOMERS, ENHANCE MARKETING AND BRAND POSITIONING

Current market demand of the mainstream customers has shifted to mid-range or above air-conditioning products. In view of this premise and its future development needs, the Group shall achieve sustainable development, shift business focus to high-end customers and pool resources to serve and lock the end customers. At the same time, the Group will put in resources to cultivate high-end customers' relationship. The Group is working on the establishment and optimization of a sound and new product verification system to ensure that the needs of the core high-end users can be fully met.

2. IMPROVE QUALITY STANDARDS, CREATING A WIN-WIN STRATEGIC SUPPLY CHAIN

After the strategic redefinition of its target customers, its product and brand positioning, the Group will implement strategic transformation and upgrading of internal and external suppliers. The Group plans to make investment in its existing quality standards and existing equipment, technology, personnel, operations and parts management to enhance product quality, in order to meet the potential needs of the end-users and reach or go beyond the industry's top-tier standard.

3. UPGRADE LEAN MANAGEMENT AND REINFORCE CORE MANUFACTURING CAPABILITIES

During 2014, the Group has made a comprehensive introduction of lean management into its manufacturing system which achieved a very good result and created considerable economic benefits. Based on this, the Group will continue to put in sufficient manpower, material and financial resources in 2015 in order to continue in-depth implementation of the lean management project. The Group also aims to maximize the benefits of resources integration, scientific costs management and improve manufacturing flexibility and capabilities.

4. INNOVATE MARKETING SYSTEM, OPTIMIZE THE MARKET STRUCTURE AND PROFIT MODEL

The management of the Company always has a belief that air-conditioning industry is a big industry and big market, so the Group always focuses on the core business. The Group has to continue to take the advantages of traditional distribution channel, promote a flat distribution network and reduce intermediate links. On the other hand, the Group also plans to (i) expand the channel of chain stores, online shopping and proprietary distribution channel; (ii) explore innovative mobile sales and other business models; and (iii) improve network coverage. In addition, the management is also confident that cross-industry platform sales promotion, such as bi-products and business promotion through financial intermediaries, would provide huge development potential and room for the Group's business.

In overseas markets, while the Group adheres to consolidate its ODM business, it will also speed up the promotion of its own brand. The management believes that, in order to strengthen the control of sales channels and brand awareness, the Group will seek opportunities to expand in the overseas markets. At the right time, the Group would consider setting up the local sales force or marketing companies via own investments or joint ventures. The Group would also consider acquiring local appliance brand and marketing network if a suitable opportunity arises.

5. BUSINESS COLLABORATION AND CAPITAL COOPERATION

Recently, air-conditioning industry continues to change and cases of business cooperation continue to emerge. The Group has been closely monitoring market trends, exploring potential business collaboration opportunities with various domestic and international well-known enterprises. In order to reserve sufficient financial resources for its business development, the Group will consider from time to time the possibility of cooperation with potential investors. Relevant announcements will be made by the Company as and when appropriate.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. LI XINGHAO

Mr. Li, aged 60, is the founder of the Group. He was appointed as an executive Director on 24 April 2006. Mr. Li is also the Chairman and Chief Executive Officer of the Company and is primarily responsible for the formulation of the Group's development strategies, as well as supervising the Group's overall business and operation management. He is one of the founders of Nanhai Chigo Factory, the predecessor of Guangdong Chigo, established in 1994 and has over 21 years of experience in the air-conditioning industry. Mr. Li graduated from the Party School of the Central Committee of C.P.C. (中共中央黨校) in 2000. He obtained a masters degree in Western Economics Studies from Nankai University (南開大學) in July 2004. Mr. Li is currently the Chairman of Guangdong Credit Association (廣東省信用協會).

DR. ZHENG ZUYI

Dr. Zheng, aged 59, is the vice Chairman of the Company and the chairman of the board of Guangdong Chigo. He joined the Group on 1 October 2005 and was appointed as an executive Director on 4 January 2012. He is responsible for the management of the board of directors of Guangdong Chigo. Dr. Zheng received a doctorate degree in engineering from Huazhong University of Science and Technology (華中理工大學) in December 1994 and completed the post-doctorate research studies in Tsinghua University in May 1996. Before joining the Group, Dr. Zheng was the senior technology consultant and head of the research institute of Gree Electric Appliances, Inc. (珠海市格力電器股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange) from June 1996 to August 2001. He was the general manager of an air-conditioning company of Guangdong Kelon Electrical Holdings Co., Ltd. (廣東科龍電器股份有限公司, a company whose shares are listed on the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited) between September 2001 and September 2005 and resigned in October 2005 to join the Group.

DR. DING XIAOJIANG

Dr. Ding, aged 50, was appointed as an executive Director of the Company on 15 February 2008. He joined the Group in January 1998 and has held various positions as supervisor of the technology department and the procurement department, head of commercial department, the chief engineer and the General Manager of the Refrigeration Equipment Division of the Group. Dr. Ding graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) (formerly known as 南京航空學院) in 1985, received a masters degree in engineering from the same university in 1988 and a doctorate degree in engineering from Chongqing University (重慶大學) in 1992. He joined Guangdong Meidi Refrigerating Research Centre (廣東美的股份有限公司空調研究所) as a senior engineer from November 1992 to May 1995.

MR. HUANG XINGKE

Mr. Huang, aged 37, was appointed as an executive Director of the Company on 6 September 2010. He graduated from the University of International Business and Economics majoring in Accounting in July 2004. Mr. Huang Xingke further completed postgraduate courses in Modern Industrial Management and Advanced Production at Tsinghua University and in Business Administration (MBA) at Sun Yat-sen University in October 2006 and November 2008, respectively. He joined the Group in May 2002 and is currently the Vice Chairman and the President, the department head of the Procurement Centre of Guangdong Chigo and is responsible for the operation and management of the residential air-conditioning products of the Group. Mr. Huang Xingke has more than 13 years experience in accounting, production management and procurement management. Prior to joining the Group, Mr. Huang Xingke worked as an accountant of Foshan Taiyang Packaging Limited (佛山太陽包裝有限公司) from 2000 to May 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. WAN JUNCHU

Mr. Wan, aged 48, was appointed as an independent non-executive Director on 26 August 2008. Mr. Wan had been working as a part-time chief editor of China Business Update (《中國經貿》雜誌社) from January 2005 to December 2005, and assistant to the secretary of China Association for Quality Promotion (中國質量萬里行促進會) since July 1999. He had conducted researches on famous Chinese brands and published more than three books on management including brand management.

MR. ZHANG XIAOMING

Mr. Zhang, aged 61, was appointed as an independent non-executive Director on 26 August 2008. He graduated from South China Normal University (華南師範大學) majoring in economic and management in August 1992. He has over 36 years of working experience in the household electrical appliance industry in the PRC and held various positions including senior chief economist and general manager. Mr. Zhang has also participated in the research, planning and formulation of the development strategy in the household electrical appliance industry in Guangdong. He also organized and participated in work for management guidance in the household electrical appliances and hardware industries in Guangdong. Since 2003, Mr. Zhang has been appointed as the panel member of the Guangdong Top Brand accreditation group (廣東省名牌產品組織評審專家組成員). Since 2005, he has been appointed as a member of the expert group of special funds for SME development project in Guangdong Province (廣東省中小企業發展專項資金項目專家組成員), and a panel member of the expert group of Famous Trademarks in Guangdong Province and participated in assessment and promotion of Famous Trademarks in Guangdong Province and China Famous Trademark. He is the managing vice chairman of Guangdong Household Electrical Appliances Trade Association (廣東省家用電器行業協會).

MR. FU XIAOSI

Mr. Fu, aged 55, was appointed as an independent non-executive Director on 26 August 2008. He graduated from Huazhong University of Science and Technology (華中科技大學) (formerly known as 華中工學院) in July 1986. He obtained a bachelor degree in economics from Zhongnan University of Economics and Law (中南財經政法大學 formerly known as 中南財經大學) in 1999. He qualified as an assistant engineer in 1987 and as an accountant in 1991. Mr. Fu obtained the relevant qualification as a registered accountant from the Chinese Institute of Certified Public Accountants in the PRC in 1994. He has been promoted as a senior accountant while working at China State Ship Building Corporation (中國船舶工業總公司) in 1997. Mr. Fu completed the training course for independent non-executive directors of the listed companies organised by Fudan University (復旦大學) in 2002. From November 2000 to May 2006, he worked at 中勤萬信會計師事務所 (Zhong Qin Wan Xin Accounting Firm) and held positions including senior manager, department manager, vice chief accountant and senior partner, responsible for auditing financial statements for various listed companies. During the period between May 2006 and November 2012, he was the chief accountant of Hubei Tri-Ring Group (湖北三環集團). Currently, he is the deputy general manager and financial controller of 湖北久之洋紅外系統股份有限公司 (Hubei Jiuzhiyang Infrared System Company Limited) and is an external supervisor of Guangzhou Shipyard International Co., Ltd. (廣州廣船國際股份有限公司, a company whose shares are listed on the Shanghai Stock Exchange). Mr. Fu is also the independent non-executive director of Hubei Xingfa Chemicals Group Co., Ltd. (湖北興發化工集團股份有限公司, a company whose shares are listed on the Shanghai Stock Exchange).

SENIOR MANAGEMENT

MR. ZHANG QUAN

Mr. Zhang, aged 45, is a vice president and the general manager of the central air-conditioning division of the Group. He joined the Group in April 2010 and is responsible for overseeing the operation and management of the commercial air-conditioning products of the Group. Mr. Zhang obtained a master degree in international management from the Australian National University in 2003 and a EMBA degree from the Peking University in August 2007 respectively. Prior to joining the Group, Mr. Zhang was appointed as a director and the president of the central air-conditioning division of GD Midea where he held various senior management positions. From November 2004 to March 2008, Mr. Zhang acted as the executive director of Welling Holding Limited (382), a company listed on The Stock Exchange of Hong Kong Limited. Mr. Zhang had been a director of Guangdong Midea Electric Appliances Co., Ltd, a company whose shares are listed on the Shenzhen Exchange from December 2005 to September 2009.

MR. CHENG JIAN

Mr. Cheng, aged 42, is the director and vice president of Guangdong Chigo. He joined the Group in 2001 and is in charge of the Quality Centre and Overseas Marketing Department. Mr. Cheng graduated and obtained a bachelor degree in refrigeration engineering from Xi'an Jiaotong University in 1995. After graduating from the university, he worked in 三菱電機壓縮公司 (Mitsubishi Electric Compressor Company) and had been sent to Japan for training for a year. Thereafter, he joined a well-known air-conditioning corporation in China. Mr. Cheng has ample experience in development and management, and sales of air-conditioning products. After joining the Group, Mr. Cheng had been assigned to various senior positions of commercial air-conditioning business department and quality control centre of the Group.

