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

# Interim Report 2014

# CONTENTS

# CORPORATE INFORMATION

## CORPORATE PROFILE

China Creative Home Group Limited ("the Company") and its subsidiaries (collectively, the "Group" or "China Creative Home") is one of the leading manufacturers of branded electric fireplaces and home decor products in the People's Republic of China (the "PRC"). The Group aims to create new and diversified products with artistic design and functionality to enhance the quality of users' surroundings that reflect their furnishing styles. The Group sells its products under the "Allen (亚伦)" brand in the PRC and also exports products to overseas customers in the United States, Canada, Germany, France, the United Kingdom, etc on ODM/OEM basis. The shares of the Company (the "Shares") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2013.

## 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
168–200 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 Patton Boggs
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

# FINANCIAL HIGHLIGHTS

| | Six months ended 30 June 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Audited) | Change % |
|---|---|---|---|
| Revenue | 531,084 | 493,891 | 7.5 |
| Gross profit | 221,698 | 225,133 | −1.5 |
| Profit before income tax | 160,302 | 164,235 | −2.4 |
| Profit and total comprehensive income for the period attributable to equity holders of the Company | 131,020 | 129,538 | 1.2 |
| Earnings per share-Basic (RMB)[1] | 0.07 | 0.09 | −22.2 |
| Gross profit margin (%) | 41.7% | 45.6% | |
| Net profit margin (%) | 24.7% | 26.2% | |
| | As at 30 June 2014 | As at 31 December 2013 | |
| Current ratio[2] | 5.0 | 5.0 | |
| Gearing ratio (%)[3] | 3.5% | 3.6% | |

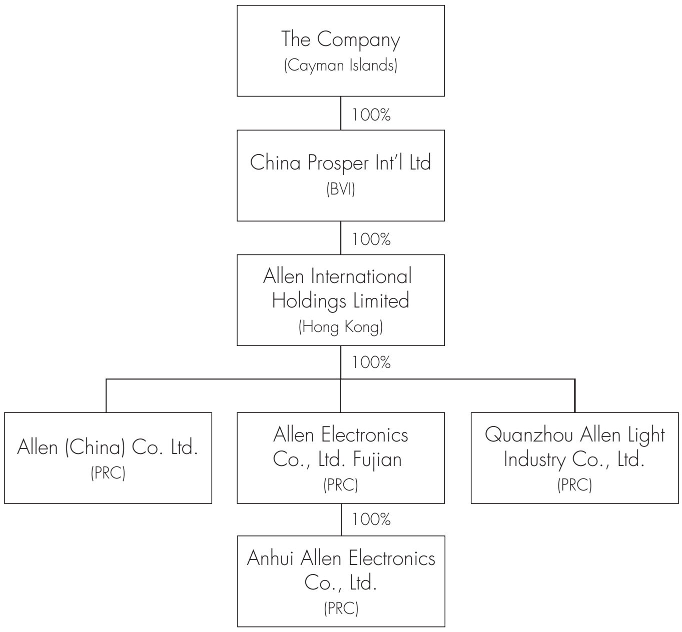
Notes:

1. 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 period.

2. Current ratio is calculated based on the total current assets divided by the total current liabilities.

3. Gearing ratio calculated based on the total debts (being the bank borrowings) divided by the total equity.

Set out below is an organisation chart of the Group as of 30 June 2014:




## INDUSTRY REVIEW

The economy in the PRC experienced continuous growth after entering 2014, with gross domestic product increased 7.4% year-on-year, reaching RMB26,904.4 billion for the first half of the year. The continuous development of China resulted in further expansion of urbanisation across the country and improving the living standard of Chinese citizens. Per capita disposable income of urban residents and per capita net income of rural residents increased year-on-year by 7.1% and 9.8% respectively to RMB14,959 and RMB5,396. Higher living standard leads to higher acceptance of western culture in the PRC, which lays a solid foundation for the development of decorative and functional home products industry.

The penetration rate of home electric fireplaces in the PRC is still low compared to North America, which indicates a large potential electric fireplace market in the PRC. The total sales value of creative furnishing market in the PRC is expected to reach approximately RMB1,478.9 billion by 2016. Riding on the backdrop of rapidly expanding market, the demand for decorative and functional home decor products will continue to increase.

## BUSINESS REVIEW

In the first half of 2014, the Group continued to be a leading manufacturer of branded electric fireplaces and home decor products in the PRC, with revenue amounted to RMB531.1 million, increase of 7.5% compared to the corresponding period of last year. The growth in revenue was mainly attributable to the increase in sales of electric fireplaces. Gross profit reached RMB221.7 million, slightly decreased by 1.5% compared to the same period in 2013, as a result of increased purchase prices of raw materials and manufacturing labour costs. Profit attributable to equity holders of the Company rose by 1.2% to RMB131.0 million as compared to the corresponding period in the previous year. Basic earnings per share of the Group were RMB7 cents for the six months ended 30 June 2014.

