協眾國際控股有限公司
Xiezhong International Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code：3663

Annual Report 2014

Contents

Corporate Information

Board of Directors and Committees

Board of Directors

Executive Directors
Mr. Chen Cunyou *(Chairman)*
Mr. Ge Hongbing

Non-Executive Directors
Mr. Han Yonggui *(Vice Chairman)*
(appointed on 25 August 2014)
Mr. Li Xuejun (appointed on 25 August 2014)
Mr. Zhu Zhenghua (appointed on 25 August 2014)
Mr. Chen Hao (appointed on 25 August 2014)
Mr. Huang Yugang (appointed on 25 August 2014)
Mr. Fang Kenneth Hung (resigned on 30 July 2014)
Mr. Liu Xiaoping (resigned on 30 July 2014)
Mr. Wang Zhenyu (resigned on 30 July 2014)
Mr. Zhang Yichen (resigned on 30 July 2014)

Independent Non-Executive Directors
Mr. Lau Ying Kit
Mr. Cheung Man Sang
Mr. Zhang Shulin
Mr. Lin Lei (appointed on 25 August 2014)

Committees

Audit Committee
Mr. Lau Ying Kit *(Chairman)*
Mr. Cheung Man Sang
Mr. Zhang Shulin
Mr. Lin Lei (appointed on 25 August 2014)

Nomination Committee
Mr. Zhang Shulin *(Chairman)*
Mr. Lau Ying Kit
Mr. Cheung Man Sang
Mr. Lin Lei (appointed on 25 August 2014)
Mr. Liu Xiaoping (resigned on 30 July 2014)

Remuneration Committee
Mr. Cheung Man Sang *(Chairman)*
Mr. Lau Ying Kit
Mr. Zhang Shulin
Mr. Lin Lei (appointed on 25 August 2014)
Mr. Fang Kenneth Hung (resigned on 30 July 2014)

Other Corporate Information

Company Secretary
Mr. Chui Wing Fai, *CPA*

Registered Office
c/o Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104, Cayman Islands

Principal Place of Business in Hong Kong
Room 2912, Tower 2, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Principal Share Registrar and Transfer Office
Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Authorised Representatives
Mr. Chen Cunyou
Mr. Dai Zumian (alternate to Chen Cunyou)
Mr. Chui Wing Fai

Headquarters in the PRC
389 Kening Road Science Park
Jiangning District, Nanjing
Jiangsu Province
PRC

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

Hong Kong Legal Advisor
Li & Partners
22/F, World-Wide House
19 Des Voeux Road Central
Hong Kong

Auditors
KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

Company's Website
www.xiezhonginternational.hk

PRC Legal Advisor
Chen & Co
51/F, Shanghai World Financial Center
100 Century Avenue, Shanghai
PRC

Principal Bankers
Construction Bank of Nanjing
  Jiangning Economic Development Zone Branch
China Merchants Bank
Agricultural Bank of China, Jiulonghu Branch
China CITIC Bank International Limited

Stock Code
3663

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Xiezhong International Holdings Limited ("Xiezhong International" or the "Company", together with its subsidiaries, the "Group"), I am pleased to present to the shareholders of the Company the annual report of the Group for the year ended 31 December 2014 (the "Year").

In 2014, Chinese economy showed a steady and better trend, but economic growth rate slowed down. Influenced by macroeconomic and great base of last year, growth rate of motor vehicles market in China slowed down compared to that of last year, and the turnover growth rate of the Company was also affected. On the other hand, due to unfavorable factors such as intense competition in the automotive industry, the increase of labor cost and the increase of depreciation expenses due to the research and development ("R&D") building put into use during the Year, the profitability of the Company was affected. For the year ended 31 December 2014, the Group recorded turnover of RMB744.7 million, representing an increase of 2.3 % against that of RMB728.2 million in the previous year; profit attributable to equity shareholders of RMB40.2 million, representing a decrease of 31.7% against that of RMB58.9 million in the previous year.

The Board proposed a distribution of final dividend of HKD1.9 cents per share for the Year, totaling HKD15.2 million, approximately RMB12.1 million (2013: RMB17.7 million).

Looking ahead, the Group will continuously commit itself to developing its core operation of automotive heating, ventilation and cooling ("HVAC") systems, thus ensuring the core competitive strength of the Group. The Group will constantly consolidate its leading position in the Chinese market of automotive HVAC systems for SUVs, pickup trucks, and heavy trucks, and increase its effort to explore the market of HVAC systems for sedan, which is expected to be a key driver for the Group's future growth. On the other hand, the Chinese government released a series of policies to encourage the development of new-energy vehicles industry, which is expected to have a decent growth. The Group will strengthen the R&D ability of HVAC systems for new-energy vehicles, strive to expand the market, and try its best to become the leading supplier of HVAC systems for new-energy vehicles in China. The Company will also enhance its production efficiency by improving its management to lower production cost and purchasing cost. Furthermore, the Group will maintain its sound financial base, persistently implement its development strategies set out above and strive for a great leap forward in the coming year.

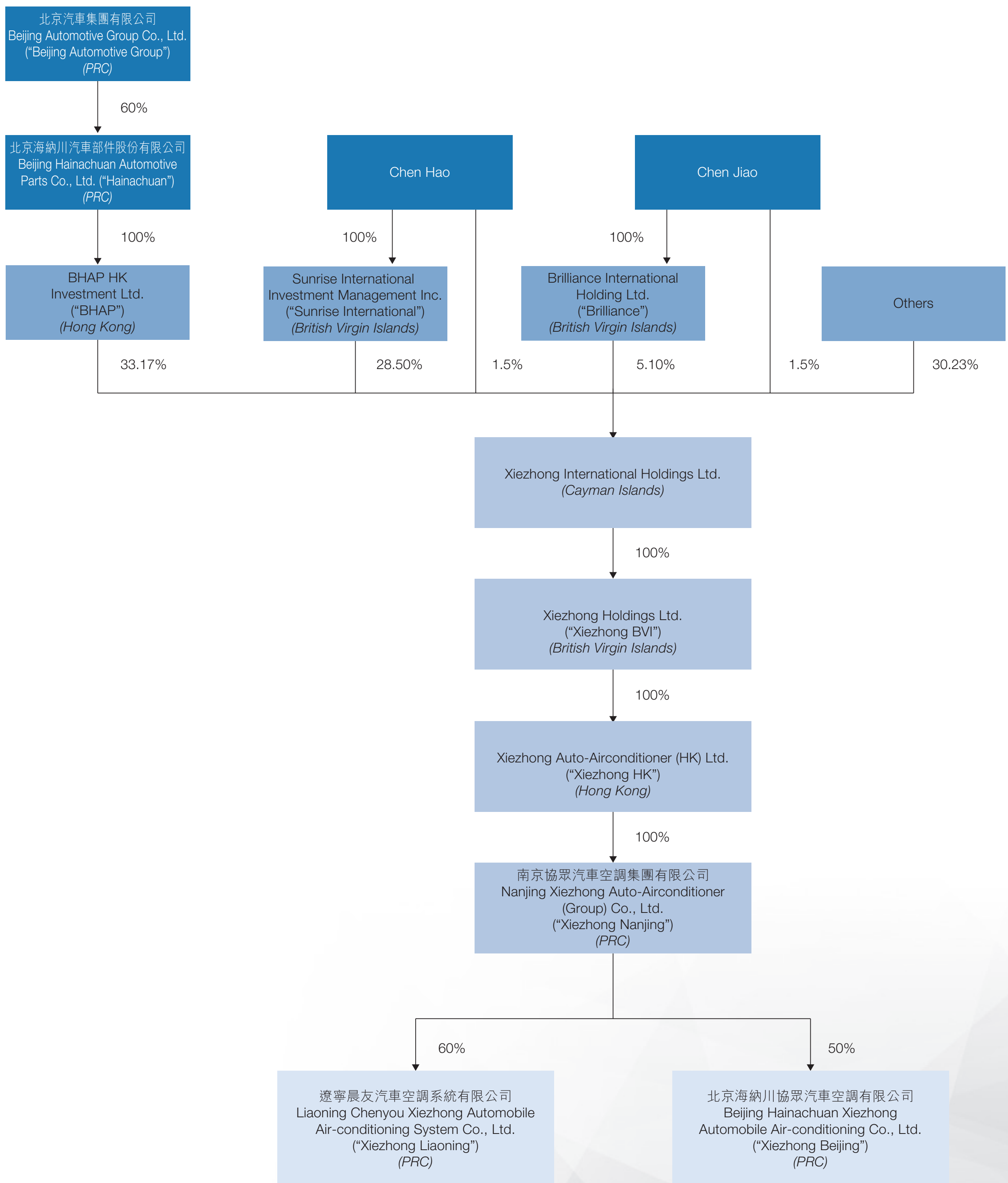
Lastly, on behalf of Xiezhong International, I hereby express my sincere gratitude to all our customers and business partners for their support, and to our management and staff for their strenuous effort. I would also like to take this opportunity to extend my appreciation to our investors and shareholders for their support and trust to the Group. We will continue to make industrious and diligent efforts to maximise wealth for our Group and our shareholders.

Chen Cunyou
Chairman

30 March 2015

Company Structure

As at 31 December 2014, our corporate and shareholding structure is as follow:



Management Discussion and Analysis

Business Review

The Group is one of the leading suppliers of HVAC systems for vehicles. We principally engage in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components, and provide technical testing and related services. Our automotive HVAC systems are mainly used in sport utility vehicles ("SUVs"), pickup trucks, sedans and heavy trucks, in addition to the supply of HVAC systems and HVAC components for construction machineries and other types of vehicles such as light trucks, multiple-purpose vehicles ("MPVs"), and buses. Currently, we have two production bases. One is located at Jiangning District, Nanjing, Jiangsu, for the manufacture of HVAC systems and HVAC components. The other production base is located at Fushun Economic Development Zone, Fushun, Liaoning, for the manufacture of HVAC systems (without installing the compressors).

According to the statistical data of 中國汽車工業協會 (China Association of Automobile Manufacturers), the number of motor vehicles manufactured and sold in 2014 were approximately 23,722,900 units and approximately 23,491,900 units respectively, representing a growth of 7.3% and 6.9% respectively as compared against that of last year. Amongst those motor vehicles, the number of passenger vehicles manufactured and sold were approximately 19,919,800 units and 19,700,600 units respectively, representing a growth of 10.2% and 9.9% respectively as compared against that of last year; the number of commercial vehicles manufactured and sold were approximately 3,803,100 units and 3,791,300 units respectively, representing a decrease of 5.7% and 6.5% respectively as compared against that of last year. In 2014, China Automotive Industry growth rate generally slowed down, and the turnover growth rate of the Group was also affected. On the other hand, affected by the unfavorable factors such as intense competition in the automotive industry, the increase of labor cost and the increase of depreciation expenses due to the R&D building put into use during the Year, the profit of the Company declined as compared to that of last year.

During the Year, the Group recorded turnover of RMB744.7 million, representing a growth of 2.3% compared against that of RMB728.2 million in 2013. The gross profit of RMB174.0 million, representing a growth of 2.4% compared against that of RMB169.9 million in 2013. The profit attributable to equity shareholders of RMB40.2 million, representing a decrease of 31.7% compared against that of RMB58.9 million in 2013.

In June 2014, the Group has brought in BHAP, a wholly owned subsidiary of Hainachuan as its strategic investor. Hainanchuan is a subsidiary of Beijing Automotive Group, which is one of the top five automobile groups in the PRC. The Group can further strengthen and solidify its existing business relations and cooperation with Beijing Automotive Group in the future. Besides, the Group can leverage on the experience and expertise of Beijing Automotive Group in the automobile manufacturing industry to formulate its future business development strategies and endeavor to further develop and expand the business of the Group. Immediately following the completion of the disposal of 342,000,000 Shares in aggregate by the then existing Shareholders to BHAP and Brilliance (collectively, the "Joint Offerors") and parties acting in concert with any of them, namely Ms. Chen Jiao, Mr. Chen Hao and Ms. Wang Henan, pursuant to a series of sale and purchase agreements dated 4 June 2014, the Joint Offerors and the parties acting in concert with any of them were interested in 584,130,000 Shares, representing an increase from approximately 30.27% to 73.02% of the entire issued share capital of the Company. On 29 July 2014, upon the close of the unconditional mandatory cash offer (the "Offer"), BHAP became the controlling shareholder of the Company, holding 265,332,600 Shares representing approximately 33.17% of the entire share capital of the Company; whereas Brilliance became a Shareholder holding 40,763,400 Shares, representing approximately 5.09% of the entire share capital of the Company.

In December 2014, the Company signed the Memorandum of Understanding for cooperation with LG Electronics to jointly develop HVAC system for new-energy vehicles. The Company and LG Electronics will utilize their own technology and resources to jointly develop HVAC system for new-energy vehicles, and jointly expand the market of HVAC system for new-energy vehicles based on the project of Beijing Automotive Group. According to the progress of technical cooperation and market development, the Company and LG Electronics will discuss closer cooperation for mutual benefit and win-win situation. The cooperation with LG Electronics offers a golden opportunity for our future development and speeds up the growth of Company in the new-energy vehicles air-conditioning system market.

Financial Review

Turnover

During the Year, the Group recorded turnover of RMB744.7 million, representing a growth of 2.3% compared against that of RMB728.2 million in 2013. Such increase in turnover was mainly due to decent increase in turnover from HVAC systems for sedans as the Company continued to focus on the development of HVAC systems for sedans in 2014 and increase in service income.

	2014		2013	
	RMB'000	**% of total turnover**	RMB'000	% of total turnover
HVAC systems				
SUVs and pickup trucks	**190,444**	**25.6%**	226,988	31.2%
Sedans	**169,944**	**22.8%**	151,958	20.9%
Heavy trucks	**116,448**	**15.6%**	114,740	15.8%
Vans	**97,133**	**13.0%**	101,630	14.0%
Construction machineries	**27,618**	**3.7%**	40,390	5.5%
Other vehicles(1)	**32,445**	**4.4%**	18,678	2.5%
HVAC components(2)	**66,781**	**9.0%**	73,806	10.1%
Service income(3)	**43,890**	**5.9%**	—	0%
Total	**744,703**	**100.0%**	728,190	100.0%

(1) Other vehicles mainly comprise of light trucks and buses.

(2) HVAC components mainly comprise of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing) for all types of vehicles.

(3) Service income mainly represent revenue from rendering of testing and experiment services relating to the manufacturing of automotive air-conditioners.

Gross profit and gross profit margin

Gross profit for the Year was RMB174.0 million, representing an increase of 2.4% compared against RMB169.9 million in 2013. The gross profit margin was 23.4% compared against 23.3% in 2013, which did not fluctuate much compared to that of last year.

Other revenue and net income

Other revenue and net income primarily include government grants and interest income, which decreased to RMB7.7 million in 2014 from RMB11.2 million in 2013.

Distribution costs

Distribution costs increased by 16.7% or RMB6.2 million to RMB43.3 million during the Year from RMB37.1 million in 2013. During the Year, transport costs and warehousing costs went up due to the increase of turnover.

Administrative expenses

Administrative expenses in 2014 were RMB73.2 million, representing an increase of RMB16.4 million or 28.9% compared against that of RMB56.8 million in 2013. Such increase was mainly due to the increase of depreciation expenses as the R&D building was put into use during the Year, and additional expenditure in R&D.

Finance costs

Finance costs in 2014 were RMB15.9 million, representing an increase of RMB6.2 million or 63.9% compared against that of RMB9.7 million in 2013. The increase was mainly attributable to the increase of interest bearing loans for raising additional working capital to cope with the need for business development.

Income tax

Income tax in 2014 was RMB7.3 million, representing a decrease of RMB10.3 million or 58.5% compared against that of RMB17.6 million in 2013, which was attributable to the decrease in total profit.

Profit for the Year

As a result of the foregoing, profit attributable to equity shareholders of the Company decreased by RMB18.7 million or 31.7% from RMB58.9 million in 2013 to RMB40.2 million in 2014.

LIQUIDITY AND FINANCIAL RESOURCES

Inventories

As at 31 December 2014, the Group's inventory balance decreased to RMB182.6 million (31 December 2013: RMB184.6 million), and it did not fluctuate much compared to that at the end of last year.