MR. LIN KUN

Mr. Lin, aged 43, is the director and vice president of Guangdong Chigo. He joined the Group in October 2005. Mr. Lin graduated from Chongqing University in thermal engineering in June 1994 and was awarded a master degree in thermal engineering by Chongqing University in June 1999. In July 2002, he obtained the qualification of refrigeration and cryogenic technology engineer. Mr. Lin further obtained the qualification of 輕工制冷設備工程高級工程師 (Senior Engineer of light industrial refrigerating equipment engineering) in March 2011. Before joining the Group, Mr. Lin had been working in various senior positions in products design in 廣東珠海格力電器股份有限公司研究所 (Research Centre Gree Electric Appliances of Zhuhai, Guangdong) and 科龍電器公司 (Kelon Electrical Corporation) respectively. He has extensive experience in air-conditioning technology. Since Mr. Lin had joined the Group in 2005, he held different senior positions as Deputy Chief Engineer and Head of Technical Centre of Guangdong Chigo.

MR. JIN SHANDONG

Mr. Jin, aged 50, is the director, vice president and financial controller of Guangdong Chigo. He joined the Group in September 2005 and is responsible for financial management of Guangdong Chigo. Mr. Jin graduated from Zhongnan University of Economics and Law (中南財經政法大學 formerly known as 中南財經大學) in industrial economics and received a master degree in Business Administration at Southwest Jiaotong University in 2013. He also has the qualifications as a senior accountant and registered accountant in the PRC. From December 1999 to May 2004, Mr. Jin worked at 中勤萬信會計師事務所 (Zhong Qin Wan Xin Accounting Firm) as project manager and was responsible for auditing listed companies. During May 2004 and September 2005, he worked in Nanhai motor factory of Beiqi Foton Motor Co., Ltd as the head of finance department and was in charge of the overall financial management.

MR. LEUNG HON MAN

Mr. Leung, aged 48, joined the Company as the Chief Financial Officer since 18 December 2007 and was appointed as the company secretary of the Company on 26 August 2008. He has over 16 years of experience in company management, accounting and company secretarial matters. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, Certified Practising Accountant of CPA Australia. Mr. Leung received a Professional Diploma in Business (Banking) at the Hong Kong Polytechnic University in 1990 and a master degree in Business Administration at Andrews University in 1996 and a master degree in Accounting at Central Queensland University in 1999. From 1990 to 1994, he had experience working as a senior officer in the Hong Kong Branch of the Kwangtung Provincial Bank, which is now known as Bank of China (Hong Kong) Limited after consolidation. From May 1994 to August 2000, he had experience working as a finance manager in Soundwill Holdings Limited (878), a company listed on The Stock Exchange of Hong Kong Limited. Since 2000, he has worked in Sanyuan Group Limited, a company formerly listed on The Stock Exchange of Hong Kong Limited, where he held various positions including company secretary, financial controller and executive director.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

During the year ended 31 December 2014, 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.6.7 of the CG Code.

CODE PROVISION A.2.1

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

During the year ended 31 December 2014, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer (the "CEO") of the Company.

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

Mr. Li is the founder of the Group and has over 21 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.6.7

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings. An independent non-executive director of the Company was unable to attend the Annual General Meeting of the Company held on 27 May 2014 ("2014 AGM") as he had other business engagements.

Pursuant to the Code Provision E.1.2, the chairman of the Board should invite the chairmen of the audit, remuneration, nomination committees to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. The chairman of the remuneration committee was unable to attend the 2014 AGM as he had other business engagements. Accordingly, he appointed another member of the Remuneration Committee as his representative to attend the 2014 AGM.

THE BOARD OF DIRECTORS

BOARD COMPOSITION

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

Executive Directors

Mr. Li Xinghao *(Chairman and Chief Executive Officer)*
Dr. Zheng Zuyi *(Vice Chairman)*
Dr. Ding Xiaojiang
Mr. Huang Xingke

Independent Non-executive Directors

Mr. Wan Junchu
Mr. Zhang Xiaoming
Mr. Fu Xiaosi

The biographical details of the Directors are set out on pages 36 to 37 of this report.

FUNCTION OF THE BOARD

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

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

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

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

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

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

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

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

RELATIONSHIP OF THE BOARD MEMBER

There is no family relationship, nor any financial, business, or other material or relevant relationships, among the Directors and between each of the Directors.

RELATIONSHIP WITH SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014 and the date of this report, Chigo Group Holding Limited owned 4,322,234,210 shares, representing approximately 51.25% of shareholding in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance. The following Director of the Company is a director or employee of such substantial shareholder:

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

NUMBER OF BOARD AND GENERAL MEETINGS AND DIRECTORS' ATTENDANCE

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

During the year ended 31 December 2014, Board meetings and committee meetings were held. The Directors also attended the general meeting of the Company held on 27 May 2014. Attendance record of each of the Directors is set out below:

	Number of board meetings attended/held	Number of Audit Committee meetings attended/held	Number of Remuneration Committee meetings attended/held	Number of Nomination Committee meetings attended/held	Number of general meetings attended/held
Executive Directors					
Mr. Li Xinghao	3/5	N/A	N/A	N/A	1/1
Dr. Zheng Zuyi	5/5	N/A	N/A	N/A	0/1
Dr. Ding Xiaojiang	4/5	N/A	N/A	N/A	0/1
Mr. Huang Xingke	3/5	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Wan Junchu	3/5	1/2	1/1	0/0	0/1
Mr. Zhang Xiaoming	5/5	1/2	1/1	0/0	1/1
Mr. Fu Xiaosi	5/5	2/2	1/1	0/0	1/1

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT ("CPD")

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

Directors	**Types of CPD**
Li Xinghao	1,3
Zheng Zuyi	1,3,4
Ding Xiaojiang	3,4
Huang Xingke	3
Wan Junchu	4
Zhang Xiaoming	4
Fu Xiaosi	2,3,4

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

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2014, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer of the Company which deviated from Code Provision A.2.1 of the CG Code and is explained in the paragraph headed "Compliance with the Corporate Governance Code" above.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors are appointed for a specific term and are subject to retirement by rotation. No independent non-executive Director has served the Company for more than nine years.

Mr. Zhang Xiaoming and Mr. Fu Xiaosi had been re-elected at the annual general meeting of the Company held on 27 May 2013 and Mr. Wan Junchu had been re-elected at the annual general meeting of the Company held on 25 May 2012.

The independent non-executive Directors' remuneration was determined by the Company with regard to their experience, performance, duties and the prevailing market conditions. During the year ended 31 December 2014, the total remuneration paid to the independent non-executive Directors was approximately RMB384,000 including directors' fees.

ADOPTION OF MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

During the year ended 31 December 2014, the Audit Committee had:

- held two committee meetings and reviewed the Company's annual results for the year ended 31 December 2013 and interim results for the six months ended 30 June 2014 respectively, financial and accounting policies and practices and relevant disclosure requirements under the Listing Rules with the management and the external auditor of the Company;

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

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

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

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

REMUNERATION COMMITTEE

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

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

A Remuneration Committee meeting in relation to general review of the remuneration policies of the Group was held during the year ended 31 December 2014. The Remuneration Committee had also assessed the performance of executive directors, approved the terms of executive directors' service contracts.

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

NOMINATION COMMITTEE

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

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

During the year ended 31 December 2014, no Nomination Committee meeting was held. The Nomination Committee has adopted a board diversity policy with effect from 28 August 2013 in compliance with the code provision A5.6 of the CG Code. The policy sets out the approach to achieve diversity in the Company's Board to ensure that the Board has the balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Committee will conduct meeting when it is necessary.

COMPANY SECRETARY

The Company Secretary of the Company is Mr. Leung Hon Man. The Company Secretary is responsible for assisting the Board by ensuring good information flow and communications within the Board as well as Board policy and procedures are followed. During the year ended 31 December 2014, Mr. Leung had taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

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

The Directors acknowledge their responsibilities for preparing the financial statement of the Group in accordance with statutory requirements and accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements for the Group are published in a timely manner. The Directors' and auditors' responsibilities in respect of the financial statements are set out on page 58 in this report.

INTERNAL CONTROL

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

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

During the year ended 31 December 2014, the Audit Committee had reviewed the internal control system of the Group with the management. The Board will continue to review the system and procedures from time to time to maintain a high standard of internal control and will make appropriate changes to the internal control system, if necessary.

INVESTORS RELATIONS AND COMMUNICATION CHANNELS

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

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

SHAREHOLDERS' RIGHTS

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

PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING

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

PROCEDURES FOR PROPOSING A PERSON FOR ELECTION AS A DIRECTOR

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

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

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

PROCEDURES FOR MAKING ENQUIRIES

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

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

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

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

THE COMPANY – HONG KONG
Unit 08, 19th Floor
Greenfield Tower (South Tower)
Concordia Plaza
No.1 Science Museum Road
Tsimshatsui, Kowloon
Hong Kong
Please contact our Company Secretary at:
Telephone: (852) 2997 7449
Facsimile: (852) 2997 7446
Email: ir@china-chigo.com.hk

THE COMPANY – PRC
Shengli Industrial District, Lishui Town
Nanhai, Foshan, Guangdong
China
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PRINCIPAL SHARE REGISTRAR
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

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

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit and non-audit services for the year ended 31 December 2014 amounted to HKD2,860,000 and HKD1,160,000 respectively. The non-audit services provided during the period were interim financial statements review and taxation services.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 37 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income statement on page 60 of this annual report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2014 (31 December 2013: nil).

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 123.

SHARE CAPITAL AND DEBENTURE OF THE COMPANY

During the year ended 31 December 2014, no new shares had been issued in relation to the exercise of share options.

As at 31 December 2014 and the date of this report, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue. All of the issued shares were ordinary shares.

Details of movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

At the beginning of 2014, the Group had long-term debentures of RMB150 million outstanding. On 12 May 2014, the Group issued medium-term notes in an aggregate principal amount of RMB50 million for general working capital purpose. The medium-term notes were issued for a maturity period of three years and with a fixed coupon rate of 8.0% per annum.

RESERVES

Details of movement in the reserves of the Group during the year ended 31 December 2014 are set out in the Consolidated Statement of Changes in Equity on page 63.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2014, the Company did not have any reserve available for cash distribution to the Shareholders of the Company.

Under the Companies Law of the Cayman Islands, the share premium of the Company amounting to RMB938,187,000 (2013: RMB938,187,000) is available for distribution or paying dividends to the Company's shareholders subject to the provisions of its memorandum of association and the articles of association (the "Articles") and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Li Xinghao
Dr. Zheng Zuyi
Dr. Ding Xiaojiang
Mr. Huang Xingke

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Junchu
Mr. Zhang Xiaoming
Mr. Fu Xiaosi

The biographical details of the Directors are set out on pages 36 to 37 of this report.

In accordance with Article 84(1) of the Articles, each of Mr. Wan Junchu, Mr. Zhang Xiaoming and Mr. Fu Xiaosi will retire from office by rotation at the upcoming annual general meeting (the "Annual General Meeting") and, being eligible, offer themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 11 to the consolidated financial statements.

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

As at 31 December 2014, the interests of the Directors and chief executive in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

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

Name of Director	Capacity	Number of issued ordinary shares held as at 31 December 2014	Approximate percentage of shareholding *(note 1)*
Mr. Li Xinghao *(note 2)*	Held by controlled corporation	4,322,234,210	51.25
Dr. Zheng Zuyi	Beneficial owner	4,632,000	0.05
Dr. Ding Xiaojiang	Beneficial owner	6,530,750	0.08
Mr. Huang Xingke	Beneficial owner	161,000	0.00
		4,333,557,960	51.38

Notes:

1. Based on 8,434,178,000 shares of the Company in issue as at 31 December 2014.
2. Mr. Li Xinghao beneficially owns approximately 99.46% of the issued share capital of Chigo Group Holding Limited which beneficially owns 4,322,234,210 ordinary shares of the Company.

