ALLEN 亚伦

CHINA CREATIVE HOME GROUP LIMITED
中國創意家居集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1678

Annual Report 2013

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CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Chen Fanglin *(Chairman)*
Mr. Chen Hongming
Mr. Shen Jianzhong

Independent Non-executive Directors
Mr. Dai Jianping
Mr. Ng Wing Keung
Ms. Sun Kam Ching

Audit Committee
Mr. Ng Wing Keung *(Chairman)*
Mr. Dai Jianping
Ms. Sun Kam Ching

Remuneration Committee
Ms. Sun Kam Ching *(Chairman)*
Mr. Ng Wing Keung
Mr. Dai Jianping
Mr. Shen Jianzhong

Nomination Committee
Mr. Dai Jianping *(Chairman)*
Mr. Ng Wing Keung
Ms. Sun Kam Ching
Mr. Shen Jianzhong

Company Secretary
Mr. Hui Hung Kwan, *CPA, FCCA*

Authorised Representatives
Mr. Chen Hongming
Mr. Hui Hung Kwan

Auditors
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

Principal Bankers
China Merchants Bank, Quanxiu Branch
China Construction Bank, Licheng Branch
Industrial Bank

Registered Office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong
Room 913
China Merchants Tower
152–155 Connaught Road Central
Sheung Wan
Hong Kong

Head Office in the PRC
Allen Electronic Industrial Park
Heshi
Luojiang District
Quanzhou
Fujian Province
China

Compliance Adviser

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Legal Adviser

Squire Sanders
29th Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Principal Share Registrar and Transfer Office in Cayman Islands

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Website

www.cchome.hk

Stock Code

1678

CORPORATE PROFILE

China Creative Home Group Limited ("the Company") and its subsidiaries (collectively, the "Group" or "China Creative Home") is principally engaged in design, development, manufacture and sale of electric fireplaces and home decor products. The Group mainly sells products in the People's Republic of China (the "PRC" or "China") under the "Allen (亚伦)" brand and to overseas customers including the US, Germany, Canada, France and Australia on original design manufacturing ("ODM")/original equipment manufacturing ("OEM") basis. Our electric fireplaces are divided into two categories: (i) framed electric fireplaces and (ii) non-framed electric fireplaces. Framed electric fireplaces are further categorised into three series according to the materials of their frames or mantels: (i) inorganic series; (ii) wood series and (iii) natural stone series. Our home decor products include gardening decorations (e.g. fountains, waterfalls and patio furniture such as tables and stools) and indoor crafts (e.g. mini-figurines, vases, photo frames and sculptures), which are offered under three series: (i) polyresin series; (ii) porcelain series and (iii) inorganic series. China Creative Home captured approximately 11.1% of the market share, ranking first in the PRC's branded electric fireplace market in terms of revenue in 2012.

The Group's design and technical team consists of more than 120 staff. In 2013, the Group has offered more than 190 models of electric fireplaces and 4,000 pieces of home decor items. Currently, the Group owns 36 patents in the PRC. The "Allen (亚伦)" brand has been recognised as the Well-known Trademark of the PRC in respect of home decor products by the State Administration for Industry and Commerce in the PRC in 2011 and as the Famous Trademark of Fujian Province in respect of its electric fireplaces by the Administration for Industry and Commerce of Fujian Province in 2012. It was selected in 2011 by the China Association for Engineering Construction Standardisation as the only electric fireplace manufacturer in the PRC to be involved in the process of developing and compiling the industry regulation standard of electric fireplaces in the PRC in recognition of its national market-leading position.

The Group's current production facilities are located in Luojiang and Quangang in Fujian Province with a total gross floor area of approximately 40,561.1 square metres and 77,870.7 square metres respectively. For the year ended 31 December 2013, the Group's total effective designed annual production capacity was 277,500 electric fireplaces and 70,200 tonnes of polyresin, porcelain and inorganic home decor products.

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

To our shareholders

On behalf of the Board of Directors (the "Board"), I am pleased to present the first annual report of the Group for the year ended 31 December 2013.

2013 represented yet another new chapter in the Group's history. Supported by our dedicated staff and professional parties, the Company successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2013. The listing marks a giant step forward for us. Not only the listing will enhance our corporate governance, but it will also provide us with sufficient capital to support our rapid business development and consolidate our leading presence in the branded electric fireplace market in the PRC.

For the year ended 31 December 2013, the Group's results were encouraging. The Group's revenue amounted to RMB1,195.5 million (2012: RMB969.0 million) and profit attributable to equity holders of the Company amounted to RMB303.2 million (2012: RMB261.6 million). Both revenue and profit attributable to equity holders of the Company achieved double-digit growth of 23.4% and 15.9% respectively as compared with the previous year.

Founded in 1993, China Creative Home started to design, develop, manufacture and sell home decor products under the "Allen (亚伦)" brand in 2005, progressing to electric fireplaces in 2008. Up to 2012 the Group had successfully captured approximately 11.1% of the branded electric fireplaces market in the PRC, making it the top player in the country. The "Allen (亚伦)" brand has been recognized as the Well-known Trademark of the PRC in respect of home decor products by the State Administration for Industry and Commerce in the PRC in 2011. It was also recognized as the Famous Trademark of Fujian Province, in respect of electric fireplaces, by the Administration for Industry and Commerce of Fujian Province in 2012. Moreover, China Creative Home was the only electric fireplace manufacturer in the PRC to be selected by the China Association for Engineering Construction Standardization in 2011 to be involved in the process of developing and compiling industry regulation standards on electric fireplaces in recognition of its national market-leading position.

All of our achievements in the past years would not have been possible without our innovative products. The Group has a very strong research and development and design team, with over 120 designers and specialists, and we hold a total of 36 patents. Moreover, as at 31 December 2013, our Group has launched over 190 electrics fireplaces and over 4,000 home decor products. The Group offers a wide variety of products sold under our "Allen (亚伦)" brand to customers, including trading entities and retail companies in the PRC which accounted for over 90% of our revenue during the year under review. We also sell a portion of our products on ODM/OEM basis to our overseas customers such as those in the US, Germany, Canada, France and Australia.

The Group's current production facilities are located in Luojiang and Quangang in Fujian Province, with a total gross floor area of approximately 40,561.1 square metres and 77,870.7 square metres respectively. For the year ended 31 December 2013, the Group's total effective designed annual production capacity was 277,500 units of electric fireplaces and 70,200 tonnes of polyresin, porcelain and inorganic home decor products.

According to the Final Report for Chinese and North America Creative Furnishing Market Study dated 2 December 2013 compiled by Frost and Sullivan, the total sales value of electric fireplaces is expected to grow at a compound annual growth rate of approximately 13.0% from approximately RMB19.6 billion in 2013 to approximately RMB28.3 billion in 2016. Sales from electric fireplaces are expected to increase due to the development of high-end real estate, increasing disposable income and high acceptance of Western culture. We believe that China Creative Home, being a leading manufacturer of branded electric fireplaces and home decor products in the PRC, will benefit from such trends in the coming years.

After the successes of 2013, and with continued market momentum on the horizon, we are prepared to extend our lead by utilizing the newly raised capital to acquire production machinery and equipment for the new Anhui production facilities. We will also establish seven creative home furnishing concept shops under the "Allen (亚伦)" brand in major cities in the PRC by 2016. As we continue to make strides forward, our priority will be to expand the overseas sales network, particularly in North America. We will look for ways to promote the "Allen (亚伦)" brand through media advertising and by engaging brand ambassadors or spokespersons. In addition, we will recruit more experts for the technical team, further cooperate with academic or professional institutions and enhance our self-developed products. We will certainly continue to strengthen ties with existing clients to achieve still greater results.

Far from complacent, we remain committed to the effective management of China Creative Home, leading to its successful path to market leadership in world-class electric fireplaces and home decor products.

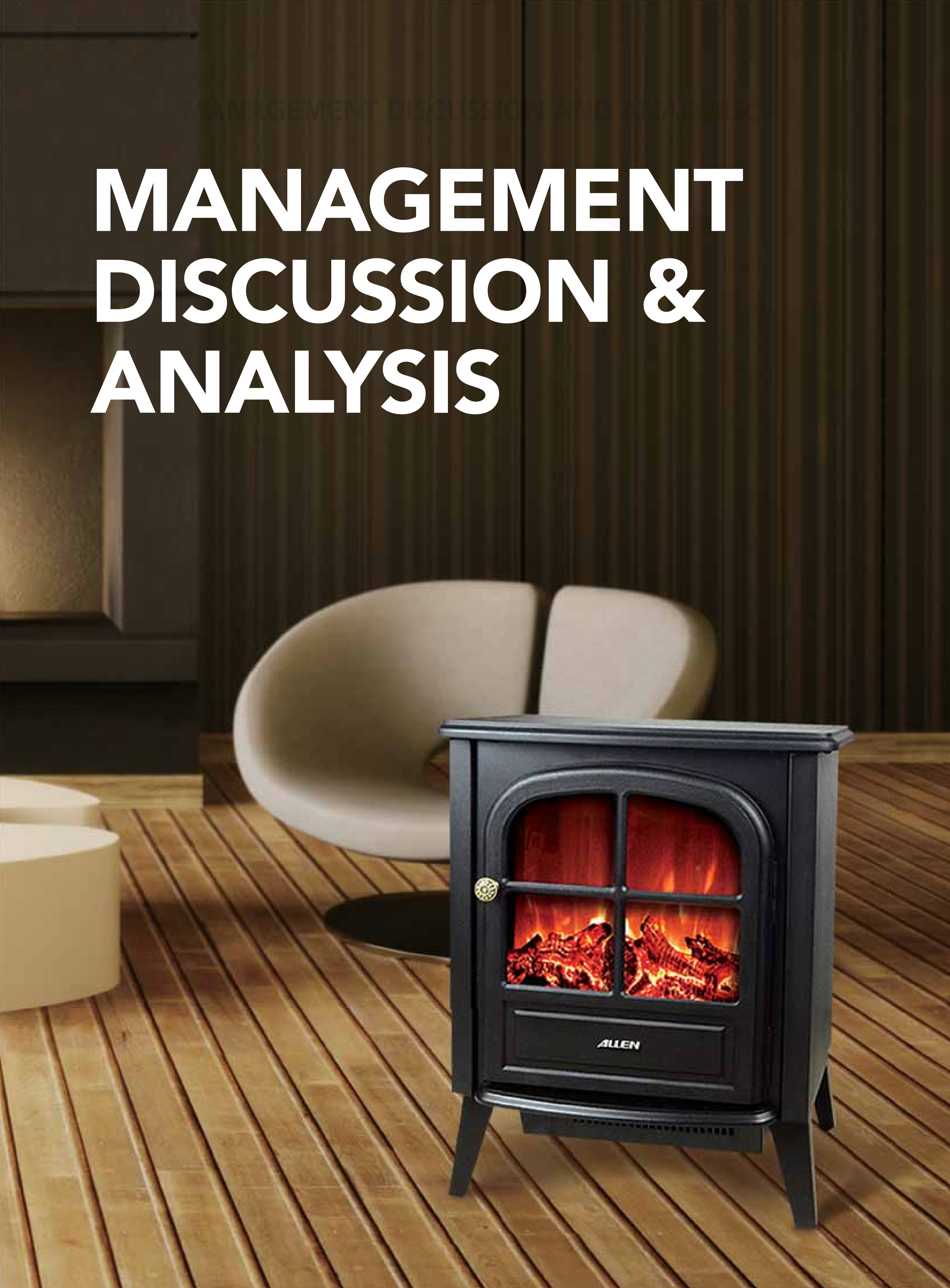
Appreciation

I would like to take this opportunity to offer my appreciation to the management and all staff members for their contributions to the Group over the past year. I wish to also thank our many business partners, customers and shareholders for their unwavering support. Through the concerted effort of all relevant parties, I trust that the Group will have ample stimulus to realize further growth moving forward.

CHEN Fanglin
Chairman and Executive Director

Hong Kong, 21 March 2014

MANAGEMENT DISCUSSION & ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Our Group is principally engaged in the design, development, manufacture and sales of electric fireplaces and home decor products. We sell our products domestically in the PRC under our "Allen (亚伦)" brand and export on an ODM/OEM basis. Our products are designed and developed with an aim to be both functionally and visually appealing to users. Our "Allen (亚伦)" brand was accredited as the Well-known Trademark of the PRC for our home decor products by the State Administration for Industry and Commerce of the PRC in 2011 and the Famous Trademark of Fujian Province in respect of our electric fireplaces by the Administration for Industry and Commerce of Fujian in 2012. Our electric fireplaces are divided into two categories: (i) framed electric fireplaces and (ii) non-framed electric fireplaces. Framed electric fireplaces are further categorised into three series according to the materials of their frames or mantels: (i) inorganic series; (ii) wood series and (iii) natural stone series. Our home decor products include gardening decorations (e.g. fountains, waterfalls and patio furniture such as tables and stools) and indoor crafts (e.g. mini-figurines, vases, photo frames and sculptures), which are offered under three series: (i) polyresin series; (ii) porcelain series and (iii) inorganic series.

For the year ended 31 December 2013, the Group's revenue was RMB1,195.5 million, representing a growth of 23.4% from 2012. The growth is mainly driven by our increase in domestic sales of electric fireplaces.

Benefited from the PRC's development, particularly the strong demand on electric fireplaces and creative furnishing products along with the urbanization of China, the Group's sales in the PRC have been boosted. We appreciate the importance of brand awareness, and hence have placed advertisements in various media; participated in local and international exhibitions; and we have placed billboards along major highways as advertisements. Benefited from our efforts in marketing and maintaining high product quality, our domestic sales in own-branded products have been boosted and achieved an outstanding result.

Our electric fireplaces generally had an overall higher gross profit margin than our home decor products, and hence we allocated more resources to develop and promote our electric fireplaces. As a result, the sales of electric fireplaces in the PRC increased significantly.