## BUSINESS REVIEW (Continued)

The Group continued to launch innovative products during the first half of 2014. As at 30 June 2014, the Group offered over 230 models of electric fireplaces and over 4,500 pieces of home decor products available for selection by customers. The Group offers a wide variety of products sold under the "Allen (亚伦)" brand to customers in the PRC, which accounted for 90.3% of the Group's revenue. The Group also sold its products on ODM/OEM basis to overseas customers including those in the United States, Germany, Canada, France and the United Kingdom.

During the reporting period, the Group continued to strengthen ties with its existing customers in coastal regions and southwestern part of China. Meanwhile, on the overseas front, the Group further expanded its sales in the North America market especially in the United States. As at 30 June 2014, the Group had a total of 170 customers.

On the research and development and new product front, the Group has been working with the University of Shanghai for Science and Technology to further develop innovative multifunctional electric fireplaces with air purification and cooling functions during the period under review. The Group holds the view that this new product may contribute to the Group's revenue in the long run as environmental protection is gaining increasing importance in the PRC and health-consciousness is also increasing among customers.

In May 2014, the Group signed a strategic agreement with Arredoclassic, a high-end home products company in Italy, to strengthen and enhance the Group's design capabilities by hiring Ms. Simona Cochi, a world-renowned designer, as the new Chief Designer of the Group.

During the period under review, the Group continued to expand its production capacity to satisfy the growing demand for electric fireplaces. The Group's current production facilities are located in Luojiang and Quangang in Fujian Province. To cater to the Group's further development, the Group commenced the construction of its Anhui production facilities in December 2013. The first phase of Anhui production facilities was completed on schedule in mid-2014, adding an annual production capacity of approximately 100,000 units of electric fireplaces.

## PROSPECTS

Looking ahead, the management of the Company remains optimistic towards the future development of branded electric fireplaces and home decor products in the PRC. The growth in the PRC economy shall stimulate demand for both home furnishing and renovation, which will then lead to an increase of the need for quality decorative and functional home products. Besides, the low penetration rate of home electric fireplaces in the PRC indicates a huge potential market. China Creative Home, being a leading manufacturer of branded electric fireplaces and home decor products in the PRC, shall benefit from such growing demand.

The Group will continue to strengthen its product design, research and development capabilities for more innovative and functional home products to capture market opportunities. The Group will also look for ways to promote the "Allen (亚伦)" brand in both domestic and overseas markets, so as to expand its worldwide distribution network and stimulate further business growth. The Group's efforts in tapping the overseas markets began to bear fruit during the first half of the year, and the Group expects that the overseas markets, especially the United States and European markets, will continue to contribute positively to the Group's overall revenue in the second half of 2014.

The Group will look for ways to enhance market awareness through media advertising and expanding the technical team. The Group will also cooperate with academic or professional institutions for the development of new products. Two creative home furnish concept shops under the "Allen (亚伦)" brand will also be established in Beijing and Fujian in the second half of 2014. The Group targets to establish up to seven creative home furnishing concept shops in major cities in the PRC by 2016.

## PROSPECTS (Continued)

In addition, the Group will continue to expand its production facilities in order to support the increasing market demand. The expansion work on the Group's Luojiang production facilities is in progress, and will increase the Group's production capacity of electric fireplaces by approximately 50,000 units per year upon its completion by the end of 2014. Annual production volume of electric fireplaces from the Luojiang production facilities will then reach a total of 327,500 units. The second phase of the new Anhui production facilities with an annual production capacity of approximately 100,000 units of electric fireplaces will be commenced in the fourth quarter of 2014 and will be completed by the first half of 2015. The Group expects that the construction of the third phase of the Anhui production facilities with an annual production capacity of approximately 100,000 units of electric fireplaces will commence in the first half of 2015 and will be completed by the end of 2015. Upon completion of all three phases of the new Anhui production facilities, the annual production of electric fireplaces for the Group will increase by 350,000 units from 277,500 units to 627,500 units by the end of 2015, representing a growth rate of 126%.

China Creative Home is committed to realising further growth moving forward in its course of becoming a world-class electric fireplaces and home decor products manufacturer.

## FINANCIAL REVIEW

### Revenue

During the reporting period, the Group's revenue increased by RMB37.2 million from RMB493.9 million to RMB531.1 million, represented a growth of 7.5% compared with the corresponding period in 2013. The increase was mainly driven by the increase in sales of electric fireplaces.

Revenue analysis by product type is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | 2014<br>RMB'000 | 2013<br>RMB'000 |
| **Electric fireplaces** | | |
| Framed electric fireplaces | | |
| – Wood series | 165,222 | 122,608 |
| – Natural stone series | 42,904 | 55,862 |
| – Inorganic series | 61,189 | 53,486 |
| Non-framed electric fireplaces | 22,873 | 23,408 |
| | 292,188 | 255,364 |
| **Home decor products** | | |
| – Polyresin series | 115,991 | 136,923 |
| – Porcelain series | 78,927 | 60,315 |
| – Inorganic series | 43,978 | 41,289 |
| | 238,896 | 238,527 |
| | 531,084 | 493,891 |

## FINANCIAL REVIEW (Continued)

### Revenue (Continued)

The increase in the sales of wood and inorganic series electric fireplaces was primarily due to a wider range of products to satisfy the customers' preferences, which led to an increase in the sales volume. The increase in the sales of porcelain series home decor products is mainly due to the higher average selling price per unit as more products of larger size are offered during the period under review. 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 the Group offered more styles with lower selling prices compared with the corresponding period of the previous year to attract more customers.

