中國節能海東青新材料集團有限公司

CECEP COSTIN NEW MATERIALS GROUP LIMITED

Incorporated in the Cayman Islands with limited liability

Stock Code: 2228

ANNUAL REPORT 2014

中国节能
CHINA ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION GROUP

中國節能海東青
CECEP COSTIN

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Yu Heping *(Co-Chairman)*
Mr. Chim Wai Kong *(Co-Chairman)*
Mr. Chim Wai Shing Jackson *(Chief Executive Officer)*
Mr. Xue Mangmang

NON-EXECUTIVE DIRECTORS

Mr. Yang Yihua
Mr. Pan Tingxuan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Feng Xue Ben
Mr. Wong Siu Hong
Mr. Xu Qinghua

AUTHORISED REPRESENTATIVES

Mr. Chim Wai Shing Jackson
Mr. Chan Kwok Yuen Elvis

COMPANY SECRETARY

Mr. Chan Kwok Yuen Elvis *(ACA, CFA, FCCA, FCPA)*

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Scotia Centre, 4th Floor
P.O. Box 2804
George Town
Grand Cayman KY1-1112
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

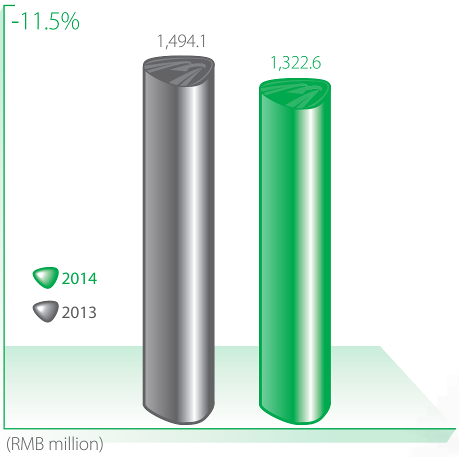
Suites 2703-04
27th Floor, Tower 6
The Gateway
Harbour City
Kowloon

WEBSITE

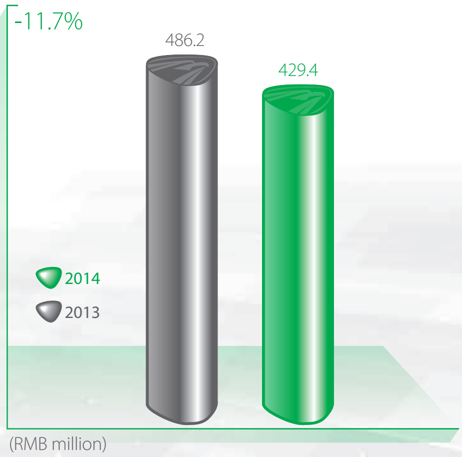
www.costingroup.com

Results Highlights

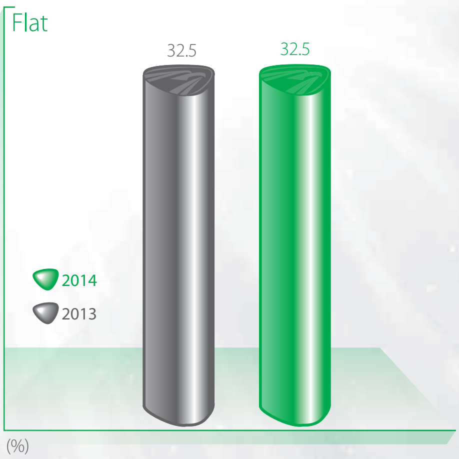
TURNOVER



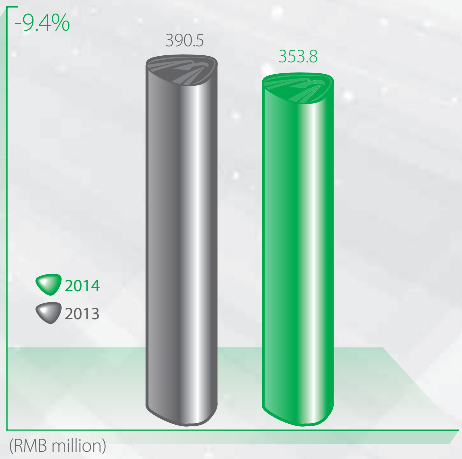
GROSS PROFIT



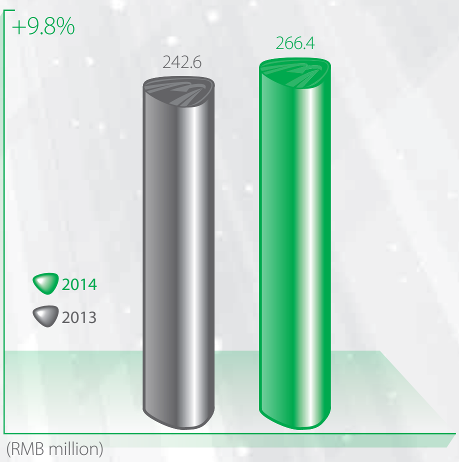
GROSS PROFIT MARGIN



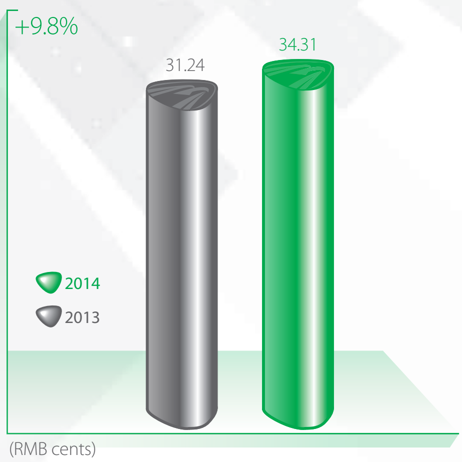
PROFIT FROM OPERATIONS



PROFIT FOR THE YEAR



BASIC EARNINGS PER SHARE



Co-Chairmen's Statement

To our esteemed shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of CECEP COSTIN New Materials Group Limited ("CECEP COSTIN" or the "Company"), we are pleased to present the annual report of the Company and its subsidiary companies (collectively referred to as the "Group") for the year ended 31 December 2014.

2014 was still a challenging year. The People's Republic of China (the "PRC" or "China") saw a slowdown in economic growth, leading to a year-on-year decline in sales volume of the Group's non-woven materials and recycled chemical fibres. However, in spite of the challenges in domestic and foreign markets, the Group maintained an upward trajectory in the gross profit margin of the Group's non-woven materials, recycled chemical fibres and thermal resistant filtration materials as compared to last year due to the Group's continuous efforts to upgrade products as well as to enhance their added value and adjust the products structure through untiring scientific research on the development of new products. The favourable trend was the payoff of the Group's long-term investment in product R&D. Besides, our products have a broad application scope and are less susceptible to the business cycle of any single industry.

CECEP COSTIN is committed to the motto of "purifying the impossible" in the low-carbon era. Adhering to such business philosophy, CECEP COSTIN aims to develop into a technology-based group. The Group was dedicated to promoting industrial upgrade, optimising the mode of production, facilitating product and technology marketing, cultivating operation and management talents and encouraging creativity and scientific innovation. 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian#) ("Xinhua Co."), a wholly-owned subsidiary of the Company, has been awarded the qualification of a national high and new technology enterprise. Being a high and new enterprise, Xinhua Co. is entitled to 15% preferential corporate income tax rate for three consecutive years starting from 2014.

In 2014, with the efforts of management and all of our staff, the Group's core business maintained a broadly stable performance during the year. During the year under review, turnover of the Group reached RMB1,322,600,000, representing a decrease of approximately 11.5% from RMB1,494,100,000 in 2013; gross profit amounted to RMB429,400,000, representing a decrease of approximately 11.7% from RMB486,200,000 in 2013. Thanks to the reduction in income tax expenditure, the profit for the year attributable to owners of the Company reached RMB266,400,000, representing an increase of approximately 9.8% from RMB242,600,000 in 2013; and basic earnings per share for the year was approximately RMB34.31 cents (2013: RMB31.24 cents).

In 2014, the Group achieved a substantial growth of approximately 40.0% in the sales of thermal resistant filtration materials to RMB100,800,000 when compared with 2013. In response to the PRC environmental protection policy, the Group's thermal resistant filtration materials are made for use in power plants, iron and steel mills, cement production, waste incineration as well as exhaust systems of other heavy industries to achieve a significant reduction in the emission of air pollutants. China's new environmental protection law was officially implemented on 1 January 2015, under which the punishment of illegal emissions, excessive emissions, evasion of inspections and other acts is strengthened and defaulting enterprises are thus forced to quickly correct their polluting practices. A Revised Draft of the Law on the Prevention and Control of Atmospheric Pollution has also been submitted to the Standing Committee of the National People's Congress for consideration, putting forward the imposition of punishment on unauthorized emissions, excessive emissions (in terms of standard and allowance), monitoring data frauds and other acts of polluting as well as the issuance of order for production suspension and rectification, closure of plant and other administrative punishments. As the awareness of the PRC government and Chinese people towards environmental protection increases, there will be huge demand for investments in environmental protection in the next few years and the demand for thermal resistant filtration materials is expected to be on the rise.

Through scientific research and product development, we will continue to introduce more high-performance products with innovative and differentiating features catering to the diverse needs of customers with the aim of consolidating the Group's leading position in the industrial consumables market. Relying on the improving quality in production, R&D and marketing, we are confident that the Group will have a stable upward development with the concerted efforts of all staff and supports from our partners, thereby building CECEP COSTIN into a world-leading new materials and recycled materials enterprise. We will exert every effort to create value for the Group and bring satisfactory returns to the shareholders and investors of the Company.

ACKNOWLEDGEMENT

We would like to express, on behalf of the Board, heart-felt appreciations for the continuous attention and great support to CECEP COSTIN from all shareholders, investors and partners. We also wish to thank the relentless efforts and dedication of all of our fellow staff members. The Group will continue to fully leverage on the favourable industry policies and demonstrate its competitive edges in the recycling economy, and join hands with parties concerned to create higher value through steady and sustained development of the Group.

Yu Heping
Co-Chairman

Chim Wai Kong
Co-Chairman

Hong Kong, 20 March 2015

The English name is translated for reference only.

Management Discussion and Analysis

BUSINESS REVIEW

Key products of the Group include differential recycled chemical fibres, non-woven materials with 3D engineering structure and thermal resistant filtration materials. The Group's products have been widely applied as raw materials in the manufacture of consumer goods and industrial products including filter materials and filtration bags, decoration materials, shoe materials and household materials. The Group also provides tailor-made products that satisfy the specific requirements of different customers, including non-woven materials with special functions such as waterproof, anti-bacteria, anti-UV and flame retardant. In 2014, the Company was recognized as one of the top 40 non-woven industry companies in 2014 by Nonwovens Industry, a U.S. industry magazine. Moreover, Xinhua Co., a wholly-owned subsidiary of the Company, was appraised by China National Textile and Apparel Council (中國紡織工業聯合會) and China National Institute of Standardization with a brand value of RMB1.25 billion, and was recognized as one of China's top 50 enterprises in terms of brand value in the textile and apparel industry in 2014.

BUSINESS REVIEW (CONTINUED)

Non-woven materials with 3D engineering structure

As at 31 December 2014, the Group had 17 stitch-bonded non-woven material production lines and 9 needle-punching non-woven material production lines with annual production capacity of approximately 103 million yards and 57 million yards, respectively, bringing the aggregate production capacity to approximately 160 million yards per annum. In 2014, the market demand for the non-woven materials of the Group decreased due to the slowdown of the economic growth in China. Sales volume and turnover of the non-woven materials of the Group dropped by approximately 1.7% and 15.4% respectively as compared with 2013. However, benefiting from increase in sales volume of products with higher gross profit margin, the gross profit margin of non-woven materials increased by approximately 0.4 percentage points to 37.4% as compared with 2013. The Group always put an emphasis on new product development and market expansion of non-woven materials. In 2014, the Group continued to strengthen its cooperation with COROPLAST FRITZ MULLER, a German enterprise, and thus the sales of stitch-bonded wiring tapes for middle and high-end automobiles increased 206% to approximately RMB16 million as compared with 2013. Due to the excellent performance of this product, the Group has established a long-term supply relationship with the German enterprise. The current production capacity of stitch-bonded wiring tapes amounted to approximately 5 million sq.m. and has reached full capacity. The Group plans to expand the production capacity of stitch-bonded wiring tapes to 15 million sq.m in 2015. The Group will continue to enhance its R&D capabilities, and through continuous development of stitch-bonded wiring tapes for automobiles, expansion of production line and refinement of product structure, the Group will accelerate transformation and upgrade of products to increase their technology content and added value with an aim to increase the gross profit margin of our products as well as enhance its market competitiveness. The Group will put more efforts into the upgrade of structure of non-woven material products and increase the proportion of products for industrial uses such as in automobiles and construction industries in order to achieve higher profit.

BUSINESS REVIEW (CONTINUED)

Recycled chemical fibres

As at 31 December 2014, the Group had 2 recycled chemical fibres production lines with annual production capacity of approximately 42,000 tons, which can process approximately 53,000 tons of waste PET chips per annum. Affected by the drop in domestic demand for recycled chemical fibres, sales volume of recycled chemical fibres of the Group decreased by approximately 2.9% as compared with 2013. Turnover of recycled chemical fibres also decreased with the decline in demand by approximately 7.2% as compared with 2013. Benefiting from more stringent cost control, the gross profit margin increased by approximately 1.4 percentage points to 18.0% as compared with the corresponding period of last year. In 2015, the Group will carry out technical renovation and upgrade the production lines of recycled chemical fibres, and continue to increase the integrated utilization of recycled fibres in order to enhance the performance and quality of recycled chemical fibres, reduce the production cost and improve the product competitiveness.

BUSINESS REVIEW (CONTINUED)

Thermal resistant filtration materials

The Group had 3 thermal resistant filtration materials production lines with annual production capacity of approximately 21 million sq.m. In 2014, sales volume of thermal resistant filtration materials was approximately 2.5 million sq.m., representing an increase of approximately 63.0% as compared with 2013, while turnover amounted to approximately RMB100.8 million, representing a significant increase of approximately 40.0% as compared with 2013. For our filtration materials business, the Group has established sales partnerships with various renowned enterprises in China, including China National Building Materials, Sinoma Science, Datang Power, Shenhua Group, Longking, Feida Environmental Science, Longxin Environment and Xinzhong Environmental Protective. Looking ahead, the Group will gradually establish dust filtration solutions and operational services to address the sales channel and format of the industrial dust filtration material business with a view to expand its customer base through service marketing. The Group will continue to innovate the sales model of thermal resistant filtration materials and shift from product-oriented to service-oriented. By integrating the internal and external resources of 中國節能環保集團公司 (China Energy Conservation and Environmental Protection Group#) ("CECEP"), the Group will attract more talents specialized in providing technical solutions. The Group will continue to invest in R&D and develop innovative products such as filtration materials with multi-fibre coating technique and durability in harsh environment and real-time control system of bag-type dust filtration products. The development of the environmental-friendly technique and industrial market will be accelerated in the coming years as a result of the stronger support of the PRC government on energy conservation and environmental-friendly products and the official implementation of the "New Environmental Protection Law" in the PRC. With the government's stringent requirements on environmental protection, the market demand for thermal resistant filtration materials, as one of the segments in non-woven material industry, will witness a rapid growth.

BUSINESS REVIEW (CONTINUED)

Product R&D

The Group adheres to the industry philosophy of "innovative environmental solution and technology for robust growth". Xinhua Co., as a provincial-level technology centre in Fujian, a new type of construction technology research centre of non-woven materials in Fujian and a development base of environmental-friendly filtration materials in China, was accredited with SCS Recycled Content Certification, CNAS certification and OEKO-TEX STANDARD 100 certification. As a High and New Technology Enterprise enjoying the preferential tax rate of 15%, the Group strives to promote the technological advancement. In 2014, the Group had completed 4 technological projects and 1 industrial project, developed 8 new products and passed 2 technological appraisals, among which, "the research and application of oil absorbent and recycled polyester non-woven materials with environmental-friendly nature" was granted the International Advancement Award. We were also in charge of the compilation of 1 industry standard and participated in the formulation of 2 industry standards. As of 31 December 2014, the Group had 26 patents and was applying for the registration of 77 patents.

In 2015, the Group will proceed with the transformation and upgrade on innovation by shifting from investment-driven and input-driven growth to a new mechanism with a focus on technology, brand and talent management, and enhance the customer service through the innovation of operating model. With an aim to meet the market demand on diversified products, we will emphasize on integrated advantages including product performance, energy conservation and environmental protection. In addition, we will continue to adjust the product structure on the basis of technological innovation and address the challenges in economic environment with innovation. Through the integration of resources and the establishment of a research platform for integrated utilization of recycled fibres, we will gradually develop a core product technology in terms of function, differentiation, intelligence, information and green cleaning so as to identify and cultivate a new growth momentum in cross-industry and cross-sector markets and promote the product upgrade and the research and application of terminal products with high added value. The Group will continue to strengthen the cooperation with various universities and scientific research institutions in respect of the research of new products and technologies.

FINANCIAL REVIEW

For the year ended 31 December 2014, the Group's turnover decreased by approximately 11.5% to approximately RMB1,322.6 million while profit attributable to owners of the Company increased by approximately 9.8% to approximately RMB266.4 million as compared with last year.

Turnover

The Group's turnover for the year ended 31 December 2014 was approximately RMB1,322.6 million, representing a decrease of approximately 11.5% or approximately RMB171.5 million over last year. The drop in turnover was primarily due to the weakened market demand for non-woven materials of the Group as a result of the slowdown of the economic growth in China.

Turnover of non-woven materials for the year ended 31 December 2014 was approximately RMB1,037.8 million, representing a decrease of approximately 15.4% or approximately RMB189.1 million from last year. Turnover of recycled chemical fibres for the year ended 31 December 2014 was approximately RMB175.4 million, representing a decrease of approximately 7.2% or approximately RMB13.6 million from last year. Turnover of thermal resistant filtration materials for the year ended 31 December 2014 was approximately RMB100.8 million, representing an increase of approximately 40.0% or approximately RMB28.8 million from last year.

During the year ended 31 December 2014, export sales to Hong Kong and overseas market accounted for approximately 17.6% (2013: 21.9%) of the Group's turnover while sales in the PRC (except Hong Kong) accounted for approximately 82.4% (2013: 78.1%).

During the year under review, the Group sold approximately 103.3 million yards of non-woven materials, representing a decrease of approximately 1.7% from last year. Sales volume of recycled chemical fibres was approximately 21,300 tons, representing a decrease of approximately 2.9% from last year. The Group sold approximately 2.5 million sq.m. of thermal resistant filtration materials during the year under review, representing an increase of approximately 63.0% from last year.