LONG POSITION IN THE SHARES OF ASSOCIATED CORPORATION

Name of Director	Associated Corporation	Capacity	Number of issued ordinary shares held as at 31 December 2014	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 31 to the consolidated financial statements.

Name of Director	Capacity	Number of share options held as at 31 December 2014	Number of underlying shares
Mr. Li Xinghao	Beneficial owner	8,000,000	8,000,000
Dr. Zheng Zuyi	Beneficial owner	50,000,000	50,000,000
Dr. Ding Xiaojiang	Beneficial owner	10,000,000	10,000,000
Mr. Huang Xingke	Beneficial owner	25,000,000	25,000,000
Mr. Wan Junchu	Beneficial owner	1,000,000	1,000,000
Mr. Zhang Xiaoming	Beneficial owner	1,000,000	1,000,000
Mr. Fu Xiaosi	Beneficial owner	1,000,000	1,000,000
		96,000,000	96,000,000

Other than as disclosed above, none of the Directors, the chief executive nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporation as at 31 December 2014.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

No contract of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a Director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

CONTINUING CONNECTED TRANSACTION

Particulars of the related party transaction are disclosed in note 36 to the consolidated financial statements.

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

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

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

MANAGEMENT CONTRACT

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

SHARE OPTION SCHEME

The share option scheme of the Company was adopted by the written resolution of the shareholders on 19 June 2009. Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

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

			Underlying shares exercisable under the share options		
	Exercise period	**Exercise Price (HKD)**	**Outstanding at beginning of the year**	**Lapsed during the year**	**Outstanding at end of the year**
Category 1: Directors					
Li Xinghao	2013.9.23 – 2018.9.22	0.45	2,400,000	–	2,400,000
	2016.9.23 – 2018.9.22	0.45	5,600,000	–	5,600,000
			8,000,000	–	8,000,000
Zheng Zuyi	2013.9.23 – 2018.9.22	0.45	15,000,000	–	15,000,000
	2016.9.23 – 2018.9.22	0.45	35,000,000	–	35,000,000
			50,000,000	–	50,000,000
Ding Xiaojiang	2013.9.23 – 2018.9.22	0.45	3,000,000	–	3,000,000
	2016.9.23 – 2018.9.22	0.45	7,000,000	–	7,000,000
			10,000,000	–	10,000,000

	Exercise period	Exercise Price (HKD)	Underlying shares exercisable under the share options: Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
Huang Xingke	2013.9.23 – 2018.9.22	0.45	7,500,000	–	7,500,000
	2016.9.23 – 2018.9.22	0.45	17,500,000	–	17,500,000
			25,000,000	–	25,000,000
Wan Junchu	2013.9.23 – 2018.9.22	0.45	300,000	–	300,000
	2016.9.23 – 2018.9.22	0.45	700,000	–	700,000
			1,000,000	–	1,000,000
Zhang Xiaoming	2013.9.23 – 2018.9.22	0.45	300,000	–	300,000
	2016.9.23 – 2018.9.22	0.45	700,000	–	700,000
			1,000,000	–	1,000,000
Fu Xiaosi	2013.9.23 – 2018.9.22	0.45	300,000	–	300,000
	2016.9.23 – 2018.9.22	0.45	700,000	–	700,000
			1,000,000	–	1,000,000
Sub-total			**96,000,000**	**–**	**96,000,000**
Category 2: Employees					
Employees	2013.9.23 – 2018.9.22	0.45	178,536,000	(4,578,000)	173,958,000
	2016.9.23 – 2018.9.22	0.45	416,684,000	(10,692,000)	405,992,000
Sub-total			**595,220,000**	**(15,270,000)**	**579,950,000**
Category 3: Customers					
Customers	2013.9.23 – 2018.9.22	0.45	3,466,000	–	3,466,000
	2016.9.23 – 2018.9.22	0.45	8,184,000	–	8,184,000
Sub-total			**11,650,000**	**–**	**11,650,000**
Total			**702,870,000**	**(15,270,000)**	**687,600,000**

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, 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 position in the issued share capital of the Company.

INTERESTS AND SHORT POSITION IN THE ORDINARY SHARES OF HKD0.01 EACH OF THE COMPANY

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

Notes:

1. Based on 8,434,178,000 shares of the Company in issue as at 31 December 2014.

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.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2014.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

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

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 31 to the consolidated financial statements.

PENSION SCHEMES

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

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

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

During the year, the retirement benefits scheme contributions charged to the consolidated statement of profit or loss and other comprehensive income amounted to RMB70,244,000 (2013: RMB75,826,000)

Details of the Group's pension scheme are set out in note 35 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF FOR SHAREHOLDERS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float during the year ended 31 December 2014 and the date of this report.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company during the year ended 31 December 2014.

FIXED ASSETS

Details of the movement in fixed assets during the year are set out in note 14 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2014 are set out in notes 26 to 28 to the financial statements.

BORROWING COSTS CAPITALISATION

There was no borrowing costs capitalised by the Group during the year (2013: borrowing costs capitalised amounting to RMB10,343,000).

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately RMB679,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

During the year, the Group's purchases attributable to the five largest suppliers combined and the largest supplier accounted for 33.1% and 13.5% respectively of the Group's total purchases for the year.

Neither the Directors, their respective close associates, nor any shareholders, which to the knowledge of the Directors, own more than 5% of the share capital of the Company, has any interest in any of the five largest suppliers of the Group for the year.

EVENTS AFTER THE END OF THE REPORTING PERIOD

There are no subsequent events after the reporting period.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Thursday, 4 June 2015 to Friday, 5 June 2015 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 3 June 2015.

AUDITOR

The consolidated financial statements for the two years ended 31 December 2013 and 2014 have been audited by the external auditor of the Company, Deloitte Touche Tohmatsu.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Empire Room I, 1/F Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong on Friday, 5 June 2015 at 3:00 p.m.

APPRECIATION

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

On behalf of the Board
Li Xinghao
Chairman

Foshan, 27 March 2015

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Chigo Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 122, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	NOTES	**2014 RMB'000**	2013 RMB'000
Turnover		**9,233,191**	9,183,678
Cost of goods sold		**(7,629,877)**	(7,727,750)
Gross profit		**1,603,314**	1,455,928
Government subsidies for high energy-saving products	*8*	**–**	206,920
Other income		**54,227**	86,218
Selling and distribution costs			
– equity-settled share based payments		**(2,262)**	(4,541)
– other selling and distribution costs		**(829,922)**	(721,966)
Administrative expenses			
– equity-settled share based payments		**(7,994)**	(14,736)
– other administrative expenses		**(412,030)**	(412,114)
Research and development costs		**(93,217)**	(84,976)
Other expenses		**(30,575)**	(10,950)
Other gains and losses		**3,975**	(18,845)
Net (loss) gain in fair value changes on foreign currency forward contracts		**(32,046)**	70,682
Net loss in fair value changes on commodity derivative contracts		**–**	(76,325)
Finance costs	*9*	**(262,042)**	(217,593)
(Loss) profit before taxation	*10*	**(8,572)**	257,702
Taxation	*12*	**(51,807)**	(43,283)
(Loss) profit for the year and total comprehensive (expense) income for the year		**(60,379)**	214,419
(Loss) profit for the year and total comprehensive (expense) income for the year attributable to:			
– owners of the Company		**(81,039)**	199,871
– non-controlling interests		**20,660**	14,548
		(60,379)	214,419
(Loss) earnings per share	*13*		
– Basic and diluted		**(0.96) cents**	2.37 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,498,581**	1,416,724
Land use rights	15	**215,394**	220,772
Intangible assets	16	**1,083**	1,192
Prepaid lease payments	17	**226,624**	180,993
Deposits paid on acquisition of property, plant and equipment		**37,726**	37,971
Available-for-sale investment	18	**20,000**	–
Derivative financial instruments	22	**–**	2,215
Deferred tax assets	19	**13,085**	12,907
		2,012,493	1,872,774
Current assets			
Inventories	20	**1,780,851**	2,294,737
Trade and other receivables	21	**5,792,561**	5,925,896
Land use rights	15	**5,378**	5,378
Prepaid lease payments	17	**16,653**	14,445
Taxation recoverable		**9,021**	10,523
Derivative financial instruments	22	**2,818**	57,262
Pledged bank deposits	23	**1,077,745**	1,111,881
Bank balances and cash	23	**464,502**	756,508
		9,149,529	10,176,630
Current liabilities			
Trade and other payables	24	**4,128,367**	4,096,955
Warranty provision	25	**25,641**	26,862
Taxation payable		**156,450**	134,647
Derivative financial instruments	22	**6,091**	–
Borrowings related to bills discounted with recourse	26	**1,574,021**	1,416,856
Short-term bank loans	28	**1,940,861**	3,018,404
Current portion of long-term bank loans	28	**147,736**	–
		7,979,167	8,693,724
Net current assets		**1,170,362**	1,482,906
Total assets less current liabilities		**3,182,855**	3,355,680

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Non-current liabilities			
Government grants	29	**37,480**	38,768
Long-term debentures	27	**207,021**	154,600
Long-term bank loans	28	**6,250**	172,219
Derivative financial instruments	22	**3,877**	–
Deferred tax liabilities	19	**21,937**	20,180
		276,565	385,767
Net assets		**2,906,290**	2,969,913
Capital and reserves			
Share capital	30	**71,906**	71,906
Reserves		**2,782,386**	2,853,169
Equity attributable to owners of the Company		**2,854,292**	2,925,075
Non-controlling interests		**51,998**	44,838
Total equity		**2,906,290**	2,969,913

The consolidated financial statements on pages 60 to 122 were approved and authorised for issue by the Board of Directors on 27 March 2015 and are signed on its behalf by:

LI XINGHAO
CHAIRMAN
AND
CHIEF EXECUTIVE OFFICER

ZHENG ZUYI
VICE CHAIRMAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	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)*	Retained profits RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2013	71,906	938,187	(26,408)	63,535	30,465	200,172	1,428,070	2,705,927	30,290	2,736,217
Recognition of equity-settled share based payments	–	–	–	–	19,277	–	–	19,277	–	19,277
Transfers	–	–	–	–	–	18,348	(18,348)	–	–	–
	–	–	–	–	19,277	18,348	(18,348)	19,277	–	19,277
Profit for the year and total comprehensive income for the year	–	–	–	–	–	–	199,871	199,871	14,548	214,419
At 31 December 2013	71,906	938,187	(26,408)	63,535	49,742	218,520	1,609,593	2,925,075	44,838	2,969,913
Recognition of equity-settled share based payments	**–**	**–**	**–**	**–**	**10,256**	**–**	**–**	**10,256**	**–**	**10,256**
Distribution to non-controlling shareholders *(Note d)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13,500)**	**(13,500)**
Transfers	**–**	**–**	**–**	**–**	**–**	**5,050**	**(5,050)**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**10,256**	**5,050**	**(5,050)**	**10,256**	**(13,500)**	**(3,244)**
(Loss) profit for the year and total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(81,039)**	**(81,039)**	**20,660**	**(60,379)**
At 31 December 2014	**71,906**	**938,187**	**(26,408)**	**63,535**	**59,998**	**223,570**	**1,523,504**	**2,854,292**	**51,998**	**2,906,290**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