The average inventory turnover days maintained stable at 118 days in 2014.

Trade debtors and bills receivable

As at 31 December 2014, the Group's trade debtors and bills receivable were RMB417.1 million (31 December 2013: RMB476.2 million), and the decrease was due to the decrease of bills receivable at the end of 2014.

The average trade debtors and bills receivable turnover days increased from 215 days in 2013 to 219 days in 2014, while without taking into account the bills receivable, the average turnover days of trade debtors increased from 136 days in 2013 to 141 days in 2014. Such change was because the average balance of trade debtors and bills receivable during the Year was more than that of 2013.

Trade payables and bills payable

As at 31 December 2014, the Group's trade payables and bills payable were RMB302.0 million (31 December 2013: RMB301.5 million), and it did not fluctuate much compared to that at the end of last year.

The average trade payables and bills payable turnover days increased from 152 days in 2013 to 193 days in 2014, which was because the average balance of trade payables and bills payable during the Year was much more than that of 2013.

Cash and deposits with banks and borrowings

As at 31 December 2014, the Group's cash and deposits with banks were RMB217.9 million (31 December 2013: RMB80.6 million). The increase in cash flow was mainly due to the large bank loan incurred at the end of 2014.

As at 31 December 2014, we had outstanding bank borrowings of RMB348.6 million (31 December 2013: RMB235.2 million), and the increase was intended to meet the need of working capital for the Group. As at 31 December 2014, our bank borrowings carried interest rates ranging from 3.3% to 6.3% per annum.

As at 31 December 2014, the banking facilities available to us were RMB411.4 million (31 December 2013: RMB254.2 million), of which RMB345.6 million (31 December 2013: RMB224.2 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 31 December 2014, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

We typically use short-term borrowings in the course of financing our business. Our policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long terms.

Gearing ratio

As at 31 December 2014, the Group's gearing ratio, calculated based on debt (including interest-bearing borrowings and bills payable) divided by the total of equity attributable to equity shareholders of the Company and debt, increased to 31.4%, compared against 23.7% as at 31 December 2013, which was due to the increase of bank borrowings in 2014.

Use of proceeds

The net proceeds of Company's listing on the Main Board of the Stock Exchange (the "Listing") in June 2012 were approximately HKD165.5 million (approximately RMB134.4 million). According to the intended usages as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 6 June 2012 (the "Prospectus"), the application of such proceeds as at 31 December 2014 was as follow:

	Net Proceeds (RMB million)		
Items	**Available**	**Utilised**	**Unutilised**
Expanding of Production Plants and Upgrading Existing Facilities of the Group	92.7	43.0	49.7
Funding for R&D	30.9	30.9	—
Working Capital and Other General Purposes	10.8	10.8	—
Total	134.4	84.7	49.7

Contingent liabilities

As at 31 December 2014, the Group did not incur any material contingent liabilities (31 December 2013: nil).

Significant investments held

Except for investment in subsidiaries, during the Year, the Group did not hold any significant investment in equity interest in any company (2013: nil).

Future plans for material investments or capital assets

Save as disclosed by the Company in the annual report for the Year, the Group did not have other plans for material investments and capital assets.

Material acquisitions and disposals of subsidiaries and affiliated companies

During the Year, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies (2013: nil).

Capital commitments

As at 31 December 2014, the Group's capital commitments to make contracted payments amounted to RMB41.1 million (31 December 2013: RMB27.9 million). Such capital commitments were used for the purchase of machineries and equipments. They will be financed by the Group's internal resources and/or external bank financing, as appropriate.

Capital expenditures

During the Year, the Group incurred capital expenditures of RMB89.3 million (2013: RMB181.4 million) primarily representing additions of new machineries and equipments.

Foreign exchange risk

The Group's businesses are principally operated in China and substantially all of its transactions are conducted in RMB and most of the Group's assets and liabilities are also denominated in RMB. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than RMB. During the Year, the Group did not employ any financial instrument for hedging purposes.

Employees

As at 31 December 2014, the Group had 835 employees in total, which were remunerated by the Group with reference to their performance, qualifications and prevailing market conditions. During the Year, the Group's total expenditure in respect of staff cost was RMB71.1 million (2013: RMB60.7 million), representing 9.5% (2013: 8.3%) of the total turnover of the Group. The Group provided regular training to its staff to enhance their knowledge and skills.

The Board may exercise its discretion to grant share options under the share option scheme adopted by the Company on 21 May 2012 and revised on 30 May 2012 (the "Share Option Scheme") to the executive directors and employees as an incentive to their contribution to the Group. During the Year, no share options had been granted by the Group to the employees in accordance with the share option scheme.

Dividends

The Board proposed a distribution of final dividend of HKD1.9 cents per share for the Year, totaling HKD15.2 million, approximately RMB12.1 million (2013: RMB17.7 million). The proposed dividend is subject to the approval of shareholders of the Company in the forthcoming annual general meeting.

Outlook

Looking ahead, China's economy will adhere to the general tone to make progress while maintaining stability, improve the quality and efficiency of economic growth as the center, and accelerate the transformation and upgrading and structural adjustment. We expect that Chinese government will maintain a stable GDP growth, which creates better conditions for steady growth in the automotive market. Besides, domestic demand arising from urbanization and rigid demand of the auto consumption will provide a good environment for the development of automotive industry.

The Group will constantly consolidate its leading position in the Chinese market of automotive HVAC systems for SUVs, pick-up trucks, and heavy trucks, and strive to explore the market of HVAC systems for sedans. Being an integral part of the automotive industry, the market of HVAC systems for sedans is immense. On the other hand, the Chinese government released a series of policies to encourage the development of new-energy vehicles industry, which is expected to have a decent growth. The Group will strengthen the R&D ability of HVAC systems for new-energy vehicles, strive to expand the market, and try its best to become the leading supplier of HVAC systems for new-energy vehicles in China.

The Group will continuously commit itself to developing its core operation of automotive HVAC systems, thus ensuring the core competitive strength of the Group. The Group will further develop the following aspects so as to sharpen its competitive edges in the market.

1) **R&D of products**

As always, the strong capability of R&D plays a major role in the successes of the Group. We will strive to strengthen our R&D capabilities by recruiting more talents, increasing R&D expenditure and expanding our R&D facilities. In addition, we will cement cooperation ties with universities, automotive plants, and our suppliers for air-conditioner components. Furthermore, the R&D building with a gross floor area of 15,631 square meters in Jiangning District, Nanjing City, the PRC, was put into use in January 2014.

The Chinese government is planning to further accelerate the promotion of new-energy vehicles, push forward the industrial transformation of the automobile industry, and establish a long-term and stable policy regime for new-energy vehicles, which would all promote the healthy development of the new-energy automobile industry. Riding on the favorable national policies in promoting new-energy vehicles strenuously and the general development trend of the industry, the Group and Beijing Automotive Group will continue and further deepen their business relationships in the new-energy vehicles sector to carry out technical exchanges and strategic cooperation. Pursuant to the strategic cooperative agreement on HVAC systems for new-energy vehicles entered into between the Group and Beijing Automotive Group in July 2014, both parties will continue and further deepen their business relationship to develop more HVAC systems of different models as to cater the launch of new-energy vehicles models by Beijing New Energy according to the market demand and environmental standards. The Group will launch more resource to develop HVAC systems for new-energy vehicles to achieve greater progress, thus strengthen our competitive advantage.

2) **Cost advantage**

In order to maintain our long-term competitiveness and stable profit margins, we will endeavor to maintain our cost advantages. We will improve the economic benefits through R&D of new products, optimization of the manufacturing process and efficiency by upgrading our production lines and improving the level of automation, and increasing market share.

3) **More production bases**

To further improve our service to our customers, reduce the distribution cost and strengthen our strategic co-operation with our major customers, in addition to current production bases, we will consider to build new bases, with a view to lowering transport costs and further improve our standards for services rendered to the customers.

4) **Business expansion**

We will actively seek favorable and potential business expansion and acquisition opportunities, thus achieving long-term business growth, while further increase the Company's turnover, improve profitability, and thus maximize the returns of the Shareholders.

Corporate Governance Practices

The Company has all along committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the Year.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Main Board Listing Rules") as its own code of corporate governance.

During the Year, the Company was in compliance with all code provisions set out in the CG Code except for the deviations as explained below:

- under code provision A.2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual, but for the purpose of our Group, the roles of the chairman and the chief executive officer of the Company are not separate and both are performed by Mr. Chen Cunyou. Since the Directors meet regularly to consider major matters regarding the operations of the Company, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that, with the effective operations of the Board which comprises experienced and high-calibre individuals, this structure will enable the Company to make and implement decisions promptly and efficiently.

- under code provision A.6.7 of the CG Code, all non-executive Directors should attend general meetings of the Company. All non-executive Directors of the Company (including independent non-executive Directors) attended the annual general meeting of the Company held on 9 May 2014 (the "AGM"), other than the non-executive Directors, Mr. Fang Kenneth Hung, Mr. Wang Zhenyu and Mr. Zhang Yichen (each resigned on 30 July 2014), and the independent non-executive Director, Mr. Lau Ying Kit who were absent from the AGM due to pre-arranged business commitments.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Main Board Listing Rules ("Model Code") as its own code of conduct for securities transactions by the Directors. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings as set out in the Model Code during the Year.

The Board of Directors

Composition

The Board currently comprises eleven Directors, of which two are executive Directors, five are non-executive Directors and four are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:

Mr. Chen Cunyou *(Chairman)*
Mr. Ge Hongbing

Non-executive Directors:

Mr. Han Yonggui *(Vice Chairman)* (appointed on 25 August 2014)
Mr. Li Xuejun (appointed on 25 August 2014)
Mr. Zhu Zhenghua (appointed on 25 August 2014)
Mr. Chen Hao (appointed on 25 August 2014)
Mr. Huang Yugang (appointed on 25 August 2014)
Mr. Fang Kenneth Hung (resigned on 30 July 2014)
Mr. Liu Xiaoping (resigned on 30 July 2014)
Mr. Wang Zhenyu (resigned on 30 July 2014)
Mr. Zhang Yichen (resigned on 30 July 2014)

Independent non-executive Directors:

Mr. Lau Ying Kit
Mr. Cheung Man Sang
Mr. Zhang Shulin
Mr. Lin Lei (appointed on 25 August 2014)

The biographical details of each Director are set out in the section "Directors and Senior Management" on pages 23 to 29.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. During the Year, five Board meetings were held and the attendance records of individual Directors are set out below:

	Number of Board meetings attended/held
Executive Directors	
Mr. Chen Cunyou *(Chairman)*	5/5
Mr. Ge Hongbing	5/5
Non-executive Directors	
Mr. Han Yonggui(1)	2/2
Mr. Li Xuejun(1)	1/2
Mr. Zhu Zhenghua(1)	1/2
Mr. Chen Hao(1)	1/2
Mr. Huang Yugang(1)	2/2
Mr. Fang Kenneth Hung(2)	3/3
Mr. Liu Xiaoping(2)	3/3
Mr. Wang Zhenyu(2)	2/3
Mr. Zhang Yichen(2)	0/3
Independent non-executive Directors	
Mr. Lau Ying Kit	5/5
Mr. Cheung Man Sang	4/5
Mr. Zhang Shulin	5/5
Mr. Lin Lei(1)	2/2

(1) Appointed on 25 August 2014

(2) Resigned on 30 July 2014

There are four independent non-executive Directors who represent 36% of the Board, and all of them have appropriate professional qualifications.

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

Directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Both draft and final versions of the minutes are sent to all Directors for their comment and records. Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

General Meetings

In 2014, an annual general meeting was held on 9 May 2014. The chairman of the Board, as well as Chairman of each of the Board committees, or in their absence, members of the respective committees, and the external auditors of the Company, were available to answer questions from shareholders at the annual general meeting. At the annual general meeting, procedures for conducting a poll were explained by the Chairman and a resolution was proposed in respect of each separate issue itemized in the agenda.

The forthcoming 2015 annual general meeting ("2015 AGM") will be held on 13 May 2015.

Responsibilities of the Board and Management

The Board is primarily responsible for overseeing and managing the Company's affairs, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. The Board is also responsible for determining the Company's corporate governance policies which include: (i) development and review of the Company's policies and practices on corporate governance; (ii) review and monitoring of the training and continuous professional development of Directors and senior management; (iii) review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements; (iv) review and monitoring of the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) review of the Company's disclosure in the Corporate Governance Report.

While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association). With the new composition of members of the nomination committee, remuneration committee and audit committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by the respective Board committees.

The Board has also delegated the responsibility of implementing its strategies and the day-to-day operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance and financial reporting, internal controls, communication with shareholders, Board membership, delegation of authority and corporate governance.

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The financial statements set out on pages 42 to 101 were prepared on the basis set out in note 2 to the consolidated financial statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements.

Having made reasonable enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

There is no non-compliance with rules 3.10(1), (2) and 3.10A of the Main Board Listing Rules. Except as disclosed in the section titled "Directors and Senior Management" below, there is no financial, business family or other material relationship among members of the Board.

Confirmation of Independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Main Board Listing Rules. The Company, on the basis of the aforesaid confirmations, is of the view that all independent non-executive Directors are independent in accordance with the guidelines set out in Rule 3.13 of the Main Board Listing Rules.

Continuous Professional Development

Pursuant to CG Code Provision A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. Each newly appointed director would receive an induction package covering the statutory and regulatory obligations of a director of a listed company. The Company also provides briefings and other training to develop and refresh the Directors' knowledge and skill. The Company continuously updates Directors on the latest developments regarding the Main Board Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

A briefing session was organized for Directors on 9 May 2014 to update the Directors on the new amendments to the CG Code and the associated Main Board Listing Rules and a briefing session was organized for newly appointed Directors on 25 August 2014 to cover the statutory and regulatory obligation of a director of a listed company.

Appointment, Re-election and Removal

All independent non-executive Directors have entered into letters of appointment with the Company for a specific term of three years, subject to re-election.

In accordance with the articles of association of the Company, at each annual general meeting one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall retire from office by rotation. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Nomination Committee

The Company established a nomination committee pursuant to a resolution of the Directors passed on 21 May 2012 with written terms of reference in compliance with paragraph A.5.2 of the CG Code. Its terms of reference are available on the websites of the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

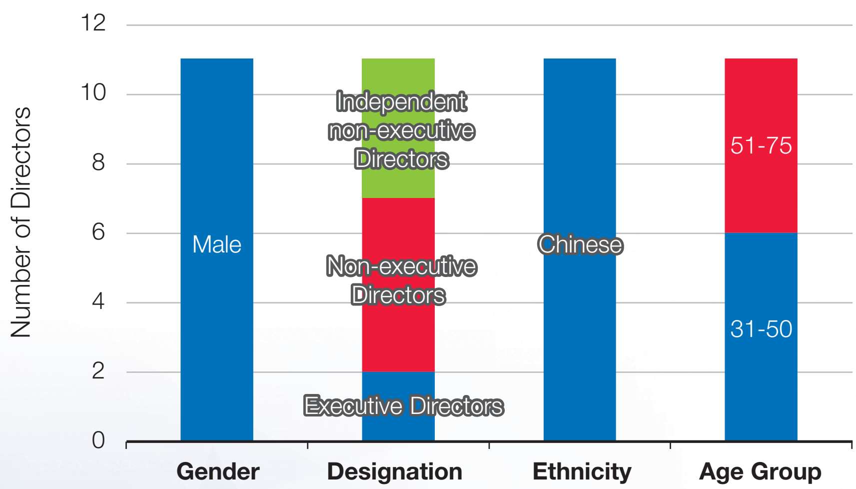
The primary duties of the nomination committee are to review the structure, size and composition of the Board on regular basis; to identify individuals suitably qualified to become Board members; to assess the independence of independent non-executive Directors; and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. As at the date of this annual report, the nomination committee comprises four independent non-executive Directors, namely Mr. Zhang Shulin (Chairman), Mr. Cheung Man Sang, Mr. Lau Ying Kit, and Mr. Lin Lei , who as appointed on 25 August 2014. Non-executive director, Mr. Liu Xiaoping resigned as a member of nomination committee on 30 July 2014..