Industry Overview

As of 2013, China is the second largest economy in the world in terms of nominal gross domestic product of approximately RMB56,884.5 billion. The rapid economic development of China had resulted in an influx of migrants from rural to urban areas contributing to an increasing trend towards urbanisation. Together with the economic growth and urbanisation, the average income level of residents in China has increased continuously in recent years. Meanwhile, the higher standard of living has also led to a higher acceptance of western culture in the PRC.

The real estate market has experienced a rapid development for the last decade, due to the increasing population and urbanisation process. The demand for decorative and functional home products has increased along with the increase in home renovation. Together with the increasing purchasing power of residents, creative furnishing products, such as electric fireplaces, have gained popularity. In 2012, the penetration rate of home electric fireplaces was approximately 0.8% in the PRC compared to 8.3% in North America. The low penetration rate of home electric fireplaces in the PRC indicates a large potential electric fireplace market in the PRC.

Given the current trends, the demand for decorative and functional home decor products will continue to increase benefitting from the development of high-end real estate, increasing disposable income, rising demand and a high acceptance of western culture. The total sales value of the creative furnishing market in China is expected to reach approximately RMB1,478.9 billion by 2016.

Financial Review

Revenue

Our revenue increased by RMB226.5 million from RMB969.0 million to RMB1,195.5 million, representing a growth of 23.4% compared with last year. The increase was mainly driven by the increase in sales of electric fireplaces.

Revenue analysis by product type is as follows:

	2013 RMB'000	2012 RMB'000
Electric fireplaces		
Framed electric fireplaces		
– Wood series	**342,171**	171,475
– Natural stone series	**121,154**	127,805
– Inorganic series	**143,070**	112,119
Non-framed electric fireplaces	**80,517**	25,459
Home decor products		
– Polyresin series	**293,503**	342,989
– Porcelain series	**114,356**	108,178
– Inorganic series	**100,751**	81,001
	1,195,522	969,026

The increase in the sales of wood and inorganic series electric fireplaces was primarily due to a wider range of products to satisfy our customers' preferences, which led to an increase in our sales volume as well as the average selling price of the wood and inorganic series electric fireplaces. The increase in the sales of non-framed series electric fireplaces was primarily due to the increase in sales volume of our "noble series" and "wall-mounted model" electric fireplaces as a result of the increasing recognition of our "Allen (亚伦)" brand and market demand. The increase in the sales of porcelain series home decor products is mainly due to the higher average selling price per unit as larger size series with higher selling prices are offered in 2013. The increase in the sales of inorganic series home decor products is mainly due to the increase in sales volume primarily driven by a stronger customer preference for this series as we offered more styles with lower selling prices compared with last year to attract wider acceptance of customers.

The decrease in the sales of natural stone series electric fireplaces and polyresin series home decor products was primarily due to the decrease in sales volume.

Gross Profit and Gross Profit Margin

Our gross profit increased from RMB428.2 million for the year ended 31 December 2012 to RMB529.5 million for the year ended 31 December 2013. The growth of 23.7% compared with last year is in line with the increase in sales.

The gross profit margin increased slightly from 44.2% for the year ended 31 December 2012 to 44.3% for the year ended 31 December 2013. The increase was primarily due to the increase in the sales of electric fireplaces which generally had an overall higher gross profit margin than our home decor products.

Other Income

Other income increased by RMB3.9 million, or approximately 150.0%, from RMB2.6 million for the year ended 31 December 2012 to RMB6.5 million for the year ended 31 December 2013 primarily due to the increase in interest income and rental income. The increase in interest income was mainly due to the increase in cash and bank balances generated from our operations and financing activities, while the increase in rental income was mainly due to the commencement of lease rental from investment property in 2013.

Financial Review (Continued)

Selling and Distribution Costs

Our selling and distribution costs increased by RMB6.4 million, or approximately 12.0%, from RMB53.5 million for the year ended 31 December 2012 to RMB59.9 million for the year ended 31 December 2013 primarily due to (i) the increase in delivery expenses due to the increase in our sales; (ii) the increase in staff costs due to the general increase in staff wages; and (iii) the increase in advertising and promotion expenses due to our increased focus on advertising effort.

Administrative Expenses

Our administrative expenses increased by RMB40.0 million, or approximately 93.0%, from RMB43.0 million for the year ended 31 December 2012 to RMB83.0 million for the year ended 31 December 2013. The increase was mainly due to (i) the increase in the professional fee in respect of the Company's listing preparation; (ii) the increase in the product design and development expenses primarily due to more product consultation expenses with academic institutions; (iii) the increase in staff costs due to the general increase in staff wages; (iv) the increase in depreciation expenses due to the completion of a building in late 2012; and (v) the increase in net foreign exchange loss arising from the listing proceeds received and denominated in HKD.

Finance Costs

Our finance costs increased by RMB1.5 million, or approximately 50.0%, from RMB3.0 million for the year ended 31 December 2012 to RMB4.5 million for the year ended 31 December 2013. The increase was mainly due to the interest on bank borrowings drawn in relation to the construction of a building which was completed in 2012 and was no longer capitalised in 2013.

Income Tax Expense

Our income tax expense increased by RMB15.7 million, or approximately 22.5%, from RMB69.7 million for the year ended 31 December 2012 to RMB85.4 million for the year ended 31 December 2013, primarily as a result of the increase in our profit.

The effective tax rate for the Group was relatively stable and slightly increased by 1.0% from 21.0% in 2012 to 22.0% in 2013.

Profit for the Year Attributable to Equity Holders

Profit attributable to equity holders of the Company increased by RMB41.6 million, or approximately 15.9%, from RMB261.6 million for the year ended 31 December 2012 to RMB303.2 million for the year ended 31 December 2013. Basic earnings per share increased from RMB18 cents for the year ended 31 December 2012 to RMB21 cents for the year ended 31 December 2013 mainly due to the increase in our profit.

Capital Structure, Liquidity, Financial and Capital Resources

In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in RMB, HKD and USD. As at 31 December 2013, the Group had net current assets of RMB1,176.9 million (2012: RMB398.3 million), of which cash and cash equivalents were RMB995.7 million (2012: RMB343.8 million).

Financial Review (Continued)

Capital Structure, Liquidity, Financial and Capital Resources (Continued)

The Group principally meets its working capital and other liquidity requirements through a combination of operating cash flows, capital contributions and bank borrowings. As at 31 December 2013, the Group's secured bank borrowings amounted to RMB59.0 million (2012: RMB61.0 million) and these bank borrowings were denominated in RMB. As at 31 December 2013, the effective interest rate on the Group's bank borrowings was 6.82% (2012: 7.33%).

	2013	2012
Current ratio(1)	**5.0**	2.1
Gearing ratio (%)(2)	**3.6%**	8.1%

(1) Current ratio is calculated based on our total current assets divided by our total current liabilities.

(2) Gearing ratio is calculated based on our total debts (being our bank borrowings and amount due to the controlling shareholder) divided by our total equity.

Current ratio improved from 2.1 as at 31 December 2012 to 5.0 as at 31 December 2013. Gearing ratio also improved from 8.1% as at 31 December 2012 to 3.6% as at 31 December 2013. The improvements for both ratios were attributable to our net working capital inflow from our operating profits and the proceeds from the Company's initial public offer (the "Global Offering") as defined in the prospectus (the "Prospectus") of the Company dated 10 December 2013.

Foreign Exchange Risk

The functional currency of the Company and the Group's major operating entities is RMB. Our Group's foreign exchange risk mainly relates to fluctuations in exchange rates of RMB against our bank balances denominated in USD and HKD and trade receivables denominated in USD, and these may affect our operation results. Our management continues to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Charge on Assets

Details of the Group's charge on assets are set out in Notes 15, 16 and 17 to the financial statements.

Valuation of Properties

For the purpose of listing of the Company's shares on the Main Board of the Stock Exchange in December 2013, a valuation was conducted on the property interests held by the Group. However, certain property interests were carried at historical costs less accumulated depreciation and impairment, if any, on the Group's financial statements.

By reference to the property valuation set out in Appendix IV of the Prospectus, a revaluation surplus of approximately RMB34.0 million was arisen in respect of the property interests of the Group as at 31 October 2013. Were the property stated at that valuation, the depreciation charge per year would have increased by approximately RMB0.5 million.

Working Capital Management

Our Group recognises the importance of a strong and stable cash flows from operations to stay competitive and capture every business opportunity.

Our net current assets increased from RMB398.3 million as at 31 December 2012 to RMB1,176.9 million as at 31 December 2013, representing an increase of RMB778.6 million or 195.5%. The increase in working capital is a result of the increase in trade and other receivables, cash and cash equivalents, and the decrease in trade and other payables.

Financial Review (Continued)

Working Capital Management (Continued)

Trade receivables increased from RMB289.0 million as at 31 December 2012 to RMB335.9 million as at 31 December 2013. The increase was mainly due to the increase in sales of our electric fireplaces. The receivables from electric fireplaces customers increased by RMB75.4 million from RMB143.4 million as at 31 December 2012 to RMB218.8 million as at 31 December 2013. The average trade receivables turnover days for the year ended 31 December 2013 increased slightly to 95 days (2012: 93 days), primarily due to our strategy to promote our electric fireplaces and therefore allowing longer credit periods for our electric fireplaces customers. We strive to strengthen our credit control to ensure that our trade receivables are collected according to our credit terms granted to our customers which ranged from 60 to 90 days. As at 28 February 2014, approximately RMB270.3 million of total trade receivables as at 31 December 2013 have been settled.

The turnover days for inventory increased slightly from 17 days for the year ended 31 December 2012 to 18 days for the year ended 31 December 2013 while the turnover days for trade payables increased from 49 days to 66 days. Our inventory level is principally determined on sales order basis and as such, the average turnover days were relatively stable for the years ended 31 December 2012 and 2013. The increase in trade payables turnover days was primarily due to the increase in our purchase for raw materials to meet our production needs.

Use of Proceeds

The shares of the Company are listed on the Main Board of the Stock Exchange on 20 December 2013. Net proceeds from the Global Offering were approximately HKD597.2 million (after deducting the underwriting commission and relevant expenses) and none of the net proceeds has been used during the period from 20 December 2013, being the first day of the listing of the Company's shares on the Stock Exchange, to 31 December 2013 (the "Listing Period"). As at 31 December 2013, the unused proceeds were deposited in licensed banks in Hong Kong.

Employees and Emoluments

As at 31 December 2013, we employed a total of 1,483 full time employees in the PRC and Hong Kong which included management staff, product designers, technicians, salespersons and workers. For the year ended 31 December 2013, the Group's total expenses on the remuneration of employees was RMB129.7 million, representing 10.8% of the revenue of the Group.

Our emolument policies are formulated based on the performance of individual employee which will be reviewed periodically. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance fund (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. Since the adoption of the share option scheme on 2 December 2013 and up to 31 December 2013, no options have been granted.

Capital expenditure

For the year ended 31 December 2013, the capital expenditure of the Group amounted to RMB25.8 million (2012: RMB10.9 million). It was mainly comprised of the investment in property, plant and equipment, and land use rights in the PRC.

Commitments

Details of the Group's commitments are set out in Note 31 to the financial statements.

Financial Review (Continued)

Material acquisition and disposals and significant investments

The Group did not have any material investments or capital assets, or material acquisitions or disposals of subsidiaries or significant investments for the year ended 31 December 2013.

Contingent Liabilities

As at 31 December 2013, the Group did not have any material contingent liabilities or guarantees (2012: nil).

CORPORATE GOVERNANCE REPORT

We are committed to achieving and maintaining high standards of corporate governance, in compliance with the principles set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") from time to time.

Pursuant to a resolution passed by the Board on 2 December 2013, the Company has adopted all the requirements of the code provisions of the Corporate Governance Code. During the Listing Period, the Company has complied with all the code provisions of the Corporate Governance Code except for the deviation disclosed under the section headed "Corporate Governance" in this report.

Role of the Board

The Board oversees the management of the business and affairs of the Company. The Directors are accountable for making decisions objectively in the best interest of the shareholders as a whole.

The Board is responsible for making decisions on all major aspects of the Company's affairs, including the approval and monitoring of key policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions, major capital expenditure, appointment of Directors and other significant financial and operational matters.

The Board may delegate aspects of its management and administration functions to the management. In particular, the day-to-day management of the Company is delegated to the executive Directors of the Group and our management team.

Board Composition

The Company has throughout the Listing Period met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, and accounting or related financial management expertise. At all times during the Listing Period, the independent non-executive Directors represent at least one-third of the Board.

Throughout the Listing Period, the composition of the Board was as follows:

Executive Directors:
Mr. Chen Fanglin *(Chairman)*
Mr. Chen Hongming
Mr. Shen Jianzhong

Independent non-executive Directors:
Mr. Dai Jianping
Mr. Ng Wing Keung
Ms. Sun Kam Ching

The Board members have no financial, business, family or other material/relevant relationships with each other.

A description of the Directors is set out in the section headed "Board of Directors and Senior Management" in this annual report.

The Board is expected to meet regularly and at least four times a year. The Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors.

With respect to regular meetings of the Board, the Directors will be given written notice of the meeting at least 14 days in advance and an agenda with supporting Board papers no less than three days prior to the meeting. For other meetings, the Directors are given as much notice as is reasonable and practicable in the circumstances.

Board Composition (Continued)

No meeting of the Board was held during the Listing Period. From 2014, the Board will meet at least four times a year.

A recent meeting of the Board was held on 21 March 2014 to consider and review the financial statements of the Group for the year ended 31 December 2013 and corporate governance and management related matters. All members of the Board attended that meeting.

Chairman and Chief Executive Officer

The chairman of the Company, Mr. Chen Fanglin, leads the Board in the determination of the strategy of the Group and in the achievement of its objectives. He is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group.

The Company at present does not have a Chief Executive Officer. Nevertheless, the duties and responsibilities of the Chief Executive Officer of daily operations of the Group are carried out by the executive Directors, other than the Chairman, and they are accountable to the Board for the financial and operational performance of the Group.