FINANCIAL REVIEW (CONTINUED)

Gross profit and gross profit margin

For the year under review, gross profit of the Group was approximately RMB429.4 million, representing a decrease of approximately 11.7% or approximately RMB56.7 million as compared with 2013. The decrease in gross profit was mainly driven by the decrease in gross profit of non-woven materials segment resulting from the drop of sales. The gross profit for the non-woven materials segment accounted for approximately 90.5% of the total gross profit (2013: 93.3%), while the gross profit for the recycled chemical fibres segment accounted for approximately 7.3% of the total gross profit (2013: 6.4%). During the year under review, the overall gross profit margin of the Group's products was approximately 32.5%, remaining stable as compared with last year. The gross profit margin for non-woven materials segment increased from approximately 37.0% for the year ended 31 December 2013 to approximately 37.4% for the year ended 31 December 2014. For the recycled chemical fibres segment, its gross profit margin was approximately 18.0% for the year ended 31 December 2014, representing an increase of approximately 1.4 percentage points as compared with last year. Thermal resistant filtration materials segment has incurred a gain of approximately RMB6.5 million during the year (2013: loss of RMB0.6 million), with a gross profit margin of approximately 6.4%.

Distribution expenses

For the year ended 31 December 2014, distribution expenses increased by approximately RMB2.0 million as compared with 2013. Distribution expenses accounted for approximately 1.3% of the Group's turnover for the year ended 31 December 2014 (2013: 1.0%). The increase in distribution expenses was mainly due to the increase in logistics and transportation costs for goods during the year ended 31 December 2014.

Administrative expenses

Administrative expenses for the year ended 31 December 2014 decreased by approximately RMB16.1 million as compared with 2013. The decrease in administrative expenses was mainly due to the decrease of the allowance for trade receivables and a stricter control on overall administrative expenses implemented by the Group. Excluding the allowance for trade receivables, the percentage of administrative expenses to turnover was approximately 6.1% for the year ended 31 December 2014 (2013: 6.0%), which was almost the same as last year.

Finance costs

Finance costs for the year ended 31 December 2014 decreased by approximately RMB16.6 million as compared with 2013. The decrease in finance cost was mainly due to the redemption of US$30 million convertible bond by the Company in July 2013 and thus, no payment of interest on convertible bond was incurred in 2014.

FINANCIAL REVIEW (CONTINUED)

Income tax expense

Xinhua Co. was qualified as a High and New Technology Enterprise and is entitled to enjoy an income tax concession effective from 1 January 2014. The Group's effective income tax rate was then decreased from approximately 31.2% in 2013 to approximately 19.9% for the year ended 31 December 2014.

Profit attributable to owners of the Company and net profit margin

Profit attributable to owners of the Company for the year ended 31 December 2014 was approximately RMB266.4 million, representing an increase of approximately 9.8% or approximately RMB23.8 million as compared with 2013. The Group's net profit margin for the year under review was approximately 20.1%, representing an increase of 3.9 percentage points as compared with last year. The increase in net profit margin was mainly due to a decrease in administrative expenses, finance costs and income tax expense.

Earnings per share

Basic earnings per share for the year ended 31 December 2014 was approximately RMB34.31 cents (2013: RMB31.24 cents), representing an increase of approximately 9.8% as compared with 2013. The increase in basic earnings per share was a result of the increase in net profit for the year.

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary share during the years ended 31 December 2013 and 2014. The effect of potential ordinary shares in respect of the convertible bond was anti-dilutive for the year ended 31 December 2013.

Liquidity and financial resources

The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 June 2010 and the net proceeds of the global offering was approximately HK$439.8 million after deducting related underwriting fees and other expenses. The proceeds were applied during the year in accordance with the proposed applications set out in the Company's prospectus dated 8 June 2010. As at the date of this report, the Group already used approximately HK$162.7 million of the net proceeds for establishment of the filtration materials production facilities and approximately HK$23.9 million for the expansion of its existing technology centre and the establishment of a research centre for new materials. In addition, approximately HK$40 million was used as the Group's general working capital. The Group has deposited the remaining unused proceeds in licensed banks in Hong Kong and the PRC.

The English name is translated for reference only.

FINANCIAL REVIEW (CONTINUED)

Liquidity and financial resources (Continued)

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and the PRC. The Group had bank and cash balances of approximately RMB1,338.8 million (2013: RMB1,105.2 million) and pledged bank deposits of approximately RMB42.1 million (2013: RMB7.1 million) as at 31 December 2014. The Group's bank and cash balances were mostly held in Hong Kong dollars ("HK dollars"), United States dollars ("US dollars") and Renminbi.

As the Group conducts business transactions principally in Renminbi and US dollars, management considered that the Group's exposure to exchange rate risk at the operational level is not significant. Accordingly, the Group had not used any financial instruments for hedging purposes during the year under review. Nevertheless, management will continue to monitor its foreign exchange exposure and is prepared to take prudent measures such as hedging when appropriate actions are required.

As at 31 December 2014, the Group's bank borrowings amounted to approximately RMB365.9 million (2013: RMB394.9 million), of which approximately 78.4% (2013: 68.6%) was repayable within one year. The Group's bank borrowings were in HK dollars, US dollars and Renminbi, whilst approximately 65.2% (2013: 67.6%) of such borrowings bore interest at fixed lending rate. As at 31 December 2014, the Group's gearing ratio was approximately 16.3% calculated as bank borrowings divided by total assets (2013: 19.0%). The decrease in gearing ratio was mainly attributable to the increase in total assets and decrease of bank borrowings during the year. Net current assets and net assets of the Group as at 31 December 2014 were approximately RMB1,344.5 million (2013: RMB1,130.0 million) and approximately RMB1,604.2 million (2013: RMB1,399.6 million), respectively.

As at 31 December 2014, certain prepaid land lease payments, buildings and investment properties of the Group with carrying values of approximately RMB43.2 million (2013: RMB64.3 million), approximately RMB64.6 million (2013: RMB73.3 million) and approximately RMB3.9 million (2013: RMB6.5 million), respectively, were pledged to secure general banking facilities granted to the Group.

As at 31 December 2014, the Group did not have any contingent liabilities (2013: Nil).

Significant investments and acquisitions

During the year ended 31 December 2014, the Group acquired property, plant and equipment and incurred costs for construction in progress of approximately RMB26.3 million (2013: RMB21.6 million) and approximately RMB0.6 million (2013: RMB5.1 million), respectively.

PROSPECTS AND OUTLOOK

In view of problems including poor air quality and water pollution in recent years, the PRC government is committed to developing environmental protection industry and implementing various green environmental protection policies. To respond to the PRC government's environmental protection policy, the thermal resistant filtration materials of the Group can be applied to power stations, steel plants, cement production, refuse incineration and emission system of other heavy industries, which can significantly reduce the emission of air pollutants. With the official implementation of the "New Environmental Protection Law" in China on 1 January 2015, the penalty of illegal emissions, excessive emissions, detection avoidance and other misconducts was increased, forcing the enterprises to rectify their environmental illegal activities immediately. In addition, the Law of the Prevention and Control of Atmospheric Pollution (Revised Bill) has been proposed to The Standing Committee of the National People's Congress for consideration and approval, which will impose monetary penalty or administrative penalties including suspension of or ceasing from operation on environmental illegal activities including unlicensed operation, excessive emission, exceeding emission caps and fake regulatory data. With the increasing awareness of environmental protection of the government and people in China, there will be vast investment demand for environmental protection in coming years as well as increasing demand for thermal resistant filtration materials. Regarding the bottleneck of the development of thermal resistant filtration materials, the Group will keep abreast of the market and arrange relevant marketing strategies based on industry policies and industrial nature, and will commence market expansion in full swing with an emphasis on electricity industry and cement industry. Meanwhile, the Group will push ahead with the overall sales activities to implement the concept of marketing skill, and enhance the overall quality of the sales team through putting more efforts on training of the professional skill of employees from sales of products to sales of skills and services. We will provide tailor-made technical solutions for clients, which will enhance our market competitiveness. To satisfy the market demand on diversified products, we will develop new products through the production line and transform the results of scientific research on environmental protection, energy conservation, low carbon and clean production into commercial products. In addition, we will expand the application scope of dust filtration to areas including the absorption of noxious vapour and the treatment of industrial wastewater, allowing the non-woven materials to play a role in the integration of material, structure and function in order to enhance the market competitiveness and achieve new breakthroughs.

The Group will continue to adjust the industrial structure, optimize the management on technologies and promote the synergies and cooperation with an aim to achieve industrial upgrade. Leveraging on our basic advantages of non-woven technologies and equipment such as stitch-bonded and needle-punching, we put our research efforts on addressing the market's pressing needs. We will also strengthen the collaboration between the industry, universities and research institutions by integrating innovation into the production lines and promoting a blend of production lines and innovative technology. Our capability of independent innovation will be enhanced to improve our research and development of non-woven wiring tapes and PTFE coating techniques in order to increase the added value of the existing products. CECEP COSTIN will fully capitalize on the advantage of "marketing superiority through unique sales strategies and technical know-how". In addition to the continuous development of the traditional sectors such as shoe materials and household materials, we will increase our efforts in research and development to improve and promote the new non-woven products for automobile and construction usage through product innovation and optimized customer service system. We will meet the demand of high-end market and accelerate the transformation and upgrade of products with advanced technology and higher added value by ways of continuous product upgrade and expansion of application scope.

PROSPECTS AND OUTLOOK (CONTINUED)

The Group will continue to strengthen the cooperation with CECEP and further consolidate the leading position of the Group in the market of industrial goods. By bringing its strengths in the field of energy conservation and environmental protection into full play, CECEP will provide better development conditions to the Group, assisting the Group to expand the development potential of non-woven materials for industrial uses, so as to gain competitive advantage and the leading position in the high-end dust removal and thermal resistant filtration materials sector while supporting the Group to expand and strengthen its "urban minerals" resources recycling business.

To address the challenging market envrionment, CECEP COSTIN will continue the innovation of technologies and put in place a number of measures. For thermal resistant filtration materials, we will provide the end customers with a series of services to expand the production capacity and sales through the cooperation or acquisition of downstream industries. For recycled chemical fibres, we will manufacture the products with advanced technologies and high added value through the adjustment of product structure. Meanwhile, we will increase the proportion of recycled chemical fibres for internal use in the manufacturing of non-woven materials to enhance the Group's ability to address the market risk. The technological renovation will not only enhance the manufacturing quality of the existing equipment, but also improve the manufacturing efficiency and superior goods ratio while reducing the manufacturing costs, ensuring the dominant market share of our core products. Guided by the concept of promotion, operation, conservation, R&D and application, the Group will keep implementing meticulous management of "attention to detail, concerned on cost and guiding consumption" in a full scale, striving to develop the Group into a technology-based group.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2014, the Group had a total of 1,001 employees (2013: 979). The Group always maintains cordial working relationships with its employees and commits to the provision of excellent training and development opportunities for its staff. The Group's remuneration packages are maintained at a competitive level and are reviewed periodically. Bonus and share options are also granted to employees according to their respective performance, appraisals and industry practices. The share option scheme (the "Share Option Scheme") was adopted by the Company on 12 May 2010. No share options have been granted by the Company pursuant to the Share Option Scheme during the year ended 31 December 2014. As at 31 December 2014, no share options remained outstanding.

Corporate Governance Report

INTRODUCTION

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2014, the Company has complied with all applicable code provisions under the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the year ended 31 December 2014.

BOARD OF DIRECTORS

The Board currently comprises four executive directors, two non-executive directors and three independent non-executive directors. For a Director to be considered independent, the Board follows the requirements set out in the Listing Rules and must determine that the director does not have any direct or indirect material relationship with the Group. Under the Company's articles of association, every director is subject to retirement by rotation at least once every three years and their re-election is subject to a vote by the shareholders. All non-executive directors and independent non-executive directors are appointed for a specific term.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic and financial policies including dividend policy, material contracts and major investments. All the Board members have separate and independent access to the Group's senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

Each of the executive Directors has entered into a service contract with the Company for a term of three years and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years and may be terminated by not less than three months' prior notice in writing served by either party on the other.

BOARD OF DIRECTORS (CONTINUED)

The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Four Board meetings were held in 2014. Individual attendance of each Director at the Board meetings, the general meeting, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meeting during 2014 is set out below:

		Attendance/Number of Meeting(s)			
Directors	*Board*	*Annual General*	*Audit Committee*	*Nomination Committee*	*Remuneration Committee*
Executive Directors					
Mr. Yu Heping *(Co-Chairman)*	4/4	1/1	N/A	N/A	N/A
Mr. Chim Wai Kong *(Co-Chairman)*	4/4	1/1	N/A	2/2	N/A
Mr. Chim Wai Shing Jackson *(Chief Executive Officer)*	4/4	1/1	N/A	N/A	1/1
Mr. Xue Mangmang	4/4	1/1	N/A	N/A	N/A
Non-Executive Directors					
Mr. Yang Yihua	3/4	1/1	N/A	N/A	N/A
Mr. Pan Tingxuan	1/4	0/1	N/A	N/A	N/A
Independent Non-Executive Directors					
Mr. Feng Xue Ben	4/4	1/1	3/3	2/2	1/1
Mr. Wong Siu Hong	4/4	1/1	3/3	2/2	1/1
Mr. Xu Qinghua	4/4	0/1	3/3	2/2	1/1

To implement the strategies and plans adopted by the Board effectively, executive Directors and senior management meet regularly to review the performance of the businesses of the Group and make financial and operational decisions.

Biographical details of the Directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on pages 28 to 34.

TRAINING AND SUPPORT FOR DIRECTORS

Directors must keep abreast of their collective responsibilities. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills. The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management where appropriate, to ensure awareness of the best corporate governance practices.

A training was organised for Directors in November 2014 to update the Directors on the new amendments to the Corporate Governance Code and associated Listing Rules.

During the year, the Directors also participated in the following training:

Directors	*Types of training*
Executive Directors	
Mr. Yu Heping *(Co-Chairman)*	A,B
Mr. Chim Wai Kong *(Co-Chairman)*	A,B
Mr. Chim Wai Shing Jackson *(Chief Executive Officer)*	A,B
Mr. Xue Mangmang	A,B
Non-Executive Directors	
Mr. Yang Yihua	A,B
Mr. Pan Tingxuan	A,B
Independent Non-Executive Directors	
Mr. Feng Xue Ben	A,B
Mr. Wong Siu Hong	A,B
Mr. Xu Qinghua	A,B

A: attending seminars and/or conferences and/or forums relating to directors' duties
B: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.

CO-CHAIRMEN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Yu Heping and Mr. Chim Wai Kong as Co-Chairmen and Mr. Chim Wai Shing Jackson as the Chief Executive Officer. The roles of Co-Chairmen and the Chief Executive Officer are segregated. The primary role of Co-Chairmen is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. Mr. Chim Wai Kong is the elder brother of Mr. Chim Wai Shing Jackson.

REMUNERATION COMMITTEE

The Remuneration Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive Directors and senior management, considering factors such as salaries paid by comparable companies, time commitment and responsibilities of individuals. The terms of reference of the Remuneration Committee can be obtained from the websites of the Company and the Stock Exchange.

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of Directors and senior management. The remuneration of each Director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive Director has taken part in any discussion about his own remuneration. One meeting was held by the Remuneration Committee in 2014. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Xu Qinghua – *Chairman*
Mr. Chim Wai Shing Jackson
Mr. Feng Xue Ben
Mr. Wong Siu Hong

Directors' remunerations for the year are disclosed in note 11 to the consolidated financial statements. In addition, the remuneration payable to members of the senior management of the Group by band for the year ended 31 December 2014 is set out below:

Remuneration band	***Number of individuals***
Up to HK$1,000,000	12
HK$1,000,001 to HK$2,000,000	2

NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the websites of the Company and the Stock Exchange.

The terms of reference of the Nomination Committee have been determined with reference to the Corporate Governance Code. The Nomination Committee is responsible for identifying potential new directors and recommending to the Board for decision. A Director appointed by the Board is subject to re-election by the shareholders of the Company (the "Shareholders") at the first general meeting or annual general meeting after his/her appointment. Under the Company's articles of association, at each annual general meeting one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years. Basically, the nomination procedure follows the articles of association of the Company. Potential new Directors are selected on the basis of their qualification, skills and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board. Two meetings were held by the Nomination Committee in 2014. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Feng Xue Ben – *Chairman*
Mr. Chim Wai Kong
Mr. Wong Siu Hong
Mr. Xu Qinghua

During the year, the Nomination Committee reviewed the board diversity policy of the Board to ensure the effectiveness of such policy. The appointment of Board members should be based on the talents of the candidates while taking into account a range of diversity perspectives. Factors including but not limited to age, gender, educational and cultural background, professional expertise and industry experience should be considered and assessed during the selection process to ensure diversity. Further details of the board diversity policy are set out in the website of the Company.

AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the websites of the Company and the Stock Exchange. Three meetings were held by the Audit Committee in 2014. All the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Wong Siu Hong – *Chairman*
Mr. Feng Xue Ben
Mr. Xu Qinghua

The committee members possess diversified industry experience and the Chairman of the committee has appropriate professional qualifications and experience in accounting matters. During the year, the committee considered the external auditors' re-appointment and their projected audit fees, reviewed the interim and annual consolidated financial statements and reviewed the Group's internal control system. The committee also continues to monitor and review the Company's corporate governance policies and practices delegated by the Board.

The Group's audited consolidated results for the year ended 31 December 2014 has been reviewed by the Audit Committee of the Company.

INTERNAL CONTROLS

The Group's internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss rather than the elimination of risks associated with its business activities.

The Board is responsible for maintaining an adequate system of internal control for the Group and the Directors has conducted a review of its effectiveness during the year.

AUDITORS' REMUNERATION

During the year, the Group has incurred auditors' remuneration in respect of audit and auditing related services of approximately RMB1,669,000, out of which approximately RMB1,489,000 was paid/payable to the Company's auditor, Messrs RSM Nelson Wheeler. In addition, professional fee of approximately RMB42,000 was paid/payable by the Group for the taxation services rendered by RSM Nelson Wheeler.

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Group's consolidated financial statements which give a true and fair view and are in accordance with appropriate International Financial Reporting Standards. Appropriate accounting policies are being selected and applied consistently.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on page 50.

SHAREHOLDERS RIGHTS

Procedures by which Shareholders may convene an extraordinary general meeting

The Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 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. The above procedures are subject to the articles of association of the Company (as amended from time to time), and the applicable legislation and regulations, in particular the Listing Rules (as amended from time to time).

Procedures for putting forward proposals at a Shareholders' meeting

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Cayman Islands Companies Law (as amended from time to time) or the articles of association of the Company. However, Shareholders who wish to move a resolution may request the Company to convene an extraordinary general meeting following the procedures set out above.