During the Year, one meeting of the nomination committee was held on 28 March 2014. The attendance records of individual Directors are set out below:

	Number of nomination committee meeting attended/held
Mr. Zhang Shulin *(Chairman)*	1/1
Mr. Cheung Man Sang	1/1
Mr. Lau Ying Kit	1/1
Mr. Lin Lei (appointed on 25 August 2014)	Not applicable
Mr. Liu Xiaoping (resigned on 30 July 2014)	1/1

When identifying suitable candidates for directorship, the nomination committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Main Board Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Main Board Listing Rules. Qualified candidates will then be recommended to the Board for approval.

The following is a chart showing the diversity profile of the Board:



For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

(A) at least 50% of the members of the Board shall be non-executive Directors or independent non-executive Directors;

(B) at least one-third of the members of the Board shall be independent non-executive Directors;

(C) at least one of the members of the Board shall have obtained accounting or other professional qualifications;

(D) at least 50% of the members of the Board shall have more than 5 years of experience in the industry he/she is specialised in; and

(E) at least 50% of the members of the Board shall have China-related work experience.

Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 21 May 2012 with written terms of reference in compliance with Rule 3.25 and Rule 3.26 of the Main Board Listing Rules. The written terms of reference of the remuneration committee was adopted in compliance with paragraph B.1.2 of the CG Code. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and to ensure that none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration the Company's performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that they are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. As at the date of this annual report, the remuneration committee consists of four members, including four independent non-executive Directors, namely Mr. Cheung Man Sang (Chairman), Mr. Lau Ying Kit, Mr. Zhang Shulin, and Mr. Lin Lei, who was appointed on 25 August 2014. Non-executive director, Mr. Fang Kenneth Hung resigned as a member of remuneration committee on 30 July 2014.

Details of remuneration of Directors are set out in note 9 to the consolidated financial statements.

Pursuant to paragraph B.1.5 of the CG Code, the remuneration paid to members of senior management who are not executive Directors by bands for the Year is set out below:

Remuneration band	**Number of individuals**
Nil to RMB300,000	5
RMB300,001 to RMB1,000,000	1

During the Year, one meeting was held on 28 March 2014. The attendance records of individual Directors are set out below:

	Number of remuneration committee meeting attended/held
Mr. Cheung Man Sang *(Chairman)*	1/1
Mr. Lau Ying Kit	1/1
Mr. Zhang Shulin	1/1
Mr. Lin Lei (appointed on 25 August 2014)	Not applicable
Mr. Fang Kenneth Hung (resigned on 30 July 2014)	1/1

Audit Committee

The Company established an audit committee pursuant to a resolution of the Director passed on 21 May 2012 with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Main Board Listing Rules as well as paragraph C.3.3 and C.3.7 of the CG Code. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the audit committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements, provide material advice in respect of financial reporting and oversee internal control procedures of the Company. As at the date of this annual report, the audit committee consists of four members, all of whom are independent non-executive Directors, namely Mr. Lau Ying Kit (Chairman), Mr. Cheung Man Sang, Mr. Zhang Shulin and Mr. Lin Lei, who were appointed on 25 August 2014.

The audit committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group's financial reporting process and internal controls.

During the Year, the audit committee had three meetings on 25 February 2014, 28 March 2014 and 29 August 2014 with the senior management and independent auditor of the Company to consider the independence and audit scope of independent auditor, and to review and discuss the connected transactions, the internal control system, interim and annual financial statements of the Company and the opinion and report of independent auditor before submitting to the Board for their approval. The attendance records of individual committee members are set out below:

	Number of audit committee meetings attended/held
Mr. Lau Ying Kit *(Chairman)*	3/3
Mr. Cheung Man Sang	3/3
Mr. Zhang Shulin	3/3
Mr. Lin Lei (appointed on 25 August 2014)	1/1

During the Year and to the date of this annual report, the Board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

Auditor's Remuneration

During the Year, the Company engaged KPMG as the external auditors. The fees in respect of audit services and non-audit services provided by KPMG for the Year approximately amounted to RMB2,150,000 and RMB150,000 respectively.

Details of auditor's responsibilities on the Company's consolidated financial statements are set out in the Independent Auditor's Report on pages 40 and 41.

Company Secretary

Mr. Chui Wing Fai, being our company secretary, is primarily responsible for the company secretarial work of our Group. The Company confirms that Mr. Chui Wing Fai has for the Year attended no less than 15 hours of relevant professional training.

Internal Controls

The Board is responsible for maintaining a sound and effective internal control system in order to safeguard the interests of the shareholders and the assets of the Company against unauthorised use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

The Board and the audit committee have conducted a review of the effectiveness of the Group's internal control system for the Year and will continue to assess the effectiveness of internal controls by considering reviews performed by the audit committee and executive management.

Shareholders' Rights

The following procedures for shareholders of the Company to convene an extraordinary general meeting ("EGM") of the Company are prepared in accordance with the articles of association of the Company as follows:

(1) 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, shall have the right, by written notice, to require an EGM to be called by the Directors of the Company for the transaction of any business specified in such requisition.

(2) Such requisition shall be made in writing to the Board or the company secretary of the Company at the following:

Principal place of business of the Company in Hong Kong

Address:	Room 2912, Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Email:	ir@njxiezhong.com

Principal place of business of the Company in the PRC

Address:	389 Kening Road, Science Park, Jiangning District, Nanjing, Jiangsu Province, the PRC
Email:	ir@njxiezhong.com

Registered office of the Company

Address:	P.O. Box 309, Ugland House, Grand Cayman, KY1–1104, Cayman Islands

(3) The EGM shall be held within three months after the deposit of such requisition.

(4) 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.

For matters in relation to the Board, the shareholders can contact the Company at the following:

Address:	Room 2912, Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Email:	ir@njxiezhong.com
Tel:	3710 6740
Fax:	2568 0210

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his or her proposal ("Proposal") with his or her detailed contact information at the Company's principal place of business in Hong Kong.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) At least 14 days' notice in writing if the Proposal requires approval by way of ordinary resolution of the Company.

(2) At least 21 days' notice in writing if the Proposal requires approval by way of a special resolution of the Company in an EGM or an annual general meeting of the Company.

Investor Relations and Communication

The Board recognises the importance of good communications with all shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations. The Company is committed to a policy of open and timely disclosure of corporate information to its shareholders and public investors.

The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's activities for the Year has been provided in this annual report. While the AGM provides a valuable forum that facilitates direct communications between the Board and its shareholders, the Company also maintains its website www.xiezhonginternational.hk to provide an alternative communication channel for the public and its shareholders. All corporate communication and Company's latest updates are available on the Company's website for public's information.

From 18 June 2012 (the "Listing Date") and up to 31 December 2014, there has been no significant change in the Company's memorandum and articles of association.

Directors

Executive Directors

Mr. Chen Cunyou, aged 52, is the chairman and the chief executive officer of the Company and an executive Director. He is also a director of Xiezhong BVI, Xiezhong HK, Xiezhong Nanjing, Xiezhong Beijing and Xiezhong Liaoning.

Mr. Chen is the founder of Xiezhong Nanjing and has acted as its general manager since its establishment in April 2002. He was also the chairman of board of directors of Xiezhong Nanjing from April 2002 to May 2008 and was re-appointed as the chairman of Xiezhong Nanjing since September 2011. He has been appointed as a Director since 30 September 2011.

He served as the general manager of 江蘇汽車空調器製造有限公司 (Jiangsu Auto Airconditioner Manufacturing Co., Ltd.#) from 1994 to 1997. Then, he served as the general manager of 南京中港汽車空調器製造有限公司 (Nanjing Zhonggang Auto Air-conditioner Manufacturing Co., Ltd.#) until he founded Xiezhong Nanjing in April 2002. He has served as the chairman of 南京浙商投資有限公司 (Nanjing Zheshang Investment Co., Ltd.#) since 2003 and as the chairman of 南京浙江商會 (Nanjing Zhejiang Chamber of Commerce#) since 2002. He is also a member of the People's Congress of the PRC of Nanjing.

Mr. Chen obtained a master's degree in business administration from University of Atlanta, formerly known as Barrington University, in May 2003. Mr. Chen was also granted the award of Model Worker of Nanjing (南京市勞動模範) by Nanjing Municipal People's Government of the PRC in 2005.

Mr. Ge Hongbing, aged 44, is our executive deputy general manager and an executive Director. Mr. Ge is also a director, executive deputy general manager and chief engineer of Xiezhong Nanjing, a director and the general manager of Xiezhong Beijing, a director of Xiezhong BVI, Xiezhong HK and the chairman of Xiezhong Liaoning. He joined our Group since the establishment of Xiezhong Nanjing and he has been appointed as a Director since 29 November 2011.

Mr. Ge has approximately 18 years of experience in the automobile air conditioner industry. Mr. Ge worked for 東風 — 派恩汽車鋁熱交換器有限公司 (Aeolus-Pan Automobile Aluminium Heat Exchanger Co., Ltd.#) as a R&D engineer of the technical department from October 1994 to March 1995. Mr. Ge worked as R&D engineer of the technical department in 南京派恩汽車空調有限公司 (Nanjing Pan Automobile Air-conditioning Co., Ltd.#) from April 1995 to March 1996. Mr. Ge served various positions when he worked in 南京中港汽車空調器製造有限公司 (Nanjing Zhonggang Automobile Air Conditioner Manufacturing Co., Ltd.#) between April 1996 to April 2002, including chief engineer, head of technical department and head of sales department. Mr. Ge graduated with a bachelor's degree from 東華大學 (Donghua University) (formerly known as 中國紡織大學 (China Textile University)) in July 1994 majored in heat ventilation and air-conditioning engineering. Mr. Ge obtained his master's degree in business administration from University of Atlanta, formerly known as Barrington University, in May 2003.

Non-executive Directors

Mr. Han Yonggui, aged 51, is currently a director and executive deputy general manager of Beijing Automotive Group, the chairman of Hainachuan and a director of BHAP. In addition, with effect from 30 July 2014 and 25 August 2014, Mr. Han has been appointed as director of Xiezhong Nanjing and Xiezhong BVI and Xiezhong HK respectively.

Mr. Han had approximately 30 years of experience in the automobile industry in China. Mr. Han began his career in August 1985 where he worked as a technical officer at the technology department of the Beijing 2nd Automobile Workshop# (北京第二汽車製造廠), vice secretary and secretary to the League Party Committee until his departure.

Between May 1990 and December 1994, Mr. Han has served various positions in Beijing Automotive Industry Associates Company# (北京汽車工業聯合公司). These positions include deputy secretary and secretary of League Party Committee and director of education.

Between December 1994 and January 2001, Mr. Han has served various positions in Beijing Automotive Industry Group Head Company# (北京汽車工業集團總公司). These positions include education director, director and deputy general manager. During the same period, Mr. Han also served various positions including party secretary, director and general manager at the Beijing Light Automobile Co., Ltd.# (北京輕型汽車有限公司).

Between January 2001 and December 2010, Mr. Han has served various positions in Beijing Automotive Industry Holding Co., Ltd.# (北京汽車工業控股有限責任公司) including secretary of the board and deputy general manager. During the same period, Mr. Han also served head of Beijing Automotive Technology Center and director of Beiqi Foton Motor Co., Ltd..

Prior to his current positions, Mr. Han has served in various positions at Beijing Automotive Group, including director, deputy general manager and executive deputy general manager between December 2010 and February 2014. During the same period, Mr. Han also served acting general manager at Beijing Automotive Group and party deputy secretary, director and president at Beijing Automotive Co., Ltd. and director of 北京賓士汽車有限公司 (Beijing Benz Automotive Co., Ltd.).

Mr. Han obtained a master's degree of business administration from the Asia (Macau) International Open University in July 2000 and is a senior engineer by profession.

Mr. Li Xuejun, aged 51, has approximately 18 years of experience in the car industry in PRC and has been the general manager of Hainachuan since March 2013. He is currently a director of Hainachuan and BHAP. In addition, with effect from 30 July 2014 and 25 August 2014, Mr. Li has been appointed as director of Xiezhong Nanjing and Xiezhong BVI and Xiezhong HK, respectively. Mr. Li obtained his master's degree in Department of National Economic Management from Renmin University of China (中國人民大學) in July 1993 and his bachelor's degree from Shandong University of Technology (山東工業大學) in July 1986.

Prior to joining Beijing Hainachuan Automotive Parts Co., Ltd., between July 1986 and July 1990, Mr. Li worked as a teacher in Taian Machinery and Electronic Industry Training Centre# (泰安機械電子工業局培訓中心) in Shandong Province, PRC. Between July 1993 and December 1996, Mr. Li was a branch manager and an assistant of the general manager of Tiancifu Bioengineering Co., Ltd.# (天賜福生物工程有限公司) under Huachen Auto Group# (華晨汽車集團). Mr. Li has also been a vice general manager of Shenyang Jinbei Coach Manufacturing Co., Ltd.# (瀋陽金杯客車有限公司) under Huachen Auto Group between December 1996 and January 2002 and Beijing Hualian Hypermarket Co., Ltd.# (北京華聯綜合超市股份公司) between March 2002 and April 2005 respectively. Since July 2005, Mr. Li has become a senior manager in Beijing Automotive Investment Co., Ltd# (北京汽車投資有限公司). From January 2007, he worked as an executive vice president in Beijing Benz — Daimler • Chrysler Automotive Co., Ltd.# (北京奔馳戴姆勒克萊斯勒汽車有限公司) until March 2009. Since then, Mr. Li has been a vice general manager in the passenger vehicle business department (乘用車事業部) of Beijing Automotive Industry Holding Co., Ltd.# (北京汽車工業控股有限責任公司) until December 2010. Between December 2010 and March 2013, Mr. Li became a vice president and also a member of the party committee in BAIC Motor Corporation Ltd.# (北京汽車股份有限公司).

Mr. Zhu Zhenghua, aged 40, is currently the vice general manager of Beijing Industrial Developing Investment Management Co., Ltd ("Beijing Industrial") and a director of Hainachuan. Mr. Zhu has been working for Beijing Industrial since June 2008. In addition, with effect from 30 July 2014 and 25 August 2014, Mr. Zhu has been appointed as director of Xiezhong Nanjing and Xiezhong BVI and Xiezhong HK respectively. Initially, Mr. Zhu joined Beijing Industrial as a project manager in its management department. Mr. Zhu then transferred to its investment department and was promoted as a manager in February 2010. Mr. Zhu has worked as both an assistant of general manager and a manager in the investment department since November 2011 and as vice general manager since November 2012 till now. Prior to joining Beijing Industrial, between July 1997 and October 2004, Mr. Zhu worked firstly as an engineer, then a technology duty factory manager and eventually became the factory manager of Shenzhen Konka Group Plastic Factory# (深圳康佳集團塑膠廠) under Konka Group Co., Ltd. (康佳集團股份有限公司). Since October 2004, Mr. Zhu has worked as a general manager in Beijing Konte Eiho Electronics Co., Ltd. (北京康特榮寶電子有限公司), a subsidiary of BOE Technology Group Co., Ltd. (京東方科技集團股份有限公司).

Mr. Zhu obtained his master's degree in Business Administration from Peking University (北京大學) in July 2008 and his bachelor's degree in Engineering from Beijing University of Chemical Technology (北京化工大學) in July 1997.

Mr. Chen Hao, aged 31,has been the president of Nanjing Xiezhong Motor Group# (南京協眾汽車集團) since October 2013. Nanjing Xiezhong Motor Group is primarily engaged in the business of 4s Dealerships and has branches both within Nanjing and other provinces of the PRC. In addition, with effect from 30 July 2014 and 25 August 2014, Mr. Chen has been appointed as director of Xiezhong Nanjing and Xiezhong BVI and Xiezhong HK respectively. Since July 2010, Mr. Chen has been the general manager of Nanjing Xiezhong Dongqi Automobile Co., Ltd.# (南京協眾東麒汽車有限公司) which operates 4s Dealerships. Prior to his current positions, Mr. Chen was the deputy general manager of Nanjing Automobile Co. Ltd.# (南京協眾汽車有限公司), a 4s Dealerships, between January 2009 to July 2010 and a sales manager and consultant of Kia Motor in Vancouver, Canada between December 2007 to December 2008.

Mr. Chen obtained a master's degree of Arts in Asia Pacific Business from the Royal Holloway and Bedford New College to the University of London in the United Kingdom in November 2007.