Corporate Governance

The Board has carried out its duties and responsibilities as set out in code provision D.3 in the Corporate Governance Code ("Code Provisions"), including the development of policies and practices on corporate governance, monitoring the training and continuous professional development of Directors and senior management, as well as reviewing the compliance with the Corporate Governance Code, disclosure in this report and legal and regulatory requirements of the Group. During the Listing Period, the Company had complied with the Code Provisions except for code provision A.1.8.

Code provision A.1.8 stipulates that the Company should arrange appropriate insurance cover in respect of legal action against its Directors. Currently, the Company does not have insurance cover for legal action against its Directors. The Board believes that with the current internal control system and the close supervision of the management, the Directors' risk of being sued or getting involved in litigation in their capacity as Directors is relatively low. Nevertheless, the Company will make such an arrangement when the Board deems necessary.

Independent Non-executive Directors

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

Each independent non-executive Director gives the Company an annual confirmation of his independence. The Company considers such Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Each Director, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.

Appointments, Re-election and Rotation of Directors

Pursuant to the articles of association of the Company (the "Articles"), the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

According to the Articles and in the opinion of the Board, the Directors, namely Mr. Chen Fanglin and Mr. Dai Jianping will retire at the forthcoming annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the same meeting.

Where vacancies arise at the Board, candidates will be proposed and put forward to the Board by the Nomination Committee (as defined below) as set out below under the section headed "Nomination Committee".

Training, Induction and Continuing Development of Directors

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

According to the code provision A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, as well as placing an appropriate emphasis on the roles, functions and duties of the Directors.

The Directors confirm that they have complied with the relevant code provision. The Company had received from each of the Directors the record of training the Directors received.

Securities Transactions

Pursuant to a resolution passed by the Board on 2 December 2013, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors.

Specific enquiries have been made with the Directors, and all Directors confirmed in writing that they have complied with the required standards set out in the Model Code regarding their securities transactions for the Listing Period.

Board Committees

The Company established a remuneration committee (the "Remuneration Committee"), an audit committee (the "Audit Committee") and a nomination committee (the "Nomination Committee") on 2 December 2013.

Remuneration Committee

The Remuneration Committee comprises all independent non-executive Directors, namely, Mr. Dai Jianping, Mr. Ng Wing Keung, and Ms. Sun Kam Ching, and an executive Director, Mr. Shen Jianzhong. Ms. Sun Kam Ching is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to recommend the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

Board Committees (Continued)

Remuneration Committee (Continued)

The Remuneration Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, www.cchome.hk.

No meeting of the Remuneration Committee was held during the Listing Period. From 2014, the Remuneration Committee will meet at least once a year.

Audit Committee

The Audit Committee comprises all independent non-executive Directors, namely, Mr. Dai Jianping, Mr. Ng Wing Keung, and Ms. Sun Kam Ching. Mr. Ng Wing Keung is the chairman of the Audit Committee.

No meeting of the Audit Committee was held during the Listing Period. From 2014, the Audit Committee will meet at least twice a year.

A recent meeting of the Audit Committee was held on 21 March 2014 to consider and review the financial statements of the Group for the year ended 31 December 2013 and internal control related matters. All members of the Audit Committee attended that meeting.

Under its terms of reference, the Audit Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and is tasked with recommending to the Board appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel records, internal and external auditors, risk assessment and assurance and senior management, as may be appropriate in the discharge of its functions.

For the year ended 31 December 2013, the Audit Committee discharged its responsibilities by:

(1) making recommendations to the Board on the reappointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor;

(2) monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discussing with the external auditor the nature and scope of the audit and reporting obligations;

(3) implementing the Company's policy on the engagement of an external auditor to supply non-audit services;

(4) reviewing, and monitoring the integrity of, the financial statements of the Company to ensure that the information presents a true and balanced assessment of the Company's financial position;

(5) reviewing the Company's financial controls, internal control and risk management systems to ensure that management has discharged its duty to have an effective internal control system;

(6) reviewing the Company's financial and accounting policies and practices;

(7) reviewing the external auditor's management letter, material queries raised by the external auditor to the management, if any, in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and

(8) reporting to the Board on the matters set out in the Corporate Governance Code on the Audit Committee.

Board Committees (Continued)

Audit Committee (Continued)

The Audit Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary in the performance of its functions. The Audit Committee is provided with sufficient resources by the Company to discharge its duties. The Audit Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, www.cchome.hk.

Nomination Committee

The Nomination Committee comprises all independent non-executive Directors, namely, Mr. Dai Jianping, Mr. Ng Wing Keung, and Ms. Sun Kam Ching, and an executive Director, Mr. Shen Jianzhong. Mr. Dai Jianping is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are (among other things) to make recommendations to the Board on appointment of Directors and succession planning for Directors.

Where vacancy on the Board exists, the Nomination Committee will carry out a selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations, and select or make recommendations to the Board on the selection of candidates for directorship.

The Nomination Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, www.cchome.hk.

No meeting of the Nomination Committee was held during the Listing Period. From 2014, the Nomination Committee will meet at least once a year.

The Board adopted the diversity policy on 2 December 2013 (the "Board Diversity Policy") which ensures the Nomination Committee nominates and appoints candidates on merit basis to enhance the effectiveness of the Board so to maintain high standards of corporate governance. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background, educational background, industry experience and professional experience.

Accountability and Audit

Financial reporting

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company to ensure that these financial statements give a true and fair presentation in accordance with the International Financial Reporting Standards.

The statement by the auditor about their reporting responsibilities is set out in the independent auditor's report on page 32.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Independent Auditor

The Audit Committee reviews and monitors the independent auditor's independence, objectivity and effectiveness of the audit process. It receives each year letter from the independent auditor confirming their independence and objectivity and holds meetings with representatives of the independent auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the independent auditor.

Independent Auditor (Continued)

The remuneration payable to the independent auditor of the Company in respect of the audit services related to the Global Offering of the Company and audit services for the year ended 31 December 2013 amounted to approximately RMB6.1 million and RMB2.8 million, respectively. There was no remuneration payable to the independent auditor of the Company in respect of non-audit services.

Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control and assessment and management of risks. In meeting its responsibility, the Board has put in place policies and procedures which provide a framework for the identification and management of risks.

The Directors have reviewed the effectiveness of the Group's internal control system, which covers all material controls, including financial, operational and compliance controls and risk management functions.

In the meeting held on 21 March 2014, the Audit Committee has also reviewed and considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The findings of the Audit Committee have been reported to the Board.

Company Secretary

The company secretary of the Company, Mr. Hui Hung Kwan, is a full-time employee of the Group. Please refer to his biographical details as set out on page 31 of this annual report.

Rights of Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 58 of the Articles, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Sending Enquiries to the Board and Procedures for Putting Forward Proposals at Shareholders' Meetings

Shareholders or investors can contact the Company in the following ways to make enquiry or to provide suggestions:

Contact Person:	Mr. Hui Hung Kwan, Company Secretary
Postal Address:	Room 913, China Merchants Tower, 152–155 Connaught Road Central, Sheung Wan, Hong Kong

To put forward proposals at a general meeting, the shareholders should submit a written notice of those proposals with detailed contact information to the company secretary at the Company's principal place of business stated above.

Communications with Shareholders

In every general meeting, in respect of each substantially separate issue, a separate resolution would be proposed by the Chairman of that meeting.

The Board and senior management maintain a continuing dialogue with the Company's shareholders and investors through various channels including the Company's annual general meeting. The Chairman, other members of the Board and external auditors will attend the annual general meeting. The Directors will answer questions raised by the shareholders on the performance of the Group. Our Company's website which contains corporate information, annual reports, announcements and circulars issued by the Company as well as the recent developments of the Group enables the Company's shareholders to have a timely and updated information of the Group.

DIRECTORS' REPORT

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2013.

Principal Activities

The principal activity of Company is investment holding and the principal activities of its subsidiaries are set out in Note 29 to the financial statements.

Results and Appropriations

Results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of comprehensive income on page 33.

On 21 March 2014, the Board recommends HK3.8 cents per share as a final dividend for the year ended 31 December 2013.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 84 of this annual report.

Share Capital

Details of the movements in the share capital of the Company during the year ended 31 December 2013 are set out in Note 23 to the financial statements.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 36 and Note 25 respectively.

Distributable Reserves

The reserves available for distribution to shareholders consist of share premium and retained earnings. As of 31 December 2013, the Company had an aggregate share premium and retained earnings of RMB543.7 million which are available for distribution to the shareholders. For the year ended 31 December 2013, approximately RMB53,483,000 has been proposed as a final dividend.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles or applicable laws of the Cayman Islands where the Company was incorporated.

Property, Plant and Equipment

Movements in property, plant and equipment are set out in Note 15 to the financial statements.

Bank Borrowings

Details of the Group's bank borrowings are set out in Note 27 to the financial statements. Bank borrowings repayable within one year or on demand are classified as current liabilities in the financial statements.

Major Customers and Suppliers

During the year ended 31 December 2013, the Group's five largest customers accounted for approximately 24.6% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 6.6% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 35.9% of the Group's total purchases, while the largest supplier for the year accounted for approximately 10.6% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors or their respective associates or any of the shareholders of the Company who owns more than 5% of the Company's issued share capital has any interest in any of the Group's five largest customers or suppliers.

Remuneration Policy and Employees

As at 31 December 2013, the Group had 1,483 employees in total. The table below shows a breakdown of the Group's employees by their responsibilities:

Department	Number of employees
Management	**18**
Production	**1,192**
Quality assurance	**20**
General and administration	**73**
Purchase and logistics	**10**
Design and technical	**121**
Sales and marketing	**49**
Total	**1,483**

The remuneration policy (which includes the payment of the emoluments to the employees) of the employees of the Group is set up by the Remuneration Committee on the basis of the employees' qualifications, experiences, job nature, performance and market condition. Details of the staff cost and remuneration of the Directors are set out in Notes 9 and 10 respectively to the financial statements, having regard to the Company's operating results, individual performance of the Directors and senior management and comparable market statistics.

Pursuant to B1.5 of the Corporate Governance Code, the remuneration of the members of the senior management by band for the year is set out below:

Remuneration bands	Number of persons
Nil – RMB1,000,000	6

The Group has established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the rules and regulations of the PRC and the existing policy requirements of the local government. The Group also maintains the employee short-term health insurance and unforeseen injury insurance. In addition, the Group provides staff quarters to its employees.

Directors and qualified employees of the Company may be granted share options to subscribe for shares in the Company in accordance with the terms and conditions of the Share Option Scheme (as defined below).

Directors

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

Executive Directors:

Mr. Chen Fanglin *(Chairman)*
Mr. Chen Hongming
Mr. Shen Jianzhong

Independent non-executive Directors:

Mr. Dai Jianping (appointed on 1 December 2013)
Mr. Ng Wing Keung (appointed on 1 December 2013)
Ms. Sun Kam Ching (appointed on 1 December 2013)

Directors (Continued)

In accordance with the Articles, Mr. Chen Fanglin and Mr. Dai Jianping retire at the forthcoming annual general meeting but, being eligible, offers themselves for re-election.

Mr. Dai Jianping, Mr. Ng Wing Keung and Ms. Sun Kam Ching are independent non-executive Directors and were appointed for a three-year term expiring on 30 November 2016.

Directors' Services Contracts

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 20 December 2013, which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the independent non-executive Directors have been appointed for a term of three years commencing from 1 December 2013. None of the Directors has entered into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Biographical Details of Directors and Senior Management

The biographical details of Directors and senior management are set out on pages 29 to 31.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2013, the interests and short positions of the Directors of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he 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 recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code will be as follows:

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate Percentage of Shareholding Interest (%)
Mr. Chen Fanglin	Interest in controlled corporation/ Long position (Note)	1,248,651,180	69.4%

Note: Mr. Chen Fanglin is deemed to be interested in the Shares held by China Wisdom Asia Limited in which Central Profit Group Limited holds 65% interests. Central Profit Group Limited is his wholly-owned company. The details are set out as below:

Name of director	Name of associated corporation	Capacity/ Nature of interest	Number of Shares	Approximate Percentage of Shareholding Interests (%)
Mr. Chen Fanglin	China Wisdom Asia Limited	Interest in controlled corporation	32,500 shares of US$1.00 each	65%
Mr. Chen Fanglin	Central Profit Group Limited	Beneficial owner	one share of US$1.00	100%

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (Continued)

Save as disclosed above, none of the Directors of the Company had interests or short positions in the Shares, underlying Shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he 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 recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2013.

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company, its holding companies, or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, existed at the end of the year.

Management Contracts

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

Directors' Interests in Competing Businesses

None of the Directors or their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Interests and Short Positions of the Substantial Shareholders in Shares and Underlying Shares of the Company

As at 31 December 2013, the following persons (other than a Director of the Company), who had interests or short positions in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name	Capacity/Nature of interest	Number of Shares	Approximate Percentage of Shareholding Interest (%)
China Wisdom Asia Limited	Beneficial owner/Long position (Note 1)	1,248,651,180	69.4%
Central Profit Group Limited	Interest in controlled corporation/ Long position (Note 1)	1,248,651,180	69.4%
Chen Xiangqun	Interest of spouse/Long position (Note 2)	1,248,651,180	69.4%
Ocean Equity Partners Fund L.P.	Beneficial owner/Long position	95,674,410	5.3%
Clear Zone Limited	Beneficial owner/Long position (Note 3)	95,674,410	5.3%
VMS Investment Group Limited	Interest in controlled corporation/ Long position (Note 3)	95,674,410	5.3%
Mak Siu Hang Viola	Interest in controlled corporation/ Long position (Note 3)	95,674,410	5.3%

Notes:

1. The 65% issued share capital of China Wisdom Asia Limited is held by Central Profit Group Limited, which is deemed to be interested in the Shares held by China Wisdom Asia Limited.

2. Chen Xiangqun is the spouse of Chen Fanglin and she is deemed to be interested in the Shares interested by Chen Fanglin.