Detailed procedures for shareholders to propose a person for election as a Director are available on the Company's website.

Enquiries to the Board

Shareholders may put forward enquiries to the Board in writing to the Company's principal place of business in Hong Kong at Suites 2703-04, 27th Floor, Tower 6, The Gateway, Harbour City, Kowloon.

INVESTORS RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The management of the Company believes that effective and proper investor relations play a vital role in creating Shareholders' value, enhancing the corporate transparency as well as establishing market confidence. As such, the Company has adopted a stringent internal control system to ensure true, accurate, complete and timely disclosure of relevant information pursuant to requirements of relevant laws and regulations in order to ensure all Shareholders equal access to information. In addition, the Company has proactively taken the following measures to ensure effective Shareholders' communication and transparency:

- maintaining frequent contacts with Shareholders and investors through various channels such as meetings and telephone;
- regularly updating the Company's news and developments through the investor relations section of the Company's website;
- arranging on-site visits to the Group's projects for investors and research analysts.

Environmental, Social and Governance Report

The Group is committed to developing leading and innovative technologies for production of non-woven materials, environmentally friendly recycled chemical fibres and filtration materials under the low-carbon approach of "purifying the impossible", and promoting the Group's business and corporate image through green production technologies and products to build itself into an internationally leading player in environmentally friendly new materials.

In line with its business direction and market development needs, the Group has developed its "Third Five-Year Plan" based on the National 12th Five-Year Plan which defined goals on products, management, talents and technologies. On products, the Group seeks to secure its position in the industrial consumer goods market through ongoing innovations in its environmentally friendly recycled chemical fibres, environmentally friendly filter materials and non-woven materials for industrial uses. On management, the Group's management aims to strengthen internal management and control, centering on the Board's strategic deployments on systematic management, centralised execution and gradual implementation. On talents, the Group expects to foster and identify talents in the human-oriented approach, with a sound incentive mechanism and a rigorous performance assessment system in place. On technologies, based on its close touch with renowned universities and research institutions at home and abroad, the Group continues to improve the "production, academia, research and utilisation" collaboration mechanism with a focus on enterprise applications on the market-oriented basis, to build up a high-technology application team centering on non-woven materials for industrial uses.

The Group's human resources department regularly reviews and refines its personnel structure, ensuring clear definition of functions and duties of each employee and further streamlining management and service processes to improve operational efficiency. To reduce production costs and improve efficiency and product quality, the Group has developed proprietary equipment improvement technologies which contributed to lower production and maintenance costs. The Group also strengthens its supply chain procurement team to enhance its capability for analysis of market and product mix. Meanwhile, the Group takes initiatives to reduce inventories and deploy production resources flexibly, leading to a decrease in production costs. While taking efforts in marketing, the Group promotes the concept of "Pursuing cost effectiveness earnestly" in its supply chain system with an aim at bottom-line growth.

Innovations are always highly valued within the Group, where employees are encouraged to unleash their innovate potential to develop proprietary products and technologies. As at 31 December 2014, the Group had 26 patents granted and 77 applications for registration of patents, laying a sound foundation for its future development.

The annual audit plans developed by the internal control department set out audit requirements specific to risk exposure of the Group's departments. In specific audits conducted on a regular basis by our internal control department, the departments are required to provide information and cooperate with the internal control officer proactively. Based on the findings, the internal control officer prepares internal control audit report which is submitted to relevant functions of the Group for consideration and, where necessary, making decision on rectification plans.

Through regular reviews of the structure, size, composition and diversity policy for the Board, the Nomination Committee of the Company considers and evaluates various factors including gender, age, educational and cultural background, expertise and administrative experience of directors, in order to ensure adequate diversity of board members.

The Company has established a shareholder communication policy to ensure the access of its shareholders and other investors to comprehensive, clear and understandable corporate information on a timely basis. In addition, financial statements (in interim and annual reports), shareholders' general meeting, the "Investor Relations" channel of our corporate website (www.costingroup.com) and press releases are available to keep effective communication with investors.

The Company seeks to deliver desirable return to its shareholders and investors in compliance with the Listing Rules and relevant laws and regulations. During the past three years, the Company maintained a stable dividend policy with dividend payout ratio ranging between 23.2% and 25.6%.

This report for the period from 1 January 2014 to 31 December 2014 covers our headquarters in Hong Kong, production base in Jinjiang and the Beijing technology consulting company. It focuses on the Group's environmental and social responsibilities with respect to workplace quality, environmental protection, operating practices and community involvement.

WORKPLACE QUALITY

Workplace

The Group adopts human-oriented, legitimate and equality policies in employee recruitment, promotion, performance assessment, compensation and other personnel management affairs, and prohibits any discrimination in gender, age, place of birth, ethnic group, language, nationality or religion. Talents are identified and selected from public and school recruiting, integrated with the Group's social responsibility concepts such as employment equality, respect for human rights, diversity of employees and prohibition of child labour and forced labour. Remuneration and benefit packages are well established for employees, where compensations are closely linked to individual growth and performance and organisational performance. New employees are provided with the Code of Conduct, rules and regulations and information of the salary and benefit system. In addition to compensation as agreed in service contract, the Group contributes to the mandatory provident fund scheme and the health insurance plan established for its employees in Hong Kong under the Hong Kong Employment Ordinance. Employees in Mainland China are also entitled to social insurance and accident insurance plans as required by labour regulations in the PRC. Basic paid annual leaves and statutory leaves for maternity and other circumstances are provided in accordance with local employment legislations. Staff working hours of the Group is complied with the provisions of the Labour Contract Law of the PRC and the Employment Ordinance of Hong Kong.

The Human Resources Management System of the Group clearly specifies that recruitment process and job requirements shall be publicised under a fair recruitment mechanism. Except for internal transfers, all vacancies are required to be published on external websites. The system also clearly sets forth requirements and procedures for promotions at different posts, providing a direction and ladder for promotions under which career goals specific to employees could be developed.

The Group safeguards legitimate rights and interests of female employees in compliance with the Labour Law of the People's Republic of China and the Law on Protection of Women's Rights and Interests of the People's Republic of China as well as the relevant laws and regulations. Maternity leave is expressly provided for female employees in the internal Attendance Management System. Free physical examination and health guidance are provided to female employees on the Women's Day each year, organised by the labour union. Meanwhile, female employees are entitled to equal pay for equal work under the group-wide open and fair recruitment mechanism as well as the standardised ranks of compensation.

The Group's labour union, comprising all of its staff members in the PRC, was established in May 2009. Rules governing day-to-day work of the labour union are in place to safeguard legitimate rights and interests of employees and ensure its smooth operations. Led by the Board and Chief Executive Officer and according to the Group's business targets, the labour union strives to promote democratic management, calibre of employees and corporate culture while contributing to business stability and production safety, thereby enhancing strength and cohesion of employees.

As proposed by the labour union, face-to-face communication platform between the management and employees has been established through meetings at each quarter, half-year and year end, to collect suggestions and opinions of employees that are constructive for the Group's operations. Thanks to this positive platform, the Group has never been involved in any labour dispute.

Over the years, the Group's labour union has been active in conveying our cares through poverty-relief and other activities addressing practical difficulties of employees. Gifts or compassionate allowances are offered on special events such as birthdays, holidays, sick in hospital or death of lineal relatives, to highlight our harmonious corporate culture.

Staff quarters are provided for the PRC employees in need. "Home of Staff" equipped with fitness room, library, billiard, table tennis and basketball facilities is established to provide recreational space for employees in their spare time. The labour union also organised various cultural activities, such as New Year's gathering, skills exhibition, sports meeting, evening party of the Mid-Autumn Festival, competency development and training sessions. Employees extended active presence and assistance in planning for these activities, with sound effect achieved.

As at 31 December 2014, the Group had a total of 1,001 employees, including 988 employees in the PRC (exclusive of Hong Kong) and 13 employees in Hong Kong.

Set out below is the breakdown of the Group's employees by age range:

Age	*Persons*	*Percentage*	*2014 Turnover rate*
Aged below 20	43	4.3	27.9
Aged between 21 to 40	577	57.6	12.0
Aged between 41 to 60	373	37.3	4.6
Aged 61 or above	8	0.8	87.5

Set out below is the breakdown of the Group's employees by education background:

Education background	*Persons*	*Percentage*
High school and below	647	64.6
Associate degree	90	9.0
Undergraduate	246	24.6
Master	18	1.8

In 2014, turnover rate of the Group's employees was approximately 10.9% for the PRC and zero for Hong Kong.

Health and Safety

The Group's management system is established in accordance with national production safety standardised management requirements, and has been rated as class 3 enterprise in national production safety standardised management. In addition to safety inspections each year in accordance with laws and regulations, training courses on operational protocols of production safety are provided to business units across the Group. The Group also provides necessary protective gears for personal safety of employees. In 2014, the Group recorded no work-related death of employees, with zero working days lost due to work-related injuries.

Development and Training

On-post certificate are required, where necessary, for skilled jobs in the Group, subject to corresponding assessment and training mechanisms. To improve operational proficiency of frontline workers, new and senior workers are divided in groups to expedite the learning curve of new workers. Employees at professional posts are also encouraged to improve their academic qualification and professional skills through self learning. As an advancement opportunity, the Group worked with Fujian Normal University and Donghua University to offer programmes to encourage employees who lack in academic qualification pursuing promotion through self improvement by possessing relevant technical competence.

Labour Standards

The Group safeguards legitimate rights and interests of minors in compliance with the Labour Law of the People's Republic of China, the Regulations on Prohibiting Use of Child Labour and relevant laws and regulations. New recruits must be at least aged 18, with identity card verified by public security system before qualified for the entry formalities, to eliminate employment of any underage worker. In 2014, the Group was not involved in any violation of relevant laws or regulations.

ENVIRONMENTAL PROTECTION

To meet environmental requirements, the Group has developed an environment manual to strengthen internal environmental management in accordance with GB/T24001-2004 and ISO14001:2004, and passed the ISO14001:2004 environmental management system certification. The Group's production subsidiary has passed the SCS (Scientific Certification Systems) Recycled Content Certification, one of the generally accepted certification systems in the United States, and became the first one among domestic non-woven material producers passing the certification. The SCS Recycled Content Certification for non-woven materials and recycled chemical fibres represents efficient use of waste materials in achieving energy conservation and emission reduction. In addition, the Group has established a comprehensive environmental impact assessment system to further strengthen environmental management. In 2014, the Group had no environmental pollution accident, and was not a subject of any complaint, penalty or sanction due to environmental contamination or violation of environmental regulations.

Capitalising on its advantageous low-carbon technologies, the Group has established an all-around circular economy system incorporating "renewable resources → low-carbon production → environmental applications → resources recovery → renewable resources". The Group can use a maximum amount of approximately 2 billion discarded plastic bottles as production materials of the Group, equivalent to saving oil consumption of approximately 25,200 tonnes or reducing carbon dioxide emission by approximately 134,400 tonnes.

Garbage at the Group's production plant is removed for disposal by sanitation teams; solid packaging materials, scrap materials and waste wires are sold for disposal; and leather-based fabric scraps, waste plastics from screw cleaning and impurities from sorting process are recycled for reuse. Furthermore, through the Group's "composite technology for recycled textiles", recycled textiles are crushed and fiberized for special treatment, finally conversion into building materials for walls and bricks, clapboards and fireproof filling materials.

In 2014, the Group's electricity consumption was measured at approximately 21 million watts; coal consumption was measured at approximately 13,000 tonnes; diesel consumption was measured at approximately 31 tonnes and water consumption was measured at approximately 96,000 tonnes.

The sewage treatment facility at the Group's production base has a processing capacity of 400 tonnes per day, with wastewater reuse rate reaching 100%. In 2014, the facility recorded utilisation rate of approximately 80% and equipment normal operation rate of approximately 98%, as well as water recycling and regeneration totalling 2.88 million tonnes. In addition, all plants of the Group are equipped with vacuum drum coal-fired boilers with high efficiency in heating, and low-sulphur anthracite is used to reduce emissions. Our production workshops are also equipped with desulphurisation and dedusting devices to ensure up-to-standard emission of boiler exhaust. The Group also attaches great importance to noise control, adopting noise reduction measures such as shockproof and envelope for air compressors and other noise-generating equipment to prevent excessive noise.

OPERATING PRACTICES

Product Liability

The Group maintains well-established quality inspection procedures to ensure all products to meet quality standards. Products from the production lines are subject to inspection by our quality management department before qualified for storage or delivery. A set of product recall procedures are also in place to ensure that customer claims are properly addressed in case of quality issues. In 2014, the Group had no product recall from market due to safety consideration and received no complaint on product quality.

Anti-corruption

To govern professional conducts of employees and minimise operational risk in the interests of the Company and employees, the Group has established an interest declaration mechanism and developed the Rules on Avoidance from Conflict of Interests, pursuant to which all employees of the Group are required to strictly observe relevant requirements on scope of application, handling principles, preventive measures and information disclosure. Employees are required to enter into the letter of undertakings, and declare on their own initiative any connection with any related party of the Group. The Group is active in anti-corruption education. A variety of means including workshops, anti-corruption lectures and forums and visits to warning education base are adopted to educate on the significance of anti-corruption, seeking to create a clean and self-disciplined workplace. There was no such incident reported within the Group in 2014.

COMMUNITY INVOLVEMENT

Connecting with Communities

Public activities have always been regarded as an integral link of the Group's operations to showcase its reputation. By sharing its operating results with and giving back to communities through public activities, the Group believes that it will establish a trustable corporate image and achieve mutual success with the public in the long run.

The Group actively gets involved in welfare activities. Members of chamber of commerce were also mobilised to provide one-to-one assistance to needy college students. During 2014, the Group made charitable donation of approximately RMB420,000. In addition, a priority has been given to local applicants in recruitment, among other efforts of the Group to improve local employment. At present, local employees account for nearly 20% in subsidiaries of the Group.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. YU Heping (于和平), aged 60, is a co-chairman and an executive director of the Company. Mr. Yu was appointed as an executive director of the Company on 25 April 2012. Mr. Yu is principally responsible for the leadership of the Board to ensure that the Board will effectively fulfill its duties. He has over 37 years of experience in the industry of electrical energy resources and energy conservation. From 1977 to 1987, Mr. Yu served as an engineer and commander of project command department (工程指揮部) of Xiaojiang electricity station of Wan County in Sichuan Province (四川省萬縣小江電站). From 1987 to 1989, he served as an executive deputy supervisor (常務副主任) and an engineer of electricity office of Wan County in Sichuan Province (四川省萬縣行署三電辦). From 1991 to 1994, he served as a general manager of Wan County Electricity Company in Sichuan Province (四川省萬縣電力總公司). From 1994 to 2000, he served as a general manager, deputy chairman and chairman of Chongqing Three Gorges Water Conservancy and Electric Power Co. Ltd (重慶三峽水利電力(集團)股份有限公司). Mr. Yu joined 重慶中節能實業有限責任公司 (CECEP Chongqing Industry Co., Ltd#) ("CECEP Chongqing") since November 1997 and was appointed as the chairman of the board of CECEP Chongqing in January 2011. Mr. Yu has also been the assistant to general manager of CECEP since December 2003. Mr. Yu has been appointed as an executive director of Billion Industrial Holdings Limited, a company listed on the Stock Exchange (stock code: 2299) since September 2012. Mr. Yu holds a diploma in electrical engineering from Chongqing University (重慶大學) specializing in electrical machinery and electrical apparatus. In 1997, Mr. Yu was awarded the title of Elite Management Person in Water Resources Economics (全國水利經濟優秀管理者) by the Ministry of Water Resources of the PRC. Mr. Yu is also a director of Hong Kong (Rong An) Investment Limited which, as at 31 December 2014, was beneficially interested in approximately 42.34% of the issued share capital of the Company.

Mr. CHIM Wai Kong (粘為江), aged 59, is a co-chairman and an executive director of the Company. Mr. Chim is also a member of the Nomination Committee. Mr. Chim was appointed as an executive director of the Company on 23 September 2009. Mr. Chim is principally responsible for the leadership of the Board to ensure that the Board will effectively fulfill its duties, and responsible for the development strategy of the Group's operation. Mr. Chim has over 16 years of experience in non-woven materials industry. In 2001 and 2006, Mr. Chim was appointed as a member of the 9th and 10th Committee in Quanzhou, Fujian Province of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省泉州市第九屆及第十屆委員會委員) ("CPPCC") respectively. In 2004, Mr. Chim was elected as a vice president of the 7th Executive Committee of General Chamber of Commerce in Jinjiang (晉江市總商會第七屆理事會副會長), a member of the 1st Executive Committee of Good Faith Council in Fujian Province (福建省誠信促進會第一屆理事會理事) and a vice president of the 8th Executive Committee of Jinjiang Federation of Industry and Commerce (General Chamber of Commerce) (晉江市工商聯(總商會)第八屆理事會副會長). In March 2007, Mr. Chim was appointed as a supervisor of Party Conduct and Honesty in Jinjiang (晉江市黨風廉政監督員) by Jinjiang People's Government of Jinjiang Committee of the Communist Party of China (中共晉江市委員會晉江市人民政府) for a period of five years. In 2013, Mr. Chim was appointed as a member of the 11th Committee in Fujian Province of the CPPCC (中國人民政治協商會議第十一屆福建省委員會委員) and a honourary president of the 3rd Executive Committee of Jinjiang Charity Federation (晉江市慈善總會第三屆理事會榮譽會長). Mr. Chim is the elder brother of Mr. Chim Wai Shing Jackson and the uncle of Mr. Chim Ping Yu.

DIRECTORS (CONTINUED)

Executive Directors (Continued)

Mr. CHIM Wai Shing Jackson (粘偉誠), aged 41, is an executive director and the chief executive officer of the Company. Mr. Chim is also a member of the Remuneration Committee. Mr. Chim was appointed as an executive director of the Company on 26 August, 2009. Mr. Chim is responsible for strategic planning and the overall management of the daily business of the Group. Mr. Chim has more than 10 years of experience in the non-woven materials industry. Mr. Chim is the visiting professor of School of Textiles of Tianjin Polytechnic University (天津工業大學), an executive director of China National Textile and Apparel Council (中國紡織工業聯合會常務理事), and a vice president of the Association of Industrial Textiles in China (中國產業用紡織品行業協會副會長). In 2013, Mr. Chim was appointed as a member of the 11th Committee in Fujian Province of the CPPCC (中國人民政治協商會議第十一屆福建省委員會委員). Mr. Chim graduated with a master degree in management from Xiamen University (廈門大學) in 2005 and was awarded as a senior engineer by Fujian Providence Personnel Department (福建省人事廳) of the PRC in 2006. Mr. Chim is the younger brother of Mr. Chim Wai Kong and the uncle of Mr. Chim Ping Yu.