Mr. Chen is the son of Mr. Chen Cunyou, the executive Director and Chairman of the Company and the elder brother of Ms. Chen Jiao.

Mr. Huang Yugang, aged 45, is currently the deputy general manager and the head of the R&D department of Xiezhong Nanjing, who is responsible for overseeing the technical aspect of its production and the R&D of the products. Mr. Huang has also been the general manager of Xiezhong Liaoning since February 2010. In addition, with effect from 30 July 2014 and 25 August 2014, Mr. Huang has been appointed as director of Xiezhong Liaoning and Xiezhong Nanjing and Xiezhong BVI and Xiezhong HK respectively.

Prior to joining the Company, Mr. Huang worked in the Number 2 Factory of Juhua Electric Appliance (Group) Co., Ltd., Wuxi# (菊花電器集團有限公司二廠) as a technician from July 1990 to June 1993. Mr. Huang then worked in Jiangyin Yueyang Automobile Air conditioner Co., Ltd.# (江陰粵陽汽車空調有限公司) from June 1993 to August 1997 and has served various positions, including the head of the quality control department and the head of technical department. Mr. Huang then worked in Zhang Jia Gang Pan Automobile Air Conditioner Co., Ltd.# (張家港派恩汽車空調有限公司) as technical manager from August 1997 to December 1999. From August 2000 to April 2002, Mr. Huang worked in Nanjing Zhonggang Automobile Air Conditioner Manufacturing Co. Ltd.# (南京中港汽車空調器製造有限公司) as the head of technical department.

Mr. Huang obtained a diploma in the Discipline of Microcomputer from the Department of Electronics of Jiangnan University in July 1990. Mr. Huang joined the Company in May 2002 and has accumulated approximately 21 years of experience in the production technique and production quality control of electrical appliance and automobile air-conditioning systems.

Independent non-executive Directors

Mr. Cheung Man Sang, aged 58, is an independent non-executive Director. He joined our Group on 16 May 2012 as an independent non-executive Director.

Mr. Cheung is currently the deputy general manager of Anhui Shan Ying Paper Industry Co., Ltd and general manager of Sha Ying Investment Management Ltd. He served as general manager of Shenzhen Richland Health VC Fund Management Co., Ltd before. From August 2010 to November 2010, he served as the general manager of Vigo Hong Kong Investment Ltd. Prior to that, he served various positions at China Travel Service (Holdings) Hong Kong Limited and its group of companies between June 1996 and June 2010. In 1998, he became the general manager of China Travel Finance & Investment (H.K.) Limited, and was subsequently appointed as deputy general manager of group finance department and as general manager of China Travel Insurance Advisers Hong Kong Limited. During February 2007 to 2009, he served as a director of Tangshan Guofeng Iron & Steel Co., Ltd. In 2009, he was transferred back to group finance department of China Travel Service (Holdings) Hong Kong Limited to serve as deputy general manager. He has been serving as the independent non-executive director of (天津市桂發祥十八街麻花總店有限公司) Tianjin Guifaxiang Mahua Food Group CO., LTD.# since 27 December 2011.

Mr. Cheung obtained a master's degree in business administration from 廈門大學 (Xiamen University) in December 2004.

Mr. Lau Ying Kit, aged 41, is an independent non-executive Director of the company. Mr. Lau is currently the chief financial officer and company secretary of Great Harvest Maeta Group Holdings Limited (Stock Code: 03683), a company listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Kingdom Holdings Limited (Stock Code: 528), a company listed on the Main Board of the Stock Exchange and China Wood Optimization (Holding) Limited (Stock Code: 8099), a company listed on the Growth Enterprise Market of the Stock Exchange. He is also a director of Adex Mining Inc. (TSXV Stock Code: ADE), a listed company on the TSX Venture Exchange in Canada. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and holds a Master's Degree in Finance from the City University of Hong Kong. He has extensive experience in financial and accounting in China and Hong Kong. He joined the Group on 16 May 2012.

Mr. Zhang Shulin, aged 74, is an independent non-executive Director. He joined our Group on 16 May 2012 as an independent non-executive Director. He has over 10 years of experience in automobile engineering and over 20 years of experience in managing automobile enterprises.

Mr. Zhang is an independent non-executive director of China Auto Electronics Group Limited, a company listed on the Stock Exchange of Singapore (Stock Code: T42.si.).

Mr. Zhang is currently the chief consultant of 中國汽車技術研究中心 (China Automotive Technology and Research Centre). Mr. Zhang was previously the Deputy Director of 國家機械工業局國家機械工業部汽車司 (the Automotive Section of National Mechanical Industry Department under National Industry Bureau#). He was also the Associate Director and Secretary-General of 中國汽車工業協會 (China Association of Automotive Manufacturers#).

Mr. Zhang received a bachelor's degree in Department of Automation from Tsinghua University in July 1965.

Mr. Lin Lei, aged 47, is an independent non-executive Director, he joined our Group on 25 August 2014. Mr. Lin received a bachelor's degree in Applied Economic Mathematics from the Renmin University of China (中國人民大學) in July 1990, he is the founder and chairman of Sinotrust International Information & Consulting (Beijing) Co. Ltd. (新華信國際信息諮詢(北京)有限公司) ("Sinotrust"). Prior to founding Sinotrust in 1992, from 1990 to 1992, Mr. Lin worked at the Ministry of Foreign Economic Relation and Trade (對外經濟貿易部). At present, Mr. Lin is an independent non-executive directors of Synuta International Inc. (Nasdaq code: SYUT), New Focus Auto Tech Holdings Limited (Stock code: 360) and Car Inc. (Stock code: 699). Mr. Lin is currently a member of the European Society for Opinion and Marketing Research (ESOMAR), the American Marketing Association (AMA). Mr. Lin is also a vice president of China Association of Market Information and Research (CAMIR) (中國市場訊息調查業協會), director of Society of Automotive Engineers of China (SAE) (中國汽車工程學會), commissioner of the expert committee of China Automobile Dealers Association (CADA) (中國汽車流通協會).

Senior Management

Mr. Chen Cunyou, aged 52, is the chairman and the chief executive officer of the Company and an executive Director. Biographical details of Mr. Chen are set out in the paragraph headed "Directors" under this section.

Mr. Ge Hongbing, aged 44, is an executive Director of the Company. Biographical details of Mr. Ge are set out in the paragraph headed "Directors" under this section.

Mr. Huang Yugang, aged 45, is a non-executive Director of the Company. Biographical details of Mr. Huang are set out in the paragraph headed "Directors" under this section.

Mr. Xin Fangwei, aged 40, is the finance manager of Xiezhong Nanjing. Mr. Xin joined our Group in November 2008. Mr. Xin has accumulated approximately 10 years of experience in the areas of financial management. Prior to joining our Group, Mr. Xin worked for 南京泉峰國際貿易有限公司 (Nanjing Chervon International Trading Co., Ltd.#) from November 2001 to December 2004 as a finance officer. Mr. Xin was a senior accounting supervisor of 海康人壽保險有限公司 (AEGON-CNOOC Life Insurance Co. Ltd.#) from August 2005 to August 2006 and a senior accounting supervisor of 海康人壽保險有限公司江蘇分公司 (AEGON-CNOOC Life Insurance Co. Ltd., Jiangsu Branch Co.#) from August 2006 to February 2007. Mr. Xin graduated with a bachelor's degree in auditing from 華北電力大學 (North China Electric Power University#) in July 1999. Mr. Xin obtained his master's degree in business administration from 河海大學 (Hohai University#) in June 2010. Mr. Xin has been an accountant since 2004.

Mr. Lei Shenghua, aged 51, is the deputy general manager of Xiezhong Nanjing and is responsible for overseeing the sales, project management and technical aspect of our business. Mr. Lei joined our Group in March 2011. Mr. Lei has accumulated approximately 19 years of experience in the area of HVAC systems production. Prior to joining our Group, Mr. Lei worked for 江鈴汽車股份有限公司 (Jiangling Motors Co, Ltd.#) as an engineer from January 1992 to March 1996. Mr. Lei worked for 江西新電汽車空調系統有限公司 (Jianxi Xindian Automobile Air Conditioner System Co., Ltd.#) from March 1996 to February 2011 and has served various positions, including engineer, head of production department, director of technology centre, head of marketing department, assistance to the general manager, deputy general manager and executive deputy general manager (responsible for the management of the marketing, production and quality control departments). Mr. Lei graduated with a bachelor's degree in materials science and engineering from Shanghai Jiao Tong University in July 1986.

Mr. Zhang Qingrong, aged 67, has been the deputy general manager of Xiezhong Nanjing since October 2011 and is responsible for overseeing the quality control, production and logistic aspect of our business. Mr. Zhang was the quality director of Xiezhong Nanjing from February 2011 to September 2011 and was responsible for overseeing the quality control of our products. Mr. Zhang joined our Group in February 2011. Mr. Zhang has approximately 14 years of experience in automobile components automobile air conditioning systems. Prior to joining our Group, Mr. Zhang worked for 南京法雷奧離合器有限公司 (Nanjing VALEO Clutch Co., Ltd.#) as the production department manager and logistics department manager from October 1997 to April 2000. Mr. Zhang worked for 空調國際(上海)有限公司 (Air International Shanghai Co., Ltd.#) and has held various positions, including logistic department manager, production department manager and quality department manager and as management representative to oversee production quality control from May 2000 to April 2008 and from October 2009 to June 2010. Mr. Zhang worked for 上海利佰國際貿易有限公司 (Shanghai Leanbuy International Trading Co. Ltd.#) as the quality department manager from May 2008 to September 2009. Mr. Zhang graduated from 上海船舶工業學校 (Shanghai Ship Industrial School#) in January 1969 and obtained an economist title granted by Review Committee of Economics in March 1992.

Mr. Dai Zumian, aged 38, is the chief financial officer of the Company. Prior to joining our Group in May 2012, Mr. Dai was the chief financial officer of 上海金絲猴食品股份有限公司 (Shanghai Golden Monkey Foodstuff Company Limited#) from February 2009 to April 2012. From September 2006 to August 2007, he served as the company secretary and qualified accountant at Hisense Kelon Electrical Holdings Company Limited, a company listed in the Stock Exchange (stock code: 921) and the Shenzhen Stock Exchange (stock code: 000921). Mr. Dai had over 7 years' experience in audit. His experience in audit includes those gained at PricewaterhouseCoopers Zhongtian Certified Public Accountants from February 2005 to August 2006.

Mr. Dai obtained a bachelor's degree in International Business Management from Shanghai University of Finance and Economics and an Executive Master of Business Administration (EMBA) from China Europe International Business School. He is a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Company Secretary

Mr. Chui Wing Fai, aged 49, is the company secretary of the Company. He joined our Group in November 2011.

Prior to joining our Group, Mr. Chui was the company secretary and senior finance manager of China Water Property Group Limited, a company listed on the Main Board of the Stock Exchange, from January 2008 to February 2010. Mr. Chui has over 18 years of experience in audit and accounting.

Mr. Chui obtained a bachelor's degree in business administration from the Chinese University of Hong Kong and a master's degree in business administration from the University of South Australia. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Changes to Information in Respect of Directors

During the Year, there was no changes to information which are required to be disclosed and has been disclosed be the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Main Board Listing Rules.

\# *Literal translation of the Chinese company name*

Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the design, production and sale of automotive HVAC systems and a range of automotive HVAC components and providing technical testing and related services.

There were no significant changes in the nature of the principal activities of the Company and of the Group during the Year.

RESULTS AND DIVIDENDS

The results of the Group for the Year are set out in the consolidated financial statements.

The Board proposed a distribution of a final dividend for 2014 of HKD1.9 cents (2013: HKD2.8 cents) per Share (the "Proposed Final Dividend"). Subject to the approval of the Proposed Final Dividend by the shareholders at the annual general meeting to be held on Wednesday, 13 May 2015, it is expected that the Proposed Final Dividend will be paid on or around on Friday, 29 May 2015 to the shareholders whose names appear in the register of members of the Company on Friday, 22 May 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 21 May 2015 to Friday, 22 May 2015, both days inclusive, during such period no transfer of shares will be registered. In order to qualify for the proposed final dividend for 2014, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration before 4:30 p.m. on Wednesday, 20 May 2015.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Year are set out in note 29 to the consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity and in note 29 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVE OF THE COMPANY

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HKD457,085,000 (equivalent to RMB372,352,000).

BORROWINGS

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and note 24 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

EVENTS AFTER THE YEAR

Details of the non-adjusting events of the Group after the Year are set out in note 33 to the consolidated financial statements.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the law of Cayman Islands (being the jurisdiction in which the Company is incorporated) under which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholder.

DIRECTORS

The Directors who hold office during the Year and up to the date of this annual report are:

Executive Directors:

Mr. Chen Cunyou *(Chairman)*
Mr. Ge Hongbing

Non-executive Directors:

Mr. Han Yonggui *(Vice Chairman)* (appointed on 25 August 2014)
Mr. Li Xuejun (appointed on 25 August 2014)
Mr. Zhu Zhenghua (appointed on 25 August 2014)
Mr. Chen Hao (appointed on 25 August 2014)
Mr. Huang Yugang (appointed on 25 August 2014)
Mr. Fang Kenneth Hung (resigned on 30 July 2014)
Mr. Liu Xiaoping (resigned on 30 July 2014)
Mr. Wang Zhenyu (resigned on 30 July 2014)
Mr. Zhang Yichen (resigned on 30 July 2014)

Independent non-executive Directors:

Mr. Lau Ying Kit
Mr. Cheung Man Sang
Mr. Zhang Shulin
Mr. Lin Lei (appointed on 25 August 2014)

In accordance with the articles of association of the Company, at each annual general meeting one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall retire from office by rotation. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Accordingly, Mr. Chen Cunyou and Mr. Lau Ying Kit shall retire from office by rotation at the conclusion of the forthcoming 2015 AGM and being eligible, offer themselves for re-election thereat. Further, Mr. Han Yonggui, Mr. Li Xuejun, Mr. Zhu Zhenghua, Mr. Chen Hao, Mr. Huang Yugang and Mr. Lin Lei shall retire from office at the conclusion of the forthcoming 2015 AGM and being eligible, offer themselves for re-election thereat.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Main Board Listing Rules. The Company, on the basis of the said confirmations considers all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of our Directors has entered into a service contract or an appointment letter (subject to retirement by rotation and re-election at the annual general meeting and as the case may be) with our Company for an initial fixed term of three years commencing from the Listing Date subject to retirement by rotation and re-election at the annual general meeting and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors who are proposed for election or re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

COMPETITION AND CONFLICT OF INTERESTS

During the Year, none of the Directors, the controlling shareholders and substantial shareholders of the Company or their respective associates (as defined in the Main Board Listing Rules) had any interest in a business that competed or might compete with the business of the Group. Each of Fang Brothers (China) Ltd. ("Fang Brothers"), CDH Cool Limited ("CDH Cool"), CDH Auto Limited ("CDH Auto"), CITIC Capital China Limited ("CITIC Capital China"), Sunrise International, Mr. Chen Hao and Mr. Chen Cunyou declared that it/he has complied with the undertakings given under the Deed of Non-competition as disclosed in the Prospectus. The independent non-executive Directors have also reviewed the relevant undertakings and have not noticed any non-compliance incident.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out in the section headed "Directors and Senior Management" of this annual report.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 21 May 2012 and revised on 30 May 2012 for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

The Company's existing Share Option Scheme was approved for adoption pursuant to a written resolution of all of our shareholders passed on 21 May 2012 and revised on 30 May 2012 for the purpose of providing our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and or providing benefits to eligible participants and for such other purposes as the Board approve from time to time.

Subject to the terms of the Share Option Scheme, the Board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares:

(i) (1) any employee (whether full-time or part-time employee) of any members of our Group or any affiliates (as defined in the Share Option Scheme) and any person who is an officer of any members of our Group or any affiliates ("Employee");

(2) any person who is seconded to work for any member of our Group or any affiliates ("Secondee");

(3) any consultant, agent, representative, adviser, customer, contractor of our Group or any affiliates;

(4) any business partner/ally/alliance, joint venture partner, supplier of goods or services to our Group or any affiliates or any employee thereof (collectively the "Eligible Person"); or

(ii) any trust for the benefit of an Eligible Person or his immediate family members or any company controlled by an Eligible Person or his immediate family members ("Related Trust and Company").