Notes:

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

(b) Share compensation reserve represents

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	NOTE	**2014** **RMB'000**	2013 RMB'000
Operating activities			
(Loss) profit before taxation		**(8,572)**	257,702
Adjustments for:			
Interest income		**(30,847)**	(50,608)
Interest expenses		**262,042**	217,593
Depreciation of property, plant and equipment		**149,396**	111,090
Impairment losses recognised in respect of goodwill		**9,857**	–
Amortisation of intangible assets		**345**	337
Amortisation of government grants		**(1,288)**	(1,288)
Amortisation of land use rights		**5,378**	5,270
Release of prepaid lease payments		**16,872**	16,048
Write-off/loss (gain) on disposal of property, plant and equipment		**216**	(25)
Net loss (gain) in fair value changes on foreign currency forward contracts		**32,046**	(70,682)
Provision for warranty		**29,967**	26,089
Write down on inventories		**20,752**	10,447
Allowance for doubtful debts		**36,277**	22,649
Recovery of doubtful debts		**(33,475)**	(9,735)
Equity-settled share based payments		**10,256**	19,277
Operating cash flows before movements in working capital		**499,222**	554,164
Decrease (increase) in inventories		**493,134**	(16,088)
Decrease (increase) in trade and other receivables		**130,719**	(1,133,876)
Change in derivative financial instruments		**34,581**	43,061
Increase (decrease) in trade and other payables		**31,031**	(171,411)
Decrease in warranty provision		**(31,188)**	(29,833)
Increase in borrowings related to bills discounted with recourse		**157,165**	427,463
Cash from (used in) operations		**1,314,664**	(326,520)
Taxation paid		**(30,872)**	(12,987)
Taxation returned		**3,949**	21,295
Net cash generated from (used in) operating activities		**1,287,741**	(318,212)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	NOTE	2014 RMB'000	2013 RMB'000
Investing activities			
Placement of pledged bank deposits		**(2,187,888)**	(2,723,056)
Purchase of property, plant and equipment		**(198,393)**	(436,667)
Prepaid lease payments paid		**(64,711)**	(29,707)
Deposits paid on acquisition of property, plant and equipment		**(37,726)**	(37,971)
Purchase of an available-for-sale investment		**(20,000)**	–
Net cash (outflow) inflow on acquisition of a subsidiary	*32*	**(9,836)**	14,599
Purchase of intangible assets		**(236)**	(68)
Withdrawal of pledged bank deposits		**2,222,024**	2,558,062
Interest received		**30,847**	50,608
Proceeds from disposal of property, plant and equipment		**5,067**	4,362
Net cash used in investing activities		**(260,852)**	(599,838)
Financing activities			
Bank loans raised		**4,816,681**	4,017,515
Proceeds from issue of short-term debentures		**50,000**	150,000
Repayment of short-term debentures		**–**	(800,000)
Interest paid		**(259,256)**	(217,443)
Distribution to non-controlling shareholders		**(13,500)**	–
Expenses incurred in connection with the issue of short-term debentures		**(363)**	(1,350)
Repayment of bank loans		**(5,912,457)**	(2,398,024)
Net cash (used in) from financing activities		**(1,318,895)**	750,698
Net decrease in cash and cash equivalents		**(292,006)**	(167,352)
Cash and cash equivalents at 1 January		**756,508**	923,860
Cash and cash equivalents at 31 December, represented by bank balances and cash		**464,502**	756,508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL

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

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

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

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK (IFRIC*) – INT 21	Levies

* IFRIC represents the International Financial Reporting Standards Interpretations Committee.

The application of the above new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

NEW AND REVISED HKFRSS IN ISSUE BUT NOT YET EFFECTIVE

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

HKFRS 9	Financial instruments[1]
HKFRS 14	Regulatory deferral accounts[2]
HKFRS 15	Revenue from contracts with customers[3]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations[5]
Amendments to HKAS 1	Disclosure initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[5]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle[6]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[5]
Amendments to HKAS 27	Equity method in separate financial statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

HKFRS 9 FINANCIAL INSTRUMENTS

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

HKFRS 9 FINANCIAL INSTRUMENTS *(Continued)*

Key requirements of HKFRS 9 are described below:

All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on the amounts reported in respect of the Group's financial assets. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Apart from HKFRS 9 and HKFRS 15, the directors of the Company do not anticipate that the application of the other new and revised HKFRSs issued but not yet effective will have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values. The consolidated financial statements have also been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

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

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

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION

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

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

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

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

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

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

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

BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BUSINESS COMBINATIONS *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRSs.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, contingent liabilities and contingent assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU"), that are expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

GOODWILL *(Continued)*

On disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

REVENUE RECOGNITION

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

Revenue from the sales of goods is recognised when the goods are delivered and title have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

The cost of buildings is depreciated over the shorter of the unexpired lease term of the land which the buildings are located or their estimated useful lives of 8 to 30 years after the date of completion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation is recognised to write off the cost of other property, plant and equipment, using the straight line method, over their estimated useful lives as follows:

Furniture, fixtures and equipment	3 – 6 years
Motor vehicles	5 years
Plant and machinery	5 – 10 years

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

INTANGIBLE ASSETS

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS *(Continued)*

Patents and trademarks

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale investment. The classification depends on the nature and purpose of the financing assets and is determined at the time of initial recognition.

Effective interest method

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

Interest income is recognised on an effective interest basis.

Financial assets at FVTPL

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of loans and receivables, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Impairment of financial assets *(Continued)*

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

A financial liability is classified as held for trading if:

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

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Derivatives financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities including borrowings related to bills discounted with recourse, bank loans, debentures and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

IMPAIRMENT

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROVISIONS

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

TAXATION

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

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

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

SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share based payment transactions

Share options granted to directors and employees of the Company

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

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

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

LEASING

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

The Group as lessee

Rental income from operating leases are charged to the profit or loss on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASEHOLD LAND AND BUILDING

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

The up-front payments to acquire leasehold interest in land that are accounted for as operating leases and are stated at cost and released over the lease term on a straight line basis.

GOVERNMENT GRANTS AND SUBSIDIES

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

RETIREMENT BENEFITS COSTS

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies detailed in note 3, management has made the following estimation that have significant effect on the amounts recognised in the consolidated financial statements. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

WARRANTY OBLIGATION

The Group provides free repairing services for its products and free replacement of the major components of its products for 3 to 6 years after sales.

The costs of the warranty obligation under which the Group agrees to remedy defects in its products are accrued at the time the related sales are recognised. Provision for warranty is accrued based on the estimated costs of fulfilling the total obligation. The costs are estimated by the management based on past experience. The assumptions used to estimate the warranty provision are reviewed periodically in light of actual results. When a material defect is subsequently tested and identified, further warranty provision may arise. As at 31 December 2014, the carrying amount of warranty provision is RMB25,641,000 (2013: RMB26,862,000). Details of the movements are disclosed in note 25.

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, the carrying amount of trade receivables is RMB3,425,207,000, net of allowance for doubtful debts of RMB34,591,000 (2013: RMB3,063,598,000, net of allowance for doubtful debts of RMB35,338,000).

INCOME TAXES

There are certain non-deductible expenses for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

No deferred tax assets have been recognised on unused tax losses and certain deductible temporary differences arising from the Group's subsidiaries in PRC due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax assets would be recognised in profit or loss for the period. Details of the tax losses for the year ended 31 December 2014 are disclosed in note 19.

IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the relevant CGU to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

As at 31 December 2014, based on the best estimate about the future cash flows expected to generate, the carrying amount of goodwill of RMB9,857,000 has been fully impaired. Details are set out in note 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance.

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

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

6. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2014 **RMB'000**	2013 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**7,097,119**	7,589,939
Available-for-sale investment	**20,000**	–
Fair value through profit or loss – held for trading	**2,818**	59,477
	7,119,937	7,649,416
Financial liabilities		
Amortised cost	**7,552,847**	8,427,324
Fair value through profit or loss – held for trading	**9,968**	–
	7,562,815	8,427,324

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

CREDIT RISK

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Furthermore, the Group has applied export insurance to minimise the credit risks arising from overseas customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

The Group is also exposed to credit risk arising from the failure to discharge of obligation by the counterparties in foreign currency contracts. However, the directors of the Company consider such risk is minimal as those contracts were entered with banks with good reputation.

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

MARKET RISK

Foreign currency risk

The Group has certain transactions that denominated in foreign currencies, hence exposures to foreign currency risk. Approximately 44% (2013: 45%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, mainly in United States dollars whilst all of the costs are denominated in the group entity's functional currency. The Group also has certain monetary items that denominated in foreign currencies which have exposed the Group to foreign currency risk. The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are disclosed in respective notes. During the years ended 31 December 2013 and 2014, the Group has entered into certain foreign currency contracts. The management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Foreign currency risk *(Continued)*

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

	2014		2013	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
United States dollars ("USD")	**1,477,980**	642,397	**890,303**	692,428
Hong Kong dollars ("HKD")	**1,887**	–	**1,392**	–
Euro	**40,291**	–	**39,708**	–
GBP	**2**	–	**–**	–

The Group mainly exposes to currencies of USD, HKD and Euro. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, including the trade and other receivables, pledged bank deposits, bank balances, borrowings related to bills discounted with recourse, bank loans, debentures and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number indicates an increase in loss for the year ended 31 December 2014 (decrease in profit for the year ended 31 December 2013) where the RMB strengthens against the relevant currencies. There would be an equal and opposite impact on the loss for the year ended 31 December 2014 (profit for the year ended 31 December 2013) where the RMB weakens against the relevant currencies.

	2014	2013
	RMB'000	RMB'000
USD	**(40,629)**	(9,894)
HKD	**(87)**	(70)
Euro	**(2,021)**	(1,985)

Details of the Group's exposure in respect of the foreign currency contracts are set out in other price risk disclosed below.

Interest rate risk management

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Interest rate risk management *(Continued)*

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

If interest rates on pledged bank deposits, bank balances and variable rate bank loans had been 30 basis points higher and all other variables were held constant, the potential effect on profit/loss for the year is as follows:

	2014 **RMB'000**	2013 RMB'000
Increase in loss for the year ended 31n December 2014/ Decrease in profit for the year ended 31 December 2013	**7,001**	8,681

There will be an equal and opposite impact on the loss for the year ended 31 December 2014 (profit for the year ended 31 December 2013) where there had been 30 basis points lower.

Other price risk

The Group was exposed to other price risk arising from the outstanding foreign currency contracts with predetermined exercisable period and maturity dates. The fair value of these foreign currency contracts was calculated using the forward pricing model and option pricing model. Details of these foreign currency contracts are set out in note 22.

The sensitivity analysis includes the outstanding foreign currency contracts as at the end of the reporting period and adjust at the year end for a 5% change in the relevant forward rates, holding other variables constant.