Mr. XUE Mangmang (薛茫茫), aged 43, is an executive director of the Company. Mr. Xue was appointed as an executive director of the Company on 25 April 2012. Mr. Xue has over 10 years of experience in resources management. Mr. Xue joined CECEP Chongqing in January 2003 and was appointed as a general manager of CECEP Chongqing in April 2012. Mr. Xue has been appointed as an executive director of Billion Industrial Holdings Limited, a company listed on the Stock Exchange (stock code: 2299) since September 2012. Mr. Xue graduated from Chongqing University (重慶大學) with a master degree of business administration in 2003.

Non-executive Directors

Mr. YANG Yihua (楊義華), aged 61, is a non-executive director of the Company. Mr. Yang was appointed as a non-executive director of the Company on 1 November 2013. Mr. Yang has extensive experience and knowledge in business management and economics. He has served as the chief economist of CECEP since May 2010. Mr. Yang has been appointed as a co-chairman and non-executive director of Billion Industrial Holdings Limited, a company listed on the Stock Exchange (stock code: 2299) since March 2014. Mr. Yang obtained a master of business administration degree from City University (城市大學) of the United States of America in December 2003 and a postgraduate certificate in professional studies in business administration from Economic Research Centre (經濟研究所) of Nankai University (南開大學) in the PRC in June 2004.

Mr. PAN Tingxuan (潘頲璇), aged 41, is a non-executive director of the Company. Mr. Pan was appointed as a non-executive director of the Company on 25 April 2012. Mr. Pan has over 8 years of experience in project management and strategic planning in investment and asset management. Mr. Pan served as an executive president of Beijing Ju Zhen Investment Management Company Limited (北京矩陣投資管理有限公司) from May 2005 to November 2014. Mr. Pan graduated from Hohai University (河海大學) with a diploma of computer science and application in 1992. Mr. Pan has been appointed as an executive director of Beautiful China Holdings Company Limited, a company listed on the Stock Exchange (stock code: 706), since 2 January 2015.

DIRECTORS (CONTINUED)

Independent Non-executive Directors

Mr. FENG Xue Ben (馮學本), aged 63, is an independent non-executive director of the Company, and the Chairman of the Nomination Committee, a member of Audit Committee and a member of Remuneration Committee. Mr. Feng was appointed as an independent non-executive director of the Company on 4 February 2010. Mr. Feng has over 29 years of experience in textile industry. He is currently the chief engineer in Wuxi Jiayuan Nonwovens Technology Research Institute (無錫嘉元非織造技術研究所首席工程師). From 2007 until now, Mr. Feng served as a deputy director of the Non-woven Fabrics Machinery Professional Committee under China Textile Machinery and Equipment Industrial Association (中國紡織機械器材工業協會非織造布機械專業委員會副理事) and an expert consultant of China Industrial Textiles Association (中國產業用紡織品協會專家顧問), as well as the 1st vice president of the Study Group of non-woven machinery of China Textile Machinery Society (第一屆中國紡織機械學會非織造機械學組副理事) since 2011. Mr. Feng is the chief editor of the professional textbook titled "Pine Non-woven Fabrics Technology and Quality Control" (《針刺非織造布工藝技術與產品控制》), and published a wealth of articles in chemical fibres, non-woven materials and non-woven industrial facilities. Mr. Feng has been appointed as an independent non-executive director of China Automotive Interior Decoration Holdings Limited, a company listed on the Stock Exchange (stock code: 48) since 12 April 2010.

Mr. WONG Siu Hong (黃兆康), aged 46, is an independent non-executive director of the Company, and the Chairman of the Audit Committee, a member of Nomination Committee and a member of Remuneration Committee. Mr. Wong was appointed as an independent non-executive director of the Company on 4 February 2010. Mr. Wong graduated from Deakin University (迪肯大學) in Australia with a bachelor of commerce double majoring in accounting and commercial law in 1994. Mr. Wong previously worked in an international accounting firm and has 19 years of experience in auditing, accounting and finance. Mr. Wong is now the chief financial officer and company secretary of Heng Tai Consumables Group Limited, a company listed on the Stock Exchange (stock code: 197). Mr. Wong served as an independent non-executive director of Huafeng Group Holdings Limited (now named as Ping Shan Tea Group Limited), a company listed on the Stock Exchange (stock code: 364) from September 2004 to July 2012. Mr. Wong is a certified public accountant of the CPA Australia and the Hong Kong Institute of Certified Public Accountants.

DIRECTORS (CONTINUED)

Independent Non-executive Directors (Continued)

Mr. XU Qinghua (徐慶華), aged 62, is an independent non-executive director of the Company, and the Chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee. Mr. Xu was appointed as an independent non-executive director of the Company on 1 November 2013. Mr. Xu has extensive experience and knowledge in environmental protection and management. From November 2011 to June 2013, Mr. Xu has served as the chief engineer in nuclear safety and the chief secretary of the Department of International Co-operation (核安全總工程師兼國際合作司司長) of the Ministry of Environmental Protection of the PRC (中國環境保護部) (the "Ministry"). He has served as a committee member of the science and technology committee (科學技術委員會委員) of the Ministry since July 2012. Mr. Xu has also served as a member of the 10th executive council of the Chinese People's Association for Friendship with Foreign Countries (中國人民對外友好協會第十屆全國理事會理事) since May 2012. He had also previously served as a member of the 2nd executive council of the Association for Relations Across the Taiwan Straits (海峽兩岸關係協會第二屆理事會理事), a member of the 5th executive council of the China Association for International Science and Technology Cooperation (中國國際科學技術合作協會第五屆理事會理事), the chief secretary of the Department of International Co-operation (國際合作司司長) of the State Environmental Protection Administration of the PRC (中國國家環境保護總局), the secretary general of China Environmental Protection Foundation (中華環保基金會秘書長), the director of standards department of the Department of Science, Technology and Standards (科技標準司標準處處長) of the Environmental Protection Bureau of the PRC (中國國家環境保護局) (the "Bureau"). He had also previously served as the deputy representative of the PRC standing representative office in United Nations Environmental Programme (中國常駐聯合國環境規劃署代表處副代表) and a member of the 3rd executive council of U.N. Association of China (中國聯合國協會第三屆理事會理事). Mr. Xu was approved as a senior engineer in environmental engineering in January 1998 by the Bureau. He obtained a bachelor of science degree in environment studies and a master of science degree in environment studies from the Beijing Polytechnical University (北京工業大學) in the PRC in July 1982 and December 1984 respectively. In December 1988, Mr. Xu completed a training program in applied remote sensing at the Asian Institute of Technology in Thailand. In December 1992, he participated as a representative of the PRC in the environmental management seminars organised by the United Nations Environment Programme. In June 2006, he completed a leaders development programme organised by John F. Kennedy School of Government of Harvard University.

Directors and Senior Management Profile

SENIOR MANAGEMENT

Mr. CHAN Kwok Yuen Elvis (陳國源), aged 42, is the chief financial officer, company secretary and an authorized representative of the Company. Mr. Chan is responsible for the implementation and supervision of financial, secretarial and investor relation affairs of the Group. Mr. Chan has over 18 years of experience in the field of accounting and finance. Prior to joining the Group, Mr. Chan served as the chief financial officer and company secretary of Kiu Hung Energy Holdings Limited (now named as Kiu Hung International Holdings Limited), a company listed on the Stock Exchange (stock code: 381), for over 9 years. Mr. Chan is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, an associate of the Institute of Chartered Accountants in England and Wales, a Chartered Financial Analyst of the CFA Institute and a member of the Hong Kong Society of Financial Analysts. Mr. Chan obtained a bachelor's degree in commerce from Queen's University (皇后大學) in Canada in 1995 and a master of science degree in corporate governance and directorship from the Hong Kong Baptist University (香港浸會大學) in 2013. Mr. Chan is an executive director of The Hong Kong Fujian Charitable Education Fund (香港福建希望工程基金會) since 2010.

Mr. JI Liquan (紀理荃), aged 53, is the chief operating officer of the Group. Mr. Ji is responsible for supervising the daily operation and operation strategy of the Group. Mr. Ji graduated from Xiamen Institute of Finance (廈門財經學院) in 1985, and graduated from the School of Economics Peking University (北京大學經濟學院) in 1990 with a major in economics management. Mr. Ji has over 24 years of experience in enterprise management.

Ms. WU Xiaoqing (吳曉青), aged 51, is the chief technical officer of the Group and responsible for the provision of technical support for the Group as well as the supervision and implementation of technological innovation, technology promotion and product testing management. Ms. Wu was appointed as an independent non-executive director of the Company from 30 March 2013 to 31 October 2013. Ms. Wu is a professor, a Ph.D. tutor and the deputy head of the composite materials research center of Tianjin Polytechnic University (天津工業大學) and the deputy head of the advanced weaving composite materials research and development center. Ms. Wu obtained a bachelor degree specializing in composite materials from Wuhan University of Technology (武漢理工大學) in PRC in July 1985 and a doctoral degree in textile engineering from Tianjin Polytechnic University in October 2006. Ms. Wu served as the head of the technical department of Tianjin Jinmei FRP Company Limited (天津津美玻璃鋼有限公司) from 1985 to 1994. She was the assistant professor of the composite materials research center of Tianjin Polytechnic University from 1994 to 1999. Ms. Wu was a visiting research fellow of University of Southampton in the United Kingdom from 2003 to 2004.

Mr. WANG Honghai (王洪海), aged 46, is a deputy chief executive officer and the supply chain system director of the Group. Mr. Wang is responsible for developing the sales strategy of the Group, as well as the implementation and supervision of the operation and management work for each sales department of supply chain management center. Mr. Wang completed a postgraduate study in Excellent CEO Leadership in 2011 at Yangtze Delta Region Institute of Tsinghua University (清華大學長三角研究院) and is currently studying an EMBA course at MBA Institute (MBA學院) of Dongbei University of Finance & Economics (東北財經大學) with a major in enterprise management and advanced marketing. Mr. Wong has over 19 years of marketing management experience.

Mr. CHEN Min Tsung (陳敏聰), aged 56, is a deputy chief executive officer and the administrative system director of the Group. Mr. Chen is responsible for the implementation and supervision of the Group's administrative affairs and human resources management team building, to ensure promoting the implementation of different company systems, policies and regulations of the Group. Mr. Chen graduated from Lingdong School of Commerce (嶺東商業專科學校) in Taiwan.

SENIOR MANAGEMENT (CONTINUED)

Mr. CHEN Hui (陳暉), aged 46, is a deputy chief executive officer and financial controller of Fujian district of the Group. Mr. Chen is responsible for the implementation and supervision of the finance affairs for various subsidiaries in Fujian region of the Group. Mr. Chen graduated from Fujian Economic Management Cadre Institute (福建經濟管理幹部學院) with a major in Accounting in 1991. Mr. Chen has over 20 years of experience in accounting and finance industry.

Ms. ZHAI Hongbing (翟紅兵), aged 48, is the Party branch secretary, the president of the labour union of Xinhua Co., a subsidiary of the Group and the assistant to chief operating officer. Ms. Zhai is responsible for assisting various business departments of the supply chain centers of the Group to motivate the improvement in supply chain management, supervising various business procedures and making market analysis, as well as assisting chief operating officer to handle the daily management affairs. Ms. Zhai graduated from the Great Wall University, Beijing (北京長城研修學院) with a bachelor degree majoring in business administration in 2001. Ms. Zhai also completed the internal auditor training in environmental management system (ISO14001:2004) in 2007, and completed the training for internal auditor regarding ISO9001:2008 quality management system in 2009. She received the certificate from American Certification Institute in 2011, and obtained the qualification of Certified Quality Engineer ("CQE"). During the same year, she passed the review by the National Assessment Committee of Senior Operating Manager conducted against the appraisal standards as published by the Ministry of Commerce and Ministry of Labour of the PRC, and was qualified as a senior operating manager certified by the Ministry of Human Resources and Social Security.

Mr. CHEN Jinlong (陳金龍), aged 60, is the comprehensive service platform officer and the legal risk control officer of the Group. Mr. Chen is responsible for the implementation and supervision of the daily management work of the comprehensive service platform and the daily legal matters of the Group. Mr. Chen was professionally experienced in the legal sector as he worked in the subordinate units of People Daily (人民日報) and set up a law firm and worked as a lawyer in Xiamen, the PRC.

Mr. WONG Kai Lam (黃啟霖), aged 35, is the assistant to chief operating officer and the internal control officer of the Group. Mr. Wong is responsible for monitoring and risk management matters of the Group's internal system and the policy guidelines. Mr. Wong has over 12 years of experience in the field of accounting and finance. Mr. Wong obtained a bachelor degree in accountancy from The Hong Kong Polytechnic University (香港理工大學). Mr. Wong also completed the training for internal auditor regarding ISO9001:2008 quality management system in 2013. Mr. Wong is currently pursuing an executive master of business administration degree at the University of Birmingham in the United Kingdom. Mr. Wong is currently a member of the Hong Kong Institute of Certified Public Accountants.

Mr. YOU Xiuyi (尤修意), aged 29, is the administrative officer of the Group and the assistant to the chief executive officer of the Group. Mr. You is responsible for external communication on governmental affairs of the Group as well as the brand management and marketing, information feedback and campaigns of the Group. Mr. You obtained a bachelor of engineering degree in computing and information technology from the Fujian University of Technology (福建工程學院) in 2007. Mr. You obtained many years of experience in brand management.

Directors and Senior Management Profile

SENIOR MANAGEMENT (CONTINUED)

Mr. WU Rui (吳銳), aged 49, is the general coordinator of the technical solutions office of the Group. Mr. Wu is responsible for the implementation and supervision of the Group's research and development of new products and market services and technology diagnostic work. Mr. Wu has over 30 years of experience in woven materials industry, and was awarded the champion in the competition of "Five inventions for the Country" (《國家五小發明一等獎》) in 1990. Mr. Wu was the production manager of a non-woven materials factory, and he was well-experienced in production technology, product innovation and management expertise. Mr. Wu has unique insights in product sales and marketing as he also engaged in the sales of non-woven materials for many years. With accumulating rich working experience for many years he gained a deep understanding of non-woven production processes and marketing. Mr. Wu is an economist as his studied economics as his profession. Mr. Wu is a comprehensive talent with high quality and all-round development, as he develops unique theories on the one-stop operation of production, sales and management systems and has abundant practical experience in this regard.

Mr. CHIM Ping Yu (粘平如), aged 33, is the assistant to the deputy chief executive officer of the Group, and the general manager of the sales and production departments for chemical fibres and chemicals department of the supply chain system of the Group. Mr. Chim is also the chairman of the Group's subsidiary, 海東青非織工業(福建)有限公司 (Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd.#). He is responsible for the implementation and supervision of daily management of the sales department of chemical fibres and chemicals and business department for chemical fibres production of supply chain system of the Group and assisting deputy chief executive officer to handle the daily management affairs of the supply chain system. Mr. Chim graduated from Xiamen University (廈門大學) with a major in Finance in 2008. Mr. Chim was well-experienced in sales and marketing of non-woven materials industry. Mr. Chim is the nephew of Mr. Chim Wai Kong and Mr. Chim Wai Shing Jackson.

Ms. WANG Yanyan (王研研), aged 36, is the general manager of the Group's subsidiary, COSTIN (Beijing) Technology Consulting Co., Ltd. Miss Wang is responsible for the Group's industry chain consulting business, the development of the Textiles Utilization Complex Pavilion (紡織品綜合利用體驗館), the establishment and operation of Industry Think Tank and the daily management and operation of the COSTIN (Beijing) Technology Consulting Co., Ltd. Miss Wang has over 12 years of experience in information technology sector and was served in the Strategic Investment Department of Beijing Automotive Group. Miss Wang obtained a master's degree of science from Robert Gordon University in the United Kingdom in 2005, with a major of Quality Management and obtained an executive master of business administration degree from the MBA Institute of Tianjin University of Finance & Economics (天津財經大學) in June 2014.

Mr. CHEN Chao (陳超), aged 35, is the general manager of the sales departments of decoration materials, shoe materials and household materials of the supply chain system and the department of international business expansion of the Group. Mr. Chen is also the chairman of 晉江海東青貿易有限公司 (Gerfalcon Trade Co., Ltd. Jinjiang#). He is responsible for the implementation and supervision of the daily management of the sales departments of decoration materials, shoe materials and household materials of the supply chain system and the department of international business expansion. Mr. Chen graduated from Ningyuan Jiuyi Mountain Professional Studies College of Arts and Sciences (寧遠九嶷山文理進修學院) with a major in English in 1999 and is currently pursuing a post-graduate degree in public relations management at the Central China Normal University (華中師範大學). Mr. Chen is well-experienced in sales and marketing management of international trading, e-commerce and other sectors.

The English name is translated for reference only.

Report of the Directors

The Directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's operations are substantially conducted in the PRC through its direct or indirect subsidiaries. Details of the principal activities of the principal subsidiaries are set out in note 17 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2014 is set out in note 6 to the consolidated financial statements.

RESULTS, FINAL DIVIDEND, ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Group's result for the year ended 31 December 2014 and the state of affairs of the Company and of the Group at that date are set out in the consolidated financial statements on pages 52 to 55.

On 20 March 2015, the Directors have resolved to recommend the payment of a final dividend of HK6.5 cents per ordinary share to the Shareholders as recorded on the register of members of the Company on Monday, 22 June 2015. The final dividend will be paid to the Shareholders on or about Tuesday, 30 June 2015. Coupled with the interim dividend of HK3.5 cents per ordinary share that was already paid to the Shareholders during the year, the total amount of dividends declared to the Shareholders for the year ended 31 December 2014 will be amounted to HK10 cents per ordinary share.

The annual general meeting (the "AGM") of the Company will be held on Wednesday, 20 May 2015. The register of members of the Company will be closed from Monday, 18 May 2015 to Wednesday, 20 May 2015, both days inclusive, during which period no transfer of shares shall be effected. To qualify for the attendance and voting at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited (the "Hong Kong Share Registrar") at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 15 May 2015.

The register of members of the Company will be closed from Monday, 15 June 2015 to Monday, 22 June 2015, both days inclusive, during which period no transfer of shares shall be effected. To qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Hong Kong Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 12 June 2015.