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 and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (i.e. 80,000,000 Shares). Options lapsed in accordance with the terms of the Share Option Scheme or any other schemes will not be counted for the purpose of calculating the 10% limit.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and general information" in Appendix VI to the Prospectus. Summary of the principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 21 May 2012 and remains in force until 20 May 2022. The Company may, by resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

(1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option ("Date of Grant") which must be a trading day;

(2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and

(3) the nominal value of the shares on the Date of Grant.

Upon acceptance of the options, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 80,000,000 shares, which represents 10% of the shares in issue of the Company as at the date of this report.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Main Board Listing Rules.

During the Year, no share options were granted, exercised, lapsed or cancelled in accordance with the terms of the Share Option Scheme.

SHARE INCENTIVE PLAN

On 29 October 2008, the board of directors of Xiezhong Nanjing adopted the share incentive plan, pursuant to which 33 grantees were granted rights to acquire at nil consideration, shares in Xiezhong Nanjing or its listing vehicle holding company, totalled 5% of the issued shares of such listing vehicle immediately before its Listing, conditional upon Xiezhong Nanjing having achieved the targeted profits for each of the years 2008, 2009 and 2010 of RMB60 million, RMB63 million, and RMB80 million respectively (the "Share Incentive Plan"). As Xiezhong Nanjing had achieved the targeted profits, Fang Brothers, CDH Cool, CDH Auto, CITIC Capital China and Sunrise International agreed to transfer a total of 30,000,000 Shares of the Company to the said grantees at nil consideration in proportion to their respective interests in the Company upon the grantees exercising their rights under the Share Incentive Plan. Such rights can be exercised for a period of 10 years from the date of grant. During the Year, 30,000,000 Shares were transferred to the grantees pursuant to the exercise notice given by the grantees. Amongst which, 10,260,000, 6,000,000 and 3,000,000 Shares were transferred at nil consideration to Mr. Chen Cunyou, Mr. Ge Hongbing and Mr. Huang Yugang, respectively. Mr. Huang Yugang has disposed of 1,500,000 Shares.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at 31 December 2014, save as disclosed below, none of the Directors or chief executive of our Company who held office on 31 December 2014 had any interests or short positions in the Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions) which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code.

Long positions (L) or short positions in the Ordinary shares of HKD0.01 each (the "Shares") of the Company or any of its associated corporations

Name of Directors	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Mr. Chen Cunyou	Beneficial owner	10,260,000 (L)	1.2825%
Mr. Ge Hongbing	Beneficial owner	6,000,000 (L)	0.75%
	Interest of spouse	12,000,000 (L)	1.5%
Chen Hao (appointed on 25 August 2014) *Note*	Beneficial owner	12,000,000 (L)	1.5%
	Interest of controlled corporation	228,000,000 (L)	28.5%
Huang Yugang (appointed on 25 August 2014)	Beneficial owner	1,500,000 (L)	0.1875%

Note:

As Sunrise International is 100% owned by Mr. Chen Hao, therefore, Mr. Chen Hao is deemed to be interested in all the shares held by Sunrise International by Virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as it is known to the Directors, save as disclosed below, our Directors are not aware of any person (other than Directors and chief executive of the Company) who, as at 31 December 2014, had interests or short positions in any shares or underlying shares which are required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Long positions (L) or short positions in Shares

Name of shareholders	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
BHAP[1]	Beneficial owner	265,332,600 (L)	33.17%
Hainachuan[1]	Interest of controlled corporation	265,332,600 (L)	33.17%
Beijing Automotive Group[1]	Interest of controlled corporation	265,332,600 (L)	33.17%
State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality	Interest of controlled corporation	265,332,600 (L)	33.17%
Beijing Industrial Developing Investment Management Co., Ltd[1]	Interest of controlled corporation	265,332,600 (L)	33.17%
Beijing State-owned Assets Management Co., Ltd[1]	Interest of controlled corporation	265,332,600 (L)	33.17%
Sunrise International	Beneficial owner	228,000,000 (L)	28.50%
Brilliance[2]	Beneficial owner	40,763,400 (L)	5.09%
Chen Jiao[2]	Beneficial owner	12,000,000 (L)	1.5%
	Interest of controlled corporation	40,763,400 (L)	5.09%

Notes:

1. Each of these entities is deemed to be interested in all the shares held by BHAP by virtue of the SFO given their direct or indirect relationship with BHAP as described below:

   (a) BHAP is wholly-owned by Hainachuan, which is owned as to 60% by Beijing Automotive Group and 40% by Beijing Industrial Developing Investment Management Co. Ltd. (北京工業發展投資有限公司) respectively.

   (b) Beijing Automotive Group is a wholly-owned subsidiary of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality.

   (c) Beijing Industrial Developing Investment Management Co., Ltd is a wholly-owned subsidiary of Beijing State-Owned Assets Management Co., Ltd. (北京市國有資產經營有限責任公司)

2. Brilliance is 100% owned by Ms. Chen Jiao. Therefore, Ms. Chen Jiao is deemed to be interested in all the shares by Brilliance by virtue of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Share Incentive Plan and Share Option Scheme as set out in note 25(a) and 25(b) to the consolidated financial statements, at no time during the Year was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the Shares in, or debt securities of, the Company.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed herein, no contract of significance in relation to which the Company, its holding company or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the Prospectus and for the continuing connected transactions as disclosed in this annual report, no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries was a party subsisted at the end of the Year or at any time during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group's five largest customers together accounted for 71.2% of the Group's sales, of which 23.1% was attributable to the largest customer. During the Year, the Group's five largest suppliers together accounted for 19.7% of the Group's purchases of which 4.7% was attributable to the largest supplier. To the best knowledge of the Directors, neither the Directors, their close associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers and suppliers during the Year.

CONTINUING CONNECTED TRANSACTIONS REQUIRED FOR DISCLOSURE UNDER THE MAIN BOARD LISTING RULES

1. Connected transactions in relation to daily operation

— Sale of automobile air-conditioning systems and assembly parts to Beijing Automotive Group and its subsidiaries or associates ("BAIC")

On 10 May 2012, Xiezhong Nanjing and BAIC entered into a master sales agreement (the "Beijing Auto Master Sales Agreement"), pursuant to which the Group agreed to sell air-conditioning systems and assembly parts of automobile air-conditioning systems to certain associates of BAIC, including Foton, 北京汽車股份有限公司株洲分公司 (Zhuzhou Branch of Beijing Automobile Co., Ltd.#), 北京汽車新能源汽車有限公司 (Beijing Automobile New Energy Automobile Company Limited#) and Hainachuan based on normal commercial terms and at prices to be determined with reference to the prevailing market prices for a term commencing from the Listing Date to 31 December 2014.

Foton is a PRC car manufacturer which is listed on Shanghai Stock Exchange (stock code: 600166). According to Foton's announcement of nine-month period ended 30 September 2014, BAIC was Foton's single largest shareholder which owned 34.14% shares of Foton. 北京汽車股份有限公司株洲分公司 (Zhuzhou Branch of Beijing Automobile Co., Ltd.#) is a branch office of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.#), which is owned as to 51% by BAIC while 北京汽車新能源汽車有限公司 (Beijing Automobile New Energy Automobile Company Limited#) is a wholly-owned subsidiary of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.#). BAIC owns 60% of the registered capital of Hainachuan which in turn is the holding company of BHAP, the controlling Shareholder of the Company. As the controlling shareholder of the Company, BHAP is a connected person of the Company under the Main Board Listing Rules. BAIC as the holding Company of BHAP, is an associate of BHAP and hence a connected person under the Main Board Listing Rules. As BAIC is the holding company of Hainachuan and Hainachuan is the major shareholder of the Company, members of the BAIC Group are our connected persons under the Main Board Listing Rules. The transactions contemplated under the Beijing Auto Master Sales Agreement will constitute a continuing connected transaction for our Company.

The annual cap for the transaction under the Beijing Auto Master Sales Agreement for the Year was RMB345 million. During the Year, the aggregate amount of the transactions under the Beijing Auto Master Sales Agreement was approximately RMB283 million, which was within the annual cap of RMB345 million.

The Company has applied and the Stock Exchange has on 28 May 2012 granted a waiver from, among others, strict compliance with the announcement and/or shareholders' approval requirements under Rule 14A.105 of the Main Board Listing Rules (formerly, Rules 14A.42(3) of the Main Board Listing Rules prior to 1 July 2014) for the continuing connected transactions set out in the Prospectus.

2. The independent non-executive Directors of the Company have reviewed the Group's continuing connected transactions and confirmed that:

— The continuing connected transactions have been entered into in the ordinary and usual course of business of the Group;

— The continuing connected transactions have been entered into either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms; and

— The terms of the relevant agreement governing each of the continuing connected transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

3. The Company's auditor was engaged to report on the 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:

— Nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

— For transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

— Nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

— With respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual cap disclosed in the Prospectus made by the Company in respect of each of the disclosed continuing connected transactions.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the public float as required by the Main Board Listing Rules during the Year.

CORPORATE GOVERNANCE

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had complied with the code provisions as set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules during the Year.

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report contained in this annual report.

ANNUAL GENERAL MEETING

The 2015 AGM, will be held on 13 May 2015, shareholders should refer to details regarding the 2015 AGM in the circular of the Company dated 10 April 2015 and the notice of meeting and form of proxy accompanying thereto.

AUDITOR

KPMG was appointed as auditor of the Company since the Listing and will retire at the forthcoming AGM. A resolution will be proposed at the forthcoming 2015 AGM to re-appoint KPMG as the auditor of the Company.

ON BEHALF OF THE BOARD

Chen Cunyou
Chairman

Hong Kong
30 March 2015

Independent Auditor's Report

Independent auditor's report
to the shareholders of Xiezhong International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xiezhong International Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 42 to 101, which comprise the consolidated and company balance sheets as at 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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. This report is made 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 the 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.

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 profit 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2015

Consolidated Income Statement

For the year ended 31 December 2014
(Expressed in Renminbi Yuan)

	Note	2014 RMB'000	2013 RMB'000
Turnover	5	**744,703**	728,190
Cost of sales		**(570,720)**	(558,266)
Gross profit		**173,983**	169,924
Other revenue and net income	6	**7,718**	11,222
Distribution costs		**(43,340)**	(37,126)
Administrative expenses		**(73,224)**	(56,807)
Other operating expenses		**(5)**	(55)
Profit from operations		**65,132**	87,158
Finance costs	7(a)	**(15,881)**	(9,714)
Share of losses of a joint venture		**—**	(467)
Profit before taxation	7	**49,251**	76,977
Income tax	8(a)	**(7,263)**	(17,589)
Profit for the year		**41,988**	59,388
Attributable to:			
Equity shareholders of the Company	11	**40,208**	58,898
Non-controlling interests		**1,780**	490
Profit for the year		**41,988**	59,388
Earnings per share (RMB)			
Basic and diluted	12	**0.050**	0.074

The notes on pages 49 to 101 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014
(Expressed in Renminbi Yuan)

	2014 **RMB'000**	2013 RMB'000
Profit for the year	**41,988**	59,388
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside Mainland China, net of nil tax	**48**	(390)
Total comprehensive income for the year	**42,036**	58,998
Attributable to:		
Equity shareholders of the Company	**40,256**	58,508
Non-controlling interests	**1,780**	490
Total comprehensive income for the year	**42,036**	58,998

The notes on pages 49 to 101 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2014
(Expressed in Renminbi Yuan)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	13	**497,168**	465,746
Lease prepayments	14	**52,714**	53,961
Intangible assets	15	**23,465**	30,607
Goodwill	16	**46,832**	46,832
Non-current prepayments	18	**38,234**	38,050
Deferred tax assets	26(b)	**7,403**	5,935
		665,816	641,131
Current assets			
Inventories	19	**182,612**	184,597
Trade and other receivables	20	**432,148**	486,054
Amounts due from related parties	32(c)	**55,334**	30,462
Deposits with banks	21	**21,324**	7,050
Cash	22(a)	**196,609**	73,588
		888,027	781,751
Current liabilities			
Trade and other payables	23	**338,876**	345,719
Interest-bearing borrowings	24	**348,567**	235,213
Income tax payables	26(a)	**7,038**	8,268
Provision	27	**5,105**	3,871
		699,586	593,071
Net current assets		**188,441**	188,680
Total assets less current liabilities		**854,257**	829,811
Non-current liabilities			
Deferred income	28	**20,942**	21,193
Deferred tax liabilities	26(b)	**19,622**	19,267
		40,564	40,460
Net assets		**813,693**	789,351

The notes on pages 49 to 101 form part of these financial statements.

	Note	2014 RMB'000	2013 RMB'000
Capital and reserves	29		
Share capital		**6,496**	6,496
Reserves		**776,807**	754,245
Total equity attributable to equity shareholders of the Company		**783,303**	760,741
Non-controlling interests		**30,390**	28,610
Total equity		**813,693**	789,351

Approved and authorised for issue by the Board of Directors on 30 March 2015.

Chen Cunyou
Director

Ge Hongbing
Director

The notes on pages 49 to 101 form part of these financial statements.

Balance Sheet

At 31 December 2014
(Expressed in Renminbi Yuan)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Interests in subsidiaries	17	**505,200**	275,210
Current assets			
Trade and other receivables	20	**303**	110,013
Cash	22(a)	**2,487**	2,839
		2,790	112,852
Current liabilities			
Trade and other payables	23	**9,903**	9,945
Interest-bearing borrowings	24	**122,367**	—
Net current (liabilities)/assets		**(129,480)**	102,907
Net assets		**375,720**	378,117
Capital and reserves	29		
Share capital		**6,496**	6,496
Reserves		**369,224**	371,621
Total equity		**375,720**	378,117

Approved and authorised for issue by the Board of Directors on 30 March 2015.

Chen Cunyou
Director

Ge Hongbing
Director

The notes on pages 49 to 101 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014
(Expressed in Renminbi Yuan)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Statutory reserves	Capital reserve	Other reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 29(c))	(Note 29(d)(i))	(Note 29(d)(ii))	(Note 29(d)(iii))	(Note 29(d)(iv))	(Note 29(d)(v))				
Balance at 1 January 2013	6,496	127,863	31,535	291,546	17,919	17,591	229,963	722,913	28,120	751,033
Changes in equity for 2013:										
Profit for the year	–	–	–	–	–	–	58,898	58,898	490	59,388
Other comprehensive income	–	–	–	–	–	(390)	–	(390)	–	(390)
Total comprehensive income for the year	–	–	–	–	–	(390)	58,898	58,508	490	58,998
Dividends approved in respect of the previous year	–	(20,680)	–	–	–	–	–	(20,680)	–	(20,680)
Appropriation to statutory reserves	–	–	7,310	–	–	–	(7,310)	–	–	–
Balance at 31 December 2013 and 1 January 2014	**6,496**	**107,183**	**38,845**	**291,546**	**17,919**	**17,201**	**281,551**	**760,741**	**28,610**	**789,351**
Changes in equity for 2014:										
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**40,208**	**40,208**	**1,780**	**41,988**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**48**	**–**	**48**	**–**	**48**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**48**	**40,208**	**40,256**	**1,780**	**42,036**
Dividends approved in respect of the previous year 29(b)	**–**	**(17,694)**	**–**	**–**	**–**	**–**	**–**	**(17,694)**	**–**	**(17,694)**
Appropriation to statutory reserves	**–**	**–**	**4,914**	**–**	**–**	**–**	**(4,914)**	**–**	**–**	**–**
Balance at 31 December 2014	**6,496**	**89,489**	**43,759**	**291,546**	**17,919**	**17,249**	**316,845**	**783,303**	**30,390**	**813,693**

The notes on pages 49 to 101 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2014
(Expressed in Renminbi Yuan)

	Note	2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operating activities	22(b)	**131,208**	92,008
Finance costs paid	7(a)	**(15,881)**	(11,913)
Income tax paid	26(a)	**(9,606)**	(24,365)
Net cash generated from operating activities		**105,721**	55,730
Investing activities			
Payment for purchase of property, plant and equipment and lease prepayments		**(89,308)**	(181,410)
Proceeds from disposal of property, plant and equipment		**943**	40
Proceeds from disposal of a joint venture		**–**	3,994
Decrease in unrestricted bank deposits	21	**1,816**	13,093
Interest received		**128**	657
Net cash used in investing activities		**(86,421)**	(163,626)
Financing activities			
Proceeds from new bank loans		**345,567**	268,200
Repayment of bank loans		**(224,200)**	(164,000)
Dividends paid to equity shareholders of the Company	29	**(17,694)**	(20,680)
Net cash generated from financing activities		**103,673**	83,520
Net increase/(decrease) in cash		**122,973**	(24,376)
Cash at 1 January	22(a)	**73,588**	98,354
Effect of foreign exchange rate changes		**48**	(390)
Cash at 31 December	22(a)	**196,609**	73,588

The notes on pages 49 to 101 form part of these financial statements.