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

### Gross Profit and Gross Profit Margin

The Group's gross profit decreased by RMB3.4 million from RMB225.1 million for the six months ended 30 June 2013 to RMB221.7 million for the six months ended 30 June 2014. The gross profit margin decreased from 45.6% for the six months ended 30 June 2013 to 41.7% for the six months ended 30 June 2014. The decrease was primarily due to the increase in the purchase prices of raw materials and manufacturing labour costs.

### Other Income

Other income increased by RMB5.2 million or approximately 305.9%, from RMB1.7 million for the six months ended 30 June 2013 to RMB6.9 million for the six months ended 30 June 2014 primarily due to the increase in interest income and rental income. The increase in interest income was mainly due to increase in cash and bank balances generated from the operations and proceeds from the global offering in December 2013, while the increase in rental income was mainly due to the commencement of lease rental from investment property in September 2013.

### Selling and Distribution Costs

The Group's selling and distribution costs increased by RMB3.9 million, or approximately 15.5%, from RMB25.2 million for the six months ended 30 June 2013 to RMB29.1 million for the six months ended 30 June 2014 primarily due to increase in (i) delivery expenses due to the increase in sales volume; (ii) the increase in sales staff costs due to the general increase in staff wages; and (iii) the increase in advertising and promotion expenses due to the increased focus on advertising effort.

### Administrative Expenses

The Group's administrative expenses increased by RMB3.5 million, or approximately 10.0%, from RMB35.0 million for the six months ended 30 June 2013 to RMB38.5 million for the six months ended 30 June 2014. The increase was mainly due to (i) the increase in the product design and development expenses primarily due to more product consultation expenses with academic institutions; (ii) the increase in staff costs due to the general increase in staff wages; and (iii) the increase in net foreign exchange loss arising from the listing proceeds received and denominated in HKD.

## FINANCIAL REVIEW (Continued)

### Finance Costs

The Group's finance costs decreased by RMB1.7 million, or approximately 70.8%, from RMB2.4 million for the six months ended 30 June 2013 to RMB0.7 million for the six months ended 30 June 2014. The decrease was mainly due to the capitalisation of interest on bank borrowings drawn in relation to the construction of factories in the six months ended 30 June 2014.

### Income Tax Expenses

The Group's income tax expenses decreased by RMB5.4 million, or approximately 15.6%, from RMB34.7 million for the six months ended 30 June 2013 to RMB29.3 million for the six months ended 30 June 2014, primarily as a result of the decrease in withholding tax paid in relation to the dividends on planned remittance.

The effective tax rate for the Group decreased from 21.1% in the six months ended 30 June 2013 to 18.3% in the six months ended 30 June 2014, which is mainly attributable to the decrease in withholding tax paid in relation to the dividends on planned remittance.

### Profit for the Period Attributable to Equity Holders of the Company

As a result of the foregoing factors, profit attributable to equity holders of the Company increased by RMB1.5 million, or approximately 1.2%, from RMB129.5 million for the six months ended 30 June 2013 to RMB131.0 million for the six months ended 30 June 2014, and net profit margin decreased slightly from 26.2% for the six months ended 30 June 2013 to 24.7% for the six months ended 30 June 2014.

### Working Capital

The Group's net current assets decreased from RMB1,176.9 million as at 31 December 2013 to RMB1,086.3 million as at 30 June 2014, representing a decrease of RMB90.6 million or 7.7%. The decrease in working capital is a result of the decrease in trade receivables, deposits, prepayments and other receivables, inventories, and increase in dividend payable, and partially offset by the increase in cash and cash equivalents and decrease in trade and other payables.

The decrease in trade receivables and trade and other payables was mainly due to the seasonality of the Group's business with the second half of the year being peak season of our electric fireplaces and that the balances of our trade receivables and trade and bills payables as of year end were usually higher than that as of 30 June of the same year. The decrease in inventory is mainly due to better inventory management by the Group. The dividend payable represented final dividend in respect of 2013.

The increase in cash and cash equivalents was mainly the Group's to our net working capital inflow from its operating profits, and partially offset by capital expenditure during the six months ended 30 June 2014.

## FINANCIAL REVIEW (Continued)

### Financial Ratios

| | As at 30 June 2014 | As at 31 December 2013 |
|---|---|---|
| Current ratio[1] | 5.0 | 5.0 |
| Gearing ratio (%)[2] | 3.5% | 3.6% |

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

(2) Gearing ratio calculated based on the total debts (being the bank borrowings) divided by the total equity.