SUMMARY FINANCIAL INFORMATION

Results

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,322,598**	1,494,105	1,559,223	1,373,606	983,738
Profit before tax	**332,706**	352,736	356,474	313,820	274,306
Income tax expense	**(66,300)**	(110,166)	(110,853)	(63,050)	(52,480)
Profit for the year attributable to owners of the Company	**266,406**	242,570	245,621	250,770	221,826

Assets and liabilities

	At 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**2,248,525**	2,081,011	2,104,503	1,743,405	1,245,727
Total liabilities	**(644,367)**	(681,417)	(891,935)	(722,570)	(341,499)
Net assets	**1,604,158**	1,399,594	1,212,568	1,020,835	904,228

Notes:

1. *The consolidated results of the Group for the years ended 31 December 2013 and 2014 are set out on page 52 of this annual report.*

2. *The consolidated financial position of the Group as at 31 December 2013 and 2014 are as set out on pages 53 to 54 of this annual report.*

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 16 to the consolidated financial statements.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2014 are set out in note 22 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company had distributable reserves of approximately RMB269,938,000. Under the Company's second amended and restated memorandum and articles of association and the Companies Law (Revised) of the Cayman Islands, the share premium of the Company of approximately RMB240,477,000 at 31 December 2014 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's second amended and restated articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling approximately RMB420,000 (2013: Nil).

RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees. The employees of the subsidiaries in the PRC participate in the state–managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contributions to the schemes at a certain percentage of the basic salaries of their employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately RMB1,130,000 (2013: RMB1,105,000) represents retirement benefit schemes contributions paid/payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2013 and 2014, no contributions due in respect of the reporting years had not been paid over to the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2013: Nil) was available at 31 December 2014 to reduce the Group's future contributions.

The Group does not have any other pension scheme for its employees. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2014 in respect of the retirement of its employees.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 58% (2013: 50%) of the total sales for the year and sales to the largest customer included therein accounted for approximately 22% (2013: 14%). Purchases from the Group's five largest suppliers accounted for approximately 43% (2013: 34%) of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 16% (2013: 11%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

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

Executive Directors
Mr. Yu Heping *(Co-Chairman)*
Mr. Chim Wai Kong *(Co-Chairman)*
Mr. Chim Wai Shing Jackson *(Chief Executive Officer)*
Mr. Xue Mangmang

Non-Executive Directors
Mr. Yang Yihua
Mr. Pan Tingxuan

Independent Non-Executive Directors
Mr. Feng Xue Ben
Mr. Wong Siu Hong
Mr. Xu Qinghua

In accordance with article 107 of the Company's articles of association, Mr. Chim Wai Kong, Mr. Pan Tingxuan and Mr. Feng Xue Ben shall retire by rotation and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including non-executive directors and independent non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 28 to 34 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the transactions as disclosed in the section headed "Connected and Related Parties Transactions", no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

Shares/underlying shares in the Company

Name of Directors	Number of shares/underlying shares held	Approximate % of the relevant issued share capital	Nature of interests
Mr. Chim Wai Kong	194,840,000 (L)	25.09%	Settlor of trust *(Note 1)*
	59,321,585 (L)	7.64%	Beneficiary of trust *(Note 2)*
	2,270,000 (L)	0.29%	Interests of controlled corporation *(Note 3)*
	328,709,190 (L)	42.34%	Interest of other party to an agreement under section 317 of the SFO *(Notes 4 and 7)*
Mr. Chim Wai Shing Jackson	194,840,000 (L)	25.09%	Settlor of trust *(Note 1)*
	49,567,988 (L)	6.38%	Beneficiary of trust *(Note 5)*
	330,979,190 (L)	42.63%	Interest of other party to an agreement under section 317 of the SFO *(Notes 6 and 7)*

(L): Long Position

Notes:

1. *194,840,000 shares are held by Nian's Brother Holding Limited ("Nian's Brother Holding"). The entire interest of Nian's Brother Holding is wholly owned by Nian's Brother Investment Limited ("Nian's Investment") which in turn is held by Magnus Nominees Limited ("Magnus") as a nominee in favour of Coutts & Co Trustees (Jersey) Ltd. ("Coutts"). Nian's Investment is a company incorporated in the British Virgin Islands provided by Coutts for the purpose of establishing the Nian's Brother Trust. Coutts is the trustee of Nian's Brother Trust. Nian's Brother Trust is a discretionary trust set up by Mr. Chim Wai Kong and Mr. Chim Wai Shing Jackson, both being executive Directors, for the benefit of their family members. For the purpose of Part XV of the SFO, each of Mr. Chim Wai Kong and Mr. Chim Wai Shing Jackson is deemed to be interested in the shares held by Nian's Brother Holding as the settlors of Nian's Brother Trust.*

2. *Mr. Chim Wai Kong is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 59,321,585 shares directly held by Nian's Brother Holding.*

3. *2,270,000 shares are held by Better Prospect Limited ("Better Prospect") which is 100% owned by Mr. Chim Wai Kong. He is therefore deemed to be interested in the 2,270,000 shares held by Better Prospect. Mr. Chim Wai Kong is a director of Better Prospect.*

4. *These 328,709,190 shares are held by Hong Kong (Rong An) Investment Limited ("Hong Kong Rong An"). As a result of the shareholders deed entered into on 4 June 2013 among Hong Kong Rong An, Nian's Brother Holding, Mr. Chim Wai Kong and Mr. Chim Wai Shing Jackson (the "Shareholders Deed"), Mr. Chim Wai Kong is deemed (for the purpose of the duty of disclosure) to be interested in the above shares pursuant to Part XV of the SFO.*

5. *Mr. Chim Wai Shing Jackson is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 49,567,988 shares directly held by Nian's Brother Holding.*

6. *These 330,979,190 shares comprise 328,709,190 shares directly held by Hong Kong Rong An and 2,270,000 shares indirectly held by Mr. Chim Wai Kong. As a result of the entering into of the Shareholders Deed, Mr. Chim Wai Shing Jackson is deemed (for the purpose of the duty of disclosure) to be interested in the above shares pursuant to Part XV of the SFO.*

7. *Among these shares, 150,000,000 shares have been pledged by Hong Kong Rong An in favour of the Export-Import Bank of China as security for a loan facility provided by such bank to Hong Kong Rong An.*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

Shares/underlying shares in the Company (Continued)

Save as disclosed above, as at 31 December 2014, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Share Option Scheme adopted by the Company on 12 May 2010, at no time during the year ended 31 December 2014 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopted a Share Option Scheme which became effective on 12 May 2010. Pursuant to the Share Option Scheme, the Directors may, at their discretion, invite any eligible employees (including executive Directors), any non-executive Directors, Shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for the shares. The subscription price shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the shares on the date of the offer; (ii) the average closing price of the shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the total number of shares in issue as at the date of commencement of the listing of the shares on the Stock Exchange. The Company may seek approval of the Shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme under the limit as refreshed shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the Shareholders in general meeting with such participant and his associates abstaining from voting.

No share options have been granted by the Company pursuant to the Share Option Scheme during the year ended 31 December 2014. As at 31 December 2014, no share options remained outstanding.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

So far as is known to any Director or chief executive of the Company, as at 31 December 2014, the persons or companies (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholders	*Number of shares held*	*Approximate % of the relevant issued share capital*	*Nature of interests*
Hong Kong Rong An	328,709,190 (L) 197,110,000 (L)	42.34% 25.38%	Beneficial owner *(Note 1)* Interest of other party to an agreement under section 317 of the SFO *(Note 2)*
CECEP Chongqing	525,819,190 (L)	67.72%	Interest of controlled corporation *(Note 1)*
CECEP	525,819,190 (L)	67.72%	Interest of controlled corporation *(Note 1)*
Nian's Brother Holding	194,840,000 (L) 330,979,190 (L)	25.09% 42.63%	Beneficial owner *(Note 3)* Interest of other party to an agreement under section 317 of the SFO *(Note 4)*
Nian's Investment	525,819,190 (L)	67.72%	Interest of controlled corporation *(Note 3)*
Magnus	525,819,190 (L)	67.72%	Interest of controlled corporation *(Note 5)*
Coutts	525,819,190 (L)	67.72%	Trustee *(Note 5)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY (CONTINUED)

Name of Shareholders	*Number of shares held*	*Approximate % of the relevant issued share capital*	*Nature of interests*
Export – Import Bank of China	150,000,000 (L)	19.32%	Security interest in shares *(Note 6)*
Headwell	46,578,000 (L)	5.99%	Beneficial owner *(Note 7)*
Jin Shu Assets	46,578,000 (L)	5.99%	Interest of controlled corporation *(Note 7)*
Mr. Liu Shufa	46,578,000 (L)	5.99%	Interest of controlled corporation and family interest *(Note 7)*
Ms. Wang Juan	46,578,000 (L)	5.99%	Interest of controlled corporation and family interest *(Note 7)*
Gerfalcon Holding	40,000,000 (L)	5.15%	Beneficial owner *(Note 8)*
Mr. Hui Cheung Mau	40,000,000 (L)	5.15%	Interest of controlled corporation *(Note 8)*
	4,020,206 (L)	0.52%	Beneficiary of trust *(Note 9)*
Mr. Sze Fo Chau	40,000,000 (L)	5.15%	Interest of controlled corporation *(Note 8)*
	5,852,158 (L)	0.75%	Beneficiary of trust *(Note 10)*

(L): Long Position

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY (CONTINUED)

Notes:

1. *Hong Kong Rong An is a wholly-owned subsidiary of 重慶中節能實業有限責任公司 (CECEP Chongqing Industry Co., Ltd.#) ("CECEP Chongqing") which is owned as to approximately 87.12% by 中國節能環保集團公司 (China Energy Conservation and Environmental Protection Group#) ("CECEP"). For the purpose of Part XV of the SFO, CECEP Chongqing and CECEP are therefore deemed to be interested in the shares held by Hong Kong Rong An. Hong Kong Rong An has pledged 150,000,000 shares in favour of the Export-Import Bank of China as security for a loan facility provided by such bank to it.*

2. *These 197,110,000 shares comprise 194,840,000 shares directly held by Nian's Brother Holding and 2,270,000 shares indirectly held by Mr. Chim Wai Kong. As a result of the entering into of the Shareholders Deed, Hong Kong Rong An is deemed (for the purpose of the duty of disclosure) to be interested in the above shares pursuant to Part XV of the SFO.*

3. *Nian's Brother Holding is a wholly-owned subsidiary of Nian's Investment. For the purpose of Part XV of the SFO, Nian's Investment is therefore deemed to be interested in the shares held by Nian's Brother Holding.*

4. *These 330,979,190 shares comprise 328,709,190 shares directly held by Hong Kong Rong An and 2,270,000 shares indirectly held by Mr. Chim Wai Kong. As a result of the entering into of the Shareholders Deed, Nian's Brother Holding is deemed (for the purpose of the duty of disclosure) to be interested in the above shares pursuant to Part XV of the SFO.*

5. *The entire interest of Nian's Investment is held by Magnus as a nominee in favour of Coutts for the purpose of establishing the Nian's Brother Trust. Coutts is the trustee of Nian's Brother Trust. For the purpose of Part XV of the SFO, Magnus and Coutts are deemed to be interested in the shares indirectly held by Nian's Investment.*

6. *These 150,000,000 shares are pledged by Hong Kong Rong An in favour of the Export-Import Bank of China as security for a loan facility provided by the Export-Import Bank of China to Hong Kong Rong An.*

7. *Headwell Investments Limited ("Headwell") is a wholly-owned subsidiary of Jin Shu Assets Management Limited ("Jin Shu Assets"). For the purpose of Part XV of the SFO, Jin Shu Assets is therefore deemed to be interested in the shares held by Headwell. Jin Shu Assets is owned by Mr. Liu Shufa as to 50% and Ms. Wang Juan as to 50%. Mr. Liu Shufa is the spouse of Ms. Wang Juan. Mr. Liu Shufa and Ms. Wang Juan are deemed to be interested in the shares held by each other.*

8. *Gerfalcon Holding Limited ("Gerfalcon Holding") is owned by Mr. Hui Cheung Mau as to 50% and Mr. Sze Fo Chau as to 50%.*

9. *Mr. Hui Cheung Mau is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 4,020,206 shares directly held by Nian's Brother Holding.*

10. *Mr. Sze Fo Chau is also one of the beneficiaries of the Nian's Brother Trust and is deemed to be interested in 5,852,158 shares directly held by Nian's Brother Holding.*

Save as disclosed herein, the Directors are not aware of any person who was, as at 31 December 2014, directly or indirectly, interested or had short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

The English name is translated for reference only.

LOAN AGREEMENT

On 29 April 2013, the Company as borrower entered into a loan agreement (the "Loan Agreement") with a bank in respect of an unsecured term loan facility of up to HK$150 million (the "Facility"). The loan shall be repaid by five successive half-yearly instalments, with the first instalment to be paid on the date falling twelve months after the date of the Loan Agreement and the final maturity date of the loan shall be 36 months from the date of the Loan Agreement.

Pursuant to the Loan Agreement, the Company has undertaken to procure that (i) CECEP will at all times beneficially own, whether directly or indirectly, not less than 51% of the entire capital or ownership interest in CECEP Chongqing; (ii) CECEP Chongqing will at all times remain the single largest shareholder of the Company and in any event maintain its beneficial ownership, whether directly or indirectly, of approximately 29% of the entire issued share capital of the Company from time to time; and (iii) CECEP Chongqing will at all times maintain its control over the board of directors of the Company. Such undertaking shall remain in force throughout the continuance of the Loan Agreement and for so long as any sum remains owing thereunder. A breach of the undertaking will constitute an event of default and the bank may declare all outstanding amounts together with accrued interest under the Loan Agreement to be immediately due and payable and/or declare the Facility terminated.

CONNECTED AND RELATED PARTIES TRANSACTIONS

Details of the related parties transactions of the Group during the year are set out in note 31 to the consolidated financial statements and such related parties transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. Save as disclosed therein, there were no other transactions which would need to be disclosed as connected transactions in compliance with the disclosure requirements in Chapter 14A of the Listing Rules.

The Group had the following continuing connected transactions with related parties during the year:

Rental Agreements between Xinhua Co. and Hua Xin Plastic

On 5 January 2009, Xinhua Co. as the tenant and 晉江華鑫塑料橡膠製品有限公司, (Jinjiang Hua Xin Plastic & Rubber Products Co., Ltd.#) ("Hua Xin Plastic") as the landlord entered into a rental agreement (the "2009 Rental Agreement (1)") whereby Xinhua Co. agreed to lease from Hua Xin Plastic two premises with total areas of 3,374.16 sq.m. for production and operation purposes. The 2009 Rental Agreement (1) was for a term of 36 months commencing in January 2009 and expiring in December 2011.

On 11 January 2012, the 2009 Rental Agreement (1) was renewed for a term of 36 months commencing from 1 January 2012 at a monthly rental of RMB46,103.50, exclusive of water and electricity charges. For the year ended 31 December 2014, Xinhua Co. paid total rentals of RMB553,242 to Hua Xin Plastic.

On 11 January 2012, Xiuhua Co. as the tenant and Hua Xin Plastic as the landlord entered into a rental agreement (the "2012 Rental Agreement") whereby Xinhua Co. agreed to lease from Hua Xin Plastic one premise with total area of 7,700.58 sq.m. for staff quarter. The 2012 Rental Agreement is for a term of 36 months commencing in January 2012 and expiring in December 2014. The monthly rental is RMB70,000 and is fixed throughout the term of the rental agreement. For the year ended 31 December 2014, Xinhua Co. paid total rentals of RMB840,000 to Hua Xin Plastic.

CONNECTED AND RELATED PARTIES TRANSACTIONS (CONTINUED)

Rental Agreement between Xinhua Co. and Hua Xin Weaving

On 5 January 2009, Xinhua Co. as the tenant and 晉江市華鑫織造發展有限公司 (Huaxin Weaving Development Co., Ltd. Jinjiang#) ("Hua Xin Weaving") as the landlord entered into a rental agreement (the "2009 Rental Agreement (2)") whereby Xinhua Co. agreed to lease from Hua Xin Weaving three premises with total areas of 7,059.41 sq.m. for production and operation purposes. The 2009 Rental Agreement (2) was for a term of 36 months commencing in January 2009 and expiring in December 2011.

On 11 January 2012, the 2009 Rental Agreement (2) was renewed for a term of 36 months commencing from 1 January 2012 at a monthly rental of RMB70,594.10, exclusive of water and electricity charges. For the year ended 31 December 2014, Xinhua Co. paid total rentals of RMB847,129.20 to Hua Xin Weaving.

Maximum aggregate Annual values

Based on the rents payable per month as set out in the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and the 2012 Rental Agreement, the breakdown of the annual caps payable by Xinhua Co. thereunder are as follows:

	Year ended 31 December 2012 RMB	*Year ended 31 December 2013 RMB*	*Year ended 31 December 2014 RMB*
2009 Rental Agreement (1)	553,242.00	553,242.00	553,242.00
2009 Rental Agreement (2)	847,129.20	847,129.20	847,129.20
2012 Rental Agreement	840,000.00	840,000.00	840,000.00
Total	2,240,371.20	2,240,371.20	2,240,371.20

Xinhua Co. is a wholly-owned subsidiary of the Company. Hua Xin Plastic is wholly-owned by Mr. Chim Wai Kong, an executive Director and a substantial shareholder of the Company while Hua Xin Weaving is ultimately owned by Ms. Sze Kam Kam as to 50% and Ms. Chim Ching Ching as to 50%. Ms. Sze Kam Kam is the spouse of Mr. Chim Wai Kong and Ms. Chim Ching Ching is the daughter of Mr. Chim Wai Kong. Therefore, Hua Xin Plastic and Hua Xin Weaving are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering of the abovementioned rental agreements constituted continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules. Further details of these rental agreements were disclosed in the Company's Prospectus dated 8 June 2010 and the announcements of the Company dated 16 March 2011 and 11 January 2012.

On 22 December 2014, the relevant parties entered into rental agreements to renew the term of tenancy of the premises (or part of the premises) currently leased by Xinhua Co. under the 2009 Rental Agreement (1), the 2009 Rental Agreement (2) and the 2012 Rental Agreement, details of which were disclosed in the announcement of the Company dated 22 December 2014.

CONNECTED AND RELATED PARTIES TRANSACTIONS (CONTINUED)

The Sale and Purchase Framework Agreement between the Group and CECEP

On 6 March 2013, Xinhua Co., 晉江海東青貿易有限公司 (Gerfalcon Trade Co., Ltd. Jinjiang#) and 海東青非織工業(福建)有限公司 (Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd.#) (collectively referred to as the "PRC Subsidiaries") entered into the sale and purchase framework agreement (the "First Framework Sale and Purchase Agreement") with CECEP whereby the PRC Subsidiaries agreed to sell and CECEP or its subsidiaries agreed to purchase non-woven materials, filtration materials, and recycled chemical fibres. The First Framework Sale and Purchase Agreement was for a term commencing from 1 January 2013 to 31 December 2015, and the annual cap for the transactions contemplated thereunder shall not be more than RMB150,000,000 (equivalent to approximately HK$185,250,000), RMB220,000,000 (equivalent to approximately HKD271,700,000) and RMB260,000,000 (equivalent to approximately HK$321,100,000) for the financial years ending 31 December 2013, 2014 and 2015, respectively.