3. The entire issued share capital of Clear Zone Limited is legally and beneficially owned by VMS Investment Group Limited and Mak Siu Hang Viola, who are deemed to be interested in the Shares held by Clear Zone Limited.

Interests and Short Positions of the Substantial Shareholders in Shares and Underlying Shares of the Company (Continued)

Save as disclosed above, the Directors are not aware of any person, other than the Directors whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, who had an interest or short positions in the shares or underlying shares that were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded pursuant to Section 336 of Part XV of the SFO as of 31 December 2013.

Share Option Scheme

Pursuant to a resolution passed by all the shareholders on 2 December 2013, the Company has conditionally adopted the share option scheme (the "Share Option Scheme") for the purpose of recognising and acknowledging the contributions the eligible participants had or may have made to the Group. The Board may, at its discretion, grant options pursuant to the Share Option Scheme to the Directors (including executive Directors and independent non-executive Directors), the Directors of the Company's subsidiaries and employees of the Group and any other persons (including consultants or advisers) whom the Board considers, in its absolute discretion, have contributed or will contribute to the Group. The Directors were authorised to grant options to subscribe for shares of the Company and to allot, issue and deal with the shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme. The maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue immediately following completion of the Global Offering, being 180,000,000 Shares, excluding any shares that may be issued under the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company), unless otherwise approved by the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.

Unless otherwise approved by the shareholders of the Company in general meeting, the number of shares that may be granted to an eligible participant under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 1% of the shares in issue of the Company within any 12-month period. Any grant of options to a Director, or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by our independent non-executive Directors. Unless otherwise approved by the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules, the number of shares that may be granted to a substantial shareholder or any independent non-executive Director or their respective associates under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 0.1% of the shares in issue, having an aggregate value in excess of HKD5 million, within any 12-month period.

There is no minimum period for which an option must be held before it can be exercised, and the period during which an option may be exercised will be determined by the Board in its absolute discretion, however, no options shall be exercised 10 years after they have been granted. The subscription price of a share in respect of a particular option shall be not less than the highest of (a) the official closing price of the Shares on the daily quotation sheet of the Stock Exchange; (b) the average official closing price of the shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date. From the date that the Share Option Scheme became effective and unconditional and up to the date of this annual report, no share options were granted under the Share Option Scheme.

Purchase, Sale or Redemption of the Company's Securities

The Company has not redeemed any of the shares during the year ended 31 December 2013. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2013 other than the Global Offering in 2013.

Public Float

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficiency of public float at all times during the Listing Period.

Connected Transactions

On 28 September 2013, the Group entered into a rental agreement with Quanzhou Xinliya Trading Co., Ltd., a connected party controlled by Mr. Chen Fanglin, to lease from such connected party certain premises at a monthly rental of RMB72,000 from 1 October 2013 to 30 September 2018. All of the percentage ratios (other than profit ratio) on an annual basis is less than 0.1% and therefore, the rental agreement is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 32 to the financial statements, and none of which constitutes a discloseable connected transaction as defined under the Listing Rules.

Deed of Non-competition

The Company entered into a deed of non-competition (the "Deed of Non-Competition") with Mr. Chen Fanglin, China Wisdom Asia Limited, Central Profit Group Limited, Chen Xiangqun and Regal One Success Limited (collectively referred to as the "Covenantors") on 2 December 2013 so as to better safeguard the Group from any potential competition and to formalise the principles for the management of potential conflicts between them and to enhance our corporate governance in connection with the listing of the shares on the Stock Exchange.

The independent non-executive Directors have reviewed compliance by the Covenantors and confirm that based on confirmations and information provided by each of the Covenantors, they were in compliance with the Deed of Non-Competition during the Listing Period.

The independent non-executive Directors were not required to review any matter in relation to compliance and enforcement of the Deed of Non-Competition during the Listing Period.

Auditor

PricewaterhouseCoopers will retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

Closure of Register of Members

In order to determine the entitlement to attend the annual general meeting of our Company to be held on 21 May 2014 (the "Annual General Meeting"), the register of members of the Company will be closed from 16 May 2014 to 21 May 2014 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending the Annual General Meeting, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 15 May 2014.

Closure of Register of Members (Continued)

In order to determine the entitlement to the final dividends for the year ended 31 December 2013, the register of members of the Company will be closed from 28 May 2014 to 30 May 2014 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the final dividends for the year ended 31 December 2013, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 27 May 2014.

On behalf of the Board
Chen Fanglin
Chairman

Hong Kong, 21 March 2014

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chen Fanglin (陳芳林), aged 50, is the Chairman and executive Director of our Company. Mr. Chen is responsible for the overall strategic and business direction of our Group. He is the founder of our business in 1993. He graduated from the Quanzhou Normal School (泉州師範專科學校) (now known as the Quanzhou Normal University (泉州師範學院)) in 1982. He obtained a Master of Business Administration from The Open University of Hong Kong (香港公開大學) in 2004. From August 1982 to February 1986, Mr. Chen was a teacher at the Nanan No. 2 Middle School of Fujian (福建省南安第二中學) and from March 1986 to December 1989, he was responsible for research and English studies at the Education Department of Quanzhou Normal School (泉州師專教務處). Mr. Chen also holds the title senior economist (高級經濟師) awarded by Fujian Province Department of Personnel (福建省人事廳) in August 2008. Mr. Chen was appointed as the vice president of China Gift & Leisure Products Association (中國禮儀休閒用品工業協會) in September 2012. Mr. Chen was appointed as the deputy to National People's Congress of Quanzhou City (泉州市人大) in March 2012. He was awarded as the Outstanding Person of Economic in the China Market (中國市場傑出經濟人物) by the China Market Guidance Committee (中國市場指導委員會) and China Market Magazine (中國市場雜誌社) in December 2010. Mr. Chen is a member of council of the Fujian Province Chamber of Commerce for Privately Owned Enterprise (福建省民營企業商會) and the Fujian Province Committee of Business and Industrial Joint Association(福建省工商業聯合會直屬委員會) since January 2011. In February 2011, he was awarded as the Quanzhou Person of Economic (泉州經濟人物) by the Propaganda Department of the People's Communist Party of Quanzhou City (中共泉州市委宣傳部), Quanzhou City General Chamber of Commerce (泉州市總商會) and Quanzhou Evening Post (泉州晚報社). In December 2011, Mr. Chen was the vice president of the Quanzhou City Business and Industrial Joint Association (General Chamber of Commerce) (泉州市工商業聯合（總商會）). He was nominated as the Leader of China Building Energy Saving Industry (中國建築節能減排領導人物) by China Building Energy Saving Industry Alliance (中國建築節能減排產業聯盟) and China Urban Housing Industry Council (中國城市住宅產業理事會).

Mr. Chen Hongming (陳洪明), aged 40, is the vice president and chief marketing officer of our Group and an executive Director of our Company. He is primarily responsible for the product sales and marketing of our Group. Mr. Chen graduated from Fuzhou University (福州大學) with a major in international trade in 1995. In 2003, Mr. Chen graduated from Fujian Normal University (福建師範大學) with a major in English studies. He also obtained a Master of Business Administration from The Open University of Hong Kong (香港公開大學) in 2004. He obtained a Master of Business Administration from Huaqiao University (華僑大學) in 2011. Mr. Chen holds the title senior economist (高級經濟師) awarded by Fujian Province Department of Personnel (福建省人事廳) in August 2008. He joined our Group in 1997 and was promoted in May 2005 to the director of our marketing and sales team. In August 2008, he was appointed as the vice president of our Group where he was responsible for the sales and marketing of our products.

Mr. Shen Jianzhong (申建忠), aged 54, is the vice president, chief administrative and human resources officer of our Group and an executive Director of our Company. Mr. Shen is responsible for human resources and administration management of our Group. Prior to joining our Group in 1994, Mr. Shen worked in Quanzhou Guopin Company (泉州市果品公司) and was the officer at the Guopin Trading Company (果品貿易公司). The principal business of these two companies was trading of fruits. In July 1994, Mr. Shen joined our Group and was an assistant to the president. He was promoted in 2005 to the vice general manager. In 2008, he was appointed as the vice president of our Group. Mr. Shen holds the title intermediate economist (中級經濟師) awarded by Fujian Province Department of Personnel (福建省人事廳) in November 2008.

Independent Non-executive Directors

Mr. Dai Jianping (戴建平), aged 57, was appointed as our independent non-executive Director on 1 December 2013. Mr. Dai graduated from Fujian Province Adult College (福建省成人中等專業學校) with a major in urban construction in 1988. He was an engineer qualified by the Fujian Province Department of Personnel (福建省人事廳) in November 1995. Since 2000, Mr. Dai has been serving as a vice general manager of Quanzhou Dahua Property Development Co., Ltd (泉州大華房地產開發有限公司). He was awarded the Temporary Certificate of Registration of Constructor of the PRC (中華人民共和國一級建造師臨時執業證書) by the Ministry of Housing and Urban-Rural Construction (中華人民共和國住房和城鄉建設部) in March 2008. In November 2008, Mr. Dai was awarded the title person-in-charge of project (項目負責人) by the Fujian Province Department of Construction (福建省建設廳).

Mr. Ng Wing Keung (伍永強), formerly known as Ng Wing Keung Canny, aged 44, was appointed as our independent non-executive Director on 1 December 2013. Mr. Ng is a practising certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He worked in Li, Tang, Chen & Co. from August 1993 to March 2001 and started his own audit firm in June 2001. Mr. Ng has been practising as certified public accountant in Hong Kong over 10 years and is currently a managing director of KTO CPA Limited. From 10 August 2012 to 15 October 2013, Mr. Ng was the non-executive director of Peace Map Holding Limited (formerly known as Mongolia Investment Group Limited) (stock code: 402.HK).

Ms. Sun Kam Ching (孫錦程), aged 41, was appointed as our independent non-executive Director on 1 December 2013. Ms. Sun received a bachelor's degree in business administration from Huaqiao University (華僑大學) in 1994. Ms. Sun has over 15 years of experience in business administration and financial management. Ms. Sun joined Jinjiang Aile Group (晉江愛樂集團) ("Jinjiang Aile") in 1996 and held various positions in Jinjiang Aile, including head of the sales department of Jinjiang Aile Shoes and Clothing Co., Ltd. (晉江愛樂鞋服公司), a subsidiary of Jinjiang Aile, from 1996 to 2000, the chief sales planning officer of Jinjiang Aile since 2003, and the chief financial officer of Jinjiang Aile since 2005. Ms. Sun has also been responsible for the image consultancy of Jinjiang Aile and is involved in the management of certain subsidiaries of Jinjiang Aile, including Jinjiang Aile Holiday Hotel (晉江愛樂假日酒店) and Shishi Aile Holiday Hotel (石獅愛樂假日酒店) since 2000. Ms. Sun attended the training courses for independent non-executive Director conducted by the Shenzhen Stock Exchange in 2008. Ms. Sun has been appointed as an independent non-executive Director of Labixiaoxin Snack Group Limited (stock code: 1262.HK) since 2011.

Senior Management

Mr. Hui Hung Kwan (許鴻群), aged 42, has been the chief financial officer of our Group since June 2013 and is responsible for our Group's financial planning and strategy. Mr. Hui graduated from The Chinese University of Hong Kong (香港中文大學) with a bachelor's degree in business administration in 1994. Mr. Hui has been a member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants since 1997 and 2002, respectively. Mr. Hui has ten years' experience in the auditing profession. Prior to joining our Group, Mr. Hui was the audit manager of Li, Tang, Chen & Co., CPA, an accounting firm in Hong Kong from 1994 to 2004. Mr. Hui was the chief financial officer of C&G Environmental Protection Holdings Limited, a company listed on the main board of Singapore Exchange (stock code: SES: D79), from 2004 to October 2010. From November 2010 to December 2012, Mr. Hui was the chief financial officer of Premiere Eastern Energy Pte. Ltd. and was responsible for financial and capital market management. Mr. Hui is currently an independent non-executive director of Jinheng Automotive Safety Technology Holdings Limited (錦恆汽車安全技術控股有限公司), a company listed on the Stock Exchange (stock code: 872.HK).

Mr. Yang Dilin (楊的林), aged 49, has been the vice financial officer of our Group since March 2012 and is responsible for day-to-day financial affairs of our Group. Mr. Yang attended The Party School of Anhui Provincial Committee of C.P.C. (中共安徽省委黨校) from September 1998 to July 2001, majoring in law. Mr. Yang is a qualified accountant in China. Prior to joining our Group, Mr. Yang served the Susong Finance Bureau (宿松縣財政局) between July 1983 and September 2000. He worked at Shenzhen Liwei Electronic Company Limited (深圳力偉電子有限公司) from June 2005 to April 2010 as the chief financial officer. From May 2010 to December 2011, Mr. Yang was the manager of Jomoo Group Co., Ltd. (九牧集團有限公司) and was responsible for budgeting.

Mr. Zhang Pingxin (張平新), aged 42, is the vice general manager and chief product officer of our Group and is responsible for production management. He worked in Shanxi Province Huayin City Huashan Yejin Automotive Factory (陝西省華陰市華山冶金車輛廠) as an engineer between July 1992 and November 1995. He then worked in Shenzhen Shiyong Electrical and Metal Manufacturing Company Limited (深圳實用電器金屬製造有限公司) as a manger from December 1995 to April 2003 where he was responsible for production management and quality control. From May 2003 to May 2008, Mr. Zhang worked in Zhejiang Fuerj Electrical Co., Ltd. (浙江富爾佳電器製品有限公司) as the manager of the quality control department. He joined our Group in June 2008 and since then has been responsible for our Group's production and quality control.