1 General information and basis of presentation

Xiezhong International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office address of the Company is at the office of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principle place of business of the Company is at Room 2912, Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong Special Administrative Region ("Hong Kong"). The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 June 2012 (the "Listing Date").

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the design, production and sale of automotive heating, ventilation and cooling ("HVAC") systems and a range of automotive HVAC components and providing technical testing and related services.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). These 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 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 section 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Main Board Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The functional currency of the Company is Hong Kong Dollars ("HKD"). The financial statements are presented in Renminbi ("RMB") as the functional currency of the Group's operating subsidiaries is RMB. The financial statements are presented in RMB, rounded to the nearest thousand except per share data.

2 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The IASB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- IFRIC 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended IFRSs are discussed below:

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Group does not qualify to be an investment entity.

Amendments to IAS 32, Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating units ("CGU") whose recoverable amount is based on fair value less costs of disposal. The initial adoption of the amendments in 2014 does not have an impact on these financial statements.

2 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statements and the consolidated statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)(i)).

2 Significant accounting policies (Continued)

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(i)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

—	Plant and buildings	15–38 years
—	Machinery and equipment	3–10 years
—	Furniture, fixtures and office equipment	5 years
—	Motor vehicles	5 years
—	Leasehold improvement	Over the term of lease

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(i)(ii)).

2 Significant accounting policies (Continued)

(f) Property, plant and equipment (Continued)

Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(g) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(u)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(i)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful life are amortised from the date they are available for use and their estimated useful lives are as follows:

Customer relationships	5–10 years
Core technology	10 years
Software and patent	5–10 years

The estimated useful life of the Group's core technology to manufacture automotive HVAC systems is determined after taking into account the product life cycles for automotive products and anticipated technological and other changes.

Both the period and method of amortisation are reviewed annually.

(h) Leased assets

(i) Lease prepayments

Lease prepayments represent cost of land use right paid to the People's Republic of China ("the PRC") governmental authorities.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see note 2(i)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the periods of the rights which are 50 years.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 Significant accounting policies (Continued)

(i) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed against the allowance account. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 Significant accounting policies (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— lease prepayments;

— intangible assets;

— goodwill; and

— investment in subsidiaries in the Company's balance sheet.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 Significant accounting policies (Continued)

(i) Impairment of assets (Continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(i)(i) and 2(i)(ii)).

Impairment losses recognised in an interim period in respect of goodwill carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 Significant accounting policies (Continued)

(n) Derecognition of non-derivative financial assets and financial liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(o) Cash

Cash comprises cash at bank and on hand and demand deposits with banks and other financial institutions.

(p) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to the PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee costs with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

2 Significant accounting policies (Continued)

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 Significant accounting policies (Continued)

(q) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(r)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(r)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a 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 expenditure expected to settle the obligation.

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 of economic benefits 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 of economic benefits is remote.

2 Significant accounting policies (Continued)

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Service income

Service income is recognised when the service is rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(t) Translation of foreign currency

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated to RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The balance sheet items of foreign operations are translated to RMB at the exchange rates at the balance sheet date.

The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item is recognised in the statement of comprehensive income.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 Significant accounting policies (Continued)

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

(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 Group or the Group's parent.

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

- (i) The entity and the Group 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.
- (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.
- (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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Significant accounting policies (Continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Significant accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described as follows:

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Net realisable value of inventories

Net realisable value of inventories 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. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

3 Significant accounting judgements and estimates (Continued)

(c) Impairment of trade and other receivables

Management determines the impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade and other receivables at the balance sheet date.

(d) Warranty provision

As explained in note 27, the Group makes provision under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(e) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

4 Segment reporting

IFRS 8, *Operating Segments*, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the manufacturing, sale of automotive air-conditioners and rendering of related services.

(a) Information about geographical area

All of the Group's revenue is derived from the sale of automotive HVAC systems and a range of automotive HVAC components and the rendering of services in Mainland China and the principal non-current assets employed by the Group are located in Mainland China. Accordingly, no analysis by geographical segments has been provided for the year.

(b) Information about major customers

The Group's customer base is diversified and includes only 4 customers with whom transactions have exceeded 10% of the Group's annual revenue during the year. Details of concentrations of credit risk arising from the Group's largest customer and the five largest customers are set out in note 30(a).

4 Segment reporting (Continued)

(b) Information about major customers (Continued)

Revenues from sales to a customer which amounted to 10% or more of the Group's revenues for the year are set out below:

	2014 RMB'000	2013 RMB'000
Customer A	**172,253**	74,071
Customer B	**110,623**	106,263
Customer C	**105,080**	104,668
Customer D	**81,856**	89,152

5 Turnover

The principal activities of the Group are manufacturing, sale of automotive HVAC systems and a range of automotive HVAC components, and rendering of services. Rendering of services mainly represent testing services and experiment services.

Turnover represents the sales value of goods supplied to customers and revenue from the rendering of services. The amount of revenue recognised in turnover during the year is as follows:

	2014 RMB'000	2013 RMB'000
Sales of HVAC systems and HVAC components	**700,813**	728,190
Revenue from the rendering of services	**43,890**	—
	744,703	728,190

6 Other revenue and net income

	2014 RMB'000	2013 RMB'000
Other revenue		
Government grants	**3,038**	4,988
Interest income	**128**	657
Others	**4,521**	5,595
	7,687	11,240
Other net income/(expenses)		
Net gain/(loss) on disposal of property, plant and equipment	**31**	(18)
	7,718	11,222

7 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	Note	2014 RMB'000	2013 RMB'000
Interest expenses on bank loans wholly repayable within five years		**12,610**	9,286
Interest on discounted bills		**3,271**	2,627
Less: interest expenses capitalised into construction in progress	(i)	**–**	(2,199)
		15,881	9,714

(i) The borrowing costs have been capitalised at a rate of 5.82% per annum in 2013.

(b) Staff costs

	Note	2014 RMB'000	2013 RMB'000
Salaries, wages, and other benefits		**65,938**	55,054
Contributions to defined contribution retirement plan	(i)	**5,153**	5,670
		71,091	60,724

(i) Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement benefit schemes (the "scheme") organised by the PRC government authorities whereby the Group is required to make contributions to the scheme at the rate of 20% (2013: 20%) of the eligible employees' salaries.

The PRC government is responsible for the entire pension obligation payable to the retired employees. The Group has no other material obligation for the payment of pension benefits associated with the scheme referred to above beyond the annual contributions described above.

7 Profit before taxation (Continued)

(c) Other items

	Note	2014 RMB'000	2013 RMB'000
Amortisation			
— lease prepayments	14	**1,247**	1,247
— intangible assets	15	**7,704**	7,343
Depreciation of property, plant and equipment	13	**45,495**	30,150
Impairment losses on trade debtors	20(b)	**1,097**	2,861
Operating lease charges: minimum lease payments		**3,240**	2,547
Auditors' remuneration			
— audit services		**2,150**	2,100
— other services		**150**	310
Research and development ("R&D") costs		**25,912**	18,991
Increase in provision for product warranties	27	**5,147**	3,212
Cost of inventories	19(b),(i)	**561,001**	558,266

(i) Cost of inventories includes RMB62,316,000 (2013: RMB55,646,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8 Income tax

(a) Taxation in the consolidated income statement represents:

	2014 RMB'000	2013 RMB'000
Current tax — PRC income tax		
Provision for the year	**8,479**	12,917
(Over)/under-provision in respect of prior year	**(103)**	603
	8,376	13,520
Deferred tax		
Origination and reversal of temporary differences	**(1,113)**	4,069
	(1,113)	4,069
	7,263	17,589

8 Income tax (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Note	2014 RMB'000	2013 RMB'000
Profit before taxation		**49,251**	76,977
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	(i)	**13,003**	19,806
Effect of tax concessions	(ii)	**(3,876)**	(7,125)
(Over)/under-provision in respect of prior year		**(103)**	603
Effect of non-deductible expenses		**342**	1,125
R&D bonus deduction	(iii)	**(3,239)**	(2,374)
Effect of unused tax losses not recognised		**—**	99
Tax rate differential on deferred tax balances		**(1,074)**	(231)
Effect of PRC dividend withholding tax	(iv)	**2,210**	5,686
Actual tax expense		**7,263**	17,589

(i) Under the Corporate Income Tax Law of the PRC (the "CIT Law") which was passed by the Fifth Plenary Session of the Tenth National People's Congress, effective from 1 January 2008, the PRC's statutory income tax rate is 25%. The Group's PRC subsidiaries are subject to income tax at the statutory tax rate unless otherwise specified.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not derive any income which was subject to Hong Kong Profit Tax during the year (2013: Nil).

(ii) Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. ("Xiezhong Nanjing") was qualified as a High and New Technology Enterprise in 2009. As a result, it was entitled to a preferential income tax rate of 15% for a period of three years from 2009 to 2011. Xiezhong Nanjing renewed its certificate as a High and New Technology Enterprise in 2012 and it is entitled to a preferential tax rate of 15% for another three years from 2012 to 2014 pursuant to the current applicable CIT Law and its regulations.

(iii) Under the CIT Law and its relevant regulations, qualified R&D expenses are subject to income tax deductions at 150% on the amount actually incurred.

(iv) Under the CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the tax arrangement between the Mainland China and Hong Kong, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC resident enterprise is entitled to a reduced dividend withholding tax rate of 5%. The Group has recognised deferred tax liabilities on PRC dividend withholding tax at 5%.

9 Directors' remuneration

Director's remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Year ended 31 December 2014				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors					
Mr. Chen Cunyou	–	160	120	57	337
Mr. Ge Hongbing	–	148	130	57	335
Non-executive Directors					
Mr. Fang Kenneth Hung (resigned on 30 July 2014)	–	–	–	–	–
Mr. Liu Xiaoping (resigned on 30 July 2014)	–	–	–	–	–
Mr. Wang Zhenyu (resigned on 30 July 2014)	–	–	–	–	–
Mr. Zhang Yichen (resigned on 30 July 2014)	–	–	–	–	–
Mr. Han Yonggui (appointed on 25 August 2014)	–	–	–	–	–
Mr. Li Xuejun (appointed on 25 August 2014)	–	–	–	–	–
Mr. Zhu Zhenghua (appointed on 25 August 2014)	–	–	–	–	–
Mr. Chen Hao (appointed on 25 August 2014)	–	–	–	–	–
Mr. Huang Yugang (appointed on 25 August 2014)*	–	129	110	57	296
Independent non-executive Directors					
Mr. Cheung Man Sang	118	–	–	–	118
Mr. Lau Ying Kit	118	–	–	–	118
Mr. Zhang Shulin	118	–	–	–	118
Mr. Lin Lei (appointed on 25 August 2014)	42	–	–	–	42
	396	437	360	171	1,364

* Mr. Huang Yugang is also the deputy general manager of Xiezhong Nanjing and his remuneration disclosed above includes the emoluments as the deputy general manager of Xiezhong Nanjing from 1 January 2014 to 31 December 2014.

9 Directors' remuneration (Continued)

	Year ended 31 December 2013				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors					
Mr. Chen Cunyou	—	175	90	33	298
Mr. Ge Hongbing	—	164	100	33	297
Non-executive Directors					
Mr. Fang Kenneth Hung	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—
Mr. Zhang Yichen	—	—	—	—	—
Independent non-executive Directors					
Mr. Cheung Man Sang	120	—	—	—	120
Mr. Lau Ying Kit	120	—	—	—	120
Mr. Zhang Shulin	120	—	—	—	120
	360	339	190	66	955

During the year ended 31 December 2014, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 10 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2014.

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2013: two) are directors of the Company whose remuneration is disclosed in note 9 above. The aggregate of the emoluments in respect of the other two (2013: three) individuals are as follows:

	2014 RMB'000	2013 RMB'000
Salaries and other emoluments	**663**	795
Discretionary bonuses	**146**	207
Retirement scheme contributions	**83**	70
	892	1,072

The emoluments of these two (2013: three) individuals with the highest emoluments are within the band Nil to HKD1 million for the year.

(Expressed in Renminbi Yuan)

11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB2,743,000 (2013: loss of RMB1,966,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2014	2013
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(2,743)**	(1,966)
Final dividend from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**17,694**	—
Company's profit/(loss) for the year (note 29(a))	**14,951**	(1,966)

Details of dividend paid and payable to equity shareholders of the Company are set out in note 29(b).

12 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB40,208,000 (2013: RMB58,898,000) and the weighted average number of 800,000,000 ordinary shares (2013: 800,000,000 shares) in issue during the year.

Weighted average number of shares

	2014	2013
Issued ordinary shares at 1 January	**800,000,000**	800,000,000
Weighted average number of ordinary shares at 31 December	**800,000,000**	800,000,000

There were no dilutive potential ordinary shares during the year and therefore, diluted earnings per share is the same as the basic earnings per share (2013: Nil).

13 Property, plant and equipment

The Group

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress "CIP" RMB'000	Total RMB'000
Cost:						
At 1 January 2013	46,465	224,936	10,273	8,645	100,740	391,059
Additions	467	79,745	4,790	1,630	118,730	205,362
Transfer from CIP	268	5,770	—	—	(6,038)	—
Transfer to intangible assets	—	—	—	—	(843)	(843)
Disposal	—	—	—	(115)	—	(115)
At 31 December 2013	47,200	310,451	15,063	10,160	212,589	595,463
At 1 January 2014	**47,200**	**310,451**	**15,063**	**10,160**	**212,589**	**595,463**
Additions	**2,955**	**62,228**	**1,754**	**1,790**	**9,664**	**78,391**
Transfer from CIP	**137,845**	**65,176**	**—**	**—**	**(203,021)**	**—**
Transfer to intangible assets	**—**	**—**	**—**	**—**	**(562)**	**(562)**
Disposal	**—**	**(8,051)**	**—**	**—**	**—**	**(8,051)**
At 31 December 2014	**188,000**	**429,804**	**16,817**	**11,950**	**18,670**	**665,241**
Accumulated depreciation:						
At 1 January 2013	(7,772)	(81,534)	(5,303)	(5,015)	—	(99,624)
Charge for the year	(2,239)	(23,807)	(3,266)	(838)	—	(30,150)
Disposal	—	—	—	57	—	57
At 31 December 2013	(10,011)	(105,341)	(8,569)	(5,796)	—	(129,717)
At 1 January 2014	**(10,011)**	**(105,341)**	**(8,569)**	**(5,796)**	**—**	**(129,717)**
Charge for the year	**(5,998)**	**(35,638)**	**(2,634)**	**(1,225)**	**—**	**(45,495)**
Disposal	**—**	**7,139**	**—**	**—**	**—**	**7,139**
At 31 December 2014	**(16,009)**	**(133,840)**	**(11,203)**	**(7,021)**	**—**	**(168,073)**
Net book value:						
At 31 December 2014	**171,991**	**295,964**	**5,614**	**4,929**	**18,670**	**497,168**
At 31 December 2013	37,189	205,110	6,494	4,364	212,589	465,746

As at 31 December 2014, property, plant and equipment with carrying amounts of RMB135,285,000 (2013: RMB21,052,000) were pledged as collateral for the Group's banking facilities (see note 24).

14 Lease prepayments

	The Group RMB'000
Cost:	
At 1 January 2013	59,453
Additions	51
At 31 December 2013	59,504
At 1 January 2014	59,504
Additions	—
At 31 December 2014	59,504
Accumulated amortisation:	
At 1 January 2013	(4,296)
Charge for the year	(1,247)
At 31 December 2013	(5,543)
At 1 January 2014	(5,543)
Charge for the year	(1,247)
At 31 December 2014	(6,790)
Carrying amount:	
At 31 December 2014	52,714
At 31 December 2013	53,961

Lease prepayments represented cost of land use rights in respect of lands located in the PRC, on which the Group's plant and buildings were built. The Group was granted land use rights for a period of 50 years.