CECEP Chongqing is a controlling Shareholder which is indirectly interested in approximately 42.34% of the issued share capital of the Company and is entitled to control the voting rights associated with approximately 25.09% of the issued share capital of the Company held by Nian's Brother Holding at general meetings of the Company pursuant to the Shareholders Deed. Accordingly, CECEP Chongqing is a connected person of the Company pursuant to the Listing Rules. CECEP is the controlling shareholder of CECEP Chongqing, as such, CECEP is an associate of CECEP Chongqing and therefore a connected person of the Company pursuant to the Listing Rules.

For the year ended 31 December 2014, aggregate sales to CECEP or its subsidiaries pursuant to the First Framework Sale and Purchase Agreement amounted to approximately RMB349,000, which was within the annual cap of RMB220,000,000 as disclosed in the Company's announcement dated 6 March 2013.

Sale and Purchase Framework Agreement between the Group and Billion Fujian

On 5 July 2013, the PRC Subsidiaries entered into the sale and purchase framework agreement (the "Second Framework Sale and Purchase Agreement") with 福建百宏聚纖科技實業有限公司 (Fujian Billion Polymerisation Fiber Technology Co., Ltd.#) ("Billion Fujian") whereby the PRC Subsidiaries agreed to purchase and Billion Fujian agreed to sell polyester filament yarns and waste polyester filament yarns (the "COSTIN Purchases"); and Billion Fujian agreed to purchase and the PRC Subsidiaries agreed to sell non-woven materials (the "COSTIN Sales"). The Second Framework Sale and Purchase Agreement was with effect from 1 January 2013 to 31 December 2015 (both days inclusive), and the annual caps for the COSTIN Purchases contemplated thereunder should not be more than RMB69,500,000 (equivalent to approximately HK$87,200,000), RMB73,000,000 (equivalent to approximately HK$91,600,000) and RMB76,500,000 (equivalent to approximately HK$96,000,000) for each of the three financial years ending 31 December 2013, 2014 and 2015 respectively; and the annual caps for the COSTIN Sales contemplated thereunder shall not be more than RMB500,000 (equivalent to approximately HK$628,000) for each of the three financial years ending 31 December 2013, 2014 and 2015.

CECEP Chongqing is a controlling Shareholder which is indirectly interested in approximately 42.34% of the issued share capital of the Company and is entitled to control the voting rights associated with approximately 25.09% of the issued share capital of the Company held by Nian's Brother Holding at general meetings of the Company pursuant to the Shareholders Deed. Accordingly, CECEP Chongqing is a connected person of the Company pursuant to the Listing Rules. CECEP Chongqing is also a controlling shareholder of Billion Industrial Holdings Limited ("Billion Industrial") and controls the composition of a majority of the board of directors of Billion Industrial, which is the holding company of Billion Fujian. As such, Billion Fujian is an associate of CECEP Chongqing and therefore a connected person of the Company pursuant to the Listing Rules.

\# *The English name is translated for reference only.*

CONNECTED AND RELATED PARTIES TRANSACTIONS (CONTINUED)

Sale and Purchase Framework Agreement between the Group and Billion Fujian (Continued)

For the year ended 31 December 2014, the PRC Subsidiaries have purchased products from Billion Fujian amounted to approximately RMB38,523,000 and Billion Fujian has purchased products from the PRC Subsidiaries amounted to approximately RMB53,000, each of which was within the annual cap of RMB73,000,000 and RMB500,000, respectively, as disclosed in the Company's announcement dated 5 July 2013.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions of the Group during the year and confirmed that these transactions have been entered into (a) in the ordinary and usual course of the Group's business; (b) on normal commercial terms; and (c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

RSM Nelson Wheeler was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the aforesaid continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Based on the information and documents made available to them, RSM Nelson Wheeler concluded that:

- the above continuing connected transactions have been approved by the Board of the Company;
- for transactions involving the provision of goods or services by the Group, the transactions were, in all material respects, in accordance with the pricing policies of the Group;
- there are written agreements in place governing each of the continuing connected transactions and the transactions have been entered into in accordance with such agreements. No side agreement has been entered into in respect of the above continuing connected transactions; and
- the aggregate annual values of the above continuing connected transactions have not exceeded the maximum aggregate annual values as stated in the previous announcements of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

NON-COMPETITION UNDERTAKING

Each of Nian's Brother Holding, Nian's Investment, Mr. Chim Wai Kong and Mr. Chim Wai Shing Jackson (collectively, the "Covenantors") has given certain non-competition undertakings in favour of the Company pursuant to a deed of non-competition dated 1 June 2010, details of which were disclosed in the prospectus of the Company dated 8 June 2010.

NON-COMPETITION UNDERTAKING (CONTINUED)

The independent non-executive Directors have reviewed compliance with the non-competition undertaking by the Covenantors and confirm that based on confirmations and information provided by the Covenantors, they were in compliance with the deed of non-competition during the year ended 31 December 2014.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the directors, there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 17 to 22.

INDEPENDENT CONFIRMATION

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

AUDITOR

RSM Nelson Wheeler was appointed as auditor of the Company on 20 October 2009. There have been no other change of auditor in the last three years.

RSM Nelson Wheeler will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

AUDIT COMMITTEE

The annual results for the year have been reviewed by the Audit Committee of the Company. The Group's consolidated financial statements have been audited by the Company's auditor, RSM Nelson Wheeler.

ON BEHALF OF THE BOARD
CECEP COSTIN New Materials Group Limited

Yu Heping	**Chim Wai Kong**
Co-Chairman	*Co-Chairman*

Hong Kong, 20 March 2015

Independent Auditor's Report

RSM
Audit • Tax • Advisory

TO THE SHAREHOLDERS OF
CECEP COSTIN NEW MATERIALS GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of CECEP COSTIN New Materials Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 104, which comprise the consolidated and Company statements 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 statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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 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, 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 judgement, 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 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 Company and of the Group as at 31 December 2014, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

20 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Turnover	6	**1,322,598**	1,494,105
Cost of goods sold		**(893,151)**	(1,007,934)
Gross profit		**429,447**	486,171
Other income	7	**28,821**	22,891
Distribution expenses		**(16,754)**	(14,804)
Administrative expenses		**(87,704)**	(103,803)
Profit from operations		**353,810**	390,455
Finance costs	8	**(21,104)**	(37,719)
Profit before tax		**332,706**	352,736
Income tax expense	9	**(66,300)**	(110,166)
Profit for the year attributable to owners of the Company	10	**266,406**	242,570
Other comprehensive income after tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(356)**	3,586
Other comprehensive income for the year, net of tax		**(356)**	3,586
Total comprehensive income for the year attributable to owners of the Company		**266,050**	246,156
Earnings per share	13		
Basic		**RMB34.31 cents**	RMB31.24 cents

Consolidated Statement of Financial Position

At 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	14	391,312	411,247
Construction in progress	15	68	8,234
Investment properties	16	9,821	6,463
Prepayments for acquisition of property, plant and equipment		9,463	24,523
		410,664	450,467
Current assets			
Inventories	18	99,165	141,648
Trade and bills receivables	19	349,120	363,839
Prepayments, deposits and other receivables		8,701	12,704
Pledged bank deposits	20	42,100	7,149
Bank and cash balances	20	1,338,775	1,105,204
		1,837,861	1,630,544
Current liabilities			
Trade and bills payables	21	119,852	147,877
Accruals and other payables		70,711	55,101
Bank borrowings	22	286,769	270,798
Finance lease payables	23	–	182
Current tax liabilities		15,999	26,540
		493,331	500,498
Net current assets		1,344,530	1,130,046
Total assets less current liabilities		1,755,194	1,580,513
Non-current liabilities			
Bank borrowings	22	79,147	124,068
Deferred tax liabilities	25	71,889	56,851
		151,036	180,919
NET ASSETS		1,604,158	1,399,594

Consolidated Statement of Financial Position

At 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Capital and reserves			
Share capital	26	**68,475**	68,475
Reserves	27(a)	**1,535,683**	1,331,119
TOTAL EQUITY		**1,604,158**	1,399,594

Approved by the Board of Directors on 20 March 2015

Yu Heping
Director

Chim Wai Kong
Director

Statement of Financial Position of the Company

At 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Investment in subsidiaries	17	18,767	18,704
Current assets			
Prepayments		192	192
Dividend receivables		306,003	302,620
Due from subsidiaries	17	131,152	106,027
Bank and cash balances	20	1,607	2,084
		438,954	410,923
Current liabilities			
Accruals and other payables		1,793	2,358
Bank borrowings	22	44,833	23,114
Due to a subsidiary	17	1,450	1,450
		48,076	26,922
Net current assets		390,878	384,001
Total assets less current liabilities		409,645	402,705
Non-current liabilities			
Bank borrowings	22	71,232	93,874
NET ASSETS		338,413	308,831
Capital and reserves			
Share capital	26	68,475	68,475
Reserves	27(b)	269,938	240,356
TOTAL EQUITY		338,413	308,831

Approved by the Board of Directors on 20 March 2015

Yu Heping
Director

Chim Wai Kong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital RMB'000	Share premium account RMB'000 (note 27(c)(i))	Share-based payments reserve RMB'000 (note 27(c)(ii))	Convertible bonds reserve RMB'000	Foreign currency translation reserve RMB'000 (note 27(c)(iii))	Statutory reserve RMB'000 (note 27(c)(iv))	Capital reserve RMB'000 (note 27(c)(v))	Merger reserve RMB'000 (note 27(c)(vi))	Retained profits RMB'000	Total RMB'000
At 1 January 2013	68,475	240,477	21,131	3,068	(13,804)	168,350	20,934	79,974	623,963	1,212,568
Total comprehensive income for the year	–	–	–	–	3,586	–	–	–	242,570	246,156
Transfer to statutory reserve	–	–	–	–	–	10,303	–	–	(10,303)	–
Redemption of the convertible bond	–	–	–	(3,068)	–	–	–	–	3,068	–
Share-based payments	–	–	3,305	–	–	–	–	–	–	3,305
Lapse of share options granted in prior years	–	–	(24,436)	–	–	–	–	–	24,436	–
Dividends paid (note 12)	–	–	–	–	–	–	–	–	(62,435)	(62,435)
Changes in equity for the year	–	–	(21,131)	(3,068)	3,586	10,303	–	–	197,336	187,026
At 31 December 2013 and 1 January 2014	**68,475**	**240,477**	**–**	**–**	**(10,218)**	**178,653**	**20,934**	**79,974**	**821,299**	**1,399,594**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(356)**	**–**	**–**	**–**	**266,406**	**266,050**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**7,188**	**–**	**–**	**(7,188)**	**–**
Dividends paid (note 12)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(61,486)**	**(61,486)**
Changes in equity for the year	**–**	**–**	**–**	**–**	**(356)**	**7,188**	**–**	**–**	**197,732**	**204,564**
At 31 December 2014	**68,475**	**240,477**	**–**	**–**	**(10,574)**	**185,841**	**20,934**	**79,974**	**1,019,031**	**1,604,158**

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**332,706**	352,736
Adjustments for:			
Allowance for trade receivables	19	**7,640**	14,144
Depreciation	14 & 16	**51,494**	47,393
Equity-settled share-based payments		**–**	3,305
Finance costs	8	**21,104**	37,719
(Gain)/loss on disposals of property, plant and equipment	7 & 10	**(44)**	14
Interest income	7	**(4,812)**	(6,144)
Operating profit before working capital changes		**408,088**	449,167
Decrease/(increase) in inventories		**42,483**	(18,654)
Decrease in trade and bills receivables		**7,079**	111,765
Decrease/(increase) in prepayments, deposits and other receivables		**4,003**	(2,644)
(Decrease)/increase in trade and bills payables		**(28,025)**	9,482
Increase/(decrease) in accruals and other payables	28(i)	**16,840**	(1,529)
Cash generated from operations		**450,468**	547,587
Finance lease charges paid		**(6)**	(17)
Interest paid		**(20,181)**	(31,737)
Income taxes paid		**(61,803)**	(134,374)
Net cash generated from operating activities		**368,478**	381,459
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	28(i)(ii)	**(1,916)**	(25,786)
Proceeds from disposals of property, plant and equipment		**130**	7
Payment for construction in progress	28(i)(ii)	**(6,959)**	(6,553)
Increase in prepayments for acquisition of property, plant and equipment	28(ii)	**(4,130)**	(1,069)
Interest received		**4,812**	6,144
(Increase)/decrease in pledged bank deposits		**(34,951)**	25,942
Decrease in non-pledged bank deposits with more than three months to maturity		**–**	14,655
Net cash (used in)/generated from investing activities		**(43,014)**	13,340

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of convertible bond		–	(216,222)
Bank borrowings raised		324,992	478,523
Repayment of bank borrowings		(355,516)	(447,604)
Repayment of capital element of finance lease payables		(182)	(182)
Dividends paid to owners of the Company	12	(61,486)	(62,435)
Net cash used in financing activities		(92,192)	(247,920)
NET INCREASE IN CASH AND CASH EQUIVALENTS		233,272	146,879
Effect of foreign exchange rate changes		299	(5,066)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,105,204	963,391
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,338,775	1,105,204
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	20	1,338,775	1,105,204

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1. GENERAL INFORMATION

CECEP COSTIN New Materials Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Scotia Centre, 4th Floor, PO Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands. The address of its principal place of business is Xinhua Industrial Garden Niancuopu Longhu JinJiang Fujian, the People's Republic of China (the "PRC"). The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the consolidated financial statements.

In the opinion of the directors of the Company, Hong Kong (Rong An) Investment Limited, a company incorporated in Hong Kong, is the immediate parent, 重慶中節能實業有限責任公司 (CECEP Chongqing Industry Co., Limited), a company incorporated in the PRC, is the intermediate parent and 中國節能環保集團公司 (China Energy Conservation and Environmental Protection Group) ("CECEP Group"), a company incorporated in the PRC, is the ultimate parent.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND REQUIREMENTS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations.

(a) Application of new and revised IFRSs

The following standard has been adopted by the Group for the first time for the financial year beginning on 1 January 2014:

Amendment to IAS 32, Offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

(b) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2014. The directors anticipate that the new and revised IFRSs will be adopted in the Group's consolidated financial statements when they become effective. The Group has assessed, where applicable, the potential effect of all new and revised IFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND REQUIREMENTS (CONTINUED)

(b) New and revised IFRSs in issue but not yet effective (Continued)

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[5]

1 *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*
2 *Effective for first annual IFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.*
3 *Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.*
4 *Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.*
5 *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*
6 *Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.*

(c) New Hong Kong Companies Ordinance

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with all applicable IFRSs issued by the IASB and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These consolidated financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB") which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities and of borrowings are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment

Property, plant and equipment including buildings and leasehold land held for use in the production or supply of goods, or for administrative purpose (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	5%
Prepaid land lease payments	5%
Machinery and equipment	10% – 20%
Office equipment and fixtures	20% – 33.33%
Motor vehicles	20% – 25%
Leasehold improvements	Over lease term

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(d) Investment properties

Investment properties are buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of 20 years.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the consolidated statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

The Group as lessor

Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(f) Research and development expenditure

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

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(i) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the bonds into equity of the Group, is included in equity as convertible bonds reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

(iii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iv) Equity instruments

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

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Sales of goods

Revenue from the sales of manufactured goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Revenue recognition (Continued)

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iii) Rental income

Rental income is recognised on a straight-line basis over the lease term.

(iv) Subcontracting fee income

Subcontracting fee income is recognised when the subcontracting services are rendered.

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

Obligation for contributions to the PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(n) Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

(o) 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 capitalised as part of 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Borrowing costs (Continued)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(p) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become 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.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

(q) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and 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 differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other 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 arising on 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(r) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Related parties (Continued)

(B) An entity is related to the Group if any of the following conditions applies: (Continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(s) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets except inventories and receivables, of which the impairment policies are set out in note 3(g) and 3(i) respectively, 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 any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Provisions and contingent liabilities (Continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(u) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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, are discussed below.

(a) Property, plant and equipment, investment properties and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment and investment properties. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment and investment properties of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned. The carrying amount of property, plant and equipment and investment properties as at 31 December 2014 were RMB391,312,000 and RMB9,821,000 (2013: RMB411,247,000 and RMB6,463,000) respectively.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations 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 recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, RMB66,300,000 (2013: RMB110,166,000) of income tax was charged to profit or loss based on the estimated profit.

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. As at 31 December 2014, impairment loss for bad and doubtful debts amounted to RMB21,784,000 (2013: RMB14,144,000).

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For the year ended 31 December 2014

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(d) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. No allowance for slow-moving inventories was made for the year ended 31 December 2014 (2013: Nil).

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB, Hong Kong dollars ("HK$") and United States dollars ("US$"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

	2014 **RMB'000**	*2013* *RMB'000*
Denominated in HK$ held by PRC subsidiaries		
Bank and cash balances	**222**	217
Denominated in RMB held by HK subsidiaries		
Deposits and other receivables	**52**	51
Bank and cash balances	**4,540**	4,504
Total	**4,592**	4,555
Denominated in US$ held by PRC subsidiaries		
Trade and bills receivables	**24,219**	41,333
Pledged bank deposits, bank and cash balances	**20,139**	1,492
Trade and bills payables	**(13,297)**	(24,792)
Accruals and other payables	**(294)**	(294)
Bank borrowings	**(93,622)**	(99,878)
Total	**(62,855)**	(82,139)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Foreign currency risk (Continued)

The following table indicates the instantaneous change in the Group's profit after tax for the year and equity that would have arisen if foreign exchange rates to which the Group has significant exposure at the end of reporting period had changed at those dates, assuming all other risk variables remained constant.

	2014		2013	
Foreign currency/ functional currency	Increase/ (decrease) in foreign exchange rates	RMB'000	Increase/ (decrease) in foreign exchange rates	RMB'000
US$/RMB	5%	(2,669)	5%	(3,080)
	(5)%	2,669	(5)%	3,080
HK$/RMB	5%	(183)	5%	(182)
	(5)%	183	(5)%	182

(b) Credit risk

The carrying amount of the trade and bills receivables, other receivables, pledged bank deposits and bank and cash balances included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on pledged bank deposits and bank and cash balances is limited because the counterparties are banks with high credit-ratings.

The Group has certain concentration of credit risk as 61% (2013: 58%) of the total trade receivables were due from the Group's five largest trade receivables as at 31 December 2014.