If the input of market forward rate to the valuation models of these foreign currency contracts had been 5% higher against RMB while all other variables were held constant, the loss for the year ended 31 December 2014 (profit for the year ended 31 December 2013) would decrease as follows:

	2014 **RMB'000**	2013 RMB'000
USD forward rate	**92,968**	107,555

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

MARKET RISK *(Continued)*

Other price risk *(Continued)*

There will be an equal and opposite impact on the loss for the year ended 31 December 2014 (profit for the year ended 31 December 2013) where there had been 5% lower.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the these contracts which involves multiple variables are interdependent.

The Group was also exposed to other price risk arising from the foreign currency contracts with different strike rate. The fair values of these contracts were calculated using the Black-Scholes Model. Details of these derivative financial instruments are set out in note 22.

LIQUIDITY RISK MANAGEMENT

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

In respect of bank loans that the Group has breached the terms of bank loan, the Group will renegotiate the terms of such loan with relevant banker. The balance of such bank loan will be reclassified as current liabilities at the end of reporting period when the renegotiation had not been concluded. In any event, should the lender calls for immediate repayment of the loan, the Group will source of adequate alternative sources of finance to ensure that there is no threat to the continuing operations of the Group.

The following tables detail the remaining contractual maturity for the non-derivative financial liabilities and foreign currency contracts. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the agreed repayment terms. The tables include both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash (inflows) outflows are presented. Whereas they require gross settlement, the undiscounted gross (inflows) and outflows on these derivatives are shown in the tables. For foreign currency contracts with predetermined exercisable period with gross settlement, the tables have been drawn up based on the assumption that the Group will exercise such contracts on the maturity of the exercisable period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

For the foreign currency contracts with different strike rates, undiscounted gross inflows/outflows are not presented since the Group is unable to estimate the ultimate timing and settlement amount of these contracts.

	Weighted average interest rate	On demand and less than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities							
As at 31 December 2014							
Trade and other payables	–	3,060,366	616,592	–	–	3,676,958	3,676,958
Borrowings related to bills discounted with recourse*	–	1,049,061	524,960	–	–	1,574,021	1,574,021
Long-term debentures	8.00	–	–	–	229,973	229,973	207,021
Long-term bank loans	6.46	7,306	7,033	135,543	6,743	156,625	153,986
Short-term bank loans	4.73	1,210,267	190,121	572,750	–	1,973,138	1,940,861
		5,327,000	1,338,706	708,293	236,716	7,610,715	7,552,847
Foreign currency contracts assets – gross settlement							
As at 31 December 2014							
Foreign currency contracts							
– inflows		(491,221)	(725,630)	(515,640)	–	(1,732,491)	(1,708,667)
– outflows		492,622	724,752	518,458	–	1,735,832	1,711,936
		1,401	(878)	2,818	–	3,341	3,269
Foreign currency contracts assets – net settlement							
As at 31 December 2014							
Foreign currency contracts		(164)	(78)	251	–	9	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

LIQUIDITY RISK MANAGEMENT *(Continued)*

	Weighted average interest rate	On demand and less than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities							
As at 31 December 2013							
Trade and other payables	–	3,413,687	251,558	–	–	3,665,245	3,665,245
Borrowings related to bills discounted with recourse*	–	1,053,304	363,552	–	–	1,416,856	1,416,856
Long-term debentures	6.50	–	–	–	177,866	177,866	154,600
Long-term bank loans	2.32	–	–	–	178,844	178,844	172,219
Short-term bank loans	5.17	2,249,859	222,596	588,575	–	3,061,030	3,018,404
		6,716,850	837,706	588,575	356,710	8,499,841	8,427,324
Foreign currency contracts assets – gross settlement							
As at 31 December 2013							
Foreign currency contracts							
– inflows		(613,735)	(898,653)	(843,016)	–	(2,355,404)	(2,313,699)
– outflows		593,414	876,178	828,656	–	2,298,248	2,258,524
		(20,321)	(22,475)	(14,360)	–	(57,156)	(55,175)
Foreign currency contracts assets – net settlement							
As at 31 December 2013							
Foreign currency contracts		(1,213)	(418)	(484)	–	(2,115)	(2,087)

* The amounts included above for borrowings related to bills discounted with recourse are the maximum amounts the Group could be required to pay for the discounted bills if the bills receivables are not paid at maturity. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that these amount will be settled by the counterparties who issued the relevant bills which have been discounted to the banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

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 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	Fair value as at 31 December 2014	Fair value as at 31 December 2013	Fair value hierarchy	Valuation technique(s) and key input(s)
Foreign currency contracts classified as derivative financial instruments in the consolidated statement of financial position	Current assets – RMB324,000 Current liabilities – RMB1,047,000	Current assets – RMB2,087,000	Level 2	***(1) Outright forward contracts*** **Discounted cash flow** The valuation is estimated based on the difference between the predetermined forward rate and the market forward rate of expiring date of the contracts at the valuation date. And take into account of the time from the valuation date to the contract expiring date and the RMB risk free interest rate.
	Current assets – RMB2,494,000 Current liabilities – RMB5,044,000	Current assets – RMB55,175,000		***(2) Forward contracts with flexible settlement dates*** **Discounted cash flow** The valuation is estimated based on the difference between the predetermined forward rate and the market forward rate of expiring date of the contracts at the valuation date. And take into account of the time from the valuation date to the contract expiring date and the RMB risk free interest rate. **Black-Scholes Model and Binomial Model** Black-Scholes Model is used to calculate the value of a European Put option while Binomial Model is used to calculate the value of an American Put option. The key determinants of both models are predetermined forward exchange rate, spot exchange rates and market risk free interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

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

Financial assets	Fair value as at 31 December 2014	Fair value as at 31 December 2013	Fair value hierarchy	Valuation technique(s) and key input(s)
	Non-current liabilities – RMB3,877,000	Non-current assets – RMB2,215,000	Level 2	***(3) Forward contracts with flexible exchange rate*** **Black-Scholes Model** The key determinants of the model are predetermined range exchange rates, predetermined forward exchange rates, predetermined upper trigger exchange rate, spot exchange rates, market risk free interest rate.

There were no transfers between Level 1 and 2 in the current and prior years.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. 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 ("CEO"), for the purpose of allocating resources to segments and assessing their performance. The CODM reviews the revenue and result by geographical location of customers for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. SEGMENT INFORMATION *(Continued)*

SEGMENT REVENUES AND RESULTS

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

	Turnover		Results	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China (the "PRC")	**5,162,050**	5,067,659	**1,094,773**	1,136,480
Asia (excluding PRC)	**2,088,574**	1,944,879	**177,784**	223,540
Americas	**1,182,835**	1,048,492	**190,821**	152,718
Africa	**387,663**	567,893	**67,535**	68,881
Europe	**391,677**	542,653	**68,149**	77,617
Oceania	**20,392**	12,102	**4,243**	3,612
	9,233,191	9,183,678	**1,603,314**	1,662,848
Unallocated other income			**54,227**	86,218
Unallocated expenses			**(847,075)**	(826,160)
Staff costs included in selling and distribution costs and administrative expenses			**(487,994)**	(417,964)
Charitable donations			**(679)**	(1,355)
Allowance for doubtful debts			**(36,277)**	(22,649)
Net (loss) gain in fair value changes on foreign currency forward contracts			**(32,046)**	70,682
Net loss in fair value changes on commodity derivative contracts			**–**	(76,325)
Finance costs			**(262,042)**	(217,593)
(Loss) profit before taxation			**(8,572)**	257,702

Turnover represents the fair value of the consideration received and receivable for goods sold by the Group to outside customers during the year.

Segment results represent the gross profits and government subsidies for high energy-saving products by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION

Geographical information

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

The Group's revenue from external customers and information about its non-current assets other than deferred tax assets by geographical location of the assets are detailed below:

	Revenue from external customers		**Non-current assets other than deferred tax assets**	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
PRC	**5,162,050**	5,067,659	**1,999,408**	1,859,867
Asia (excluding PRC)	**2,088,574**	1,944,879	**–**	–
Americas	**1,182,835**	1,048,492	**–**	–
Africa	**387,663**	567,893	**–**	–
Europe	**391,677**	542,653	**–**	–
Oceania	**20,392**	12,102	**–**	–
	9,233,191	9,183,678	**1,999,408**	1,859,867

The management considered that the cost to develop the revenue by individual countries other than PRC and Americas are excessive and revenues other than "PRC" and "Americas" above attributed to each individual country are not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION *(Continued)*

Revenue from major products

The following is an analysis of the Group's revenue from major products:

	2014 **RMB'000**	2013 RMB'000
Residential air-conditioners		
– split type	**7,031,397**	7,161,766
– window type	**339,347**	325,616
– portable type	**30,479**	33,141
	7,401,223	7,520,523
Commercial air-conditioners	**925,416**	740,716
Air-conditioners' parts and components	**597,941**	676,472
Others	**308,611**	245,967
	9,233,191	9,183,678

Information about major customers

For the year ended 31 December 2014 and 31 December 2013, none of the Group's customer had individually accounted for more than 10% of the Group's total revenue.

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

The goods sold to various geographical market were principally produced from the same production facilities situated in the PRC. Moreover, all of the Group's assets and liabilities at 31 December 2014 and 31 December 2013 were located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

During the current year, no government subsidies in respect of high energy saving products sold was entitled by the Group as the relevant scheme was expired in May 2013 (2013: RMB206,920,000).

9. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interests on:		
Bank loan wholly repayable within five years	**132,080**	124,275
Debentures	**12,084**	41,088
Other borrowings wholly repayable within five years	**117,878**	62,573
Total borrowing costs	**262,042**	227,936
Less: amounts capitalised in the cost of qualifying assets	**–**	(10,343)
	262,042	217,593

During the year, interest charged on bank borrowings of RMBnil (2013: RMB10,343,000) has been capitalised to the expenditure on the cost of construction in progress with a capitalisation rate of 0% (2013: 6.6%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

10. (LOSS) PROFIT BEFORE TAXATION

	2014 RMB'000	2013 RMB'000
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 11)*	**2,661**	3,296
Other staff's retirement benefits scheme contributions	**70,230**	75,813
Other staff's equity-settled share based payments	**9,451**	17,834
Other staff costs	**794,370**	713,522
	876,712	810,465
Less: Staff costs included in research and development costs	**(56,984)**	(52,291)
	819,728	758,174
Allowance for doubtful debts included in other gains and losses	**36,277**	22,649
Amortisation of intangible assets included in administrative expenses	**345**	337
Auditor's remuneration	**2,272**	2,173
Cost of inventories recognised as an expense including write down on inventories of RMB20,752,000 (2013: RMB10,447,000)	**7,629,877**	7,727,750
Depreciation of property, plant and equipment	**149,396**	111,090
Impairment of goodwill included in other expenses	**9,857**	–
Net exchange losses included in other gains and losses	**–**	5,931
Operating lease rentals in respect of		
– land use rights	**5,378**	5,270
– rented premises	**46,468**	39,877
Provision for warranty included in cost of goods sold	**29,967**	26,089
Release of prepaid lease payments	**16,872**	16,048
Write-off/loss on disposal of property, plant and equipment	**216**	–
and after crediting:		
Amortisation of government grants	**1,288**	1,288
Gain on disposal of property, plant and equipment	**–**	25
Government subsidies included in other income*	**4,812**	6,866
Interest income	**30,847**	50,608
Net exchange gains included in other gains and losses	**6,993**	–
Reversal of doubtful debts included in other gains and losses	**33,475**	9,735
Sales of scrap materials	**7,453**	1,475

* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2014					2013				
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Equity-settled share based payments RMB'000	Total RMB'000
Executive directors										
– Mr. Li Xinghao	–	362	4	67	433	–	361	4	120	485
– Dr. Zheng Zuyi	–	620	5	420	1,045	–	619	4	752	1,375
– Dr. Ding Xiaojiang	–	–	–	84	84	–	–	–	150	150
– Mr. Huang Xingke	–	500	5	210	715	–	500	5	376	881
Independent non-executive directors										
– Mr. Wan Junchu	120	–	–	8	128	120	–	–	15	135
– Mr. Zhang Xiaoming	120	–	–	8	128	120	–	–	15	135
– Mr. Fu Xiaosi	120	–	–	8	128	120	–	–	15	135
	360	1,482	14	805	2,661	360	1,480	13	1,443	3,296

The five highest paid individuals included two (2013: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2013: three) highest paid employees are as follows:

	2014 RMB'000	2013 RMB'000
Employee		
– basic salaries and allowances	**2,101**	1,596
– retirement benefits scheme contributions	**5**	8
– equity-settled share based payments	**709**	1,289
	2,815	2,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

	Number of employees	
	2014	2013
Up to HKD1,000,000	**2**	1
HKD1,000,001 to HKD1,500,000	**1**	2

Mr. Li Xinghao is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

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

12. TAXATION

	2014	2013
	RMB'000	RMB'000
The charge comprises:		
PRC income tax		
– current year	**(50,228)**	(40,923)
Deferred taxation *(note 19)*	**(1,579)**	(2,360)
	(51,807)	(43,283)

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. In addition, the income tax rate for both domestic and foreign investment enterprise was unified at 25% effective from 1 January 2008 (Order of the President [2007] No. 63) except that certain PRC subsidiaries were officially endorsed as High-New Technology Enterprises and eligible to preferential Enterprise Income Tax ("EIT") rate of 15% during the year ended 31 December 2014.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

12. TAXATION *(Continued)*

The charge for the year is reconciled to profit before taxation as follows:

	2014 **RMB'000**	2013 RMB'000
(Loss) profit before taxation	**(8,572)**	257,702
Tax at the applicable income tax rate of 25%	**2,143**	(64,426)
Effect of expenses not deductible for tax purposes (i)	**(86,293)**	(56,233)
Effect of income not taxable for tax purposes (ii)	**17,914**	53,770
Tax effect of deductible temporary differences not recognised	**(12,925)**	(1,780)
Tax effect of tax losses not recognised	**(11,536)**	–
Tax effect of a subsidiary with preferential tax rate	**34,739**	30,340
Over-provision for prior year	**3,523**	–
Utilisation of deductible temporary differences previously not recognised	**2,385**	–
PRC withholding tax on undistributed earnings	**(1,757)**	(4,954)
Tax charge for the year	**(51,807)**	(43,283)

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

(ii) Effect of income not taxable for tax purposes includes amounts of non-taxable government subsidies for high energy-saving products.

13. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the year attributable to owners of the Company of RMB81,039,000 (2013: earnings of RMB199,871,000) and on the weighted average number of 8,434,178,000 (2013: 8,434,178,000) shares in issue during the year.

The computation of diluted (loss) earnings per share does not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for shares during both years ended 31 December 2014 and 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2013	256,054	140,490	50,092	689,092	202,088	1,337,816
Additions	16,301	19,920	4,481	106,538	368,488	515,728
Write-off/disposals	(48)	(5,014)	(2,845)	(40,028)	–	(47,935)
Acquired on acquisition of a subsidiary	–	75	3	6,750	53,782	60,610
Transfers	158,394	2,899	49	9,740	(171,082)	–
At 31 December 2013	430,701	158,370	51,780	772,092	453,276	1,866,219
Additions	20,707	52,079	4,440	139,763	19,375	236,364
Write-off/disposals	–	(4,670)	(4,016)	(12,820)	–	(21,506)
Acquired on acquisition of a subsidiary	–	172	–	–	–	172
Transfers	211,496	6,993	–	158,149	(376,638)	–
At 31 December 2014	662,904	212,944	52,204	1,057,184	96,013	2,081,249
DEPRECIATION						
At 1 January 2013	25,610	77,484	24,654	254,255	–	382,003
Provided for the year	9,347	18,524	4,569	78,650	–	111,090
Eliminated on write-off/ disposals	–	(4,175)	(2,312)	(37,111)	–	(43,598)
At 31 December 2013	34,957	91,833	26,911	295,794	–	449,495
Provided for the year	20,360	22,477	4,242	102,317	–	149,396
Eliminated on write-off/ disposals	–	(4,286)	(3,766)	(8,171)	–	(16,223)
At 31 December 2014	55,317	110,024	27,387	389,940	–	582,668
CARRYING VALUES						
At 31 December 2014	607,587	102,920	24,817	667,244	96,013	1,498,581
At 31 December 2013	395,744	66,537	24,869	476,298	453,276	1,416,724

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. LAND USE RIGHTS

	2014 RMB'000	2013 RMB'000
Analysed for reporting purposes as		
– non-current assets	**215,394**	220,772
– current assets	**5,378**	5,378
	220,772	226,150

The balance represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 44 years or 50 years.

16. INTANGIBLE ASSETS

	2014 RMB'000	2013 RMB'000
CARRYING VALUE		
At 1 January	**1,192**	1,461
Additions	**236**	68
Charged to profit or loss	**(345)**	(337)
At 31 December	**1,083**	1,192

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

17. PREPAID LEASE PAYMENTS

	2014 RMB'000	2013 RMB'000
Analysed for reporting purposes as		
– non-current assets	**226,624**	180,993
– current assets	**16,653**	14,445
	243,277	195,438

The balance represents prepayment of rentals for medium-term land and buildings situated in the PRC for a period of 20 years under operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

18. AVAILABLE-FOR-SALE INVESTMENT

During the year, the Group invested in 10% equity interests in a private limited liability company, 佛山市納新小額貸款有限公司, which was established in the PRC. 佛山市納新小額貸款有限公司 is engaged in financing services. The investment is measured at cost less impairment as the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

19. DEFERRED TAXATION

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

	Accelerated accounting depreciation RMB'000	Warranty provision RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2013	2,662	7,651	(15,226)	(4,913)
Credited (charged) to profit or loss	469	2,125	(4,954)	(2,360)
At 31 December 2013	3,131	9,776	(20,180)	(7,273)
Charged to profit or loss	3,048	(2,870)	(1,757)	(1,579)
At 31 December 2014	6,179	6,906	(21,937)	(8,852)

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

	2014 RMB'000	2013 RMB'000
Deferred tax assets	**13,085**	12,907
Deferred tax liabilities	**(21,937)**	(20,180)
	(8,852)	(7,273)

At 31 December 2014, the Group has unrecognised deferred tax liability of RMB76,891,000 (2013: RMB72,791,000) in relation to PRC withholding tax on undistributed earnings of RMB768,906,000 (2013: RMB727,909,000) due to the retention of undistributed earnings by the PRC subsidiaries determined by the directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

19. DEFERRED TAXATION *(Continued)*

At 31 December 2014, the Group has unused tax losses of RMB46,142,000 (2013: nil) available for offset against future profits. No deferred tax asset has been recognised in respect of such loss due to the unpredictability of the future profit streams. The tax loss may be carried forward in five years. Besides, the Group has deductible temporary differences of RMB51,700,000 (2013: RMB47,480,000) relating to allowance on doubtful debts, payroll and welfare payables and unrealised gain/loss on financial derivatives at 31 December 2014. No deferred tax asset has been recognised in relation to deductible temporary differences as it is uncertain that future taxable profit stream will be available against which the deductible temporary differences can be utilised.

20. INVENTORIES

	2014 RMB'000	2013 RMB'000
Raw materials	**355,811**	556,616
Work in progress	**47,815**	46,896
Finished goods	**1,377,225**	1,691,225
	1,780,851	2,294,737

21. TRADE AND OTHER RECEIVABLES

	2014 RMB'000	2013 RMB'000
Trade receivables	**3,425,207**	3,063,598
Bills receivables	**2,106,058**	2,609,731
	5,531,265	5,673,329
Deposits paid to suppliers	**165,049**	172,988
Prepayments	**18,273**	1,474
Advances to staff	**4,711**	19,248
Value-added tax recoverable	**37,932**	28,958
Other receivables	**35,331**	29,899
	5,792,561	5,925,896

At the end of the reporting date, bills receivables outstanding amounted to RMB1,574,021,000 (2013: RMB1,416,856,000) have been discounted to certain banks. The Group continues to present the discounted bills as bills receivables until maturity.

Payment terms with customers are mainly on credit. Invoices are normally receivable from 30 days to 180 days from date of issuance, while invoices to long-established customers are normally payable within 210 days. The following is an aged analysis of trade and bills receivables presented based on the invoice dates at the end of the reporting period which approximated the respective revenue recognition dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

21. TRADE AND OTHER RECEIVABLES *(Continued)*

	2014 RMB'000	2013 RMB'000
Age		
0 – 30 days	**831,044**	1,016,746
31 – 60 days	**782,837**	1,008,698
61 – 90 days	**760,012**	674,014
91 – 180 days	**2,731,926**	2,713,480
181 – 365 days	**407,236**	204,154
Over 1 year	**18,210**	56,237
	5,531,265	5,673,329

Included in the Group's trade receivable balances are trade debtors with an aggregate carrying amount of RMB562,930,000 (2013: RMB115,352,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date of credit was initially granted.

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

	2014 RMB'000	2013 RMB'000
Age		
31 – 60 days	**–**	6,993
61 – 90 days	**35,425**	35,733
91 – 180 days	**337,340**	10,700
181 – 365 days	**171,955**	5,689
Over 1 year	**18,210**	56,237
	562,930	115,352

The Group does not hold any collateral over these balances. The average age of these receivables is 178 days (2013: 230 days).