As at 31 December 2014, land use right with a carrying amount of RMB23,581,000 (2013: RMB24,201,000) was pledged as collateral for the Group's banking facilities (see note 24).

15 Intangible assets

	The Group			
	Customer relationships	Core technology	Software and patent	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January 2013	53,356	13,835	593	67,784
Additions	—	—	843	843
At 31 December 2013	53,356	13,835	1,436	68,627
At 1 January 2014	53,356	13,835	1,436	68,627
Additions	—	—	562	562
At 31 December 2014	53,356	13,835	1,998	69,189
Accumulated amortisation:				
At 1 January 2013	(24,083)	(6,226)	(368)	(30,677)
Charge for the year	(5,880)	(1,383)	(80)	(7,343)
At 31 December 2013	(29,963)	(7,609)	(448)	(38,020)
At 1 January 2014	(29,963)	(7,609)	(448)	(38,020)
Charge for the year	(5,880)	(1,383)	(441)	(7,704)
At 31 December 2014	(35,843)	(8,992)	(889)	(45,724)
Net book value:				
At 31 December 2014	17,513	4,843	1,109	23,465
At 31 December 2013	23,393	6,226	988	30,607

The amortisation charge for the year is mainly included in "distribution costs" and "cost of sales" in the consolidated income statement.

16 Goodwill

	The Group RMB'000
Cost:	
At 1 January 2014 and 31 December 2014	46,832
Accumulated impairment losses:	
At 1 January 2014 and 31 December 2014	—
Carrying amount:	
At 1 January 2014 and 31 December 2014	46,832

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's CGU identified according to country of operation and reportable segment as follows:

	The Group	
	2014 RMB'000	2013 RMB'000
Xiezhong Nanjing	**46,832**	46,832

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The discount rates applied to the cash flow projections is 17% (2013: 18%) as at 31 December 2014. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

17 Interests in subsidiaries

	The Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	**275,210**	275,210
Amount due from a subsidiary	**229,990**	—
	505,200	275,210

Amount due from a subsidiary is a loan to a subsidiary for its capital injection to Xiezhong Nanjing, which is unsecured, interest free and has no fixed terms of repayment. In the opinion of the directors, the amount is not expected to be recovered within one year from the balance sheet date.

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

			Proportion of ownership interest			
Name	**Place of incorporation and operation**	**Particulars of issued and paid up capital/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Xiezhong Holdings Limited ("Xiezhong BVI")	British Virgin Islands	1,005 shares of USD1 each	100%	100%	—	Investment holding
Xiezhong Auto-Airconditioner (Hong Kong) Limited ("Xiezhong Hong Kong")	Hong Kong	2 shares	100%	—	100%	Investment holding
*Xiezhong Nanjing (note(i))	the PRC	RMB696,000,000	100%	—	100%	Production and sale of automotive air-conditioner
*Liaoning Chenyou Automobile Air-conditioning System Co., Ltd.	the PRC	RMB10,000,000	60%	—	60%	Production and sale of automotive air-conditioner
*Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd. ("Xiezhong Beijing") (note(ii))	the PRC	RMB43,000,000	50%	—	50%	Sale of automotive air-conditioner

* These entities are limited liability companies.

Note:

(i) The registered capital of Xiezhong Nanjing was increased from RMB456,000,000 in 2013 to RMB696,000,000 in 2014 pursuant to Xiezhong Nanjing's board of directors' resolution dated on 28 December 2014 and the approval from the government authority on 29 December 2014.

(ii) The Group acquired 50% equity interests in Xiezhong Beijing from a third party on 2 March 2010. On 26 January 2011, the Group obtained the power over Xiezhong Beijing by holding a majority of voting rights in the board of Xiezhong Beijing to have the current ability to direct relevant activities of Xiezhong Beijing. Accordingly, the Group has right to variable returns from its involvement with Xiezhong Beijing and has the ability to use power over Xiezhong Beijing to affect those returns. As a result, Xiezhong Beijing became a subsidiary of the Group on 26 January 2011.

18 Non-current prepayments

As at 31 December 2014, non-current prepayments mainly represented the prepayments for procurement of machinery and equipment.

19 Inventories

(a) Inventories in the consolidated balance sheet comprised:

	The Group	
	2014	2013
	RMB'000	RMB'000
Raw materials	**39,160**	35,890
Work in progress	**13,188**	21,484
Finished goods	**130,264**	127,223
	182,612	184,597

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Carrying amount of inventories sold	**559,780**	558,114
Write down of inventories	**1,221**	152
	561,001	558,266

20 Trade and other receivables

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors	**316,901**	268,029	**—**	—
Less: allowance for doubtful debts	**(5,515)**	(4,418)	**—**	—
	311,386	263,611	**—**	—
Bills receivable	**105,762**	212,582	**—**	—
	417,148	476,193	**—**	—
Other receivables, deposits and prepayments				
— Amounts due from subsidiaries	**—**	—	**4**	109,648
— Others	**15,000**	9,861	**299**	365
Trade and other receivables	**432,148**	486,054	**303**	110,013

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Amounts due from subsidiaries were unsecured, interest free and had no fixed terms of repayment.

Trade and other receivables with a carrying amount of RMB34,495,000 (2013: RMB30,813,000) are pledged against certain secured bank loans (see note 24).

Transfers of financial assets

(i) Transferred financial assets that are not derecognised in their entirety

As at 31 December 2014, the Group discounted certain bank acceptance bills with a carrying amount of RMB3,000,000 (2013: RMB11,013,000) to banks for cash proceeds and endorsed certain bank acceptance bills with a carrying amount of RMB56,223,000 (2013: RMB44,321,000) to suppliers for settling trade payables of the same amount on a full recourse basis. In the opinion of the directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated trade payables settled, and has recognised the cash received on the transfer as a secured borrowing.

20 Trade and other receivables (Continued)

Transfers of financial assets (Continued)

(ii) Transferred financial assets that are derecognised in their entirety

As at 31 December 2014, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the balance sheet date. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2014, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to banks or suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB34,220,000 and RMB129,517,000 (2013: RMB36,030,000 and RMB111,209,000) respectively.

(a) Ageing analysis

The ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows.

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 3 months	**272,074**	362,880
3 to 6 months	**74,451**	68,140
6 to 12 months	**32,248**	12,782
Over 12 months	**38,375**	32,391
Total	**417,148**	476,193

Trade debtors and bills receivable are mainly due within 30 days to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 30(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 2(i)(i)).

20 Trade and other receivables (Continued)

(b) Impairment of trade debtors and bills receivable (Continued)

The movement in the allowance for doubtful debts during the year ended 31 December 2014, including both specific and collective loss components, is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
At beginning of the year	**4,418**	4,348
Impairment loss recognised	**1,097**	2,861
Uncollectible amounts written off	**–**	(2,791)
At end of the year	**5,515**	4,418

At 31 December 2014, the Group's trade debtors of RMB5,515,000 (2013: RMB4,418,000) were individually determined to be impaired. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB5,515,000 (2013: RMB4,418,000) was recognised at 31 December 2014. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired:

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Neither past due nor impaired	**272,138**	395,803
Less than 1 month past due	**42,328**	24,419
1 to 3 months past due	**38,537**	15,982
3 to 12 months past due	**49,290**	28,044
Over 12 months past due	**9,939**	11,945
	140,094	80,390
Total	**412,232**	476,193

20 Trade and other receivables (Continued)

(c) Trade debtors and bills receivable that are not impaired: (Continued)

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21 Deposits with banks

	The Group	
	2014	2013
	RMB'000	RMB'000
Unrestricted deposits	**5,234**	7,050
Pledged deposits	**16,090**	—
	21,324	7,050

22 Cash

(a) Cash comprises:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash on hand	**51**	35	**—**	—
Cash at bank	**196,558**	73,553	**2,487**	2,839
	196,609	73,588	**2,487**	2,839

As at 31 December 2014, cash includes cash at bank and on hand of RMB191,658,000 (2013: RMB64,843,000) held in Mainland China. The conversion of RMB denominated balance into foreign currencies and the remittance of bank balance and cash out of the Mainland China is subject to the relevant rules and regulations of foreign exchange restriction imposed by the PRC government.

22 Cash (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

		The Group	
	Note	**2014** **RMB'000**	2013 RMB'000
Profit before taxation		**49,251**	76,977
Adjustments for:			
Impairment losses on trade debtors	20(b)	**1,097**	2,861
Impairment losses on inventories	19(b)	**1,221**	152
Depreciation of property, plant and equipment	13	**45,495**	30,150
Amortisation of lease prepayments	14	**1,247**	1,247
Amortisation of intangible assets	15	**7,704**	7,343
Interest income	6	**(128)**	(657)
Share of losses of joint venture		**—**	467
Net (gain)/loss on disposal of property, plant and equipment	6	**(31)**	18
Finance costs	7(a)	**15,881**	9,714
Deferred income released to profit or loss	28	**(251)**	(251)
Changes in working capital:			
Decrease/(increase) in inventories		**764**	(8,280)
Decrease/(increase) in trade and other receivables		**48,924**	(100,012)
Increase in amounts due from related parties		**(24,872)**	(20,222)
(Increase)/decrease in pledged/restricted deposits with banks		**(16,090)**	5,225
Increase in trade and other payables		**7,775**	152,511
Decrease in amounts due to related parties		**—**	(13,706)
Decrease in discounted bank acceptance bills		**(8,013)**	(51,744)
Increase in provision		**1,234**	215
Cash generated from operating activities		**131,208**	92,008

23 Trade and other payables

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**291,658**	300,249	**—**	—
Bills payable	**10,333**	1,290	**—**	—
	301,991	301,539	**—**	—
Other payables				
— Amounts due to subsidiaries	**—**	—	**9,898**	9,862
— Others	**30,823**	39,526	**5**	83
	30,823	39,526	**9,903**	9,945
Other tax payables	**6,062**	4,654	**—**	—
	338,876	345,719	**9,903**	9,945

(a) An ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 3 months	**223,405**	224,716
Over 3 months but less than 6 months	**70,973**	55,828
Over 6 months but less than 12 months	**5,576**	19,363
Over 12 months	**2,037**	1,632
	301,991	301,539

24 Interest-bearing borrowings

		The Group		The Company	
		2014	2013	**2014**	2013
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Bank loans					
— Secured	(i)	**133,200**	104,200	**—**	—
— Unsecured	(ii)	**212,367**	120,000	**122,367**	—
Bank advances under discounted bills		**3,000**	11,013	**—**	—
		348,567	235,213	**122,367**	—

(i) As at 31 December 2014, the bank loans of the Group were secured by the following assets:

		The Group	
		2014	2013
	Note	**RMB'000**	RMB'000
Property, plant and equipment	13	**135,285**	21,052
Lease prepayments	14	**23,581**	24,201
Trade and other receivables	20	**34,495**	30,813
Pledged deposits	21	**16,090**	—
		209,451	76,066

(ii) Among the unsecured bank loans of the Company as at 31 December 2014, the bank loan of USD20,000,000 (RMB equivalent: 122,367,000) is guaranteed by Xiezhong BVI and Xiezhong Hong Kong (2013: Nil).

25 Equity settled share-based transactions

(a) Share incentive plan

Pursuant to a resolution of the board of directors of Xiezhong Nanjing passed on 29 October 2008, certain employees and directors of the Group were granted certain rights to acquire 30,000,000 shares of the Company from the then equity shareholders of the Company, i.e. CITIC Capital China Limited ("CITIC Capital China"), Fang Brothers (China) Limited ("Fang Brothers"), CDH Cool Limited ("CDH Cool"), CDH Auto Limited ("CDH Auto") and the existing equity shareholder of the Company, Sunrise International Investment Management Inc. ("Sunrise International"), at nil consideration under a share incentive plan adopted by Xiezhong Nanjing, among which Mr. Chen Cunyou, Mr. Ge Hongbing, and Mr. Huang Yugang (appointed on 25 August 2014), the directors of the Company, were granted the rights to acquire 10,260,000 shares, 6,000,000 shares and 3,000,000 shares of the Company, respectively. Such rights can be exercisable for a period of 10 years from the date of grant. As certain conditions were met during the three years ended 31 December 2010, each of CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto and Sunrise International agreed to transfer a total of 30,000,000 shares to the grantees at nil consideration upon the grantees exercising their rights under the share incentive plan.

The grantees have agreed that they would not exercise any of their rights before 18 June 2013 and that any exercise of their rights before 18 June 2014 would be subject to a limit of 50% with their remaining rights to be exercised from 18 June 2014 onwards. No rights were exercised before 31 December 2013.

In January 2014 and September 2014, the grantees exercised the rights to acquire 15,000,000 shares and 15,000,000 shares of the Company in respect of the above share incentive plan respectively. CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto and Sunrise International transferred a total of 30,000,000 shares of the Company to the grantees at nil consideration. The weighted-average share price at the exercise date in January 2014 and September 2014 is HKD0.92 and HKD1.09 respectively.

As at 31 December 2014, all the grantees' rights to acquire a total of 30,000,000 shares of the Company were exercised in respect of above share incentive plan. Mr. Chen Cunyou, Mr. Ge Hongbing and Mr. Huang Yugang, the directors of the Company, acquired 10,260,000, 6,000,000 and 3,000,000 shares of the Company, respectively.

(b) Share option scheme

Pursuant to a resolution of the equity shareholders of the Company passed on 21 May 2012, the Company has conditionally approved and adopted a share option scheme which was further revised on 30 May 2012.

On and subject to the terms of the share option scheme and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange, the board of directors of the Company shall be entitled at any time within 10 years commencing on the Listing Date to make an offer for the grant of an option to any qualifying grantee as the board of directors may in its absolute discretion select.

No share option was granted under the share option scheme during the year ended 31 December 2014.

26 Income tax in the consolidated balance sheet — The Group

(a) Current tax in the consolidated balance sheet represents:

	The Group	
	2014	2013
	RMB'000	RMB'000
At beginning of the year	**8,268**	7,133
(Over-provision)/under-provision in respect of prior year (note 8(a))	**(103)**	603
Provision for PRC income tax (note 8(a))	**8,479**	12,917
Transferred from deferred tax upon distribution of dividends (note 26(b))	**–**	11,980
PRC income tax paid	**(9,606)**	(24,365)
At end of the year	**7,038**	8,268

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year ended 31 December 2014 are as follows:

The Group	Property, plant and equipment	Lease prepayments	Intangible assets	Inventories	Allowance for bad debt	Other liabilities	Unrealised profit from intra-group transaction	PRC dividend withholding tax	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:									
At 1 January 2013	(1,298)	(4,282)	(7,952)	502	647	5,860	424	(15,144)	(21,243)
Charged/(credited) to profit or loss	914	66	1,182	(201)	60	(330)	(74)	(5,686)	(4,069)
Transferred to current tax upon distribution of dividends	–	–	–	–	–	–	–	11,980	11,980
At 31 December 2013 and 1 January 2014	**(384)**	**(4,216)**	**(6,770)**	**301**	**707**	**5,530**	**350**	**(8,850)**	**(13,332)**
Charged/(credited) to profit or loss	**300**	**65**	**1,181**	**506**	**818**	**488**	**(35)**	**(2,210)**	**1,113**
At 31 December 2014	**(84)**	**(4,151)**	**(5,589)**	**807**	**1,525**	**6,018**	**315**	**(11,060)**	**(12,219)**

(ii) Reconciliation to consolidated balance sheet:

	The Group	
	2014	2013
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated balance sheet	**7,403**	5,935
Net deferred tax liabilities recognised in the consolidated balance sheet	**(19,622)**	(19,267)
	(12,219)	(13,332)

27 Provision

Provision for product warranties

	The Group RMB'000
At beginning of the year	3,871
Additional provision made	5,147
Provision utilised	(3,913)
At end of the year	5,105

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising mainly within two or three years of the date of sale. Provision is therefore made based on the best estimate of the expected settlement under those agreements in respect of sales made within two or three years prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

28 Deferred income

Government grants

	The Group	
	2014 RMB'000	2013 RMB'000
At beginning of the year	**21,193**	21,444
Released to the consolidated income statement	**(251)**	(251)
At end of the year	**20,942**	21,193

The PRC government grants are recognised as income over the periods necessarily to match them with the related costs of assets constructed which they are intended to compensate over the periods and in the proportion in which depreciation on those assets is charged.