In order to minimise the credit risk, the directors have delegated a team to be responsible for the 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 directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The maturity analysis based on contractual undiscounted cash flows of the Group's financial liabilities is as follows:

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
At 31 December 2014			
Trade and bills payables	**119,852**	**–**	**–**
Accruals and other payables	**66,959**	**–**	**–**
Bank borrowings	**296,629**	**80,385**	**–**
At 31 December 2013			
Trade and bills payables	147,877	–	–
Accruals and other payables	40,423	–	–
Bank borrowings	293,060	56,814	98,886
Finance lease payables	188	–	–

Bank loan with a repayment on demand clause is included in the 'on demand or less than 1 year' time band in the above maturity analysis. As at 31 December 2014, the aggregate undiscounted principal amount of this bank loan amounted to RMB21,437,000 (2013: Nil). Taking into account the Group's financial position, the directors do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors believe that such bank loan will be repaid one year after the end of the reporting period in accordance with the scheduled repayment date set out in the loan agreement. At that time, the aggregate principal and interest cash outflows will amount to RMB21,871,000.

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and central bank base interest rate and arising from the Group's HK$ and RMB denominated borrowing.

At 31 December 2014, if interest rates at that date had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year and equity would have been approximately RMB8,100,000 (2013: RMB7,056,000) lower, arising mainly as a result of lower interest income on pledged bank deposits, bank and cash balances and lower interest expense on bank borrowings.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk (Continued)

At 31 December 2014, if interest rates at that date had been 100 basis points higher with all other variables held constant, consolidated profit after tax for the year and equity would have been approximately RMB8,100,000 (2013: RMB7,056,000) higher, arising mainly as a result of higher interest income on pledged bank deposits, bank and cash balances and higher interest expense on bank borrowings.

(e) Categories of financial instruments at 31 December 2014

	2014 RMB'000	*2013 RMB'000*
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**1,732,263**	1,478,011
Financial liabilities:		
Financial liabilities measured at amortised cost	**552,727**	583,348

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

The Group's turnover represents sales of goods to customers.

(b) Segment information

The Group has three major operating and reportable segments as follows:

(i)	Non-woven materials	–	manufacture and sale of non-woven fabrics and other types of non-woven materials
(ii)	Recycled chemical fibres	–	manufacture and sale of chemical fibres produced from recycled materials such as polyester chips
(iii)	Thermal resistant filtration materials	–	manufacture and sale of thermal resistant filtration materials

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The Group's other operating segment includes the chemical industry business, which involves the manufacture and sale of chemical products. This segment does not meet any of the quantitative thresholds for determining reportable segment. The information of this other operating segment is included in the 'other' column.

The accounting policies of the operating segments are the same as those described in note 3 to the consolidated financial statements. Segment profits or losses do not include unallocated administrative expenses, distribution expenses, other income, finance costs and income tax expenses. Segment assets do not include some property, plant and equipment, some construction in progress, investment properties, some prepayments for acquisition of property, plant and equipment, some inventories, trade and bills receivables, prepayments, deposits and other receivables, pledged bank deposits and bank and cash balances. Segment liabilities do not include trade and bills payables, accruals and other payables, bank borrowings, finance lease payables, current tax liabilities and deferred tax liabilities.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

(i) Information about reportable segment profit or loss and segment assets:

	Non-woven materials		*Recycled chemical fibres*		*Thermal resistant filtration materials*		*Other*		*Total*	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Year ended 31 December										
Revenue from external customers	**1,037,816**	1,226,949	**175,408**	188,960	**100,777**	72,002	**8,597**	6,194	**1,322,598**	1,494,105
Intersegment revenue	**1,675**	1,246	**10,648**	11,656	**-**	–	**-**	791	**12,323**	13,693
Segment profit/(loss)	**388,659**	453,706	**31,513**	31,320	**6,495**	(644)	**2,780**	1,789	**429,447**	486,171
Depreciation	**16,693**	14,147	**5,994**	5,714	**11,745**	12,486	**293**	295	**34,725**	32,642
Other material non-cash items:										
Allowance for trade receivables	**-**	–	**-**	–	**7,640**	14,144	**-**	–	**7,640**	14,144
Additions to segment non-current assets	**11,057**	5,618	**4,086**	547	**67**	6,843	**6**	–	**15,216**	13,008
At 31 December										
Segment assets	**153,972**	132,930	**50,868**	67,521	**138,508**	178,870	**4,532**	4,532	**347,880**	383,853

6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

(ii) Reconciliations of segment revenue, profit or loss and assets:

	2014 RMB'000	2013 RMB'000
Revenue		
Total revenue of reportable segments	**1,334,921**	1,507,798
Elimination of intersegment revenue	**(12,323)**	(13,693)
Consolidated revenue	**1,322,598**	1,494,105

	2014 RMB'000	2013 RMB'000
Profit or loss		
Total profit of reportable segments	**429,447**	486,171
Unallocated amounts:		
Other income	**28,821**	22,891
Distribution expenses	**(16,754)**	(14,804)
Administrative expenses	**(87,704)**	(103,803)
Finance costs	**(21,104)**	(37,719)
Consolidated profit before tax	**332,706**	352,736

	2014 RMB'000	2013 RMB'000
Assets		
Total assets of reportable segments	**347,880**	383,853
Unallocated amounts:		
Property, plant and equipment	**140,020**	170,099
Construction in progress	**–**	2,320
Investment properties	**9,821**	6,463
Prepayments for acquisition of property, plant and equipment	**4,283**	21,787
Inventories	**7,825**	7,593
Trade and bills receivables	**349,120**	363,839
Prepayments, deposits and other receivables	**8,701**	12,704
Pledged bank deposits	**42,100**	7,149
Bank and cash balances	**1,338,775**	1,105,204
Consolidated total assets	**2,248,525**	2,081,011

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

(iii) Geographical information:

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	2014 RMB'000	2013 RMB'000
Revenue		
PRC except Hong Kong	**1,090,343**	1,166,207
Hong Kong	**164,901**	286,233
Others	**67,354**	41,665
Consolidated total revenue	**1,322,598**	1,494,105

The Group's non-current assets are substantially located in the PRC.

(iv) Revenue from major customers:

	2014 RMB'000	2013 RMB'000
Non-woven materials segment		
Customer a	**287,452**	181,934
Customer b	**209,067**	209,248
Customer c	**163,947**	150,264

Each major customer represents a single external customer who accounts for 10% or more of the revenue of the Group.

7. OTHER INCOME

	2014 RMB'000	2013 RMB'000
Net exchange gain	**–**	546
Gain on disposals of property, plant and equipment	**44**	–
Government grants (note)	**20,363**	11,726
Income from trading of scrap materials	**1,064**	1,234
Interest income	**4,812**	6,144
Rental income (note 16)	**2,337**	2,966
Others	**201**	275
	28,821	22,891

Note: Government grants mainly represented rewards and subsidies granted by local authorities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

8. FINANCE COSTS

	2014 **RMB'000**	*2013* *RMB'000*
Finance lease charges	**6**	17
Interest expense on		
– Bank borrowings wholly repayable within five years	**21,098**	24,146
– Convertible bond	**–**	13,556
	21,104	37,719

9. INCOME TAX EXPENSE

Income tax has been recognised in profit or loss as following:

	2014 **RMB'000**	*2013* *RMB'000*
Current tax - PRC		
Provision for the year	**50,144**	97,145
Under-provision in prior year	**1,118**	–
	51,262	97,145
Deferred tax (note 25)	**15,038**	13,021
	66,300	110,166

The new PRC Enterprise Income Tax ("PRC EIT") law (the "New Tax Law") passed by the Tenth National People's Congress on 16 March 2007 introduced various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The New Tax Law was effective from 1 January 2008.

On 14 August 2014, 福建鑫華股份有限公司 (Xinhua Share Co., Ltd. Fujian) ("Xinhua Co.") was recognised as an advanced technology enterprise (高新技術企業) and is entitled to enjoy an income tax concession at a preferential rate of 15% effective from 1 January 2014. Applicable PRC EIT rate of 15% has been applied for the provision of income tax expenses for three years from 1 January 2014 to 31 December 2016.

On 26 December 2014, Xinhua Co. was recognised as a comprehensive resources utilisation enterprise (資源綜合利用企業) and was eligible to apply for an income tax concession for exemption of 10% of the turnover from recycled chemical fibres for two years from 1 January 2014 to 31 December 2015.

No provision for Hong Kong Profits Tax is required for the subsidiaries of the Company incorporated in Hong Kong since they have no assessable profits for the years ended 31 December 2013 and 2014.

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For the year ended 31 December 2014

9. INCOME TAX EXPENSE (CONTINUED)

The reconciliation between the income tax expense and the product of profit before tax multiplied by the rates applicable to profits of the consolidated entities in the respective jurisdictions is as follows:

	2014 RMB'000	2013 RMB'000
Profit before tax	**332,706**	352,736
Tax calculated at rates applicable to profits of the consolidated entities in the respective jurisdictions	**51,306**	94,796
Tax effect of expenses that are not deductible	**1,728**	3,558
Tax effect of income that is not taxable	**(5)**	(602)
Tax effect of temporary differences not recognised	**29**	30
Tax effect of unused tax losses not recognised	**521**	381
Tax effect of utilisation of tax losses not previously recognised	**(804)**	(1,018)
Tax effect of tax concession	**(2,631)**	–
Under-provision in prior year	**1,118**	–
PRC dividend withholding tax (note 25)	**15,038**	13,021
Income tax expense	**66,300**	110,166

10. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2014 RMB'000	2013 RMB'000
Allowance for trade receivables	**7,640**	14,144
Auditor's remuneration	**1,669**	1,502
Cost of inventories sold (note (i))	**893,151**	1,007,934
Depreciation of property, plant and equipment	**50,595**	46,359
Depreciation of investment properties	**899**	1,034
(Gain)/loss on disposals of property, plant and equipment	**(44)**	14
Net exchange loss/(gain)	**1,775**	(546)
Operating lease charges in respect of land and buildings	**5,004**	5,658
Research and development expenditure (note (ii))	**11,637**	16,468
Staff costs (excluding directors' emoluments)		
Salaries, bonus and allowances	**58,764**	49,794
Equity-settled share-based payments	**–**	3,003
Retirement benefits scheme contributions	**1,104**	1,081
	59,868	53,878

Notes:

(i) Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately RMB70,919,000 (2013: RMB61,046,000) which are included in the amounts disclosed separately above.

(ii) Research and development expenditure includes staff costs of approximately RMB3,344,000 (2013: RMB2,760,000) which is included in the amount disclosed separately above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

For the year ended 31 December 2014

	Fees RMB'000	Salaries and allowances RMB'000	Equity-settled share-based payments RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Name of director					
Executive directors					
Chim Wai Kong (Co-chairman)	–	951	–	13	964
Chim Wai Shing Jackson	–	1,164	–	13	1,177
Xue Mangmang	–	189	–	–	189
Yu Heping (Co-chairman)	–	951	–	–	951
	–	3,255	–	26	3,281
Non-executive directors					
Pan Tingxuan	95	–	–	–	95
Yang Yihua	95	–	–	–	95
	190	–	–	–	190
Independent Non-executive directors					
Feng Xue Ben	138	–	–	–	138
Wong Siu Hong	138	–	–	–	138
Xu Qinghua	119	–	–	–	119
	395	–	–	–	395
	585	3,255	–	26	3,866

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

For the year ended 31 December 2013

	Fees RMB'000	Salaries and allowances RMB'000	Equity-settled share-based payments RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Name of director					
Executive directors					
Chim Wai Kong (Co-chairman)	–	958	95	12	1,065
Chim Wai Shing Jackson	–	1,122	75	12	1,209
Xue Mangmang	–	191	–	–	191
Yu Heping (Co-chairman)	–	958	–	–	958
	–	3,229	170	24	3,423
Non-executive directors					
Chen Bo (note (i))	56	–	–	–	56
Ma Yun (note (i))	56	–	–	–	56
Pan Tingxuan	96	–	–	–	96
Qu Pingji (note (iii))	80	–	–	–	80
Wang Yangzu (note (iii))	80	–	–	–	80
Yang Yihua (note (ii))	16	–	–	–	16
Zhao Xiangdong (note (iii))	80	–	–	–	80
	464	–	–	–	464
Independent Non-executive directors					
Feng Xue Ben	135	–	66	–	201
Wong Siu Hong	135	–	–	–	135
Wu Xiaoqing (note (i))	56	–	–	–	56
Xiong Ying (note (i))	56	–	–	–	56
Xu Qinghua (note (ii))	20	–	–	–	20
Zhu Min Ru (note (iii))	113	–	66	–	179
	515	–	132	–	647
	979	3,229	302	24	4,534

Notes:

(i) Appointed on 30 March 2013 and resigned on 1 November 2013
(ii) Appointed on 1 November 2013
(iii) Resigned on 1 November 2013

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11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Neither the chief executive nor any of the directors waived any emoluments during the year (2013: Nil).

The five highest paid individuals in the Group during the year included three (2013: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2013: two) individuals are set out below:

	2014 RMB'000	2013 RMB'000
Salaries and allowances	1,574	1,577
Discretionary bonus	128	59
Equity-settled share-based payments	–	1,710
Retirement benefits scheme contributions	13	12
	1,715	3,358

The emoluments fell within the following bands:

	Number of individuals 2014	2013
HK$1,000,001 to HK$1,500,000 (equivalent to RMB792,001 to RMB1,188,000 (2013: RMB798,001 to RMB1,197,000))	2	–
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,188,001 to RMB1,585,000 (2013: RMB1,197,001 to RMB1,596,000))	–	1
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,585,001 to RMB1,981,000 (2013: RMB1,596,001 to RMB1,995,000))	–	–
HK$2,500,001 to HK$3,000,000 (equivalent to RMB1,981,001 to RMB2,377,000 (2013: RMB1,995,001 to RMB2,394,000))	–	1
	2	2

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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12. DIVIDENDS

	2014 **RMB'000**	*2013* *RMB'000*
2014 Interim of HK3.5 cents (equivalent to RMB2.8 cents) (2013: HK3.5 cents (equivalent to RMB2.8 cents)) per ordinary share paid	**21,617**	21,615
2013 Final of HK6.5 cents (equivalent to RMB5.1 cents) (2013: 2012 Final of HK6.5 cents (equivalent to RMB5.3 cents)) per ordinary share paid	**39,869**	40,820
	61,486	62,435

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2014 of HK6.5 cents (equivalent to RMB5.2 cents) per ordinary share has been proposed by the directors and is subject to approval by the shareholders of the Company at the forthcoming annual general meeting.

The final dividend has not been recognised as a liability as at 31 December 2014.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following:

	2014 **RMB'000**	*2013* *RMB'000*
Earnings		
Earnings for the purpose of calculating basic earnings per share - profit attributable to owners of the Company	**266,406**	242,570
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**776,422,000**	776,422,000

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary share during the years ended 31 December 2013 and 2014.

The effect of potential ordinary shares in respect of convertible bond was anti-dilutive for the year ended 31 December 2013.

14. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	Buildings	*Prepaid land lease payments*	*Leasehold improvements*	*Machinery and equipment*	*Office equipment and fixtures*	*Motor vehicles*	*Total*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 1 January 2013	124,635	90,157	1,055	309,318	7,347	12,281	544,793
Additions	12,101	–	–	8,323	257	962	21,643
Disposals	–	–	(528)	–	(38)	–	(566)
Exchange differences	–	–	(16)	–	(8)	(33)	(57)
Transfer from construction in progress (note 15)	30,839	–	–	7,697	279	85	38,900
Transfer from investment properties (note 16)	10,423	–	–	–	–	–	10,423
At 31 December 2013 and 1 January 2014	177,998	90,157	511	325,338	7,837	13,295	615,136
Additions	19,944	–	–	4,539	378	1,400	26,261
Disposals	–	–	–	–	(24)	(419)	(443)
Exchange differences	–	–	2	–	1	3	6
Transfer from construction in progress (note 15)	5,340	–	–	3,400	–	–	8,740
Transfer from investment properties (note 16)	8,450	–	–	–	–	–	8,450
Transfer to investment properties (note 16)	(13,232)	–	–	–	–	–	(13,232)
At 31 December 2014	198,500	90,157	513	333,277	8,192	14,279	644,918
Accumulated depreciation							
At 1 January 2013	16,832	19,127	753	110,634	2,769	4,348	154,463
Charge for the year	6,625	4,498	301	31,060	1,314	2,561	46,359
Disposals	–	–	(528)	–	(17)	–	(545)
Exchange differences	–	–	(15)	–	(5)	(20)	(40)
Transfer from investment properties (note 16)	3,652	–	–	–	–	–	3,652

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14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	The Group						
	Buildings	Prepaid land lease payments	Leasehold improvements	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2013 and 1 January 2014	27,109	23,625	511	141,694	4,061	6,889	203,889
Charge for the year	8,843	4,498	–	33,195	1,330	2,729	50,595
Disposals	–	–	–	–	(20)	(337)	(357)
Exchange differences	–	–	2	–	–	2	4
Transfer from investment properties (note 16)	2,165	–	–	–	–	–	2,165
Transfer to investment properties (note 16)	(2,690)	–	–	–	–	–	(2,690)
At 31 December 2014	35,427	28,123	513	174,889	5,371	9,283	253,606
Carrying amount							
At 31 December 2014	163,073	62,034	–	158,388	2,821	4,996	391,312
At 31 December 2013	150,889	66,532	–	183,644	3,776	6,406	411,247

The Group's buildings and prepaid land lease payments are located in the PRC under medium term leases.

At 31 December 2014, the carrying amount of the Group's buildings for which the relevant building ownership certificates are yet to be granted amounted to approximately Nil (2013: RMB32,594,000).

At 31 December 2014, the carrying amount of buildings and prepaid land lease payments pledged as security for the banking facilities granted to the Group amounted to approximately RMB107,829,000 (2013: RMB137,570,000) (note 22).

At 31 December 2014, the carrying amount of motor vehicles held by the Group under finance leases amounted to approximately Nil (2013: RMB298,000).

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15. CONSTRUCTION IN PROGRESS

	The Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**8,234**	41,986
Additions	**574**	5,148
Transfer to property, plant and equipment (note 14)	**(8,740)**	(38,900)
At 31 December	**68**	8,234

The Group's construction in progress comprises costs incurred on buildings under construction and plant and equipment pending installation.

16. INVESTMENT PROPERTIES

	The Group
	RMB'000
Cost	
At 1 January 2013	18,873
Transfer to property, plant and equipment (note 14)	(10,423)
At 31 December 2013 and 1 January 2014	8,450
Transfer from property, plant and equipment (note 14)	13,232
Transfer to property, plant and equipment (note 14)	(8,450)
At 31 December 2014	13,232
Accumulated depreciation	
At 1 January 2013	4,605
Charge for the year	1,034
Transfer to property, plant and equipment (note 14)	(3,652)
At 31 December 2013 and 1 January 2014	1,987
Charge for the year	899
Transfer from property, plant and equipment (note 14)	2,690
Transfer to property, plant and equipment (note 14)	(2,165)
At 31 December 2014	3,411

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16. INVESTMENT PROPERTIES (CONTINUED)

	The Group RMB'000
Carrying amount	
At 31 December 2014	9,821
At 31 December 2013	6,463

The Group's investment properties are located in the PRC under medium lease term.