In determining the recoverability of the trade receivables, the Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts is as follows:

	2014 RMB'000	2013 RMB'000
At 1 January	**35,338**	22,424
Allowances recognised on receivables	**36,277**	22,649
Amount written off during the year as uncollectible	**(3,549)**	–
Amounts recovered during the year	**(33,475)**	(9,735)
At 31 December	**34,591**	35,338

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB34,591,000 (2013: RMB35,338,000) which have been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

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

	2014 RMB'000	2013 RMB'000
USD	**1,355,388**	732,788
Euro	**39,284**	39,285

TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2014 and 2013 that were transferred to banks by discounting those receivables on a full recourse basis. If the bills receivables are not paid out at maturity, the Group is required to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable discounted to banks with full recourse	
	2014 RMB'000	2013 RMB'000
Carrying amount of transferred assets included in trade receivables	**1,611,880**	1,426,843
Carrying amount of associated liabilities	**1,574,021**	1,416,856

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22. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Derivatives not under hedge accounting				
– foreign currency contracts – current	**2,818**	57,262	**6,091**	–
– foreign currency contracts – non-current	**–**	2,215	**3,877**	–

At 31 December 2014, the Group has the following foreign currency contracts with (i) predetermined exercisable period and maturity dates and (ii) predetermined exercisable period with different strike rate. Their major terms are as follows:

(i) predetermined exercisable period and maturity periods

Notional amount	Exercisable period	Forward contract rates
63 contracts to sell USD257,390,293 (gross settlement)	From 1 January 2015 to 31 December 2015	USD1/RMB6.1457 to USD1/RMB6.3823

Notional amount	Maturity	Forward contract rates
20 contracts to sell USD43,000,000 (net settlement)	From 20 January 2015 to 24 December 2015	USD1/RMB6.1900 to USD1/RMB6.3822

(ii) predetermined exercisable period with different strike rates

Notional amount	Exercisable period	Upper/lower strike rate
1 contract to sell USD10,000,000 (gross settlement)	From 29 January 2015 to 19 May 2016	USD1/RMB5.7000 to USD1/RMB6.4000

At 31 December 2013, the Group has the following foreign currency contracts with (i) predetermined exercisable period and maturity dates and (ii) predetermined exercisable period with different strike rate. Their major terms are as follows:

(i) predetermined exercisable period and maturity periods

Notional amount	Exercisable period	Forward contract rates
114 contracts to sell USD377,721,182 (gross settlement)	From 23 January 2014 to 8 December 2014	USD1/RMB6.1232 to USD1/RMB6.3356

Notional amount	Maturity	Forward contract rates
21 contracts to sell USD14,000,000 (net settlement)	From 22 January 2014 to 20 August 2014	USD1/RMB6.0975 to USD1/RMB6.3180

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22. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(ii) predetermined exercisable period with different strike rates

Notional amount	Maturity	Upper/lower strike rates
3 contracts to sell USD6,000,000 (gross settlement)	From 27 March 2015 to 12 August 2015	USD1/RMB5.5000 to USD1/RMB6.4000

The fair value of the foreign currency contracts with predetermined exercisable period and maturity dates were determined based on the valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent valuer of the Group.

The fair value of the foreign currency contracts with predetermined exercisable period are determined using the option pricing model of which the foreign currency contracts embedded a time option where the holder can exercise the foreign currency contracts within a specified period upon presenting the contract to the issuer. The inputs into the model at the respective dates were as follows:

	2014	2013
Volatility	**3.4700%**	2.2600%
RMB risk-free interest rate	**3.3842%**	4.2755%
USD risk-free interest rate	**0.2514%**	0.1350%
Spot price for USD foreign currency contracts	**RMB6.2055**	RMB6.0543
USD/RMB market forward rate	**USD1/RMB6.1457 to USD1/RMB6.3823**	USD1/RMB6.1232 to USD1/RMB6.3356

The fair value of the foreign currency contracts with predetermined maturity dates are determined using the forward pricing model based on the difference between the predetermined forward rate on the respective date of which the contracts were entered and the market forward rate at the end of the reporting period. The inputs into the model at the respective dates were as follows:

	2014	2013
RMB risk-free interest rate	**3.3842%**	4.2755%
USD/RMB market forward rate	**USD1/RMB6.1900 to USD1/RMB6.3822**	USD1/RMB6.0975 to USD1/RMB6.3180

The fair value of the foreign currency contracts with predetermined exercisable period with different strike rate were determined by the respective issuing bank using Black-Scholes Model with reference to predetermined range exchange rates, predetermined forward exchange rates, predetermined upper trigger exchange rate and spot exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry interest at the prevailing market interest rate ranging from 0.35% to 0.42% (2013: 0.35% to 0.39%) per annum.

At 31 December 2014, pledged bank deposits represents deposits pledged to banks to secure issuance of bills payables amounting to RMB2,935,873,000 (2013: RMB2,675,546,000) which carry interest at market rates ranged from 2.6% to 3.0% (2013: 2.6% to 3.1%) per annum.

Certain pledged bank deposits and bank balances and cash of RMB1,416,755,000 (2013: RMB1,431,065,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

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

	2014 RMB'000 equivalent	2013 RMB'000 equivalent
USD	**122,592**	157,515
HKD	**1,887**	1,392
Euro	**1,007**	423

24. TRADE AND OTHER PAYABLES

	2014 RMB'000	2013 RMB'000
Trade payables	**540,577**	762,452
Bills payables	**2,935,873**	2,675,546
	3,476,450	3,437,998
Customers' deposits	**257,445**	212,634
Payroll and welfare payables	**67,651**	58,957
Other tax payables	**54,712**	51,033
Accruals	**95,652**	118,624
Other interest bearing payables	**46,000**	59,000
Other payables	**130,457**	158,709
	4,128,367	4,096,955

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

24. TRADE AND OTHER PAYABLES *(Continued)*

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

	2014 RMB'000	2013 RMB'000
Age		
0 – 90 days	**2,155,368**	2,338,191
91 – 180 days	**1,246,853**	1,078,485
181 – 365 days	**69,509**	8,053
1 – 2 years	**4,720**	13,269
	3,476,450	3,437,998

25. WARRANTY PROVISION

	2014 RMB'000	2013 RMB'000
CARRYING VALUE		
At 1 January	**26,862**	30,606
Additional provision for the year	**29,967**	26,089
Utilisation of provision	**(31,188)**	(29,833)
At 31 December	**25,641**	26,862

The warranty provision represents management's best estimate of the Group's liability under 3 to 6 years warranty granted on air-conditioning products, based on prior experience and industry average for defective products.

26. BORROWINGS RELATED TO BILLS DISCOUNTED WITH RECOURSE

During the year, bank bills issued by customers and discounted by the Group carry interest at rates ranging from 1.08% to 7.08% (2013: 5.60% to 9.60%) per annum at the end of reporting period.

During the year ended 31 December 2014, the Group discounted bills receivables with recourse in the aggregated amounts of RMB4,089,561,000 (2013: RMB3,409,284,000) to banks for short-term financing of which the associated borrowings are amounted to RMB1,574,021,000 (2013: RMB1,416,856,000) as at 31 December 2014 and the relevant cash flows are presented as operating cash flows in the consolidated statement of cash flows for the year ended as the management considered the cash flows are in substance the receipts from trade customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. DEBENTURES

On 12 May 2014, Guangdong Chigo Air-Conditioning Co., Ltd. ("Guangdong Chigo"), the Company's wholly owned subsidiary, issued long-term debentures in an aggregate principal amount of RMB50,000,000 (the "2014 Debentures"). The 2014 Debentures, with a fixed coupon rate of 8.0% per annum and a face value of RMB100 each, were listed and transferrable on the inter-bank debenture market in the PRC, at 100% of its face value with a maturity period of three years.

On 23 May 2013, Guangdong Chigo issued long-term debentures in an aggregate principal amount of RMB150,000,000 (the "2013 Debentures"). The 2013 Debentures, with a fixed coupon rate of 6.50% per annum and a face value of RMB100 each, were listed and transferrable on the inter-bank debenture market in the PRC, at 100% of its face value with a maturity period of three years.

The principle coupon interest will be repaid upon maturity.

The movement of the Debentures during the year is set out below:

	2014 RMB'000	2013 RMB'000
Carrying value at 1 January	**154,600**	805,800
Repayment of debentures and interests thereon	**(9,750)**	(847,200)
Proceeds from issue of debentures	**50,000**	150,000
Transaction costs	**(363)**	(1,350)
Net proceeds	**194,487**	107,250
Interest expense	**12,534**	47,350
Carrying value at 31 December	**207,021**	154,600
Carrying amount repayable:		
– More than one year, but not more than five years	**207,021**	154,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

28. BANK LOANS

	31.12.2014 RMB'000	31.12.2013 RMB'000
Bank loans		
– unsecured	**1,561,168**	2,400,637
– secured by bank deposits	**429,829**	739,986
– guaranteed by Mr. Li Xinghao and secured by land use rights	**89,250**	50,000
– guaranteed by top management of a group entity and secured by trade receivables of the Group	**14,600**	–
	2,094,847	3,190,623

At the end of the reporting period, Mr. Li Xinghao, being a director and ultimate controlling party of the Company, has given personal guarantee to certain banks for banking facilities granted to a PRC subsidiary to the extent of RMB89,250,000 (2013: RMB50,000,000). In addition, the bank loans are pledged with land used rights that situated in the PRC.

	31.12.2014 RMB'000	31.12.2013 RMB'000
Carrying amount repayable:		
Within one year	**2,088,597**	3,018,404
More than one year, but not exceeding two years	**6,250**	122,219
More than two years, but not exceeding three years	**–**	50,000
	2,094,847	3,190,623
Less: Amounts due within one year shown under current liabilities	**(2,088,597)**	(3,018,404)
Amount due after one year	**6,250**	172,219

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

28. BANK LOANS *(Continued)*

Also, at the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB4,942,616,000 (2013: RMB4,602,288,000).

Included in short-term and long-term bank loans are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2014 RMB'000 equivalent	2013 RMB'000 equivalent
USD	**642,397**	692,428

Average interest rates of the Group's bank borrowings were as follows:

	2014	2013
Bank loans	**6.30%**	5.17%

All the bank loans are variable rate borrowings, subject to negotiation at renewal or drawndown date and were denominated in RMB and USD at 31 December 2014 and 31 December 2013.

During the year, in respect of a bank loan with a carrying amount of RMB17,407,000 as at 31 December 2014, a subsidiary of the Group breached certain of the terms of the bank loan, which are primarily related to the net profit to sales ratio of the subsidiary. On discovery of the breach, the directors of the Company informed the lender and commenced a renegotiation of the terms of the loan with the relevant banker. As at 31 December 2014, those negotiations had not been concluded. The loan has been classified as a current liability as at 31 December 2014 based on its repayment schedule and up to the date of approval for issuance of the consolidated financial statements, the loan has been fully settled. The directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

29. GOVERNMENT GRANTS

In 2006 and 2007, the Group received government grants totalling RMB65,400,000 from the relevant PRC local authorities for the investment in economic development zones located in Anhui province and Jiangxi province in the PRC. They were granted as an incentive for obtaining land use rights amounting to RMB65,400,000 by the Group for the construction of production facilities in the economic development zones. In 2010, the Group received government grants of RMB4,600,000 from relevant PRC local authorities for the acquisition of plant and machinery amounting to RMB9,440,000.

In 2011, the Group returned government grants amounting to RMB24,000,000 in connection with the investment in economic development zone located in Anhui Province in the PRC by surrendering the relevant land use rights to the PRC local authorities.

During the year ended 31 December 2014, the related operating lease rentals in respect of land use rights and related depreciation in respect of plant and machinery which has been charged to profit or loss amounted to RMB864,000 (2013: RMB941,000) and RMB944,000 (2013: RMB944,000) respectively and the government grant which was recognised as other income was RMB828,000 (2013: RMB828,000) and RMB460,000 (2013: RMB460,000) respectively. As at 31 December 2014, an amount of RMB37,480,000 (2013: RMB38,768,000) remains unamortised.

30. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HKD'000	'000	HKD'000
– at 1 January 2013, 31 December 2013 and 2014	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at	
– 31 December 2014 and 2013	71,906

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

31. EQUITY-SETTLED SHARE BASED PAYMENTS

EQUITY-SETTLED SHARE OPTION SCHEME

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

At 31 December 2014, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 687,600,000 (2013: 702,870,000), representing 8.2% (2013: 8.3%) of the shares of the Company in issue at that date. On 13 May 2011, under the resolution of the annual general meeting of the Company, which was approved by the shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the date of the approval of the resolution. Notwithstanding the foregoing, the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares of the Company in issue from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HKD5,000,000 must be approved in advance by the Company's shareholders.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

31. EQUITY-SETTLED SHARE BASED PAYMENTS *(Continued)*

EQUITY-SETTLED SHARE OPTION SCHEME *(Continued)*

Details of the movements of the share options granted are as follows:

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HKD	Number of share options: Outstanding at 1.1.2013	Lapsed during the year	Outstanding at 31.12.2013	Lapsed during the year	Outstanding at 31.12.2014
Directors	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	28,800,000	–	28,800,000	–	28,800,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	67,200,000	–	67,200,000	–	67,200,000
Employees	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	184,708,000	(6,172,000)	178,536,000	(4,578,000)	173,958,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	431,092,000	(14,408,000)	416,684,000	(10,692,000)	405,992,000
Customers#	23.9.2011	23.9.2011 – 22.9.2013	23.9.2013 – 22.9.2018	0.45	3,942,000	(476,000)	3,466,000	–	3,466,000
		23.9.2011 – 22.9.2016	23.9.2016 – 22.9.2018	0.45	9,308,000	(1,124,000)	8,184,000	–	8,184,000
					725,050,000	(22,180,000)	702,870,000	(15,270,000)	687,600,000
Exercisable at end of the year							210,802,000		206,224,000

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

The Group recognised the total expense of RMB805,000 (2013: RMB1,443,000) and RMB9,451,000 (2013: RMB17,834,000) for the year ended 31 December 2014 in relation to share options granted by the Company to the Group's directors and employees of the Group respectively. No share options are exercised during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

32. ACQUISITION OF SUBSIDIARIES

(a) In November 2014, the Group acquired 100% equity interest of Guandong Y.C. Insurance Agency Limited ("Y.C."), for a consideration of RMB10,000,000. This acquisition had been accounted for using the acquisition method. Y. C. is engaged in insurance agency activities in the PRC. The acquisition was made to enhance the penetration of the Group's customer base in the PRC and to support the future business development of the Group.

Consideration transferred	RMB'000
Cash	10,000

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	172
Trade and other receivables	108
Bank balances and cash	164
Trade and other payables	(301)
	143

The fair value of trade and other receivables at the date of acquisition amounted to RMB108,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB108,000 at the date of acquisition. None of the contractual cash flows were not expected to be collected at acquisition date.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	10,000
Less: Net assets acquired	(143)
Goodwill arising on acquisition	9,857

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

None of the goodwill arising on this acquisition was expected to be deductible for tax purposes.

Net cash outflow on acquisition of Y.C.:

	RMB'000
Cash consideration paid	10,000
Less: Cash and cash equivalent balances acquired	(164)
	9,836

Y.C. contributed a revenue of RMB56,000 and loss of RMB106,000 for the period from the date of acquisition to 31 December 2014.

If the acquisition had been completed on 1 January 2014, total group revenue for the period from 1 January 2014 to 31 December 2014 would have been RMB9,233,559,000 and loss for the period would have been RMB63,130,000. The pro forma information was for illustrative purposes only and was not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor was it intended to be a projection of future results.

The goodwill acquired in business combination was allocated to cash generating units that are expected to benefit from that business combination. The directors consider Y.C. represents a separate CGU for the purpose of goodwill impairment testing. At the end of the reporting period, the carrying value of goodwill from the acquisition of Y.C.:

	2014 RMB'000
COST	
Balance at 1 January 2014	–
Arising from acquisition of Y.C.	9,857
Impairment of goodwill	(9,857)
Balance at 31 December 2014	–

Goodwill arising on acquisition of Y.C. was impaired at the date of acquisition based on the directors' best estimate about the future cash flows expected to generate from Y.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) On 22 April 2013, Chigo (Hong Kong) Investment Limited, the Group's wholly-owned subsidiary, acquired 100% equity interest of 廣東志高科創銅業有限公司 (Guangdong Chigo Kechuang Copper Co., Ltd.) ("Kechuang Copper") from Chigo Group, the Company's immediate and ultimate holding company, for a cash consideration of RMB38,000,000. Major assets of Kechuang Copper are land use rights and construction in progress located in the PRC without any operation which did not constitute a business combination in accordance with HKFRS 3 "Business Combination" as such, the acquisition has been accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

	RMB'000
Analysis of assets and liabilities acquired:	
Property, plant and equipment	60,610
Land use rights	22,520
Other receivables	4,341
Deposits made on acquisition of property, plant and equipment	44,711
Bank balances and cash	52,599
Other payables *(note)*	(96,781)
Bank loans	(50,000)
	38,000
Net cash inflow arising from the acquisition:	
Cash consideration paid	(38,000)
Less: Bank balances and cash acquired	52,599
	14,599

Note: As at 22 April 2013, the balance included interest bearing advances of RMB66,840,000, RMB20,000,000 and RMB5,000,000 from Suizhou, Nauyang and Zhonggewei at fixed interest rates of 12% p.a., 12% p.a. and 12% p.a., respectively, which are the suppliers of the Group and the amounts are unsecured and repayable on demand.

33. OPERATING LEASE COMMITMENTS

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

	2014 **RMB'000**	2013 RMB'000
Within one year	**26,073**	21,586
In the second to fifth year inclusive	**39,120**	54,098
After five years	**944**	–
	66,137	75,684

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

34. CAPITAL COMMITMENTS

	2014 **RMB'000**	2013 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	**77,082**	78,879

35. RETIREMENT BENEFITS SCHEME

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. RELATED PARTY TRANSACTIONS

Other than the transactions and balances with related parties disclosed in respective notes in the consolidated financial statements, during the year, the Group paid messing expenses totalling RMB939,000 (2013: RMB969,000) to a related company and generated revenue totaling RMB1,538,000 from a related company which are both controlled by Mr. Li Xinghao, a director and ultimate controlling party of the Company.

During the year ended 31 December 2013, the Group acquired 100% equity interest of Kechuang Copper from Chigo Group, the Company's immediate and ultimate holding company, for a cash consideration of RMB38,000,000 with details in note 32.

The details of remuneration of key management personnel, represents emoluments of the directors of the Company and are set out in note 11.

37. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued share capital/registered capital held by the Group indirectly 2014	2013	Principal activity
Guangdong Chigo	PRC as a wholly foreign owned enterprise for a term of 50 years commencing 1 September 2006	Registered capital – RMB996,140,000	**100%**	100%	Manufacture and sales of air-conditioners
志高空調(九江)有限公司 Chigo Air-Conditioning (Jiu Jiang) Co., Ltd.	PRC as a limited liability enterprise for a term of 10 years commencing 1 June 2007	Registered capital – RMB45,000,000	**100%**	100%	Manufacture and sales of air-conditioners
廣東志高暖通設備股份有限公司 Guangdong Chigo Heating and Ventilation Equipment Co., Ltd. ("Chigo Heating")	PRC as a joint stock limited company	Shares – RMB100,000,000	**70%**	70%	Manufacture and sales of commercial air-conditioners
廣東志高精密機械有限公司 Guangdong Chigo Precision Machinery Co., Ltd.	PRC as a limited liability enterprise	Registered capital – RMB200,000,000	**100%**	100%	Manufacture and sales of compressor
Kechuang Copper	PRC – as a wholly foreign owned enterprise for a term of 50 years commencing 11 May 2011	Registered capital RMB100,000,000	**100%**	100%	Manufacturing and sales of copper products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

37. PRINCIPAL SUBSIDIARIES *(Continued)*

(a) *(Continued)*

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

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year except for Guangdong Chigo which has issued debentures (see note 27).

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

Summarised financial information of Chigo Heating is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31.12.2014 RMB'000	31.12.2013 RMB'000
Current assets	**522,563**	451,526
Non-current assets	**82,721**	92,597
Current liabilities	**431,957**	394,663
Equity attributable to owners of the Company	**121,329**	104,622
Non-controlling interests	**51,998**	44,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

37. PRINCIPAL SUBSIDIARIES *(Continued)*

(b) *(Continued)*

	2014 RMB'000	2013 RMB'000
Revenue	**972,191**	795,340
Expenses	**903,324**	746,847
Profit and total comprehensive income for the year	**68,867**	48,493
Profit and total comprehensive income attributable to owners of the Company	**48,207**	33,945
Profit and total comprehensive income attributable to the non-controlling interests	**20,660**	14,548
Profit and total comprehensive income for the year	**68,867**	48,493
Net cash inflows from operating activities	**16,517**	60,174
Net cash inflows (outflows) from investing activities	**2,655**	(22,827)
Net cash (outflows) inflows from financing activities	**(21,533)**	26,992
Net cash (outflows) inflows	**(2,361)**	64,339

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

FINANCIAL SUMMARY

	Year ended 31 December				
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014** **RMB'000**
RESULTS					
Turnover	8,467,723	9,342,025	8,801,814	9,183,678	**9,233,191**
Profit (loss) before taxation	313,558	(136,148)	136,166	257,702	**(8,572)**
Taxation	(3,705)	(7,875)	(37,712)	(43,283)	**(54,461)**
Profit (loss) for the year	309,853	(144,023)	98,454	214,419	**(63,033)**
Profit (loss) attributable to					
– owners of the Company	309,853	(137,914)	92,055	199,871	**(83,693)**
– non-controlling interests	–	(6,109)	6,399	14,548	**20,660**
	309,853	(144,023)	98,454	214,419	**(63,033)**

	As at 31 December				
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	7,657,693	9,522,239	10,395,717	12,049,404	**11,159,368**
Total liabilities	(5,205,685)	(6,910,543)	(7,659,500)	(9,079,491)	**(8,255,732)**
Net assets	2,452,008	2,611,696	2,736,217	2,969,913	**2,903,636**
Equity attributable to owners of the Company	2,452,008	2,587,805	2,705,927	2,925,075	**2,851,638**
Non-controlling interests	–	23,891	30,290	44,838	**51,998**
	2,452,008	2,611,696	2,736,217	2,969,913	**2,903,636**

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014 RMB'000	2013 RMB'000
Non-current asset		
Investment in a subsidiary	**607,661**	588,081
Amounts due from subsidiaries	**520,722**	437,488
	1,128,383	1,025,569
Current assets		
Other receivables	**80**	78
Amounts due from subsidiaries	**10,799**	12,990
Bank balances and cash	**1,768**	1,225
	12,647	14,293
Current liabilities		
Amounts due to subsidiaries	**19,716**	12,098
Accruals and other payables	**90**	99
	19,806	12,197
Net current (liabilities) assets	**(7,159)**	2,096
Net assets	**1,121,224**	1,027,665
Capital and reserves		
Share capital	**71,906**	71,906
Reserves	**1,049,318**	955,759
	1,121,224	1,027,665