Mr. Zheng Hebin (鄭鶴斌), aged 42, is the chief research and development officer of our Group and is responsible for product research and development. He served the development department of Fuzhou Gaodeng Artefact Company Limited (福州高登工藝品有限公司), where he was responsible for designing products. He was the manager of the development department of Fuqing Fuhua Artefact Company Limited (福清複華工藝品有限公司). Mr. Zheng joined our Group in July 1997 as the manager of our design team. He was promoted in March 2005 to be the chief officer of our research and development team. Mr. Zheng has participated in the development of fireplace of our Group since 2005.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF CHINA CREATIVE HOME GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Creative Home Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 33 to 83 which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
Revenue	7	**1,195,522**	969,026
Cost of sales	8	**(666,072)**	(540,829)
Gross profit		**529,450**	428,197
Other income	7	**6,482**	2,613
Selling and distribution costs	8	**(59,851)**	(53,504)
Administrative expenses	8	**(83,002)**	(42,995)
Operating profit		**393,079**	334,311
Finance costs	11	**(4,481)**	(2,992)
Profit before income tax		**388,598**	331,319
Income tax expense	12	**(85,369)**	(69,690)
Profit for the year attributable to equity holders of the Company		**303,229**	261,629
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss			
Surplus on property revaluation, net of tax	15	**1,642**	–
Total other comprehensive income for the year, net of tax		**1,642**	–
Total comprehensive income for the year attributable to equity holders of the Company		**304,871**	261,629
Earnings per share for profit attributable to equity holders of the Company			
– Basic and diluted (expressed in RMB per share)	13	**0.21**	0.18
Dividends	14	**145,237**	54,400

The notes on pages 38 to 83 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	**2013 RMB'000**	2012 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**199,858**	294,298
Investment property	16	**112,600**	–
Land use rights	17	**112,613**	117,326
Prepayments	20	**24,803**	–
		449,874	411,624
Current assets			
Inventories	18	**37,643**	27,369
Trade receivables	19	**335,932**	288,967
Deposits, prepayments and other receivables	20	**100,026**	16,499
Restricted bank deposits	22	**2,416**	75,865
Cash and cash equivalents	22	**995,736**	343,794
		1,471,753	752,494
Total assets		**1,921,627**	1,164,118
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	**141**	–
Share premium	23	**483,413**	–
Reserves		**1,136,153**	804,477
Total equity		**1,619,707**	804,477
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	28	**7,087**	5,406
Current liabilities			
Trade and other payables	26	**206,101**	265,592
Amount due to the controlling shareholder	21	**–**	4,162
Bank borrowings	27	**59,000**	60,951
Current income tax liabilities		**29,732**	23,530
		294,833	354,235
Total liabilities		**301,920**	359,641
Total equity and liabilities		**1,921,627**	1,164,118
Net current assets		**1,176,920**	398,259
Total assets less current liabilities		**1,626,794**	809,883

The consolidated financial statements on pages 33 to 83 were approved for issue by the Board of Directors on 21 March 2014 and were signed on its behalf.

Chen Fanglin
Director

Chen Hongming
Director

The notes on pages 38 to 83 are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
ASSETS			
Non-current asset			
Investment in a subsidiary	29	**703,877**	596,962
Current assets			
Amounts due from subsidiaries	21	**82,421**	–
Prepayments	20	**96,653**	798
Cash and cash equivalents	22	**389,167**	–
		568,241	798
Total assets		**1,272,118**	597,760
EQUITY			
Share capital	23	**141**	–
Share premium	23	**483,413**	–
Reserves	25	**775,830**	597,001
Total equity		**1,259,384**	597,001
LIABILITIES			
Current liabilities			
Amount due to the controlling shareholder	21	**–**	759
Other payables	26	**12,734**	–
		12,734	759
Total equity and liabilities		**1,272,118**	597,760
Net current assets		**555,507**	39
Total assets less current liabilities		**1,259,384**	597,001

The financial statements on pages 33 to 83 were approved for issue by the Board of Directors on 21 March 2014 and were signed on its behalf.

Chen Fanglin
Director

Chen Hongming
Director

The notes on pages 38 to 83 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Note	Share capital RMB'000 (Note 23)	Share premium RMB'000 (Note 23)	Reserves: Capital reserve RMB'000 (Note 24(a))	Reserves: Statutory reserve RMB'000 (Note 24(b))	Reserves: Retained earnings RMB'000	Reserves: Revaluation reserve RMB'000	Total RMB'000
Balances as at 1 January 2012		–	–	288,177	71,074	237,997	–	597,248
Comprehensive income								
Profit for the year		–	–	–	–	261,629	–	261,629
Transactions with owners:								
Dividend	14	–	–	–	–	(54,400)	–	(54,400)
		–	–	–	–	(54,400)	–	(54,400)
Balances as at 31 December 2012		–	–	288,177	71,074	445,226	–	804,477
Balances as at 1 January 2013		–	–	288,177	71,074	445,226	–	804,477
Comprehensive income								
Profit for the year		–	–	–	–	303,229	–	303,229
Other comprehensive income								
Surplus on property revaluation, net of tax		–	–	–	–	–	1,642	1,642
Total comprehensive income		–	–	–	–	303,229	1,642	304,871
Transactions with owners:								
Capital injection from the parent company		–	–	118,559	–	–	–	118,559
Transfer to statutory reserve	24	–	–	–	23,549	(23,549)	–	–
Issuance of shares for initial public offering	23	141	483,413	–	–	–	–	483,554
Dividend	14	–	–	–	–	(91,754)	–	(91,754)
		141	483,413	118,559	23,549	(115,303)	–	510,359
Balances as at 31 December 2013		141	483,413	406,736	94,623	633,152	1,642	1,619,707

The notes on pages 38 to 83 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	280,969	350,980
Interest paid		(4,481)	(4,130)
Income tax paid		(78,034)	(52,896)
Net cash generated from operating activities		198,454	293,954
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,963)	(11,556)
Prepayments for constructions		(6,259)	–
Prepayments for land use rights		(18,544)	–
Additions to land use rights		(20,343)	–
Interest received		3,001	2,394
Decrease in short-term bank deposits		–	35,584
Decrease in amount due to the controlling shareholder		(10,416)	–
Decrease in amount due from the controlling shareholder		–	7,241
Net cash (used in)/generated from investing activities		(60,524)	33,663
Cash flows from financing activities			
Proceeds from issuance of shares for initial public offering		483,554	–
Proceeds from borrowings		69,000	63,951
Repayments of borrowings		(70,951)	(53,000)
Capital contribution from a controlling shareholder		118,559	–
Dividends paid		(85,500)	–
Net cash generated from financing activities		514,662	10,951
Net increase in cash and cash equivalents		652,592	338,568
Cash and cash equivalents at 1 January		343,794	5,227
Exchange losses on cash and cash equivalents		(650)	(1)
Cash and cash equivalents at 31 December	22	995,736	343,794

The notes on pages 38 to 83 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

China Creative Home Group Limited (the "Company") was incorporated in the Cayman Islands on 7 July 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together the "Group") are principally engaged in the business of design, development, manufacture and sales of home decor products and electric fireplaces primarily in the People's Republic of China (the "PRC").

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited on 20 December 2013.

These consolidated financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated and have been approved for issue by the Board of Directors on 21 March 2014.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and have been prepared under the historical cost convention, as modified by the revaluation of investment property, which is carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

During the year ended 31 December 2013, the Group has adopted the following new and revised standards and amendments to standards which are mandatory for accounting periods beginning on 1 January 2013:

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Presentation of Financial Statements
HKAS 19 (Amendment)	Employee Benefits
HKAS 27 (Revised)	Separate Financial Statements
HKAS 28 (Revised)	Associates and Joint Ventures
HKFRS 1 (Amendment)	Government Loans
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurements
Annual Improvements Project	Annual Improvements 2011

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of these new and revised standards and amendments to standards does not have significant impact to the Group's results of operation and financial position.

The following are new standards, amendments to existing standards and interpretations that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2014, but have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments	effective date to be determined
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment Entities	1 January 2014
HKAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions	1 July 2014
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets	1 January 2014
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement	1 January 2014
HK(IFRIC) – Int 21	Levies	1 January 2014
Annual improvements 2011–2013	Several HKFRS Standards	1 July 2014

The Group will adopt the above new standards, amendments to existing standards and interpretations as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

2 Summary of significant accounting policies (Continued)

2.2 Consolidated financial information

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Intra-group transactions, balances, and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that the amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2 Summary of significant accounting policies (Continued)

2.2 Consolidated financial information (Continued)

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Group that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

2 Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(c) *Group companies*

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each statement of financial position of the Group's entities are translated at the closing rate at the date of that statement of financial position;

– income and expenses for each statement of comprehensive income of the Group's entities are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting currency translation differences are recognized as other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sales.

2.5 Property, plant and equipment

Property, plant and equipment, except for construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Construction in progress is stated at cost less accumulated impairment losses. Direct and indirect costs relating to the construction in progress, including borrowing costs during the construction period, are capitalized as the costs of the assets. Cost on completed construction work is then transferred to appropriate category of property, plant and equipment.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs over their estimated useful lives, as follows:

Buildings	30 years
Plant and machinery	5–10 years
Office equipment	5 years
Motor vehicles	4 years

2 Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

No depreciation is provided in respect of construction in progress until the completion of construction. Depreciation commences when construction in progress is transferred to property, plant and equipment and ready for their intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the profit or loss.

If the land use rights and the attached properties for own-use become an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of the leasehold land or land use rights and the attached properties. Any resulting increase in the carrying amount of the property is recognized in the statement of comprehensive income to the extent that reverses a previous impairment loss, with any remaining increase recognized directly to revaluation surplus within other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognized revaluation surplus, with any remaining decrease charged to profit or loss. Any revaluation reserve balance of the property is transferred to retained earnings in the statement of comprehensive income upon the subsequent disposal of the investment property.

2.6 Land use rights

Land use rights represent upfront operating lease payments made for the land and are stated at cost less amount written off on a straight-line basis over the lease period and impairment loss.

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment property.

Investment property comprises land and buildings held under operating leases.

Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition at cost, investment property is carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the statement of comprehensive income as part of a valuation gain or loss.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

(a) Classification

The Group's financial assets are mainly loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's financial assets comprise trade and other receivables (Notes 19 and 20), restricted bank deposits and cash and cash equivalents (Note 22) in the statement of financial position.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

2.10 Impairment of financial assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets carried at amortized cost (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the profit or loss.

2.11 Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 Summary of significant accounting policies (Continued)

2.15 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit or loss over the period of the borrowings using the effective interest method.

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

Borrowing costs are accounted for on the accrual basis and charged to the profit or loss in the year in which they are incurred, except for costs related to funding of construction or acquisition of qualifying assets which are capitalized as part of the cost of that asset during the construction period and up to the date of completion of construction.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting periods in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of reporting periods and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2 Summary of significant accounting policies (Continued)

2.17 Current and deferred income tax (Continued)

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

2.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.19 Employee benefits

(a) Pension obligations

Full time employees of the PRC entities participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. Full time employees who have passed the probation period are entitled to such benefits.

The Group also participates in defined contribution schemes which are available to Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries or a fixed sum and are charged to the consolidated statement of comprehensive income as incurred. The assets of the schemes are held separately from those of the Group in an independently administered fund.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 Summary of significant accounting policies (Continued)

2.19 Employee benefits (Continued)

(b) *Employee leaves entitlement*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) *Bonus plans*

The Group recognizes a liability and an expense for bonuses, based on performance and taking into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods in the ordinary course of the Group's activities. Revenue is shown net of value added taxes and after eliminating sales within the Group. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods*

Revenue from the sales of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the customer, and the customer has accepted the products and collectability of the related receivables is reasonably assumed.

(b) *Interest income*

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

(c) *Rental income*

Rental income from investment property is recognized on a straight-line basis over the term of the lease.

2.21 Leases – as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies (Continued)

2.22 Research and development

Costs associated with research are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the home decor products and electric fireplaces so that it will be available for use;
- Management intends to complete the home decor products and electric fireplaces and use or sell it;
- There is an ability to use or sell the home decor products and electric fireplaces;
- It can be demonstrated how the home decor products and electric fireplaces will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the home decor products and electric fireplaces are available; and
- The expenditure attributable to the home decor products and electric fireplaces during its development can be reliably measured.

Development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the period in which the dividends are declared by the Directors in the case of interim dividends or approved by the Company's shareholders in the case of final dividends.

2.24 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognized but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

3 Financial risk management

3.1 Financial risk factors

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

Risk management is carried out by the Group's management under the supervision of the Board of Directors. The Group's management identifies, evaluates and manages significant financial risks in the Group's individual operating units. The Board of Directors provides guidance for overall risk management.

(a) Market risk

(i) Foreign currency risk

The Company and all of its subsidiaries' functional currency is RMB and the major non-RMB assets and liabilities are bank deposits, trade receivables, other payables and bank borrowings denominated in Hong Kong dollar ("HKD") and the United States dollar ("USD").

The bank deposits, trade receivables, other payables and bank borrowings denominated in foreign currencies are subject to retranslation at each reporting date. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

The management of the Group continues to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

As at 31 December 2013, if RMB had strengthened/weakened by 5% against HKD and USD, with all other variables held constant, the Group's post-tax profit for the year would have been RMB20,553,000 (2012: RMB1,395,000) lower/higher, mainly as a result of net foreign exchange losses/gains on translation of HKD and USD denominated bank deposits, trade receivables, other payables and bank borrowings.

(ii) Interest rate risk

Cash flow and fair value interest rate risk refers to the changes in cash flows or fair value of a financial instrument as a result of fluctuations in market interest rates.

Restricted bank deposits, cash and cash equivalents and borrowings at fixed rates expose the Group to fair value interest-rate risk, and those at variable rates expose the Group to cash flow interest-rate risk.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. Management monitors interest rate fluctuations to ensure that exposure to interest rate risk is within an acceptable level and will consider hedging significant interest rate exposure should the need arises.

As at 31 December 2013, if interest rates on interest bearing cash and cash equivalents, restricted bank deposits and borrowings with floating rates had been 100 basis-points higher/lower with all other variables held constant, profits for the year would have been approximately RMB7,566,000 (2012: RMB2,977,000) higher/lower.