Current ratio remained at 5.0 as at 31 December 2013 and 30 June 2014. Gearing ratio improved slightly from 3.6% as at 31 December 2013 to 3.5% as at 30 June 2014. The improvement for the ratio was attributable to net working capital inflow from operating profits.

### Use of Proceeds

The Company's shares were listed on the Main Board of the Stock Exchange on 20 December 2013. Net proceeds from the global offering were approximately HK$597.2 million (after deducting the underwriting commission and relevant expenses). As at 30 June 2014, the unused proceeds were deposited in licensed banks in Hong Kong and the PRC.

| | Percentage to total amount | Net Proceeds HK$'million | Utilised Amount as at 30 June 2014 HK$'million | Unutilised Amount as at 30 June 2014 HK$'million |
|---|---|---|---|---|
| Establishing new production facilities | 53.7% | 320.7 | 168.3 | 152.4 |
| Establishing seven creative home furnishing concept shops | 16.0% | 95.6 | 0.6 | 95.0 |
| Expanding overseas sales network under our own brand overseas | 7.3% | 43.6 | 1.6 | 42.0 |
| Own-brand promotion | 7.0% | 41.8 | 12.5 | 29.3 |
| Increasing and enhancing our research and development activities | 6.0% | 35.8 | 15.8 | 20.0 |
| General working capital | 10.0% | 59.7 | 59.7 | – |
| | | 597.2 | 258.5 | 338.7 |

## LIQUIDITY AND FINANCIAL 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 30 June 2014, the Group had net current assets of RMB1,086.3 million (31 December 2013: RMB1,176.9 million), of which cash and cash equivalents were RMB1,030.1 million (31 December 2013: RMB995.7 million).

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 30 June 2014, the Group's bank borrowings amounted to RMB59.0 million (31 December 2013: RMB59.0 million) and these bank borrowings were denominated in RMB. As at 30 June 2014, the effective interest rate on the Group's bank borrowings was 6.82% (31 December 2013: 6.82%).

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

The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 June 2014.

## CAPITAL EXPENDITURE

For the six months ended 30 June 2014, the capital expenditure of the Group amounted to RMB112.8 million. It was mainly comprised of property, plant and equipment, and land use rights in the PRC.

## MATERIAL ACQUISITIONS 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 six months ended 30 June 2014.

## MANAGING CURRENCY RISK

The Group's functional currency is RMB and its foreign exchange risk mainly relates to fluctuations in exchange rates of RMB against its bank balances in USD and HKD and trade receivables denominated in USD, and these may affect our operation results. The Group does not have a hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## CHARGE ON ASSETS

As at 30 June 2014, the Group had pledged its certain property, plant and equipment and land use rights with net book value of RMB152.8 million and restricted bank deposits of RMB5.4 million mainly for the purpose of securing bank loans and bills payable to suppliers.

## HUMAN RESOURCES

As at 30 June 2014, the Group employed a total of 1,463 (as at 31 December 2013: 1,483) full time employees in the PRC and Hong Kong with total staff costs of RMB63.8 million for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB53.6 million). 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 30 June 2014, no options have been granted.

## CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, 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 for Securities Transactions by Directors of Listing Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") 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% |

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 30 June 2014.

## INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2014, 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.

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 30 June 2014.

## 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 of Directors (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 interim report, no share options were granted under the Share Option Scheme.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of the shares during the six months ended 30 June 2014. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the six months ended 30 June 2014.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2014, the Company complied with the code provisions of the Corporate Governance Code (the "Code Provisions") set out in Appendix 14 to the Listing Rules except for code provision A.1.8 up to April 2014. Code provision A.1.8 stipulates that the Company should arrange appropriate insurance cover in respect of legal action against its Directors. Since May 2014, the Company has arranged for such insurance.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 six months ended 30 June 2014.

## AUDIT COMMITTEE

The Company has established the audit committee and adopted the written terms of reference in compliance with the Code Provisions. The primary duties of the audit committee are to review and approve the Group's financial reporting process and internal control system. The audit committee comprises all independent non-executive Directors, namely, Mr. Ng Wing Keung, Mr. Dai Jianping and Ms. Sun Kam Ching. Mr. Ng Wing Keung is the chairman of the audit committee.

The Group's interim results for the six months ended 30 June 2014 and this interim report have been reviewed by the audit committee of the Company.

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB91,754,000).

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

| | Note | Six months ended 30 June 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Audited) |
|---|---|---|---|
| Revenue | 6 | 531,084 | 493,891 |
| Cost of sales | 7 | (309,386) | (268,758) |
| **Gross profit** | | 221,698 | 225,133 |
| Other income | 6 | 6,866 | 1,652 |
| Selling and distribution costs | 7 | (29,106) | (25,164) |
| Administrative expenses | 7 | (38,450) | (34,958) |
| **Operating profit** | | 161,008 | 166,663 |
| Finance costs | 18 | (706) | (2,428) |
| **Profit before income tax** | | 160,302 | 164,235 |
| Income tax expense | 8 | (29,282) | (34,697) |
| **Profit and total comprehensive income for the period attributable to equity holders of the Company** | | 131,020 | 129,538 |
| Earnings per share for profit attributable to equity holders of the Company | | | |
| – Basic and diluted (expressed in RMB per share) | 9 | 0.07 | 0.09 |
| Dividend | 10 | – | 91,754 |