29 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year ended 31 December 2014 are set out below:

The Company

	Share capital RMB'000 (Note 29(c))	Share premium RMB'000 (Note 29(d)(i))	Capital reserve RMB'000 (Note 29(d)(iii))	Exchange reserve RMB'000 (Note 29(d)(v))	(Accumulated losses)/ Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2013	6,496	127,863	275,209	(147)	(5,331)	404,090
Changes in equity for 2013:						
Total comprehensive income for the year	–	–	–	(3,327)	(1,966)	(5,293)
Dividends approved in respect of the previous year	–	(20,680)	–	–	–	(20,680)
Balance at 31 December 2013 and 1 January 2014	**6,496**	**107,183**	**275,209**	**(3,474)**	**(7,297)**	**378,117**
Changes in equity for 2014:						
Total comprehensive income for the year	**–**	**–**	**–**	**346**	**14,951**	**15,297**
Dividends approved in respect of the previous year 29(b)	**–**	**(17,694)**	**–**	**–**	**–**	**(17,694)**
Balance at 31 December 2014	**6,496**	**89,489**	**275,209**	**(3,128)**	**7,654**	**375,720**

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
Final dividend proposed after the balance sheet date of HKD0.019 per ordinary share (2013: HKD0.028 per ordinary share)	**12,057**	17,694

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

29 Capital, reserves and dividends (Continued)

(b) Dividends (Continued)

(ii) Dividends payable to equity shareholders of the Company attribute to the previous financial year, approved and paid during the year

	2014 **RMB'000**	2013 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HKD0.028 per share (2013: HKD0.032 per share)	**17,694**	20,680

(c) Share capital

The share capital of the Group at 31 December 2014 represented the amount of issued and paid-up capital of the Company, with details set out below:

	Note	Par value HKD	**2014** **Number of shares '000**	**2014** **Nominal value of ordinary shares HKD'000**	2013 Number of shares '000	2013 Nominal value of ordinary shares HKD'000
Authorised:						
At 1 January & 31 December	(c)(i)	0.01	**2,000,000**	**20,000**	2,000,000	20,000

	Note	Par value HKD	**2014** **Number of shares '000**	**2014** **Nominal value of ordinary shares HKD'000**	**2014** **Nominal value of ordinary shares RMB'000**	2013 Number of shares '000	2013 Nominal value of ordinary shares HKD'000	2013 Nominal value of ordinary shares RMB'000
Issued and fully paid:								
At 1 January & 31 December		0.01	**800,000**	**8,000**	**6,496**	800,000	8,000	6,496

(d) Nature and purpose of reserves

(i) Share premium

Share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the public offering and placing on 18 June 2012. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

29 Capital, reserves and dividends (Continued)

(d) Nature and purpose of reserves (Continued)

(ii) Statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to equity holders.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of equity holders, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(iii) Capital reserve

The Company

Capital reserve represents the excess of the carrying amount of the Company's investment in Xiezhong BVI at the date of the Reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

The Group

The capital reserve in the consolidated balance sheet mainly comprises the following:

— the recognition of the option granted to Mr. Chen Cunyou to subscribe for 100 shares in Xiezhong BVI by cash of USD100 during the year ended 31 December 2008 amounting to RMB22,600,000;

— the portion of the grant date fair value of unexercised rights granted to employees and directors of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(p)(iii) amounting to RMB10,551,000;

— the contribution by Sunrise International when it subscribed for additional 300 shares in Xiezhong BVI by cash of USD11,000,000 (equivalent to RMB75,096,000) during the year ended 31 December 2010 amounting to RMB75,094,000; and

— the capitalisation of the Group's other payables due to China United Air System Limited ("CUAS"), the then equity shareholders of Xiezhong BVI, of USD28,997,000 (equivalent to RMB183,295,000) as fully paid-up capital and capital reserve of Xiezhong BVI during the year ended 31 December 2011.

(iv) Other reserve

The other reserve represents the gain on acquisition of 30% equity interests in Xiezhong Nanjing from non-controlling interests.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China, The reserve is dealt with in accordance with the according policy set out in note 2(t).

29 Capital, reserves and dividends (Continued)

(e) Distributability of reserves

As at 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company, including share premium, capital reserve and retained earnings, was HKD457,085,000 (equivalent to RMB372,352,000) (2013: HKD460,573,000 (equivalent to RMB375,095,000)). After the balance sheet date, the directors proposed a final dividend of HKD0.019 per ordinary share, amounting to HKD15,200,000 (equivalent to RMB12,056,640) (note 29(b)). This dividend has not been recognised as a liability at the balance sheet date.

(f) Capital management

The Group's primary 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 equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the adjusted net debt-to-capital ratio. For this purpose adjusted net debt is calculated as interest-bearing borrowings and bills payable plus unaccrued proposed dividends, less cash and deposits with banks. Adjusted capital represents total equity attributable to equity shareholders of the Company, less unaccrued proposed dividends.

During the year ended 31 December 2014, the Group's strategy, which was unchanged from 2013, was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt.

29 Capital, reserves and dividends (Continued)

(f) Capital management (Continued)

The adjusted net debt-to-capital ratio at 31 December 2014 was as follows:

		The Group	
		2014	2013
	Note	RMB'000	RMB'000
Interest-bearing borrowings	24	348,567	235,213
Bills payable	23	10,333	1,290
Total debt		358,900	236,503
Add: Proposed dividends	29(b)	12,057	17,694
Less: Cash	22(a)	(196,609)	(73,588)
Deposits with banks	21	(21,324)	(7,050)
Adjusted net debt		153,024	173,559
Total equity attributable to equity shareholders of the Company		783,303	760,741
Less: Proposed dividends	29(b)	(12,057)	(17,694)
Adjusted capital		771,246	743,047
Adjusted net debt-to-capital ratio		20%	23%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

Financial assets of the Group include cash, deposits with banks and trade and other receivables. Financial liabilities of the Group include interest-bearing borrowings and trade and other payables.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are mainly due within 30 days to 180 days from the date of billing.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. The amounts due from the Group's largest customer and the five largest customers are as follows:

	2014	2013
	RMB'000	RMB'000
Largest customer	**56,163**	31,734
Five largest customers	**139,823**	127,410

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance, and discounted and endorsed bills with full recourse which were derecognised by the Group (see note 20). The Group does not provide any guarantees, which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, the Group does not expect any counterparty to fail to meet its obligations.

30 Financial risk management and fair values (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Other than discounted and endorsed bills with full recourse which were derecognised by the Group (see note 20), the following table details the remaining contractual maturities at balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date the Group can be required to pay:

At 31 December 2014

	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 6 months or on demand RMB'000**	**More than 6 months but less than 12 months RMB'000**
Secured bank loans	**133,200**	**138,596**	**3,869**	**134,727**
Unsecured bank loans	**212,367**	**217,587**	**4,720**	**212,867**
Bank advances under discounted bills	**3,000**	**3,000**	**3,000**	**—**
Trade and other payables	**338,876**	**338,876**	**338,876**	**—**
	687,443	**698,059**	**350,465**	**347,594**

At 31 December 2013

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 6 months or on demand RMB'000	More than 6 months but less than 12 months RMB'000
Secured bank loans	104,200	107,734	3,164	104,570
Unsecured bank loans	120,000	129,026	3,750	125,276
Bank advances under discounted bills	11,013	11,013	11,013	—
Trade and other payables	345,719	345,719	345,719	—
	580,932	593,492	363,646	229,846

30 Financial risk management and fair values (Continued)

(c) Interest rate risk

(i) Interest rate profile

Interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk.

The Group's interest-bearing borrowings and interest rates as at 31 December 2014 are set out as follows:

	2014		2013	
	Interest rate %	RMB '000	Interest rate %	RMB '000
Fixed rate borrowings				
Bank loans	5.99-6.30	159,000	5.60-6.60	204,200
Bank advances under discounted bills	4.45-6.00	3,000	6.48-7.68	11,013
		162,000		215,213
Variable rate borrowings				
Bank loans	3.25-6.16	186,567	6.60	20,000
		186,567		20,000
Total borrowings		348,567		235,213
Fixed rate borrowings as a percentage of total borrowings		46%		91%

30 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the balance sheet date would not affect profit or loss.

As at 31 December 2014, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax for the year and retained earnings by approximately RMB1,790,670 (2013: RMB170,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's variable rate borrowings at that date with exposure to cash flow interest rate risk. The impact on the Group's profit after tax and retained earnings is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2013.

(d) Foreign currency risk

The Group is exposed to currency risk primarily arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily United States dollars ("USD") and HKD. Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. In addition, as the HKD is pegged to the USD, the Group considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

The Group's principal activities are carried out in the PRC. Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands and the Group may not be able to pay dividend in foreign currencies to its equity shareholders.

(e) Fair values

The carrying amounts of all financial assets and liabilities approximate their respective fair values as at 31 December 2014 and 2013 due to the short maturities of those instruments.

31 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Contracted for	**41,103**	27,864
Authorised but not contracted for	**49,534**	49,534
	90,637	77,398

(b) Lease commitments

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 1 year	**539**	299
After 1 year but within 5 years	**3**	—
	542	299

32 Material related party transactions

(a) Name and relationship with related parties

During the year ended 31 December 2014, transactions with the following parties are considered as related party transactions:

Name of related party	Relationship
Beijing Automotive Group Co., Ltd.	Ultimate holding Company of Beijing Hainachuan Automobile Parts Co., Ltd., the major shareholder of the Company and non-controlling equity holder of Xiezhong Beijing Beijing Automotive Group Co., Ltd. and its subsidiaries together referred to as "Beijing Automotive Group"
Chen Cunyou	Executive director of the Company, Director and the General Manager of Xiezhong Nanjing
Ge Hongbing	Executive director of the Company and director of Xiezhong Nanjing
Xiezhong Hubei	Joint venture of the Group before 9 September 2013
Nanjing Aotecar New Energy Technology Co, Ltd. (formerly known as Nanjing Aotecar Refrigerator Co., Ltd.) ("Aotecar Nanjing")	Owned by the same then equity shareholders, CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto before 27 March 2013

32 Material related party transactions (Continued)

(b) Transactions with related parties

Transactions with related parties during the year ended 31 December 2014 are as follows:

Recurring transactions

	Note	The Group 2014 RMB'000	2013 RMB'000
Sales of goods			
— Beijing Automotive Group		**128,363**	74,071
— Xiezhong Hubei	(i)	**—**	368
		128,363	74,439
Services rendered			
— Beijing Automotive Group		**43,890**	—
Purchase of goods			
— Aotecar Nanjing	(ii)	**—**	4,054

(i) Xiezhong Hubei ceased to be a related party of the Group after its liquidation on 9 September 2013.

(ii) Aotecar Nanjing ceased to be a related party of the Group since 27 March 2013 because CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto, the then equity shareholders, have transferred all of their equity interests in Aotecar Nanjing to a third party.

The directors consider that the above related party transactions during the year ended 31 December 2014 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

32 Material related party transactions (Continued)

(c) Amounts due from/to related parties

At 31 December 2014, the Group had the following balances with related parties:

	The Group	
	2014	2013
	RMB'000	RMB'000
Trade debtors from		
— Beijing Automotive Group	**55,334**	30,462

	The Company	
	2014	2013
	RMB'000	RMB'000
Receivables due from subsidiaries		
— Xiezhong Hong Kong	**–**	109,648
— Xiezhong BVI	**4**	—
	4	109,648
Payables due to subsidiaries		
— Xiezhong BVI	**2,070**	2,063
— Xiezhong Hong Kong	**7,514**	7,484
— Xiezhong Nanjing	**314**	315
	9,898	9,862

Receivables due from and payables due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(d) Transactions with management

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Short-term employee benefits	**3,260**	2,909

The above remuneration is disclosed in "staff costs" (see note 7(b)).

(Expressed in Renminbi Yuan)

32 Material related party transactions (Continued)

(e) Applicability of the Main Board Listing Rules relating to connected transactions

The related party transactions in respect of Beijing Automotive Group constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Main Board Listing Rules. The disclosures required by Chapter 14A of the Main Board Listing Rules are provided in section "Continuing connected transactions required for disclosure under the main board listing rules" of the Report of the Directors.

33 Non-adjusting post balance sheet events

After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 29(b).

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2014

Up to the date of issue of the financial statements, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2014 and which have not been adopted in preparing the financial statements. These include the following which may be relevant to the Group:

	Effective Date (for annual financial statements covering periods beginning on or after unless specified)
Amendments to IAS 19, *Employee benefits: Defined benefit plans: Employee contributions*	1 July 2014
Annual improvements to *IFRSs 2010–2012 cycle*	1 July 2014
Annual improvements to *IFRSs 2011–2013 cycle*	1 July 2014
Annual improvements to *IFRSs 2012–2014 cycle*	1 January 2016
IFRS 14, Regulatory deferral accounts	1 January 2016
Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Amendments to IAS 16 and IAS 41, *Agriculture: Bearer plants*	1 January 2016
Amendments to IAS 27, *Equity method in separate financial statements*	1 January 2016
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016

(Expressed in Renminbi Yuan)

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2014 (Continued)

	Effective Date (for annual financial statements covering periods beginning on or after unless specified)
Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment entities: Applying the consolidation exception*	1 January 2016
Amendments to IAS 1, *Disclosure initiative*	1 January 2016
IFRS 15, *Revenue from contracts with customers*	1 January 2017
IFRS 9, *Financial instruments (2014)*	1 January 2018
IFRS 9, *Financial instruments (2009)*	1 January 2018
IFRS 9, *Financial instruments (2010)*	1 January 2018
Amendments to IFRS 9, *Financial instruments and IFRS 7 Financial instruments: Disclosures — Mandatory effective date and transition disclosures*	1 January 2018
IFRS 9, *Financial instruments: Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39 (2013)*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

Financial Summary

RESULTS	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
		Years ended 31 December			
Turnover	**744,703**	728,190	619,904	589,680	619,904
Cost of sales	**(570,720)**	(558,266)	(447,727)	(434,065)	(447,727)
Gross profit	**173,983**	169,924	172,177	155,615	172,177
Other revenue and net income	**7,718**	11,222	6,835	10,302	6,835
Distribution costs	**(43,340)**	(37,126)	(24,730)	(23,479)	(24,730)
Administrative expenses	**(73,224)**	(56,807)	(37,767)	(52,483)	(37,767)
Other operating expenses	**(5)**	(55)	(186)	(7)	(186)
Profit from operations	**65,132**	87,158	116,329	89,948	116,329
Finance costs	**(15,881)**	(9,714)	(7,554)	(8,722)	(7,554)
Share of losses of joint venture	**—**	(467)	(235)	(198)	(235)
Profit before taxation	**49,251**	76,977	108,540	81,028	108,540
Income tax	**(7,263)**	(17,589)	(21,531)	(12,797)	(21,531)
Profit for the year	**41,988**	59,388	87,009	68,231	87,009
Attributable to:					
Equity shareholders of the Company	**40,208**	58,898	86,066	68,012	86,066
Non-controlling interests	**1,780**	490	943	219	943
Profit for the year	**41,988**	59,388	87,009	68,231	87,009

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
		As at 31 December			
TOTAL ASSETS	**1,553,843**	1,422,882	1,192,347	988,542	795,982
TOTAL LIABILITIES	**(740,150)**	(633,531)	(441,314)	(440,585)	(549,302)
NON-CONTROLLING INTERESTS	**(30,390)**	(28,610)	(28,120)	(27,901)	(4,741)
	783,303	760,741	722,913	520,056	241,939

The financial information for each of the two years ended 31 December 2010 and 2011 has been prepared upon the Reorganisation as if the group structure, at the time when the shares were listed on the Stock Exchange, has been in existence throughout the year concerned.

The results for each of the two years ended 31 December 2010 and 2011, and the assets and liabilities as at 31 December 2010 and 2011 have been extracted from the Prospectus.