(b) Credit risk

Credit risk mainly arises from cash and cash equivalents, deposits with banks, trade receivables and other receivables. The carrying amounts of each of these financial assets represent the Group's maximum exposure to credit risk in relation to its financial assets.

For credit risks in respect of cash and cash equivalents and deposits with banks, the Group managed the risk by placing cash and cash equivalents and deposits with major local banks and state-owned banks in the PRC with good credit standing. For credit risk in respect of trade receivables from customers and other receivables, the Group has policies in place to ensure that sales or transactions are made to reputable and credit-worthy customers or counter-parties with an appropriate financial strength and credit history. The management is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is limited.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and through collection from customers. The Group finances its working capital requirements through a combination of funds generated from operations, bank borrowings (Note 27) and capital injection from equity holders. The Group maintains sufficient banking facilities to manage its working capital requirements.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting periods to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year or repayable on demand RMB'000	Carrying amount RMB'000
Group		
At 31 December 2013		
Trade and other payables (excluded value added tax, other tax payables and deposits received in advance)	191,326	191,326
Bank borrowings	61,943	59,000
	253,269	250,326
Group		
At 31 December 2012		
Trade and other payables (excluded value added tax, other tax payables and deposits received in advance)	256,757	256,757
Amount due to the controlling shareholder	4,162	4,162
Bank borrowings	63,705	60,951
	324,624	321,870
Company		
At 31 December 2013		
Other payables	12,711	12,711
At 31 December 2012		
Amount due to the controlling shareholder	759	759

3 Financial risk management (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Directors of the Company regularly monitor the capital structure, which consists of the equity attributable to the Company's shareholders as disclosed in the consolidated statement of financial position. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or dispose of assets to reduce debts.

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as total debt divided by total equity. Total debt includes all interest bearing borrowings and amount due to the controlling shareholder. Total capital represents total equity as shown in the consolidated statement of financial position. The Group's strategy is to maintain a gearing ratio of below 20%.

	2013	2012
	RMB'000	RMB'000
Total debt	**59,000**	65,113
Total equity	**1,619,707**	804,477
Gearing ratio	**3.6%**	8.1%

The decrease in the gearing ratio in 2013 was resulted primarily from the issuance and capitalization of shares.

4 Fair value estimation

The carrying amounts of the Group's current financial assets, including trade and other receivables, restricted bank deposits and cash and cash equivalents, and the Group's current financial liabilities including trade and other payables, bank borrowings and amount due to the controlling shareholder approximate their fair values due to their short term maturities.

The Group does not have any financial assets/liabilities that are subject to offsetting, enforceable master netting arrangements and similar agreements during the year.

5 Critical accounting estimates and judgments

Estimates and judgments 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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

5.1 Provision for impairment of receivables

Significant judgment is exercised on the assessment of the collectability of trade receivables from each customer. In making its judgment, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customer payment trends including subsequent payments and customers' financial position.

5.2 Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, and related depreciation and amortization charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation and amortization charges where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortization lives and therefore affect the depreciation and amortization charges in future periods.

5.3 Income taxes and deferred income taxes

Significant judgment is required in determining the provision for income taxes and deferred income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax liabilities have not been established for withholding tax that would be payable on certain profits of PRC subsidiaries to be repatriated and distributed by way of dividends as the Directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the future.

If those undistributed earnings of the PRC subsidiaries are considered to be repatriated and distributed by way of dividends, deferred income tax liabilities would have been increased by approximately RMB27,020,000 (2012: RMB17,331,000).

5 Critical accounting estimates and judgments (Continued)

5.4 Fair value of investment property

The Group carries its investment property at fair value with changes in the fair value recognized in the profit and loss. Independent valuations are performed at least once a year. In making the judgment, consideration is given to assumptions that are mainly based on market conditions existing at the end of reporting period, expected rental from future leases in the light of current market conditions and appropriate capitalization rates. Changes in subjective input assumptions can materially affect the fair value estimate. The key assumptions used in the valuation in determining the fair value of the Group's investment of property are set out in Note 16.

6 Segment reporting

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to making strategic decisions.

The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a product perspective and assess the performance of the operating segments based on a measure of revenue and segment results.

The management has identified two reportable segments based on the Group's two major product types, namely the 'home decor products' and 'electric fireplaces'. These two segments derive its revenue from the design, development, manufacture and sales of home decor products and electric fireplaces.

Other activities primarily relate to provision of corporate services for investment holding companies and holding corporate assets and liabilities. Corporate assets and liabilities mainly include investment property held for rental income, listing proceeds received, property, plant and equipment and land use rights for corporate use and accrued listing fees. These activities are excluded from the reportable operating segments and are presented to reconcile to the totals included in the Group's consolidated statements of comprehensive income and financial position.

Segment assets consist primarily of certain property, plant and equipment, certain land use rights, inventories, trade receivables, deposits, prepayments and other receivables, restricted bank deposits and cash and cash equivalents. They exclude investment property, listing proceeds received and other assets for corporate functions.

Segment liabilities consist primarily of trade and other payables. They exclude current income tax liabilities, deferred income tax liabilities, general bank borrowings and other liabilities for corporate functions.

Capital expenditure comprises additions to land use rights and property, plant and equipment.

As at 31 December 2013, the majority of assets and liabilities of the Group are located in the PRC, except for certain assets and liabilities with carrying amounts of RMB486,940,000 (2012: RMB798,000) and RMB13,432,000 (2012: RMB759,000) respectively, are located in Hong Kong.

6 Segment reporting (Continued)

The segment information provided to the executive directors is as follows:

	Electric fireplaces RMB'000	Home decor products RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2013:				
Segment revenue				
– PRC	651,790	471,740	–	1,123,530
– International	35,122	73,555	–	108,677
	686,912	545,295	–	1,232,207
Less: Inter-segment revenue	–	(36,685)	–	(36,685)
Revenue from external customers	686,912	508,610	–	1,195,522
Segment results	290,809	127,361	(22,416)	395,754
Unallocated expense				(2,675)
Finance costs				(4,481)
Profit before income tax				388,598
Income tax expense				(85,369)
Profit for the year				303,229
Other segment items:				
Capital expenditure	1,295	48	24,501	25,844
Depreciation and amortization	6,040	5,806	2,675	14,521
Interest income	845	2,123	33	3,001
As at 31 December 2013:				
Segment assets	740,011	557,345	624,271	1,921,627
Segment liabilities	104,327	88,342	109,251	301,920

6 Segment reporting (Continued)

	Electric fireplaces RMB'000	Home decor products RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2012:				
Segment revenue				
– PRC	385,960	488,480	–	874,440
– International	50,898	77,168	–	128,066
	436,858	565,648	–	1,002,506
Less: Inter-segment revenue	–	(33,480)	–	(33,480)
Revenue from external customers	436,858	532,168	–	969,026
Segment results	187,529	150,570	(2,443)	335,656
Unallocated expense				(1,345)
Finance costs				(2,992)
Profit before income tax				331,319
Income tax expense				(69,690)
Profit for the year				261,629
Other segment items:				
Capital expenditure	835	236	9,803	10,874
Depreciation and amortization	6,002	5,884	1,345	13,231
Interest income	1,224	1,170	–	2,394
As at 31 December 2012:				
Segment assets	399,418	672,033	92,667	1,164,118
Segment liabilities	80,793	184,799	94,049	359,641

There is no individual external customer contributed more than 10% revenue of the Group's revenue for the year ended 31 December 2013 (2012: nil).

7 Revenue and other income

	2013 RMB'000	2012 RMB'000
Sales of products		
– Electric fireplaces	**686,912**	436,858
– Home decor products	**508,610**	532,168
	1,195,522	969,026
Other income		
– Interest income	**3,001**	2,394
– Rental income	**3,318**	219
– Others	**163**	–
	6,482	2,613

8 Expenses by nature

	2013 RMB'000	2012 RMB'000
Raw materials used (note(i))	**481,561**	393,186
Packaging and others consumables used	**50,340**	43,021
Changes in inventories of finished goods and work in progress	**(8,504)**	(4,143)
Depreciation of property, plant and equipment (Note 15)	**11,917**	10,600
Amortization of land use rights (Note 17)	**2,604**	2,631
Employee benefit expenses (Note 9)/(note(i))	**129,752**	96,692
Auditor's remuneration	**2,765**	30
Professional service fees in respect of listing preparation	**21,298**	2,718
Net foreign exchange loss	**2,748**	606
Bad debts written-off	**1,930**	1,309
Delivery expenses	**29,089**	26,655
Electricity and utilities	**12,463**	12,130
Operating lease rentals	**72**	200
Travelling expenses	**943**	570
Advertising and promotion expenses	**18,627**	17,664
Loss on disposal of property, plant and equipment	**66**	3,131
Product consultation expenses (note(i))	**10,756**	–
Direct operating expenses arising from investment property that generates rental income	**427**	–
Other expenses	**40,071**	30,328
Total cost of sales, selling and distribution costs and administrative expenses	**808,925**	637,328

8 Expenses by nature (Continued)

Note:

(i) Research and development expenses comprise of:

	2013 RMB'000	2012 RMB'000
Employee benefit expenses	5,164	7,948
Cost of raw materials used	6,136	5,599
Product consultation expense (note)	10,756	–
	22,056	13,547

Note:

The amount mainly represents services provided by Fuzhou University and University of Shanghai for Science and Technology for product design and development pursuant to agreements entered in September 2012 and June 2013 respectively.

9 Employee benefit expenses

The analysis of employee benefit expenses is as follows:

	2013 RMB'000	2012 RMB'000
Wages and salaries (including discretionary bonuses) and other benefits	106,588	88,156
Social security and pension costs	23,164	8,536
	129,752	96,692

Employee benefit expenses have been charged to the consolidated statement of comprehensive income as follows:

	2013 RMB'000	2012 RMB'000
Cost of sales	112,340	80,618
Administrative expenses	13,822	13,244
Selling and distribution costs	3,590	2,830
	129,752	96,692

10 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of directors for the year ended 31 December 2013 is set out below:

Name of Director	**Fees RMB'000**	**Salary RMB'000**	**Discretionary bonuses RMB'000**	**Employer's contribution to pension scheme RMB'000**	**Total RMB'000**
	Year ended 31 December 2013				
Executive directors					
Mr. Chen Fanglin	**–**	**38**	**–**	**–**	**38**
Mr. Chen Hongming	**–**	**300**	**100**	**58**	**458**
Mr. Shen Jianzhong	**–**	**295**	**100**	**58**	**453**
Non-executive directors					
Mr. Dai Jianping (note (i))	**8**	**–**	**–**	**–**	**8**
Mr. Ng Wing Keung (note (i))	**8**	**–**	**–**	**–**	**8**
Ms. Sun Kam Ching (note (i))	**8**	**–**	**–**	**–**	**8**
	24	**633**	**200**	**116**	**973**

The remuneration of directors for the year ended 31 December 2012 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
	Year ended 31 December 2012				
Executive directors					
Mr. Chen Fanglin	–	–	–	–	–
Mr. Chen Hongming	–	235	100	3	338
Mr. Shen Jianzhong	–	216	100	3	319
	–	451	200	6	657

Note:

(i) Appointed on 1 December 2013

10 Directors' and senior management's emoluments (Continued)

(b) Five highest paid individuals

During the year, the five individuals whose emoluments were the highest in the Group included 2 directors (2012: 2), whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining individuals during the year was as follows:

	2013 RMB'000	2012 RMB'000
Wages and salaries (including discretionary bonuses) and other benefits	**798**	857
Contributions to pension plans	**89**	10
	887	867

The emoluments of the individuals fell within the following bands:

	2013 Number	2012 Number
Emolument bands		
Nil – HK$1,000,000	**3**	3

During the year, no director and none of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, or as compensation for loss of office; no directors and none of the five highest paid individuals has waived or has agreed to waive any emoluments.

11 Finance costs

	2013 RMB'000	2012 RMB'000
Interest expense on bank borrowings	**4,481**	4,130
Less: interest capitalized (note)	**–**	1,138
	4,481	2,992

Note:

For the year ended 31 December 2012, the capitalization rate of borrowings was 7.33%.

12 Income tax expense

	2013 RMB'000	2012 RMB'000
Current income tax	79,984	66,184
Overprovision in prior year	(247)	(176)
Deferred income tax (Note 28)	5,632	3,682
Total taxation charge	85,369	69,690

(i) Cayman Islands profits tax

The Company is not subject to any taxation in the Cayman Islands.

(ii) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group does not have any assessable profits in Hong Kong for the year (2012: nil).

(iii) PRC enterprise income tax ("EIT")

Under the Enterprise Income Tax Law of the PRC (the "New EIT Law"), which is effective from 1 January 2008, the tax rate is 25%.

Pursuant to the New EIT Law, with respect to a new and high technology enterprise, the tax levied on its income will be at a preferential rate of 15% after obtaining the High New Technology Enterprise Certificate (the "Certificate") and completing the tax reduction and exemption filing with the tax authorities. Allen Electronics Co., Ltd. Fujian obtained the Certificate on 7 July 2010 and renewed the Certificate on 5 September 2013. The Certificate will expire on 4 September 2016.

The applicable income tax rate for Quanzhou Allen Light Industry Co., Ltd. and Allen (China) Co. Ltd. was 25% for the years ended 31 December 2012 and 2013.

(iv) Withholding tax on distributed profits

According to the New EIT Law, a 10% withholding tax is levied on the immediate holding companies established outside PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies, provided certain criteria are met. Withholding tax of the Group has been provided at a rate of 5% for the years ended 31 December 2012 and 2013.