The notes on pages 22 to 36 are an integral part of this condensed consolidated financial information.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

| | Note | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 289,157 | 199,858 |
| Investment property | 12 | 112,600 | 112,600 |
| Land use rights | | 129,747 | 112,613 |
| Prepayments | 14 | 85,369 | 24,803 |
| | | 616,873 | 449,874 |
| **Current assets** | | | |
| Inventories | | 24,225 | 37,643 |
| Trade receivables | 13 | 291,356 | 335,932 |
| Deposits, prepayments and other receivables | 14 | 7,560 | 100,026 |
| Restricted bank deposits | | 5,400 | 2,416 |
| Cash and cash equivalents | | 1,030,055 | 995,736 |
| | | 1,358,596 | 1,471,753 |
| **Total assets** | | 1,975,469 | 1,921,627 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 15 | 141 | 141 |
| Share premium | 15 | 483,413 | 483,413 |
| Reserves | | 1,214,026 | 1,136,153 |
| **Total equity** | | 1,697,580 | 1,619,707 |

The notes on pages 22 to 36 are an integral part of this condensed consolidated financial information.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2014

| | Note | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | 5,576 | 7,087 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | 145,394 | 206,101 |
| Dividend payable | | 53,147 | – |
| Bank borrowings | 18 | 59,000 | 59,000 |
| Current income tax liabilities | | 14,772 | 29,732 |
| | | 272,313 | 294,833 |
| **Total liabilities** | | 277,889 | 301,920 |
| **Total equity and liabilities** | | 1,975,469 | 1,921,627 |
| **Net current assets** | | 1,086,283 | 1,176,920 |
| **Total assets less current liabilities** | | 1,703,156 | 1,626,794 |

The notes on pages 22 to 36 are an integral part of this condensed consolidated financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

| | Note | Share capital RMB'000 (Note 15) | Share premium RMB'000 (Note 15) | Reserves<br>Capital reserve RMB'000 (Note 16(a)) | Statutory reserve RMB'000 (Note 16(b)) | Retained earnings RMB'000 | Revaluation reserve RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Balances as at 1 January 2013** | | – | – | 288,177 | 71,074 | 445,226 | – | 804,477 |
| **Comprehensive income** | | | | | | | | |
| Profit for the period | | – | – | – | – | 129,538 | – | 129,538 |
| **Transactions with owners:** | | | | | | | | |
| Capital injection from the parent company | | – | – | 48,742 | – | – | – | 48,742 |
| Transfer to statutory reserve | 16 | – | – | – | 8,639 | (8,639) | – | – |
| Dividend declared | 10 | – | – | – | – | (91,754) | – | (91,754) |
| | | – | – | 48,742 | 8,639 | (100,393) | – | (43,012) |
| **Balances as at 30 June 2013 (Audited)** | | – | – | 336,919 | 79,713 | 474,371 | – | 891,003 |
| **Balances as at 1 January 2014** | | 141 | 483,413 | 406,736 | 94,623 | 633,152 | 1,642 | 1,619,707 |
| **Comprehensive income** | | | | | | | | |
| Profit for the period | | – | – | – | – | 131,020 | – | 131,020 |
| **Transactions with owners:** | | | | | | | | |
| Transfer to statutory reserve | 16 | – | – | – | 8,803 | (8,803) | – | – |
| Dividend declared | 10 | – | – | – | – | (53,147) | – | (53,147) |
| | | – | – | – | 8,803 | (61,950) | – | (53,147) |
| **Balances as at 30 June 2014 (Unaudited)** | | 141 | 483,413 | 406,736 | 103,426 | 702,222 | 1,642 | 1,697,580 |

The notes on pages 22 to 36 are an integral part of this condensed consolidated financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

| | Six months ended 30 June | |
|---|---|---|
| | 2014<br>RMB'000<br>(Unaudited) | 2013<br>RMB'000<br>(Audited) |
| **Cash flows from operating activities** | | |
| Cash generated from operations | 254,697 | 128,892 |
| Interest paid | (2,112) | (2,428) |
| Income tax paid | (45,818) | (44,052) |
| Net cash generated from operating activities | 206,767 | 82,412 |
| **Cash flows from investing activities** | | |
| Addition of construction in progress | (85,447) | – |
| Purchases of property, plant and equipment | (1,095) | (1,434) |
| Prepayments for constructions | (14,387) | – |
| Prepayments for land use rights | (70,982) | (9,272) |
| Interest received | 2,275 | 1,511 |
| Decrease in amount due to the controlling shareholder | – | (10,416) |
| Net cash used in investing activities | (169,636) | (19,611) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | – | 10,000 |
| Repayments of borrowings | – | (6,551) |
| Capital contribution from a controlling shareholder | – | 48,742 |
| Dividends paid | – | (85,500) |
| Net cash used in financing activities | – | (33,309) |
| **Net increase in cash and cash equivalents** | 37,131 | 29,492 |
| Cash and cash equivalents at beginning of the period | 995,736 | 343,794 |
| Exchange losses on cash and cash equivalents | (2,812) | (10) |
| **Cash and cash equivalents at end of the period** | 1,030,055 | 373,276 |

The notes on pages 22 to 36 are an integral part of this condensed consolidated financial information.