The fair values of the Group's investment properties at 31 December 2014 are approximately RMB11,415,000 (2013: RMB7,930,000). The fair values of the Group's investment properties have been determined by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professional valuers.

The fair values of the Group's investment properties are within level 3 of the fair value hierarchy.

The valuer valued the property interest by income approach by taking into account the net rental income of the property derived from the existing lease and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the fair value at an appropriate capitalisation rate. Where appropriate, reference was also made to the comparable sale transactions as available in the relevant market.

The current use of the Group's investment properties are considered as the highest and best use of the assets.

At 31 December 2014, the carrying amount of investment properties pledged as security for the banking facilities granted to the Group amounted to approximately RMB3,887,000 (2013: RMB6,463,000) (note 22).

During the year ended 31 December 2014, property leasing revenue includes gross rental income from investment properties of approximately RMB2,337,000 (2013: RMB2,966,000) (note 7) of which approximately Nil (2013: RMB2,026,000) related to properties leased to a related company (note 31(b)).

17. INVESTMENT IN SUBSIDIARIES

	The Company	
	2014 **RMB'000**	2013 RMB'000
Unlisted investment, at cost	**18,767**	18,704

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

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17. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at 31 December 2014 are as follows:

Name	*Place of incorporation/ registration and operation*	*Issued and paid up capital/ registered capital*	*Percentage of ownership interest*		*Principal activities*
			Direct	*Indirect*	
COSTIN Investment Limited ("COSTIN BVI")	British Virgin Islands	US$20	100%	–	Investment holding
Gerfalcon International Limited	British Virgin Islands	US$1	–	100%	Investment holding
Gerfalcon Industrial (Nonwoven) Investment Company Limited ("Gerfalcon Industrial")	Hong Kong	HK$23,790,000	–	100%	Investment holding and sale of non-woven materials and recycled chemical fibres
Gerfalcon Investment Company Limited	Hong Kong	HK$1,000	–	100%	Investment holding
Gerfalcon Hong Kong Company Limited ("Gerfalcon Hong Kong")	Hong Kong	HK$1,000	–	100%	Investment holding
海東青非織工業（福建）有限公司* (Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd.)*	PRC	US$13,990,000	–	100%	Manufacture of filtration materials and non-woven materials, provision of information technology and management supporting service
晉江海東青貿易有限公司* (Gerfalcon Trade Co., Ltd. Jinjiang)*	PRC	HK$81,000,000	–	100%	Retail and wholesale of filtration materials, non-woven materials, foods, drinks, crafts, health products, daily necessities and flowers

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17. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and operation	Issued and paid up capital/ registered capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
福建鑫華股份有限公司# ("Xinhua Co.")#	PRC	RMB80,000,000	–	100%	Manufacture and sale of non-woven materials, recycled chemical fibres and thermal resistant filtration materials
海東青(北京)科技咨詢有限公司* (COSTIN (Beijing) Technology Consulting Company Limited) ("COSTIN Beijing")*	PRC	HK$10,000,000	–	100%	Provisions of non-woven materials technology consulting services and wholesale of filtration materials and non-woven materials

* *These subsidiaries are registered as wholly-owned foreign enterprises under the PRC laws.*

\# *The subsidiary is registered as wholly-owned domestic enterprise under the PRC laws.*

18. INVENTORIES

	The Group	
	2014	*2013*
	RMB'000	*RMB'000*
Raw materials	**57,640**	84,667
Finished goods	**41,525**	56,981
	99,165	141,648

19. TRADE AND BILLS RECEIVABLES

	The Group	
	2014	2013
	RMB'000	RMB'000
Trade receivables	**369,453**	368,597
Less: Allowance for doubtful debts	**(21,784)**	(14,144)
	347,669	354,453
Bills receivables	**1,451**	9,386
	349,120	363,839

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 180 days (2013: 30 to 180 days). Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of the Group's trade receivables, based on the delivery date, and net of allowances, is as follows:

	2014	2013
	RMB'000	RMB'000
Up to 30 days	**183,400**	155,383
31 to 60 days	**105,366**	116,559
61 to 90 days	**24,715**	66,665
91 to 120 days	**3,565**	5,139
121 to 150 days	**6,166**	4,577
151 to 180 days	**6,464**	653
Over 180 days	**17,993**	5,477
	347,669	354,453

As at 31 December 2014, an allowance was made for estimated irrecoverable trade receivables of approximately RMB21,784,000 (2013: RMB14,144,000).

Reconciliation of allowance for trade receivables:

	2014	2013
	RMB'000	RMB'000
At 1 January	**14,144**	–
Allowance for the year	**7,640**	14,144
At 31 December	**21,784**	14,144

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19. TRADE AND BILLS RECEIVABLES (CONTINUED)

As of 31 December 2014, trade receivables of approximately RMB39,321,000 (2013: RMB12,082,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The aging analysis of these trade receivables is as follows:

	2014 **RMB'000**	*2013* *RMB'000*
Up to 30 days	**5,126**	3,129
31 to 60 days	**9,067**	3,046
61 to 90 days	**4,108**	1,918
91 to 120 days	**3,401**	1,260
121 days to 150 days	**7,480**	1,031
151 days to 180 days	**8,090**	154
Over 180 days	**2,049**	1,544
	39,321	12,082

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	2014 **RMB'000**	*2013* *RMB'000*
RMB	**313,496**	313,504
US$	**35,624**	50,335
	349,120	363,839

20. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The carrying amounts of the Group's and the Company's pledged bank deposits and bank and cash balances are denominated in the following currencies:

	The Group At 31 December 2014				
	RMB ***RMB'000***	***HK$*** ***RMB'000***	***US$*** ***RMB'000***	***DKK*** ***RMB'000***	***Total*** ***RMB'000***
Cash at bank and on hand	**1,320,742**	**4,843**	**13,189**	**1**	**1,338,775**
Pledged bank deposits	**22,908**	**–**	**19,192**	**–**	**42,100**
	1,343,650	**4,843**	**32,381**	**1**	**1,380,875**

20. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES (CONTINUED)

	The Group At 31 December 2013				
	RMB	*HK$*	*US$*	*DKK*	*Total*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	1,087,331	3,422	14,450	1	1,105,204
Pledged bank deposits	7,149	–	–	–	7,149
	1,094,480	3,422	14,450	1	1,112,353

	The Company At 31 December 2014			
	RMB	***HK$***	***US$***	***Total***
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Cash and cash equivalents	**2**	**1,581**	**24**	**1,607**

	The Company At 31 December 2013			
	RMB	*HK$*	*US$*	*Total*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	2	2,058	24	2,084

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group as set out in note 22 to the financial statements.

The Group's pledged bank deposits are at fixed interest rate 2.0% – 4.4% (2013: 4.4%) per annum and therefore are subject to fair value interest rate risk.

As at 31 December 2014, the pledged bank deposits and bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to approximately RMB1,339,110,000 (2013: RMB1,089,477,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

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21. TRADE AND BILLS PAYABLES

	The Group	
	2014	2013
	RMB'000	RMB'000
Trade payables	**107,852**	147,877
Bills payables (note 22)	**12,000**	–
	119,852	147,877

The aging analysis of the Group's trade payables, based on the date of receipt of goods, is as follows:

	2014	2013
	RMB'000	RMB'000
Up to 30 days	**58,968**	59,151
31 to 60 days	**29,856**	69,156
61 to 90 days	**8,507**	11,693
91 to 120 days	**5,118**	5,336
121 to 150 days	**770**	1,537
151 days to 180 days	**1,534**	233
Over 180 days	**3,099**	771
	107,852	147,877

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2014	2013
	RMB'000	RMB'000
RMB	**106,555**	121,199
US$	**13,297**	26,678
	119,852	147,877

22. BANK BORROWINGS

	The Group 2014 RMB'000	2013 RMB'000
Bank loans	**363,137**	394,866
Invoice financing	**2,779**	–
	365,916	394,866
The borrowings are repayable as follows:		
On demand or within one year	**286,769**	270,798
In the second year	**79,147**	45,508
In the third to fifth years, inclusive	**–**	78,560
	365,916	394,866
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(286,769)**	(270,798)
Amount due for settlement after 12 months	**79,147**	124,068

At 31 December 2014, invoice financing were repayable within 120 days from their respective drawdown days.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2014 RMB'000	2013 RMB'000
RMB	**153,450**	178,000
HK$	**116,065**	116,988
US$	**96,401**	99,878
	365,916	394,866

The average interest rates at 31 December were as follows:

	2014	2013
Short-term bank loans (floating rate)	**2.58%**	N/A
Short-term bank loans (fixed rate)	**1.75% – 7.86%**	2.76% – 7.87%
Long-term bank loans (floating rate)	**3.34% – 7.04%**	3.33% – 7.32%
Long-term bank loans (fixed rate)	**7.59%**	7.59%
Invoice financing (floating rate)	**2.23% – 2.85%**	N/A

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22. BANK BORROWINGS (CONTINUED)

Bank borrowings of approximately RMB238,522,000 (2013: RMB266,978,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Bank loans of approximately RMB363,137,000 (2013: RMB394,866,000), invoice financing of approximately RMB2,779,000 (2013: Nil) and bills payables (note 21) of approximately RMB12,000,000 (2013: Nil) are secured by:

– Corporate guarantees provided by the Company and subsidiaries;

– Charges over the buildings, prepaid land lease payments, investment properties and pledged bank deposits (notes 14, 16 and 20); and

– Guarantees from related parties and related companies (note 31(c) and (d)).

During the year, the Group did not breach any covenant clauses in bank loan agreements.

	The Company	
	2014	*2013*
	RMB'000	*RMB'000*
Bank loans	**116,065**	116,988
The borrowings are repayable as follows:		
On demand or within one year	**44,833**	23,114
In the second year	**71,232**	23,218
In the third to fifth years, inclusive	**–**	70,656
	116,065	116,988
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(44,833)**	(23,114)
Amount due for settlement after 12 months	**71,232**	93,874

The carrying amounts of the Company's borrowings are denominated in HK$.

The average interest rates at 31 December were as follows:

	2014	*2013*
Short-term bank loan (floating rate)	**2.58%**	N/A
Long-term bank loan (floating rate)	**3.34%**	3.33%

22. BANK BORROWINGS (CONTINUED)

The Company's bank borrowings are arranged at floating rates, thus exposing the Company to cash flow interest rate risk.

During the year, the Company did not breach any covenant clauses in a bank loan agreements.

23. FINANCE LEASE PAYABLES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Within one year	–	188	–	182
Less: Future finance charges	–	(6)	–	N/A
Present value of lease obligations	–	182	–	182

It is the Group's policy to lease certain of its motor vehicles under finance leases. The lease matured during the year. At 31 December 2013, the average effective borrowing rate was 6.66%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the motor vehicles at nominal prices.

All finance lease payables are denominated in HK$.

At 31 December 2013, the Group's finance lease payables are secured by the lessor's title to the leased assets.

24. RETIREMENT BENEFITS SCHEME

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500 (before 1 June 2014: HK$1,250) per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

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25. DEFERRED TAX LIABILITIES

	The Group	
	2014	2013
	RMB'000	RMB'000
PRC dividend withholding tax		
At 1 January	**56,851**	49,275
Payment	**–**	(5,445)
Charge to profit or loss for the year (note 9)	**15,038**	13,021
At 31 December	**71,889**	56,851

Pursuant to the New Tax Law (note 9), dividends declared by the subsidiaries in the PRC to parent companies incorporated overseas are subject to withholding tax of 5% to 10%. In accordance with Caishui (2008) No. 1 issued by State Tax Authorities, undistributed profits from the subsidiaries up to 31 December 2007 will be exempted from withholding tax when they are distributed in future. As a result, provision for withholding tax has been made since 1 January 2008. The deferred tax liabilities represent the aggregate amount of temporary differences associated with distributable retained profits of the Group's subsidiaries in the PRC.

At the end of the reporting period the Group has unused tax losses of approximately RMB22,595,000 (2013: RMB24,004,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses of approximately RMB14,137,000 (2013: RMB10,716,000) will expire as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Year 2016	**5,634**	5,646
Year 2017	**3,869**	3,542
Year 2018	**1,509**	1,528
Year 2019	**3,125**	–
	14,137	10,716

26. SHARE CAPITAL

	The Company		
	Number of shares	Amount HK$	Amount as presented RMB
Authorised:			
Ordinary shares of HK$0.1 each			
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	2,000,000,000	200,000,000	176,000,000
Ordinary shares, issued and fully paid:			
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	776,422,000	77,642,200	68,474,747

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, the Group may adjust the amount of payment of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the years ended 31 December 2013 and 2014.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising interest-bearing bank borrowings) over its total assets. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2014 was 16% (2013: 19%).

The externally imposed capital requirements for the Group are: (i) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; (ii) CECEP Group remains as the single largest shareholder of the Group; and (iii) to meet financial covenants attached to the bank borrowings.

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27. RESERVES

(a) The Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) The Company

	Share premium account RMB'000 (note (c)(i))	Share-based payments reserve RMB'000 (note (c)(ii))	Convertible bonds reserve RMB'000	Foreign currency translation reserve RMB'000 (note (c)(iii))	Contributed surplus RMB'000 (note (c)(vii))	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2013	240,477	21,131	3,068	(31,517)	20,909	(8,646)	245,422
Total comprehensive income for the year	–	–	–	(9,135)	–	63,199	54,064
Redemption of convertible bond	–	–	(3,068)	–	–	3,068	–
Share-based payments	–	3,305	–	–	–	–	3,305
Lapse of share options granted in prior years	–	(24,436)	–	–	–	24,436	–
Dividends paid (note 12)	–	–	–	–	–	(62,435)	(62,435)
Changes in equity for the year	–	(21,131)	(3,068)	(9,135)	–	28,268	(5,066)
At 31 December 2013 and 1 January 2014	240,477	–	–	(40,652)	20,909	19,622	240,356
Total comprehensive income for the year	–	–	–	889	–	90,179	91,068
Dividends paid (note 12)	–	–	–	–	–	(61,486)	(61,486)
Changes in equity for the year	–	–	–	889	–	28,693	29,582
At 31 December 2014	240,477	–	–	(39,763)	20,909	48,315	269,938

27. RESERVES (CONTINUED)

(c) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Share-based payments reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(n) to the consolidated financial statements.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(b) to the consolidated financial statements.

(iv) Statutory reserve

In accordance with the applicable laws and relevant regulations of the PRC, the Group's subsidiaries established and registered in the PRC are required to transfer a certain percentage of the profit after tax, if any, to a statutory reserve.

(v) Capital reserve

The capital reserve of the Group represents the loan capitalisation arrangement with the then shareholder of Gerfalcon Industrial and Gerfalcon Industrial on 4 February 2010. Gerfalcon Industrial allotted and issued 23,789,920 ordinary shares of HK$1 each to COSTIN BVI.

(vi) Merger reserve

The merger reserve of the Group arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 2010 and represented the difference between the nominal value of the aggregate capital of the subsidiaries combined under the group reorganisation over the nominal value of the share capital of the Company issued in exchange.

(vii) Contributed surplus

The contributed surplus of the Company represents the difference between the nominal amount of the share capital issued by the Company and the cost of investment in subsidiaries combined by the Company at the date of the group reorganisation.

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For the year ended 31 December 2014

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (MAJOR NON-CASH TRANSACTION)

(i) During the year, additions to property, plant and equipment and construction in progress of approximately RMB9,638,000 and Nil (2013: RMB4,483,000 and RMB6,385,000) respectively were not yet paid and included in accruals and other payables.

(ii) During the year, additions to property, plant and equipment and construction in progress of approximately RMB19,190,000 and Nil (2013: RMB462,000 and RMB64,000) respectively were satisfied by way of utilising the deposits paid in previous year.

29. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Contracted but not provided for		
Construction in progress	**1,420**	650
Property, plant and equipment	**10,025**	972
	11,445	1,622

30. LEASE COMMITMENTS

(a) The Group as lessee

At 31 December 2014 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within one year	**3,997**	4,926
In the second to fifth year inclusive	**3,546**	2,513
	7,543	7,439

Operating lease payables represent rental payable by Gerfalcon Industrial, COSTIN Beijing and Xinhua Co. for certain buildings. Leases are negotiated for terms ranging from one to three years and rentals are fixed over the lease terms and do not include contingent rentals.

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For the year ended 31 December 2014

30. LEASE COMMITMENTS (CONTINUED)

(b) The Group as lessor

At 31 December 2014 the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within one year	**150**	392

Leasehold land and property rental income earned during the year was approximately RMB2,337,000 (2013: RMB2,966,000). All of the Group's investment properties are held for rental purposes. All of the properties held have committed tenants from one to two years.

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to those related party balances disclosed elsewhere in the consolidated financial statements, the Group had the following material balances with its related parties at the end of the reporting period:

	2014	2013
	RMB'000	RMB'000
Trade receivables to related companies	**602**	322
Trade deposit paid to a related company	**–**	7,245
Trade payable to a related company	**2,349**	–
Other payable to the immediate holding company	**1,000**	–

(b) In addition to those related party transactions disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with its related parties during the year:

	2014	2013
	RMB'000	RMB'000
Rental income charged to a related company	**–**	2,026
Rental expenses charged by related companies	**2,240**	2,240
Purchases of raw materials from a related company	**38,523**	32,951
Sales of finished goods to related companies	**402**	831

Notes to the Consolidated Financial Statements

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31. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) At 31 December 2014, certain related companies have guaranteed certain banking facilities granted to the Group in the amount of approximately RMB283,000,000 (2013: RMB283,000,000).

(d) At 31 December 2014, certain directors and related parties have jointly guaranteed certain banking facilities granted to the Group in the amount of approximately RMB300,000,000 (2013: Nil).

(e) The remuneration of directors and other members of key management during the year was as follow:

	2014 RMB'000	*2013 RMB'000*
Salaries, bonus and allowances		
– Directors	**3,840**	4,208
– Key management	**1,702**	762
Sub-total	**5,542**	4,970
Retirement benefits scheme contributions		
– Directors	**27**	24
– Key management	**13**	12
Sub-total	**40**	36
Equity-settled share-based payments		
– Directors	**–**	302
– Key management	**–**	1,710
Sub-total	**–**	2,012
Total	**5,582**	7,018

32. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 20 March 2015.