12 Income tax expense (Continued)

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the domestic tax rate applicable to profits of the Group's entities as follows:

	2013 **RMB'000**	2012 RMB'000
Profit before income tax	**388,598**	331,319
Tax calculated at domestic tax rates applicable to profits in the respective countries	**103,313**	83,439
Effects of the preferential tax rates	**(27,830)**	(18,679)
Expenses not deductible for taxation purposes	**3,528**	–
Overprovision in prior year	**(247)**	(176)
Withholding tax	**6,605**	5,106
Tax charge	**85,369**	69,690

13 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2013 **RMB'000**	2012 RMB'000
Profit attributable to equity holders of the Company	**303,229**	261,629
Weighted average number of ordinary shares in issue (in thousands) (note (a))	**1,450,879**	1,440,000
Basic earnings per share (expressed in RMB per share)	**0.21**	0.18

Notes:

(a) The newly issued shares of 1,439,999,999 under the capitalization issue (Note 23) pursuant to the shareholder resolutions dated 2 December 2013 are adjusted in the weighted average number of ordinary shares in issue as if the issue had occurred at 1 January 2012, the beginning of the earliest period reported.

(b) As there were no dilutive potential ordinary shares outstanding during the year, diluted earnings per share is the same as basic earnings per share.

14 Dividends

Dividends declared and proposed during the year:

	2013 RMB'000	2012 RMB'000
Dividends declared	91,754	54,400
Final dividend, proposed after the end of the reporting period, Hong Kong 3.8 cents per ordinary share	53,483	–
	145,237	54,400

For the year ended 31 December 2012, dividend of RMB54,400,000 was declared on 10 January 2012 by the Company. The rate for dividend and the number of shares ranking for dividend are not presented as such information is not considered meaningful for the purpose of this report.

For the year ended 31 December 2013, dividend of RMB91,754,000 was declared on 21 January 2013 by the Company.

On 21 March 2014, the Board of Directors proposed a final dividend of Hong Kong 3.8 cents per ordinary share, totaling HKD68,400,000 (equivalent to RMB53,483,000). Such dividend is to be approved by the shareholders at the annual general meeting of the Company on 21 May 2014. These consolidated financial statements do not reflect this as a dividend payable.

15 Property, plant and equipment

	Group					
	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2012						
Cost	237,726	21,923	2,118	932	77,595	340,294
Accumulated depreciation	(31,638)	(9,130)	(1,644)	(727)	–	(43,139)
Net book amount	206,088	12,793	474	205	77,595	297,155
Year ended 31 December 2012						
Opening net book amount	206,088	12,793	474	205	77,595	297,155
Additions	–	814	380	214	9,466	10,874
Transfer upon completion	87,061	–	–	–	(87,061)	–
Disposals	(812)	(2,319)	–	–	–	(3,131)
Depreciation (Note (a))	(8,710)	(1,633)	(189)	(68)	–	(10,600)
Closing net book amount	283,627	9,655	665	351	–	294,298
At 31 December 2012						
Cost	323,179	18,359	2,498	1,146	–	345,182
Accumulated depreciation	(39,552)	(8,704)	(1,833)	(795)	–	(50,884)
Net book amount	283,627	9,655	665	351	–	294,298
Year ended 31 December 2013						
Opening net book amount	**283,627**	**9,655**	**665**	**351**	**–**	**294,298**
Additions	**3,331**	**1,297**	**674**	**199**	**–**	**5,501**
Revaluation (Note (d))	**2,190**	**–**	**–**	**–**	**–**	**2,190**
Transfer to investment property (Note 16)	**(90,148)**	**–**	**–**	**–**	**–**	**(90,148)**
Disposals	**–**	**(64)**	**(2)**	**–**	**–**	**(66)**
Depreciation (Note (a))	**(9,994)**	**(1,565)**	**(224)**	**(134)**	**–**	**(11,917)**
Closing net book amount	**189,006**	**9,323**	**1,113**	**416**	**–**	**199,858**
As at 31 December 2013						
Cost	**227,888**	**19,436**	**3,168**	**1,345**	**–**	**251,837**
Accumulated depreciation	**(38,882)**	**(10,113)**	**(2,055)**	**(929)**	**–**	**(51,979)**
Net book amount	**189,006**	**9,323**	**1,113**	**416**	**–**	**199,858**

15 Property, plant and equipment (Continued)

Notes:

(a) Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

	2013 RMB'000	2012 RMB'000
Cost of sales	6,357	6,786
Administrative expenses	5,495	3,753
Selling and distribution costs	65	61
	11,917	10,600

(b) As at 31 December 2013, bank borrowings and bills payable are secured by certain property, plant and equipment with an aggregate net book value of approximately RMB121,254,000 (2012: RMB206,903,000) (Note 26 and 27).

(c) The Group's buildings at their net book values are analyzed as follows:

	2013 RMB'000	2012 RMB'000
In PRC, held on:		
Leases of between 10 to 50 years	187,400	281,946
Leases of over 50 years	1,606	1,681
Closing net book amount	189,006	283,627

(d) During the year, management has revisited the usage of a block of commercial building held by the Group and has decided to hold the building for long-term rental yields. On 15 August 2013, the Group entered into a rental agreement with a third party to lease out the whole block of the building for 18 years. Accordingly, the building and the respective land use rights were transferred to investment property at their fair values. A revaluation surplus of RMB2,190,000 with a deferred tax charge of RMB548,000 were recognized in equity on the date of transfer.

16 Investment property

As at 31 December 2013, the Group only held one hotel building located in Quanzhou, the PRC. Changes to the carrying amounts of investment property in the consolidated statement of financial position are summarized as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Opening net book amount	**–**	–
Transfer from property, plant and equipment (Note 15)	**90,148**	–
Transfer from land use rights (Note 17)	**22,452**	–
Closing net book amount	**112,600**	–

The Group's interests in investment property at their carrying amount are analyzed as follows:

	2013	2012
	RMB'000	RMB'000
In PRC, held on:		
Medium-term lease of between 10 to 50 years	**112,600**	–

As at 31 December 2013, bank borrowings are secured by the investment property (Note 27).

Investment property was valued at 31 December 2013 by an independent professionally qualified valuer, Roma Appraisals Limited who is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of similar properties.

Management reviews the valuation performed by the independent valuer for financial reporting purposes. The review includes verification of all major inputs to the valuation, assessing property valuation movements and discussions with the independent valuer. Management considers that the current use of the investment property equates the best use.

The valuation of the investment property as at 31 December 2013 is determined using income approach based on significant unobservable inputs and is recognized under level 3 of the fair value hierarchy. The directors and the valuer consider that it is appropriate to use income approach since management will hold the investment property for long-term rental yield and will not dispose of the investment property in the short run.

The key unobservable inputs of the valuation include reversionary yield of approximately 10%, expected zero vacancy rate and average monthly rental of RMB26 per square meter during reversionary period. These assumptions are estimated by the valuer based on the risk profile of the property being valued.

17 Land use rights

	Group 2013 RMB'000	2012 RMB'000
Opening net book amount	**117,326**	119,957
Additions	**20,343**	–
Amortization	**(2,604)**	(2,631)
Transfer to investment property (Note 16)	**(22,452)**	–
Closing net book amount	**112,613**	117,326

Notes:

(a) Amortization of the Group's land use rights has been charged to administrative expenses in the consolidated statement of comprehensive income.

(b) As at 31 December 2013, bank borrowings and bills payable are secured by certain land use rights with an aggregate net book value of approximately RMB58,604,000 (2012: RMB60,084,000) (Note 26 and 27).

(c) The Group's land use rights at their net book values are analyzed as follows:

	2013 RMB'000	2012 RMB'000
In PRC, held on:		
Leases of between 10 to 50 years	**93,333**	97,716
Leases of over 50 years	**19,280**	19,610
Closing net book amount	**112,613**	117,326

18 Inventories

	Group 2013 RMB'000	2012 RMB'000
Raw materials	**7,711**	5,941
Work in progress	**12,266**	7,902
Finished goods	**17,666**	13,526
	37,643	27,369

For the year ended 31 December 2013, the cost of inventories recognized as expense and included in cost of sales amounted to approximately, RMB650,338,000 (2012: RMB529,495,000).

19 Trade receivables

	Group 2013 RMB'000	2012 RMB'000
Trade receivables	**335,932**	288,967

19 Trade receivables (Continued)

Notes:

(a) The credit terms granted to customers by the Group were usually 60 to 90 days.

The aging analysis of trade receivables by invoice date is as follows:

	2013 **RMB'000**	2012 RMB'000
0 to 30 days	**172,126**	137,566
31 to 60 days	**148,203**	108,100
61 to 90 days	**9,439**	25,488
Over 90 days	**6,164**	17,813
	335,932	288,967

(b) As at 31 December 2013, the Group's trade receivables of RMB326,937,000 (2012: RMB246,884,000) are neither past due nor impaired.

As at 31 December 2013, trade receivables of RMB8,995,000 (2012: RMB42,083,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these past due but not impaired trade receivables by overdue date is as follows:

	2013 **RMB'000**	2012 RMB'000
Past due by		
0 to 30 days	**8,995**	42,083

(c) As at 31 December 2013, no trade receivables were impaired and provided for (2012: nil). During the year ended 31 December 2013, trade receivables of RMB1,930,000 (2012: RMB1,309,000) were written off directly.

(d) The Group does not hold any collateral as security for trade receivables.

(e) The carrying amounts of trade receivables approximate their fair values and are mainly denominated in the following currencies:

	2013 **RMB'000**	2012 RMB'000
RMB	**289,199**	252,139
USD	**46,733**	36,828
	335,932	288,967

20 Deposits, prepayments and other receivables

	Group 2013 RMB'000	2012 RMB'000
Current		
Deposits and prepayments (note (a))	**4,032**	15,731
Value-added tax recoverable	**72**	467
Listing proceeds held by the sponsor (note (b))	**95,742**	–
Others	**180**	301
	100,026	16,499
Non-current		
Prepayments for land use rights	**18,544**	–
Prepayments for construction costs	**6,259**	–
	24,803	–

	Company 2013 RMB'000	2012 RMB'000
Current		
Prepayments	**911**	
Listing proceeds held by the sponsor (note (b))	**95,742**	–
Prepayment for professional service fee in respect of listing preparation	**–**	798
	96,653	798

Notes:

(a) As at 31 December 2013, the balance included a prepayment for rental expense to a related company, which is beneficially owned by Mr. Chen Fanglin, amounting to RMB144,000 (2012: nil).

(b) As at 31 December 2013, the balance represents the listing proceeds temporarily held by Guotai Junan International Holdings Limited, the sole sponsor for the Company's initial public offering.

(c) The carrying amounts of the Group's deposits, prepayments and other receivables approximate their fair value due to short maturity date and are denominated in the following currencies:

	Group 2013 RMB'000	2012 RMB'000
RMB	**28,166**	15,693
HKD	**96,663**	806
	124,829	16,499

The carrying amounts of the Company's prepayments approximate their fair values due to short maturity date and are mainly denominated in HKD.

21 Balances with related parties

Details of the balances with related parties are as follows:

	Group 2013 RMB'000	Group 2012 RMB'000
Amount due to the controlling shareholder (note (i) and (ii))		
– Mr. Chen Fanglin	–	4,162
– Maximum outstanding receivable balance during the year	–	57,479

	Company 2013 RMB'000	Company 2012 RMB'000
Amount due to the controlling shareholder (note (i) and (ii))		
– Mr. Chen Fanglin (note (i))	–	759
– Maximum outstanding receivable balance during the year	4,241	–
Amounts due from subsidiaries (note (ii))	82,421	–

Notes:

(i) Mr. Chen Fanglin is the executive director of the Company.

(ii) The amounts due to/from the controlling shareholder and subsidiaries are unsecured, non-interest bearing and have no fixed term of repayment. The carrying amounts of these balances approximate their fair values due to short maturity date and are denominated in RMB.

22 Restricted bank deposits and cash and cash equivalents

	Group 2013 RMB'000	Group 2012 RMB'000
Restricted bank deposits (note (a))	2,416	75,865
Cash and cash equivalents	995,736	343,794
	998,152	419,659

	Company 2013 RMB'000	Company 2012 RMB'000
Cash and cash equivalents	389,167	–

22 Restricted bank deposits and cash and cash equivalents (Continued)

Notes:

(a) The restricted bank deposits are held in designated bank accounts mainly for the issuance of bills payable to suppliers and are denominated in RMB (Note 26).

(b) The carrying amounts of restricted bank deposits, short-term bank deposits and cash and cash equivalents of the Group are denominated in the following currencies:

	Group	
	2013	2012
	RMB'000	RMB'000
RMB	**607,790**	419,616
USD	**167**	43
HKD	**390,195**	–
	998,152	419,659

The carrying amounts of cash and cash equivalents of the Company are dominated in HKD.

(c) The conversion of RMB denominated balances into foreign currencies and the remittance of cash out of PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

23 Share capital and share premium – Group and Company

	Number of ordinary shares	**Nominal value of ordinary shares HK$**
Authorized:		
Ordinary shares of HK$0.0001 each at 1 January 2012 and 31 December 2012	3,800,000,000	380,000
Increase in authorized share capital (note (i))	6,200,000,000	620,000
At 31 December 2013	10,000,000,000	1,000,000

	Number of ordinary shares	**Nominal value of ordinary shares HK$**	**Equivalent nominal value of ordinary shares RMB**	**Share premium RMB**	**Total RMB**
Issued and fully paid:					
At 1 January 2012 and 31 December 2012	1	0.0001	0.0001	–	0.0001
Capitalization of shares (note (ii))	1,439,999,999	144,000	112,778	(112,778)	–
Issuance of shares under initial public offering (note (iii))	360,000,000	36,000	28,194	507,982,288	508,010,482
Share issuance costs	–	–	–	(24,456,025)	(24,456,025)
At 31 December 2013	1,800,000,000	180,000	140,972	483,413,485	483,554,457

23 Share capital and share premium – Group and Company (Continued)

Notes:

(i) Pursuant to the written resolution passed by the shareholders on 2 December 2013, the authorized share capital of the Company was increased from HK$380,000 to HK$1,000,000 by the creation of an additional 6,200,000,000 shares of HK$0.0001 each.