## 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.

This condensed consolidated financial information is presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated and have been approved for issue by the Board of Directors on 28 August 2014.

This condensed consolidated financial information has not been audited.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

This condensed consolidated financial information for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

### 2.2 Summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the Group's consolidated financial statements for the year ended 31 December 2013.

#### (a) Amendments to standards and interpretation adopted by the Group

The following amendments to standards and interpretation are mandatory for the Group's financial year beginning 1 January 2014:

| | |
|---|---|
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment) | Investment entities |
| HKAS 32 (Amendment) | Offsetting Financial Assets and Financial Liabilities |
| HKAS 36 (Amendment) | Impairment of Assets – Recoverable amount disclosures for non-financial assets |
| HKAS 39 (Amendment) | Financial instruments: Recognition and Measurement |
| HK(IFRIC)-Int 21 | Levies |

The adoption of these amendments to standards and interpretation does not have significant impact to the results or financial position of the Group.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Summary of significant accounting policies (Continued)

#### (b) New and amendments to standards not yet adopted

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted:

| | | Effective for annual periods beginning on or after |
|---|---|---|
| HKFRS 9 | Financial Instruments | effective date to be determined |
| HKFRS 11 (Amendment) | Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 |
| HKFRS 14 | Regulatory Deferral Accounts | 1 January 2016 |
| HKFRS 15 | Revenue from Contracts with Customers | 1 January 2017 |
| HKAS 16 and HKAS 38 (Amendment) | Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| HKAS 19 (Amendment) | Defined Benefits Plans: Employee Contributions | 1 July 2014 |
| Annual improvements 2010–2012 | Several HKFRS standards | 1 July 2014 |
| Annual improvements 2011–2013 | Several HKFRS standards | 1 July 2014 |

Management is in the process of making an assessment on the impact of these standards, amendments and interpretations to existing HKFRSs and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

## 3 ESTIMATES

The preparation of condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements for the year ended 31 December 2013.

## 4 FINANCIAL RISK MANAGEMENT

### 4.1 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.

The condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

There have been no changes in the risk management department or in any risk management policies since the year end.

### 4.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

### 4.3 Fair value estimation

The carrying values of the Group's financial assets, including trade and other receivables and cash and cash equivalents, and financial liabilities, including trade and other payables and bank borrowings, approximate their fair values due to their short maturities.

The Group does not have any financial assets and liabilities that are measured as fair value at 30 June 2014 and 31 December 2013.

## 5 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, cash and cash equivalents received from listing, 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 condensed consolidated statements of comprehensive income and financial position.

## 5 SEGMENT REPORTING (Continued)

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 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 property, plant and equipment, construction in progress and land use rights.

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 six months ended 30 June 2014: (Unaudited)** | | | | |
| **Segment revenue** | | | | |
| – PRC | 264,893 | 230,979 | – | 495,872 |
| – International | 27,295 | 24,116 | – | 51,411 |
| Less: Inter-segment revenue | – | (16,199) | – | (16,199) |
| Revenue from external customers | 292,188 | 238,896 | – | 531,084 |
| **Segment results** | 106,012 | 55,693 | (464) | 161,241 |
| Unallocated expense | | | | (233) |
| Finance costs | | | | (706) |
| Profit before income tax | | | | 160,302 |
| Income tax expense | | | | (29,282) |
| Profit for the period | | | | 131,020 |
| **Other segment items:** | | | | |
| Capital expenditure | 112,447 | – | 304 | 112,751 |
| Depreciation and amortization | 3,232 | 2,712 | 232 | 6,176 |
| Interest income | 876 | 494 | 905 | 2,275 |

## 5 SEGMENT REPORTING (Continued)

| | Electric fireplaces RMB'000 | Home decor products RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **For the six months ended 30 June 2013: (Audited)** | | | | |
| **Segment revenue** | | | | |
| – PRC | 244,918 | 220,997 | – | 465,915 |
| – International | 10,446 | 32,293 | – | 42,739 |
| | 255,364 | 253,290 | – | 508,654 |
| Less: Inter-segment revenue | – | (14,763) | – | (14,763) |
| Revenue from external customers | 255,364 | 238,527 | – | 493,891 |
| **Segment results** | 101,799 | 70,904 | (4,298) | 168,405 |
| Unallocated expense | | | | (1,742) |
| Finance costs | | | | (2,428) |
| Profit before income tax | | | | 164,235 |
| Income tax expense | | | | (34,697) |
| **Profit for the period** | | | | 129,538 |
| **Other segment items:** | | | | |
| Capital expenditure | 224 | 1 | 931 | 1,156 |
| Depreciation and amortization | 3,013 | 2,964 | 1,741 | 7,718 |
| Interest income | 326 | 1,185 | – | 1,511 |

## 5 SEGMENT REPORTING (Continued)

The information on segment assets and liabilities provided to the executive Directors is as follows:

| | Electric fireplaces RMB'000 | Home decor products RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **As at 30 June 2014: (Unaudited)** | | | | |
| Segment assets | 1,212,736 | 576,367 | 186,366 | 1,975,469 |
| Segment liabilities | 63,825 | 79,130 | 134,934 | 277,889 |
| **As at 31 December 2013: (Audited)** | | | | |
| Segment assets | 740,011 | 557,345 | 624,271 | 1,921,627 |
| Segment liabilities | 104,327 | 88,342 | 109,251 | 301,920 |

There is no individual external customer, which contributed more than 10% of the Group's revenue for the six months ended 30 June 2014 (2013: Nil).

## 6 REVENUE AND OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Audited) |
| Sales of products | | |
| – Electric fireplaces | 292,188 | 255,364 |
| – Home decor products | 238,896 | 238,527 |
| | 531,084 | 493,891 |
| Other income | | |
| – Interest income | 2,275 | 1,511 |
| – Rental income | 4,490 | 141 |
| – Others | 101 | – |
| | 6,866 | 1,652 |

The sales of electric fireplaces are subject to seasonal fluctuations, with higher demand in the second half of the year due to seasonal weather conditions. In the financial year ended 31 December 2013, 37% of revenues for fireplaces was recorded in the first half of the year. The sales for home decor products are not subject to seasonal fluctuations.

## 7 EXPENSES BY NATURE

The profit before income tax is stated after charging the following:

| | Six months ended 30 June | |
|---|---|---|
| | 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Audited) |
| Cost of inventories | 241,826 | 209,450 |
| Depreciation of property plant and equipment (Note 11) | 4,766 | 6,407 |
| Amortization of land use rights | 1,410 | 1,311 |
| Employee benefit expenses | 66,764 | 53,600 |
| Bad debts written-off | 1,413 | 1,930 |
| Loss on disposal of property, plant and equipment | 142 | 35 |

## 8 INCOME TAX EXPENSE

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, a subsidiary of the Group 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 six months ended 30 June 2013 and 2014.

Withholding tax on distributed profits of the PRC subsidiaries has been provided at a rate of 5% for the periods ended 30 June 2013 and 2014.

| | Six months ended 30 June | |
|---|---|---|
| | 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Audited) |
| Current income tax | 26,326 | 32,941 |
| Over-provision in prior period | (33) | – |
| Deferred income tax | 2,989 | 1,756 |
| Total taxation charge | 29,282 | 34,697 |

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 31 December 2014 is 18%.

## 9 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 period.

| | Six months ended 30 June | |
|---|---|---|
| | 2014<br>RMB'000<br>(Unaudited) | 2013<br>RMB'000<br>(Audited) |
| Profit attributable to equity holders of the Company | 131,020 | 129,538 |
| Weighted average number of ordinary shares in issue (in thousands) (note (a)) | 1,800,000 | 1,440,000 |
| Basic earnings per share (expressed in RMB per share) | 0.07 | 0.09 |

Notes:

(a) The newly issued shares of 1,439,999,999 under the capitalization issue 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 2013, the beginning of the earliest period reported.

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

## 10 DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2014 (30 June 2013: RMB91,754,000).

## 11 PROPERTY, PLANT AND EQUIPMENT

| | Property, plant and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Six months ended 30 June 2014 (Unaudited)** | | | |
| **Net book value** | | | |
| **At 1 January 2014** | 199,858 | – | 199,858 |
| Additions | 1,095 | 93,112 | 94,207 |
| Transfer | 13,139 | (13,139) | – |
| Disposals | (142) | – | (142) |
| Depreciation (Note 7) | (4,766) | – | (4,766) |
| **At 30 June 2014** | 209,184 | 79,973 | 289,157 |
| **Six months ended 30 June 2013 (Audited)** | | | |
| **Net book value** | | | |
| **At 1 January 2013** | 294,298 | – | 294,298 |
| Additions | 1,156 | – | 1,156 |
| Disposals | (35) | – | (35) |
| Depreciation (Note 7) | (6,407) | – | (6,407) |
| **At 30 June 2013** | 289,012 | – | 289,012 |

As at 30 June 2014, bank borrowings and bills payable are secured by certain property, plant and equipment with an aggregate net book value of approximately RMB94,925,000 (31 December 2013: RMB121,254,000) (Notes 17 and 18).

## 12 INVESTMENT PROPERTY

As at 30 June 2014, the Group's only investment property is a hotel building located in Quanzhou, the PRC. The carrying amount of the investment property in the condensed consolidated statement of financial position is as follows:

| | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|
| At valuation | 112,600 | 112,600 |

The 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.

The valuation of the investment property as at 31 December 2013 was determined using income approach based on significant unobservable inputs. The Directors have revisited the valuation of the investment property as at 30 June 2014 and considered that there are no significant changes in the underlying assumptions and the key unobservable inputs and the valuation of the investment property remains the same as at 30 June 2014.