(ii) On 2 December 2013, the directors were authorized to capitalize an amount of approximately HK$144,000 as a deduction of the share premium account of the Company by applying such sum in paying up in full at par 1,439,999,999 shares for allotment and issue to the shareholders in proportion to their respective shareholdings. On 20 December 2013, the directors exercised such capitalization.

(iii) On 20 December 2013, the Company issued 360,000,000 new shares at HK$1.8 each in relation to the initial public offering. The gross proceeds received by the Company from the initial public offering amounted to approximately RMB508,010,000. These new shares rank pari passu with the existing shares in all respects.

24 Capital and statutory reserves – Group

(a) At 31 December 2012, capital reserve of the Group represented the difference between the share capital of the subsidiaries acquired pursuant to the reorganization over the nominal value of the share capital of the Company issued in exchange thereof.

During the year ended 31 December 2013, the controlling shareholder made cash contributions to the Group through capital injection to the companies now comprising the Group, which were accounted for as increase in capital reserve.

(b) In accordance with the Laws of the PRC on Enterprises Operated Exclusively with Foreign Capital and the Articles of Association of the Group's subsidiaries incorporated in the PRC, an appropriation to the statutory reserves has to be made prior to profit distribution to the investor. The appropriation to the statutory reserve of these foreign investment enterprises shall be no less than 10% of the net profit until the accumulated appropriation exceeds 50% of the registered capital.

25 Reserves – Company

	Note	Capital reserve RMB'000 (Note 24(a))	Retained earnings RMB'000	Total RMB'000
As at 1 January 2012		596,962	(49)	596,913
Total comprehensive income				
Profit for the year		–	54,488	54,488
Transactions with owners:				
Dividend	14	–	(54,400)	(54,400)
As at 31 December 2012		596,962	39	597,001
As at 1 January 2013		596,962	39	597,001
Total comprehensive income				
Profit for the year		–	152,024	152,024
Transactions with owners:				
Capital injection from a shareholder	24(a)	118,559	–	118,559
Dividend	14	–	(91,754)	(91,754)
		118,559	(91,754)	26,805
As at 31 December 2013		715,521	60,309	775,830

The profit attributable to the shareholder is dealt with in the financial statements of the Company to the extent of a profit of RMB152,024,000 (2012: RMB54,488,000).

26 Trade and other payables

	Group 2013 RMB'000	2012 RMB'000
Trade payables	**156,128**	82,950
Bills payable	**5,300**	157,100
Trade and bills payables	**161,428**	240,050
Value added tax payable	**9,483**	8,780
Salary and welfare payables	**12,519**	9,822
Retention fee payables	**90**	2,552
Deposits received in advance	**2,209**	55
Accrued listing fee	**9,966**	–
Others	**10,406**	4,333
	206,101	265,592

	Company 2013 RMB'000	2012 RMB'000
Salary and welfare payables	**23**	–
Accrued listing fee	**9,966**	–
Others	**2,745**	–
	12,734	–

Notes:

(a) The aging analysis of the Group's trade payables and bills payable is as follows:

	2013 RMB'000	2012 RMB'000
0 to 30 days	**88,643**	87,365
31 to 60 days	**67,416**	71,154
61 to 90 days	**57**	21,605
Over 90 days	**5,312**	59,926
	161,428	240,050

(b) The carrying amounts of the Group's trade and other payables approximate their fair values due to short maturity date and are denominated in the following currencies:

	Group 2013 RMB'000	2012 RMB'000
RMB	**192,673**	265,592
HKD	**13,428**	–
	206,101	265,592

The carrying amounts of the Company's other payables approximate their fair values due to short maturity date and are denominated in HKD.

(c) As at 31 December 2013, the Group's bills payable were secured by certain property, plant and equipment, land use rights and restricted bank deposits of the Group (Notes 15, 17 and 22).

27 Borrowings

	Group	
	2013	2012
	RMB'000	RMB'000
Secured bank borrowings	**59,000**	60,951

The bank borrowings are repayable within one year.

The exposure of the Group's borrowings to interest rate changes are as follows:

	2013	2012
	RMB'000	RMB'000
Borrowing at:		
Fixed interest rate	**30,000**	31,551
Floating interest rate	**29,000**	29,400
	59,000	60,951

As at 31 December 2013, the effective interest rate of the Group's borrowings is 6.82% (2012: 7.33%). The Group's borrowings approximate their fair values due to short maturity date and are denominated in the following currencies:

	2013	2012
	RMB'000	RMB'000
RMB	**59,000**	59,400
USD	**–**	1,551
	59,000	60,951

As at 31 December 2013, the Group's borrowings were secured by certain property, plant and equipment, investment property and land use rights of the Group (Notes 15, 16 and 17).

28 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off and the deferred income taxes relate to the same tax jurisdiction.

The movement on the net deferred income tax is as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**(5,406)**	(4,724)
Charged to the consolidated statement of comprehensive income (Note 12)	**(5,632)**	(3,682)
Charged to equity	**(548)**	–
Withholding tax paid in relation to the remittance of dividends	**4,499**	3,000
At 31 December	**(7,087)**	(5,406)

The movements in deferred income tax assets and liabilities during the year without taking into consideration the offsetting of balances is as follows:

Deferred income tax assets

	Accelerated accounting depreciation RMB'000	**Tax losses RMB'000**	**Total RMB'000**
At 1 January 2012	1,068	–	1,068
Credited to the consolidated statement of comprehensive income	198	1,226	1,424
At 31 December 2012	1,266	1,226	2,492
Credited to the consolidated statement of comprehensive income	368	–	368
At 31 December 2013	1,634	1,226	2,860

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not have any unrecognized deferred income tax assets as at 31 December 2013.

28 Deferred income tax (Continued)

Deferred income tax liabilities

	Undistributed earnings RMB'000	Fair value gain on investment property RMB'000	Total RMB'000
At 1 January 2012	(5,792)	–	(5,792)
Charged to the consolidated statement of comprehensive income	(5,106)	–	(5,106)
Withholding tax paid in relation to the remittance of dividends	3,000	–	3,000
At 31 December 2012	(7,898)	–	(7,898)
Charged to the consolidated statement of comprehensive income	(6,000)	–	(6,000)
Charged to equity	–	(548)	(548)
Withholding tax paid in relation to the remittance of dividends	4,499	–	4,499
At 31 December 2013	(9,399)	(548)	(9,947)

As at 31 December 2013, management is of the view that undistributed earnings totalling RMB540,401,000 (2012: RMB346,621,000) are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of RMB27,020,000 (2012: RMB17,331,000) have not been recognized for the withholding tax that would be payable upon distribution of profits of the subsidiaries in the PRC.

The analysis of deferred tax assets and liabilities is as follows:

	2013 RMB'000	2012 RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	**1,634**	1,266
– to be recovered within 12 months	**1,226**	1,226
	2,860	2,492
Deferred income tax liabilities		
– to be settled within 12 months	**(9,947)**	(7,898)
Deferred income tax liabilities – net	**(7,087)**	(5,406)

29 Investment in a subsidiary

	Company 2013 RMB'000	2012 RMB'000
Investment, at cost:		
Unlisted shares	**703,877**	596,962

The details of the principal subsidiaries are as follows:

Name	Place and date of incorporation/ establishment	Principal activities	Legal status	Issued or registered/ paid up capital	Effective interest held as at 2013	2012
Directly held by the Company:						
China Prosper Int'l Ltd. 華茂國際有限公司	British Virgin Islands, 30 December 2009	Investment holding	Limited liability company	USD50,000	**100%**	100%
Indirectly held by the Company:						
Allen International Holdings Limited 亞倫國際控股有限公司	Hong Kong, 10 February 2010	Investment holding	Limited liability company	HKD10,000	**100%**	100%
Allen China Co., Ltd. 亞倫（中國）有限公司	PRC, 2 September 1993	Manufacturing and sale of home decor products	Foreign investment enterprise with limited liability	RMB150,000,000	**100%**	100%
Allen Electronics Co., Ltd. Fujian 福建亞倫電子電器科技有限公司	PRC, 19 February 1997	Manufacturing and sale of electric fireplace	Foreign investment enterprise with limited liability	HKD180,000,000	**100%**	100%
Quanzhou Allen Light Industry Co., Ltd. 泉州亞倫輕工有限公司	PRC, 27 September 2001	Manufacturing and sale of home decor products	Foreign investment enterprise with limited liability	USD10,000,000	**100%**	100%

30 Cash generated from operations

	2013 RMB'000	2012 RMB'000
Profit before income tax	**388,598**	331,319
Adjustments for:		
– Amortization of land use rights	**2,604**	2,631
– Loss on disposal of property, plant and equipment	**66**	3,131
– Depreciation of property, plant and equipment	**11,917**	10,600
– Interest income	**(3,001)**	(2,394)
– Finance costs	**4,481**	2,992
– Foreign exchange losses on operating activities	**2,748**	606
– Bad debts written-off	**1,930**	1,309
Changes in working capital:		
– increase in inventories	**(10,274)**	(4,052)
– increase in trade receivables	**(50,993)**	(87,151)
– increase in deposits, prepayments and other receivables	**(83,383)**	(8,964)
– decrease/(increase) in restricted bank deposits	**73,449**	(68,530)
– (decrease)/increase in trade and other payables	**(57,173)**	169,603
– increase in balances with related companies	**–**	(120)
Cash generated from operations	**280,969**	350,980

Notes:

Non-cash transactions:

The Group entered into the following non-cash financing activities which are not reflected in the consolidated statement of cash flows:

(i) In 2013, dividend of RMB91,754,000 of which RMB6,254,000 was set off with the balance due from a controlling shareholder in 2013.

(ii) In 2012, dividend of RMB54,400,000 was set off with the balance due from a controlling shareholder in 2012.

31 Commitments

(a) The Group's capital commitments at the end of year are as follows:

	2013 RMB'000	2012 RMB'000
Authorized but not contracted for		
– Land use right	**115,500**	–
– Property, plant and equipment	**439,000**	–
	554,500	–
Contracted but not provided for		
– Property, plant and equipment	**2,259**	771

(b) Operating leases commitments

The Group leases offices and warehouses under non-cancellable operating lease agreements. The lease terms are between one to five years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013 RMB'000	2012 RMB'000
No later than one year	**864**	–
Later than one year and no later than five years	**3,240**	–
	4,104	–

(c) Leasing arrangement

Minimum lease payments under non-cancellable operating leases of investment property not recognized in the consolidated financial statements are receivable as follows:

	2013 RMB'000	2012 RMB'000
No later than one year	**8,595**	–
Later than one year and no later than five years	**44,519**	–
Later than five years	**126,735**	
	179,849	–

32 Related-party transactions

The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the year:

Company/Person	Relationship with the Group
Mr. Chen Fanglin	Director of the Company
Ms. Chen Xiangqun	Spouse of Mr. Chen Fanglin
Dongfang (Quanzhou) Light Industry Co., Ltd. (東方(泉州)輕工有限公司)	Controlled by Mr. Chen Fanglin
Quanzhou Xinliya Trading Co., Ltd. (泉州欣利亞商貿有限公司)	Controlled by Mr. Chen Fanglin
Fujian Meiya Property Development Co., Ltd. (福建美亞房地產開發有限公司)	Controlled by Mr. Chen Fanglin

(a) Purchase of services

	2013 RMB'000	2012 RMB'000
Rental expense (note)	**72**	200

Note:

In 2013, it represents payments of rental expense of an exhibition hall paid to Quanzhou Xinliya Trading Co., Ltd. In 2012, it represents payment of rental expense of factory plants paid to Dongfang (Quanzhou) Light Industry Co., Ltd., and Fujian Meiya Property Development Co., Ltd..

The rental expense paid during the years was determined at prevailing market rate of respective exhibition hall and factory plants.

(b) Key management compensation

Key management includes directors and other key management of the Group. The compensation paid or payable to key management for employee services is shown below:

	2013 RMB'000	2012 RMB'000
Directors' fees	**–**	–
Basic salaries, housing allowances, other allowances and benefits in kind	**1,307**	1,879
Social security and pension costs	**183**	23
	1,490	1,902

32 Related-party transactions (Continued)

(c) Guarantees provided by related parties

Guarantees provided by related parties for bills payable were as follows:

	2013 **RMB'000**	2012 RMB'000
Personal guarantees provided by Mr. Chen Fanglin	**–**	37,750
Joint guarantees provided by Mr. Chen Fanglin and Ms. Chen Xiangqun	**–**	110,350
	–	148,100

Guarantees provided by related parties for bank borrowings were as follows:

	2013 **RMB'000**	2012 RMB'000
Personal guarantees provided by Mr. Chen Fanglin	**–**	40,300
Joint guarantees provided by Mr. Chen Fanglin and Ms. Chen Xiangqun	**–**	4,000
	–	44,300

FOUR-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements and the Prospectus, is set out below:

	Year ended 31 December			
	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,195,522**	969,026	804,072	751,819
Cost of sales	**(666,072)**	(540,829)	(472,842)	(429,299)
Gross profit	**529,450**	428,197	331,230	322,520
Other income	**6,482**	2,613	1,883	597
Selling and distribution costs	**(59,851)**	(53,504)	(48,687)	(33,941)
Administrative expenses	**(83,002)**	(42,995)	(29,502)	(25,388)
Operating profit	**393,079**	334,311	254,924	263,788
Finance costs	**(4,481)**	(2,992)	(1,687)	(1,303)
Profit before income tax	**388,598**	331,319	253,237	262,485
Income tax expense	**(85,369)**	(69,690)	(34,976)	(43,542)
Profit for the year attributable to equity holders of the Company	**303,229**	261,629	218,261	218,943
Earnings per share – Basic and diluted (RMB)	**0.21**	0.18	0.15	0.15

Assets, liabilities and equity

	As at 31 December			
	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,921,627**	1,164,118	757,319	759,814
TOTAL LIABILITIES	**301,920**	359,641	160,071	214,827
TOTAL EQUITY	**1,619,707**	804,477	597,248	544,987