## 13 TRADE RECEIVABLES

The majority of the Group's sales are with credit terms of 60 to 90 days. At 30 June 2014 and 31 December 2013, the aging analysis of the trade receivables based on invoice date was as follows:

| | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|
| Trade receivables: | | |
| 0 to 30 days | 103,625 | 172,126 |
| 31 to 60 days | 94,346 | 148,203 |
| 61 to 90 days | 85,650 | 9,439 |
| Over 90 days | 7,735 | 6,164 |
| | 291,356 | 335,932 |

## 14 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|
| **Current** | | |
| Deposits and prepayments (note (a)) | 6,240 | 4,032 |
| Value-added tax recoverable | – | 72 |
| Listing proceeds held by the sponsor (note (b)) | – | 95,742 |
| Others | 1,320 | 180 |
| | 7,560 | 100,026 |
| **Non-current** | | |
| Prepayments for land use rights | 70,982 | 18,544 |
| Prepayments for construction costs | 14,387 | 6,259 |
| | 85,369 | 24,803 |

Notes:

(a) As at 30 June 2014, the balance included a prepayment for rental expense to a related company, which is controlled by Mr. Chen Fanglin, amounting to RMB144,000 (31 December 2013: RMB144,000).

(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. The balance was fully settled in May 2014.

## 15 SHARE CAPITAL AND SHARE PREMIUM

| | Number of ordinary shares (thousands) | Nominal value of ordinary shares HK$ |
|---|---|---|
| *Authorized:* | | |
| At 31 December 2013 and 30 June 2014 | 10,000,000 | 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 2013 and 30 June 2013 | 1 | 0.0001 | 0.0001 | – | 0.0001 |
| | | HK$'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2014 and 30 June 2014 | 1,800,000,000 | 180 | 141 | 483,413 | 483,554 |

## 16 CAPITAL AND STATUTORY RESERVES

(a) During the period ended 30 June 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.

## 17 TRADE AND OTHER PAYABLES

| | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|
| Trade payables | 104,514 | 156,128 |
| Bills payable | 11,350 | 5,300 |
| Trade and bills payables | 115,864 | 161,428 |
| Value added tax payable | 6,047 | 9,483 |
| Salary and welfare payables | 13,017 | 12,519 |
| Retention fee payables | 1,289 | 90 |
| Deposits received in advance | 3,682 | 2,209 |
| Accrued listing fee | – | 9,966 |
| Others | 5,495 | 10,406 |
| | 145,394 | 206,101 |

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

| | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|
| 0 to 30 days | 52,692 | 88,643 |
| 31 to 60 days | 49,077 | 67,416 |
| 61 to 90 days | 6,721 | 57 |
| Over 90 days | 7,374 | 5,312 |
| | 115,864 | 161,428 |

As at 30 June 2014 and 31 December 2013, the Group's bills payable were secured by certain property, plant and equipment (Note 11), land use rights and restricted bank deposits of the Group.

## 18 BORROWINGS

| | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|
| Secured bank borrowings | 59,000 | 59,000 |

The bank borrowings are repayable within one year.

Interest expense on borrowings for the six months ended 30 June 2014 is RMB706,000 (30 June 2013: RMB2,428,000).

| | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|
| Borrowing at: | | |
| Fixed interest rate | 30,000 | 30,000 |
| Floating interest rate | 29,000 | 29,000 |
| | 59,000 | 59,000 |

As at 30 June 2014, the Group's borrowings were secured by certain property, plant and equipment (Note 11) and land use rights of the Group.

As at 30 June 2014, the effective interest rate of the Group's borrowings is 6.82% (31 December 2013: 6.82%). The Groups borrowings approximate their fair values due to short maturity date and are denominated in RMB.

## 19 COMMITMENTS

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

| | As at 30 June 2014 RMB'000 (Unaudited) | As at 31 December 2013 RMB'000 (Audited) |
|---|---|---|
| Authorized but not contracted for | | |
| – Land use right | 44,518 | 115,500 |
| – Property, plant and equipment | 335,989 | 439,000 |
| | 380,507 | 554,500 |
| Contracted but not provided for | | |
| – Property, plant and equipment | 48,992 | 2,259 |

## 20 RELATED-PARTY TRANSACTIONS

The related-party transactions made during the period are as follows:

### (a) Purchase of services

| | Six months ended 30 June | |
|---|---|---|
| | 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Audited) |
| Rental expense (note) | 432 | – |

Note:

It represents payments of rental expense of a home furnishing concept shop paid to Quanzhou Xinliya Trading Co., Ltd and was determined at prevailing market rate of respective home furnishing concept shop.

### (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:

| | Six months ended 30 June | |
|---|---|---|
| | 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Audited) |
| Directors' fees | 144 | – |
| Basic salaries, housing allowances, other allowances and benefits in kind | 1,540 | 823 |
| Social security and pension costs | 462 | 13 |
| | 2,146 | 836 |